

Strengthening the strategic approach to pay and rewards



A resource guide for local government

Contents

Introduction – reviewing reward strategies	3
Why have a reward strategy?	4
Creating an integrated approach	5
Shaping your reward strategy	6
The Key Questions	7
Local reviews of reward strategies – frequently asked questions	8

1. Introduction – reviewing reward strategies

The Local Government Association (LGA) is recommending to councils that they should review and refresh their reward strategies. A coherent reward strategy is a central part of efforts to control employment costs in line with budgetary requirements. It is also vital in the drive to improve productivity.

This is not intended to be a sterile exercise in writing a policy document. A local reward strategy may not even take the form of a single document. Instead the recommendation is that councils should take a fresh look at all the policies and procedures that together define the local approach to pay and rewards. The basic considerations in carrying out a review are set out in the introductory summary document issues by the Group

The LGA has no intention of prescribing exactly how any local review should take place. However, this resource guide provides some views and ideas around recommended actions and good practice about the key questions that councils need to think about.

We have no monopoly of wisdom over the development of reward strategies. We want to encourage all interested organisations to put forward suggestions for innovative ways forward.

2. Why have a reward strategy?

The primary aim of a Reward Strategy is to attract, retain and motivate staff so that the organisation can perform at its best.

Extensive research shows that individuals are attracted, retained and engaged by a range of both financial and non-financial rewards so a coherent link between reward and the overall approach to people management and to attraction will deliver the best outcome. A Reward Strategy should be based on the current and future needs of the organisation, rather than on historical expectations or trends so a close relationship with workforce planning and development strategies is also important. This also means that the strategy and policies needs to be reviewed regularly and developed as expectations and circumstances change. For example, a commissioning council will require a quite different approach from a council which has retained its role as a major deliverer of services. What motivates an employee changes over time too - as their career develops, their personal circumstances alter, etc, so a model which is responsive to such changes will improve staff engagement and result in more effective deployment of resources.

A transparent reward strategy will be a valuable communication tool to existing and potential staff about how their contribution is recognised and rewarded. It helps explain what behaviours, values, and performance the organisation requires and how success will be recognised. Similarly it will allow councils to demonstrate their organisational philosophy and approach to their local communities so setting individual decisions in the context of a wider approach.

The Hutton Fair Pay Report refers to an expectation that organisations delivering public services should disclose in precise numbers the full remuneration of all executives, alongside an explanation of the responsibilities of each role and of how the executives' pay reflects individual performance. It is also worth noting that an increasing number of private sector companies have realised that their report on pay and reward is one of the widest read company documents and so is a good place to explain the details of goals and challenges facing the organisation – to both staff and others.

3. Creating an integrated approach

An integrated approach provides a clear pathway linking the needs of the organisation and its staff with the reward policies and practices of the organisation, and thereby creating the opportunity to communicate and explain those practices both internally and externally. An organisation which understands and can describe the links between the key components below can make consistent and relevant judgements about reward and can communicate those to all interested parties.

Organisation Strategy – Mission, purpose; business goals; priorities, key measures of success.



Organisational Culture and People Requirements - how people contribute, which values and culture are important, what capability and competence will be rewarded



People Management Strategy – translating organisational goals into people management principles and practice, identifying the goals and priorities which will contribute to success.



Reward Strategy – philosophy, goals, standards and measures, implementation and practice. The core principles of what the organisation values, recognises and rewards and how it is connected to organisational values, talent management, staff engagement and deployment, budget, internal fairness and equity, etc



Reward Policies – specific policies and practices which relate to the organisation, service or staff group. A framework to guide pay practice in the different parts of the organisation should be included setting out clarity on accountability and ownership, defining what successful performance looks like and who is responsible for making pay decisions, etc. For example what is designed and decided corporately and what can be managed locally.

4. Shaping your reward strategy

A Reward Strategy will contain a number of key elements:

- Reward philosophy
- Pay design
- Pay structures
- Pay rates
- Other pay elements
- Other benefits

The philosophy and priorities underpinning the reward strategy will be dependent on the specific needs of the organisation. Factors which might be included are:

- Delivering organisation priorities
- Reinforce organisational values
- Recruiting and retaining staff
- Motivating and developing staff
- Rewarding high performers
- Promoting staff flexibility - mobility and development
- Managing pay costs
- Ensuring internal fairness and equity
- Retaining flexibility to meet future needs

Specifics which will need to be considered include:

- The ways in which reward arrangements are aligned to organisational requirements.
- The relationship between paying for individual competence and paying for delivering job requirements.
- The balance between a pay policy driven by internal equity and one by external competitiveness.
- The preferred market position used to set pay levels.
- How pay policy and processes are managed eg which aspects of your approach are uniform, organisation-wide systems and which support local interpretation to reflect difference.
- Considering whether your approach to reward is harmonised or varies between staff groups and/or by grade.
- Defining your grade structure – for example narrow bands and tight costs control; broad bands with development and flexibility.
- A gap analysis assessing current practice against the desired approach will help assess priority areas. An example is attached as Annex 1.

