

CABINET

APPROVAL OF PAY AND GRADING STRUCTURE 20th January 2009

Report of the Chief Executive

PURPOSE OF REPORT			
To enable Cabinet to consider the updated financial information in respect of its preferred new pay and grading structure and to recommend Council to approve the new structure.			
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	Referral from Cabinet Member
Date Included in Forward Plan	November 2008		
This report is public			

OFFICER RECOMMENDATION

(1) That structure 9.5.4.5 be recommended to Council.

1.0 Introduction

- 1.1 At its meeting on the 9th December 2008, Cabinet considered four possible pay and grading structures, and expressed a preference for the structure identified as 9.5.4.5. Cabinet was advised at that meeting that the structure had been slightly amended as requested by Unison at the meeting of the JCC on the 2nd December 2008, so as to remove SCP 39 from Grade 7 thus reducing the overlap between grades 6 and 7. Unison had indicated that in the light of regional and national advice, it was unlikely that they would be able to recommend a structure that contained any overlap of more than two SCPs. A copy of structure 9.5.4.5, as amended is included on page one of the appendix to this report.
- 1.2 The four possible structures were considered also by Personnel Committee on the 11th December 2008, and Personnel Committee also expressed a preference for structure 9.5.4.5, with the slight amendment to grade 7 referred to above.
- 1.3 As indicated in the December report, as Members expressed a clear preference for 9.5.4.5, officers have continued to work on the financial and human resources implications of that option. For comparison and option appraisal purposes, this report includes updated financial implications of structure 9.5.4 (Extended Grades), referred to as "9.5.4 Ext". Of the four structures previously reported, 9.5.4 Ext had the lowest financial impact and was affordable over the long-term (ten year) period.

- 1.4 The salary database and pay modeller system have been updated with staff payroll changes since the systems were last updated. The ten year salary forecast spreadsheet has also been updated to reflect these changes, and has been reconciled to the current budget in order to ensure financial correctness. The 2009/10 and future year salaries have also been amended and checked.
- 1.5 From an HR point of view, a gender equality impact assessment has been undertaken on the proposed structure.
- 1.6 Details of the financial and HR implications are set out below.

2.0 Human Resources (HR) Implications

- 2.1 It is important that the structure which is approved is the right structure for the Council in moving forward for the future. In December, Cabinet and Personnel Committee opted for structure 9.5.4.5, with amendments requested by Unison to reduce any overlap to a maximum of two increments. From an officer point of view, this was and remains the preferred structure, as it was developed to reduce overlap within grades. In contrast, structure 9.5.4 (Ext) has, for example, grade 3 completely overlapping grades 2 and 4, and this increases the possibility of an employee being able to advance to a higher Spinal Column Point than another employee with more points under the job evaluation scheme.
- 2.2 Since the Cabinet and Personnel Committee decisions in December, the HR Manager has been undertaking gender equality impact assessment work on structure 9.5.4.5. From the work undertaken to date, this structure does not appear to have any impact on the basis of gender. However, the analysis work is continuing, and clearly it is always possible for statistics to be used to support different arguments and counter arguments. In the event that 9.5.4 (Ext) became the preferred structure, an impact assessment would need to be undertaken on that structure.

3.0 Financial Implications

- 3.1 The financial information provided to Cabinet and Personnel Committee in December 2008 has been updated
- 3.2 As previously, the basic financial implications are based on:
 - pay protection being applied in line with the agreed policy,
 - an assumption that annual salary turnover savings within the General Fund will be £100,000 greater than currently estimated, which is in line with the average outturn position for the last three years, and
 - the application of the Job Evaluation Reserves (est. £642k within the General Fund and £150k within the Housing Revenue Account (HRA)).
- 3.3 These Reserves have been created to help fund anticipated transitional costs associated with Fair Pay, including back pay and pay protection. They do not need to be used for equal pay claims, as a separate provision is held specifically for that purpose.
- 3.4 These forecasts provided are based on the current establishment and assume that this will be maintained throughout the ten year period. The forecasts therefore allow for all in-grade staff progression to have occurred by the end of the period, thus

giving the maximum potential cost for each structure. Whilst this position will never be reached in practice, due to changes in staffing and the establishment, the forecasts are important to demonstrate how and where there is the potential for financial pressure to build in the pay structure.

