

# CABINET

## PAY AND GRADING STRUCTURE 9th December 2008

### Report of the Chief Executive

PURPOSE OF REPORT			
To provide further information to Cabinet on the financial and human resources implications of the four possible structures previously circulated, to enable Cabinet to express a preference for the Council's future pay and grading 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			

#### RECOMMENDATIONS OF COUNCILLORS MACE AND KERR to follow.

The officer preferred option is set out at paragraph 8.1 and is structure 9.5.4.5

#### 1 Introduction

- 1.1 At its meeting on the 11th November 2008, Cabinet noted the progress that had been made since its last meeting on the development of a new pay and grading structure. Three alternative pay and grading structures were circulated with the report to that meeting, together with the financial implications for each of those structures. Personnel Committee had met on the 10th November 2008 and considered the three structures, together with a fourth one (9.5.4.5) which had been developed following discussions with the trade unions in order to reduce the overlap in the grades within the third structure, 9.5.4.2. The four structures are shown in Appendix 1.
- 1.2 Personnel Committee on the 10th November expressed a preference for either 9.5.4.2 or 9.5.4.5, rather than the other two options.
- 1.3 After the November Cabinet and Personnel Committee meetings, the Moderation Panel, comprising three Service Heads and three trade union representatives, met for a further moderation review of the job evaluation scores, and agreed a small number of adjustments. These adjustments were fed into the computerised pay modelling system for the four structures, which has resulted in corresponding adjustments to the costs of the structures.

## 2 Human Resources (HR) Implications

- 2.1 From all perspectives, it is important to ensure that whichever structure is eventually approved, it is the right structure for the Council in moving forward for the future. Structure 9.5.4.2 extends the number of Spinal Column Points from the current 49 to 53, and this prevents “bunching” within the grades. However, one disadvantage of 9.5.4.2 was identified as being that the overlapping grades meant that in some cases an employee might be able to advance to a higher Spinal Column Point than another employee with more points under the job evaluation scheme. Structure 9.5.4.5 was developed to reduce the overlap and minimise this possibility.
- 2.2 Furthermore it is necessary to undertake an equality impact assessment of the proposed structures, to ensure that the pay and grading structure chosen for the future is equality proofed. This is particularly important in the area of gender as the issue of inequality of pay between men and women was one of main factors influencing the requirement to undertake pay and grading reviews in local government. Information on the equality impact assessments will be provided for Personnel Committee and Cabinet in January.
- 2.3 It should be noted that apart from basic pay, a number of other pay and non-pay elements are also being addressed as part of the Fair Pay process. Bonuses, shift payments and payments for unsocial hours have as part of the pay modelling process all been consolidated into current salary. This means that such separate payments will no longer be made (with the exception of Central Control which will be reviewed separately) and the salary under the new structure will be compared with current earnings including these payments. A small number of employees have tied tenancies, with subsidised rents. The current subsidy has also been consolidated into current salary as part of pay modelling, and in future no one will have a subsidised rent. Other elements currently being considered are car leases, overtime payments and the possible harmonisation of annual leave entitlement. The JCC at its meeting on the 2nd December will be considering options with regard to annual leave and a possible link between annual leave entitlement and good attendance. A copy of the JCC report is attached at Appendix 5 for information and the outcome of the discussions at the JCC will be reported at this meeting. However, any financial implications of the proposals will need to be taken into account as part of the overall package when future decisions are made on the pay and grading structure.
- 2.4 Other elements which form part of the pay package, and which will be particularly important to employees in the transitional stages, are pay protection and market supplements. At the JCC on the 28th February 2008 a management proposal of pay protection at the rate of 100% in the first year, 50% of the difference between the old and new salary in the second year and 25% in the third year was welcomed by the unions on the basis that this would be put forward as part of the final package. The financial implications of the alternative structures have taken account of pay protection at these rates.
- 2.5 With regard to market supplements, a Market Supplement Policy was approved by Personnel Committee on the 10th November 2008. Once a provisional pay and grading structure is approved, scheduled for January, and applied to individual job evaluation results, Service Heads will consider whether there are any posts for which a market supplement would be appropriate, on the basis that there is solid evidence to demonstrate that without a market supplement there would be significant recruitment and retention problems. Depending on the evidence available, a market supplement may cover some or all of the difference between the old and new salary

of a post. Clearly the amount payable overall by way of market supplements will affect the overall pay bill.