5. The key questions

At the very least, these are the questions that Councils need to ask themselves over the coming months:

- Do we have an adequate workforce plan setting out future demand and how we are going to ensure supply?
- Do we have a robust performance management system with the right skills to make it work?
- Should we adopt a total reward approach, including a more flexible and individuated approach to rewards and do we have a budget to initiate this policy?
- Have any recent changes to terms and conditions resulted in a balanced and sustainable package of benefits for the future or has it been driven by cost-cutting alone?
- Do we deal with poor performance well enough?
- How can we best incentivise good performance?
- Do we have a remuneration committee or similar system in place to oversee top pay and reward packages?
- Do we need a policy to deal with the interests of lower-paid staff in the authority?
- Do we use proper market analysis to ensure salary levels are correct?
- Is our job evaluation system fit for purpose?
- Do we carry out regular equality health-checks of our pay structures and systems?
- Do we manage to retain our key staff?

Some of these questions will of course be very easy to answer in many councils which will long since have dealt with the issues. However, even if no radical actions are needed it makes sense to debate the issues widely to ensure that the policies in place continue to be fit for purpose.

6. Local reviews of reward strategies – frequently asked questions

Do we have an adequate workforce plan setting out future demand and how we are going to ensure supply?

Here are some examples of what other councils are doing on [workforce planning](#)

Do we have a robust performance management system?

Reference has already been made to the fact that some organisations make the mistake of assuming that they can drive change by modernising their reward systems. This can risk putting the cart before the horse -because unless a performance culture is in place, where staff understand that certain benefits they receive are rewards rather than entitlements, the new reward system is likely to fail.

Councils should focus first on developing their performance management systems, ensuring that managers have the skills to focus on team performance and that appraisal and feedback systems are clearly focused on organisational goals.

Should we adopt a total reward approach, including a more flexible and individuated approach to rewards?

The approach to total rewards (TR) in local government has been somewhat piecemeal and has begun to stagnate because of budget restrictions. We need to recast the offer and renew the business case before more radical thinking can develop.

By 2010, 28 per cent of authorities had implemented TR or were planning to in the next two years – the same figure as in 2009. In addition, nearly two fifths (38 per cent) of authorities were actively considering implementing TR. Around one-third of councils has never actively considered TR and do not intend to do so in the short to medium-term.

LGA research shows also that the councils that say they have introduced TR have not always included elements that are regarded by many as core aspects of the approach

For example, although up to 75 per cent have introduced some flexible benefits and salary sacrifice schemes, only 20 per cent have immediately introduced TR benefit statements, 29 per cent leave trading schemes and 32 per cent reward preference surveys. As little as 10per cent operate online benefits administration systems

Many councils are considering introducing further elements of TR and there is nothing wrong with a gradual approach – indeed LGA has suggested in the past that this may be the best way to do it depending on local circumstances. However, there is a sense in which some councils that have identified themselves as having a TR approach have in fact simply repackaged existing employee benefits.

[How to get started](#) on total reward

Where next?

Remember that if it means anything, TR is about considering how every aspect of the relationship between employer and employee can be seen as part of the reward package. It is also about giving individuals much more control over the mix of elements that make up their overall reward package. Experience shows that once employees get a taste for TR-style reward systems, they quickly become enthusiastic. However there is often initial scepticism about the concept.

TR probably requires some reinvigoration, having been a victim of budget retrenchment during the recession. It certainly requires much more effective communications and marketing to staff. Working with employee representatives it might be useful to change the language away from rewards issues. LGA has been thinking about setting proposals in a context of **employee welfare**. A welfare context would involve acknowledging that pay growth will not be a huge component of reward for the foreseeable future, making it very important to look after employees as much as possible in other ways.