- 3.5 At this stage, it remains impossible to estimate and incorporate any additional costs arising from implementation of the Market Supplement policy or the appeals process. The following estimated impacts of non-pay elements have been included in the financial forecasts:
- Estimated costs associated with implementing proposed changes to annual leave entitlement have been included. This represents ongoing annual costs estimated in 2009/10 at £97k for the General Fund and £31k for the HRA;
 - Savings estimated at around £60,000 per annum are anticipated to result from the proposed withdrawal of the car leasing scheme and have been included in the pay projections from 2012/13.
- 3.6 It is envisaged that, for both the General Fund and HRA in the medium term, any remaining balance on the Job Evaluation Reserves (as shown in § 3.9 and the appendix) would be used to help fund these costs. It cannot be guaranteed, however, that there would be sufficient left in the reserves to cover everything. Should the remaining factors change the position to a net cost, a further review of the grading structures will then be undertaken in line with the current timetable (i.e. in Spring 2009), to try to ensure as far as possible that a cost neutral position is achieved. Should this not be possible, then it would ultimately be necessary to consider service changes to ensure the overall staffing budget is not exceeded in the medium term.
- 3.7 Updated financial information on structures 9.5.4.5 and 9.5.4 Ext are attached in the appendix. The detailed structures themselves are set out on page one of the appendix. The tables on page two of the appendix show the medium-term (three year) forecast for the two structures, split between General Fund and Housing Revenue Account (HRA). Pages three and four of the appendix contain charts comparing the two structures, showing firstly the annual financial impact over a ten year period and secondly the cumulative financial impact over the same period for both the General Fund and the HRA.
- 3.8 A number of changes have been made to factors and parameters used in the pay modeling process since the last report, as follows:
- Staffing details have been updated reflecting changes up to 30 November 2008;
 - Pay inflation estimates for 2009/10 onwards have been reduced from 2.5% per annum to 2% per annum;
 - Employer's superannuation estimates have been increased by 1% per annum to 18.1%;
 - A Job Evaluation Reserve of £150,000 has been established for the HRA;
 - Costs associated with obtaining legal advice and additional Job Evaluation software costs have reduced the General Fund Job Evaluation Reserve balance by £76,300 to £642,025.
- 3.9 Taking account of the above, the updated figures for the two structures are as follows:

	General Fund £	HRA £	Total £
1. Three Year Net Additional Cost (2009/10 to 2011/12)			
Structure 9.5.4.5	0	17,914	17,914
Structure 9.5.4 Ext	0	49,277	49,277
2. Balance on JE Reserve after 3 years (31/03/2012)			
Structure 9.5.4.5	226,485	0	226,485
Structure 9.5.4 Ext	402,661	0	402,661
3. Potential Additional Annual Cost at Year 10 (2018/19)			
Structure 9.5.4.5	813,127	180,986	994,113
Structure 9.5.4 Ext	246,240	162,142	403,382
4. Potential Cumulative Additional Cost at Year 10 (2018/19)			
Structure 9.5.4.5	£3.95m	£0.97m	£4.92m
Structure 9.5.4 Ext	£0.67m	£0.95m	£1.62m

3.10 The main points arising from the above table and reports in the appendix are:

General Fund:

- In the medium term (three years) both structures are affordable within the budget framework
- For the General Fund, structure 9.5.4 Ext results in a higher projected balance on the JE Reserve, of £402.6k as against £226.5k for structure 9.5.4.5.
- Beyond year four (2012/13), structure 9.5.4.5 ceases to be affordable given the current budgetary framework. Structure 9.5.4 is affordable until year 7 (2015/16).
- At the maximum potential cost of the structures, at the ten year horizon, structure 9.5.4.5 produces a potential additional annual cost of £813k whilst structure 9.5.4 Ext produces £246k.
- In cumulative ten-year cost terms, structure 9.5.4.5 gives potential additional costs of £3.95m; structure 9.5.4 Ext gives £670k.

Housing Revenue Account:

- The introduction of a JE Reserve of £150k means that both structures are affordable under the current budgetary framework in the first two years. From year 3 (2011/12) onwards, both structures incur additional costs.
- For both structures, the HRA JE Reserve of £150k is fully applied during the three year period, leaving the currently unfunded additional costs referred to in section 1 of the table. Given this position, any further costs arising from market supplements or successful appeals would present an additional cost to the account
- In the medium-term (three years), structure 9.5.4.5 provides the lower additional cost at £17.9k for the period. Structure 9.5.4 Ext gives £49.2k. In contrast with the General Fund, structure 9.5.4 has an adverse impact on the staffing structure within the HRA.
- Over the ten-year period the structures are broadly comparable; structure 9.5.4 Ext gives a slightly lower additional annual cost (162k) compared with 9.5.4.5 (£180.9k)
- The cumulative costs over the ten year period are also very similar at £945.9k for structure 9.5.4 Ext as against £968.5k for structure 9.5.4.5.