### **3 Timetable**

- 3.1 Because it is so important to take the time to ensure that whichever structure is introduced is right for the Council, based on accurate information, the Fair Pay timetable has been amended to reflect the fact that it will not be possible for Cabinet and Personnel Committee to make a final decision at this time. An amended timetable is attached at Appendix 4. This means that any decision will need to be taken by Cabinet and Personnel Committee in January, and that the notification to employees of their job evaluation results will need to be deferred from the 8th January 2009 to the 26th February 2009. The timetable after that date will depend to a certain extent on the number of appeals that are received and can only therefore be provisional.

### **4 Financial Implications**

- 4.1 The financial information provided to Cabinet and Personnel Committee in November 2008 has been updated, and information about structure 9.5.4.5, which had not been available for those meetings, is also included in the information attached in Appendices 2 and 3.. These now give separate information in respect of the General Fund and Housing Revenue Account (HRA). For both the General Fund and HRA, Appendix 2 gives details of the medium-term (three year) forecast for each structure. In Appendix 3, two graphs for both the General Fund and the HRA show firstly the annual financial impact of each structure over a ten year period and secondly the cumulative financial impact over the same period.
- 4.2 The costings associated with the four structure options are subject to two main variables, firstly the outcome of appeals and secondly the application of the Market Supplement policy. Other Fair Pay issues, such as holiday entitlement, will also have a bearing, but these are expected to be less significant.
- 4.3 For now, however, 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 Reserve (est. £718,000) within the General Fund. The Reserve was created to help fund anticipated transitional costs associated with Fair Pay, including back pay and pay protection. It does not need to be used for equal pay claims, as a separate provision is held specifically for that purpose.
- 4.4 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.

4.5 At this stage, it is not possible to estimate and incorporate any additional costs arising from implementation of the Market Supplement policy, the appeals process or changes to other employees' pay or non-pay benefits.. It is envisaged that, for the General Fund in the medium term, any remaining balance on the Job Evaluation Reserve (as shown in the appendices) would be used to help fund these costs. It cannot be guaranteed, however, that there would be sufficient left in the reserve to cover everything. Should these factors change the position to a net cost, a further review of the grading structures will then be undertaken in line with the timetable as set out at Appendix 4 (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 restructures to ensure the overall staffing budget is not exceeded in the medium term. In the absence of a similar reserve within the HRA, any market supplements or successful appeals in that area would present an additional cost to the account.

4.6 The main points arising from the reports in appendices 2 and 3 are:

**General Fund:**

- Taken together, the charts demonstrate that in the medium term (three years) all four structures are affordable, and within the budget framework, albeit drawing on differing levels of funding from the Job Evaluation Reserve.
- Beyond year four (2012/13), structures 9.5.4.2 and 9.5.4.5 cease to be affordable given the current budgetary framework. Structure 9.5.4 (Original) is affordable until year six (2014/15) but not beyond. Structure 9.5.4 (Extended Grades) is affordable throughout the ten year period, culminating in a closing balance on the JE Reserve of £281k. In all likelihood, under this option the need for reserve would be reassessed before then.
- In contrast, at the maximum potential cost of the structures at the ten year horizon, structure 9.5.4 (Original) gives an additional annual cost of £544k,, 9.5.4.2 gives £800k and 9.5.4.5 produces £931k.
- In cumulative ten-year cost terms, structure 9.5.4 (Original) gives a potential additional cost of £2.04m whereas 9.5.4.2 and 9.5.4.5 give potential additional costs of £3.54m and £4.11m respectively.