A business case for employee welfare

A concise business-case for TR was suggested as part of a programme that the LGA ran with Barclays in the early phases of TR development. In summary, this case shows that:

- by promoting use of businesses in the community, TR helps drive health, regeneration and business recovery
- through cashable and non-cashable savings, TR can help deliver efficiency
 - the cashable savings are; lower recruitment costs and lower agency fees, possible savings on National Insurance
 - the non-cashable savings are; higher quality recruits, fewer leavers and reduced absenteeism
- in addition, some the start-up costs can be capitalised.

Taking employee welfare forward

If a case can be made to employers and staff representatives can be engaged successfully, then there is scope for more radical thinking in the long-term. The LGA has been thinking about ideas that work with the grain of restrictions on pay growth.

It might be possible for example to take the total cash value of pay and benefits payable to an employee and say that how that sum is divided up between different elements, including take-home pay pension contributions and perhaps leave, is up to them.

In practice, there may well need to be limits on such structures to prevent highly distorted outcomes but we should start our thinking on the basis of providing employees with much more freedom to configure their own reward packages than they enjoy at the moment. Employee welfare would also dictate that we should offer advice and support on the range of decisions that employees can make.

Has any reform of terms and conditions resulted in a balanced and sustainable package of rewards for the future or has it been driven by cost-cutting alone?

Much recent local activity around terms and conditions has been predicated on the need to get savings out of the system quickly in order to protect services and jobs. This approach has been essential of course but it does mean that in many cases we need to think about

the consequences for employee engagement in the medium to longer term.

It will be important to ensure that what emerges after pragmatic cost-cutting changes to terms and conditions is a balanced package that provides fair opportunities for staff, as well as helping to control cost growth in the future. This is closely related to the aim of introducing a total reward approach that is focused on employee welfare.

The LGA has surveyed local activity on reform of terms and conditions. The survey asked a series of broad questions of Councils, designed to identify how they are intending to make changes to local terms and conditions as a contribution to budget savings. Respondents were also asked if they had already made changes, perhaps linked to introducing single status. The survey concentrated on the terms and conditions covered by parts 2 and 3 of the national agreement, i.e. sick pay, leave, the basic working week, car allowances, premium and unsocial-hours payments and overtime. Councils were also asked about intended changes to local contractual and non-contractual terms such as annual increments. The survey was conducted first in December 2010 and then repeated in September 2011.

This analysis is based on 224 returns in total across the two survey rounds, which represents an overall response-rate of 60 per cent. The returns cover 72 per cent of the Full Time Equivalent workforce as counted in Quarter 1, 2011 of the Quarterly Public Employment Survey. The QPES includes teachers.

The headline findings are as follows:

The highest level of local activity is around **changes to car allowances**. 51.3 per cent have already introduced changes (of which 63.2 per cent had adopted the HM Revenue and Customs rates). 53.1 per cent of respondents are either reviewing car allowances again or starting a review for the first time - looking at things like removing essential user allowances and lump sums. 64.9 per cent are intending to adopt HMRC rates.

23.7 per cent are looking at **changing the sick pay scheme locally**, whereas only 1.8 per cent had done so in the past as it sits in part 2 of the national agreement and is regarded as a "core" condition.

22.8 per cent are looking at **changing their leave schemes**, mostly by reducing them, with 26.8 per cent having changed leave schemes in the past - but often in a way that exceeds basic national provisions.

31.3 per cent are looking at **changing premium rates**. 34.8 per cent had already done so in the past.

35.7 per cent are looking at **overtime**, 32.1 per cent had already made changes.

35.3 per cent are looking at **unsocial hours payments**, 35.7 per cent have already done so. Figures are similar for recent respondents

17.4 per cent are **looking to remove increments** (though some only temporarily), with 10.7 per cent having already done so.

10.3 per cent are looking at **changing the length of the basic working week** with only 1.3 per cent having already done so. Most are contemplating reductions of 1 or 2 hours, rather than increases.

26.8 per cent say that changes are being considered by unions, 37.1 per cent say that they haven't got as far as sharing with unions yet, 23.2 per cent have already introduced changes with union agreement, though in many cases, this is as part of single- status agreements and so pre-dates the budget reductions required under the Comprehensive Spending Review. 3.6 per cent have either imposed or intend to impose. 11.2 per cent have no proposals at the moment.

Do we deal with poor performance well enough?

A small piece of research conducted with a panel of councils a few years ago indicated that very few staff – perhaps only a few hundred across the whole of local government are ever at risk of losing increments, for example, as a result of poor performance. This suggests that performance is simply not monitored vigorously enough. Draconian crack-downs are probably not the best way forward but managers do need to get better at dialogue with staff to help them to achieve their best.