3.11 The financial information presented reflects the staffing and budgetary data at the date of the report. Work has been completed to update the salary database and the pay modeller system with staff payroll changes that occurred up to and including November 2008. The ten year salary forecast spreadsheet has also been updated to reflect these changes, and reconciled to the current budget in order to ensure financial correctness. These processes will continue and be assurance tested to ensure that information subsequently provided to employees about their pay and grading under the new structure and comparison with their current salary is correct.

4.0 Options and Options Analysis (including risk assessment)

4.1 Options for the new pay and grading structure have previously been considered by the JCC, by Personnel Committee and by Cabinet, and as a result of the preference expressed for structure 9.5.4.5, that option is now presented for further consideration and approval with structure 9.5.4 included for comparison and evaluation purposes. As the projected cost of the either new structure in future years falls outside the budget and policy framework, it will be necessary for it to be approved by Council.

4.2 In addition to the pay and grading structure, it is intended that other elements will form part of the new pay package, which have been reported to Cabinet previously.. These are pay protection, on the basis of 100% in the first year, 50% of the difference between old and new salary in the second year and 25% in the third year, market supplement where this can be objectively justified for a particular post, and a basic annual leave entitlement of 26 days plus eight statutory days.

5.0 Officer Preferred Option (and comments)

5.1 The officer preferred option is to proceed with 9.5.4.5.

6.0 Conclusion

6.1 Cabinet is requested to make a recommendation to Council.

RELATIONSHIP TO POLICY FRAMEWORK

The Council is committed to good standards of employment practice and to the principles of equality. The aim of the Fair Pay project is to ensure that pay and grading is fair, and that posts are remunerated based on an objective assessment of their relative value to the organisation. The Council is firmly committed to the principle of equality.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Implementing a new pay and grading structure should ensure that remuneration arrangements and grading structures are fair, and that the Council is able to defend future equal pay claims.

FINANCIAL IMPLICATIONS

The financial implications are set out in the body of the report and in the appendix.

Whilst figures remain provisional at this stage, given that the financial implications of the proposals are outside the budgetary framework in the longer term, it is expected that Council approval will be required to fund any new pay and grading structure.

SECTION 151 OFFICER'S COMMENTS

Cabinet is requested to determine its preference regarding a pay and grading structure, and then make recommendations on to Council accordingly, i.e. to update the budget framework for future years, for the provisional additional costs. Whilst there will be further updates to the financial data, the information in these reports should provide a good indication of the implications. There are, however, still some major unknowns, such as the outcome of appeals and market supplements. These will be assessed later in the timetable before the final decisions on adopting any new structure are taken. A full risk assessment will also be undertaken and reported. At this stage, therefore, decisions are provisional and there is the opportunity for future changes – this helps mitigate the financial risks. Based on likely timescales, it is possible that the financial updates will be incorporated into the mid-year Medium Term Financial Strategy Review, for consideration by Cabinet and Council in late summer / autumn.

In terms of the options themselves, (with the caveat regarding appeals and market supplements), for General Fund both options are within the budget framework for the next 3 years, although one (9.5.4 Extended Grades) is much closer to staying within budget over a 10 year period. The current preferred option would give rise to substantial cost pressures from around 2013/14 onwards. Any such pressures would have to be managed through future budget processes, should Council approve this approach.

For HRA, both structures are outside the budget framework even within the next three year, and therefore add cost pressures for future years. It is highlighted that with regard to the additional potential costs in 2011/12, these have not been provided for within the HRA budget proposals included elsewhere on the agenda (these were finalised before this report).

In forming a view regarding any preferred option/s, Members are advised to consider both the HR and financial issues in context of the Council's financial prospects, its aspirations for future (long term) service delivery, and its responsibilities as an employer.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

None

Contact Officer: Mark Cullinan

Telephone: 01524 582011

E-mail: chiefexecutive@lancaster.gov.uk