**Housing Revenue Account:**

- Without an earmarked reserve to call upon, each structure results in additional cost to the HRA from year 1 onwards.
- In the medium-term (three years), structure 9.5.4.5 provides the lowest additional cost at £91.5k for the period. Structure 9.5.4 (original) gives £149.4k, 9.5.4 (Extended) gives £116k and 9.5.4.2 gives £144.3k
- Over the ten-year period structure 9.5.4 (Extended) gives the lowest additional cost (136.3k) followed by 9.5.4.5 (£159.7k), 9.5.4 (original) (£186.6k) and 9.5.4.2 (£215.3k)

4.7 The financial information presented is the best available at this stage. Work is currently ongoing to update the salary database and the pay modeller system with staff payroll changes that have occurred over the last four months since the systems were last updated. The ten year salary forecast spreadsheet is also being updated to reflect these changes, and will need to be reconciled to the current budget in order to ensure financial correctness. The 2009/10 and future year salaries will also need to be amended and checked. It is essential that this work is completed and assurance

tested before any final decision on the pay and grading structure is taken. Clearly it is of the utmost importance that the information provided to Members in taking any decision is accurate, and also that the information subsequently provided to employees about their pay and grading under the new structure and comparison with their current salary is correct.

## **5 Summary**

5.1 The development of a new pay and grading structure is an opportunity to establish a workable structure with fairness in pay and in other terms and conditions of employment, which will serve the Council and its employees well for the future. As indicated above, it is therefore important to ensure that the best possible structure for the Council is approved. Whilst the responsibility of Personnel Committee is in respect of terms and conditions of employment, clearly the concern of Cabinet must be the cost and affordability of the total package, in terms of the actual pay structure, other related pay and non-pay elements, and any transitional protection arrangements.

5.2 It is acknowledged that at this stage not all the costs can be quantified, and work is ongoing in ensuring that all the available information is accurate and up to date. Both Cabinet and Personnel are at this stage being asked to identify their preferred structure. More work will then be carried out in developing that preferred structure. The preference of Cabinet will be reported to Personnel Committee on the 11th December, to assist the Committee's consideration of the matter.

## **6 Details of Consultation**

6.1 Discussions on the new pay and grading structure have been ongoing with trade union representatives through Single Status and JCC meetings. Trade union representatives have been closely involved in the moderation of the job evaluation results, and will be involved in the appeals process following the notification of the results.

## **7 Options and Options Analysis (including risk assessment)**

7.1 The options open to Cabinet are to express a preference for any one or more of the four structures set out in Appendix 1, or to decline to express any preference at this stage. Personnel Committee too, at its meeting on the 11th December, will be asked for its further views in the light of Cabinet's preference(s). If the options can be narrowed down in this way, so that there is a consensus that one or more of the options should be discounted at this stage, officers will continue to work on the financial and human resources implications of the preferred options only. This will ensure that detailed information and risk assessment is available for Members to consider before a final decision is taken. If one or more preference is expressed, officers would not then intend to provide any further information to the January meetings on the discounted option(s), unless in the meantime any substantial changes to the information provided in this report came to light which might have affected the decision to discount. If Members do not feel that they can express a preference at this stage, then work would continue on all four options, and these would then be brought back to the January meetings. In conjunction with expressing any preference or declining to express a preference, it is open to Members to request any further information that they may feel would assist in making a decision.

## **8 Officer Preferred Option (and comments)**

8.1 The Officer Preferred Option is structure 9.5.4.5.

## 9 Conclusion

9.1 The views of Cabinet are sought.

### **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 appendices.

Whilst figures are only provisional at this stage, given that all options are outside the budget framework for the HRA and only one option is within the framework in the longer term for General Fund, currently 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 indicate whether it has any preference/s in terms of pay and grading structures at this stage. 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.

Furthermore, and as highlighted previously, if any substantial changes come to light all options would be brought back for due consideration in January.

In terms of the options themselves, (with the caveat regarding appeals and market supplements), for General Fund all four options are within the budget framework for the next 3 years, although only one (9.5.4 Extended Grades) stays within budget over a 10 year period. The other three would give rise to substantial cost pressures from around 2014/15 onwards. Any such pressures would have to be managed through future budget processes.

For HRA, all structures are outside the budget framework and therefore add cost pressures for future years.

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**

There are no legal implications arising directly from this report.

#### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and her comments incorporated in the report.

#### **BACKGROUND PAPERS**

There are no background papers

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