There is an urgent need to learn from best practice in this area. [Tackling poor performance](#)

How can we best incentivise good performance?

A difficult history

As the work-study based bonus schemes of the 1970s became moribund, a number of councils began looking at alternative systems to reward more than simple attendance. Target-based PRP is the simplest of these but it proved one-dimensional and de-motivating in many cases. More sophisticated systems that measure acquired competence or overall contribution (in terms of performance and behaviours) have been explored. These systems have the downsides of being more complex and resource-intensive.

Any assessment-based pay progression system relies completely on the competence of line-managers to apply it and on processes to ensure moderation for cost-control and minimal equality impact.

Use of alternative pay progression systems

Automatic annual increments are still the dominant system in local government, used by 75 per cent of councils responding to the 2009 workforce survey and covering 58 per cent of the workforce on average. Performance related pay is used by 24 per cent of respondents covering 8 per cent of the workforce on average. Competence related pay is used by 20 per cent of councils, covering 2 per cent of the workforce on average and contribution related pay is used by 5 per cent, covering 2 per cent of the workforce. A further 9 per cent of councils used hybrid systems.

Local government experience with individual performance related pay (IPRP)

IPRP was the big idea of the late 1980s - viewed as the simple answer to motivating people and developing performance. It was introduced for white-collar employees in several councils (mainly South East) in the late 1980s / early 1990s as a result of local market-driven initiatives. In 1993, 26 per cent of authorities used PRP.

The tide turned against IPRP in the 1990s when the 1980 schemes were not delivering the expected results. Several research studies failed to demonstrate any causal link between IPRP, performance and productivity

Recurring problems include: difficulties of assessing performance; de-motivation of the

unsuccessful; unevenness of management judgements

Top-down initiatives on performance pay for chief police and probation office foundered on:

- the lack of in-service cultural support
- the absence of a comparative frame of reference for local judgements on the performance of a handful of senior staff.

Widespread managerial (and political) scepticism over the practical efficacy of PRP continues, though there is universal support for performance management

Some organisations are introducing second generation schemes aiming to avoid earlier mistakes. Others are questioning IPRP and trying team based PRP, and / or competence/contribution related pay.

Competence-based pay

Competencies are the knowledge-skills and behaviours needed by any individual employee to carry out their job effectively. These can be incorporated into a pay system to reward individuals who positively contribute to the overall values and objectives of an organisation, thus rewarding the way people work, not just recognising what they can deliver.

Most competency based pay systems are determined by performance indicators. Typically, the competencies needed to drive progression are quantified by senior managers through employee interviews, surveys and job analysis. To manage a competency based pay system effectively, the framework must be simple and concise so that all employees can fully grasp its meaning. The following competencies are relevant examples:

- communication
- teamwork and motivation
- coaching
- knowledge and experience
- service delivery
- liaison and networking
- investigation analysis
- initiative and problem solving
- planning and organising resources
- decision making process and outcomes.

Contribution related pay

Contribution pay is not a direct incentive for achieving a defined set of targets. Instead it is similar to a competence based pay reward system, emphasising what type of development is needed by employees to enhance corporate success.

Overcoming the deficiencies of IPRP

One of the main criticisms IPRP receives is its short-term focus. Because its appraisal system is based on an agreed set of immediate targets, employees are encouraged to work towards these to secure more pay. This poses a danger that factors of equal importance for organisational success will be overlooked.

Contribution pay can overcome this problem by incorporating the ability to 'factor in' rewards for individuals who can prove that they are developing a range of skills and competencies that link into future organisational success. These include innovation, creativity and teamwork.

Overcoming the deficiencies of competence based pay

The main disadvantage of competence based pay is that it does not measure productivity. This is because the appraisal system (used to measure what pay to award) is focused on the acquisition of agreed organisational competencies; little judgement is based on how these competencies contributed to the overall organisational performance. Contribution pay addresses this issue by measuring performance that show direct links to the improvement process.

A framework for assessing contribution

An appraisal system designed to assess targets and competencies is difficult to design. However, this disadvantage can be outweighed by the fact that it is likely to be accepted by employees as a fairer system than one that it is solely based on their managers' judgement of demonstrated behaviour. The measurements incorporated into a contribution pay assessment mechanism can also be adjusted to recognise the relative importance of the objectives or competencies that are to be rewarded.

Do we have a remuneration committee or similar system in place to oversee top pay and reward packages and monitor pay growth?

The need to set reward packages for senior staff in an open and accountable way and ensure that the levels of top pay as well as its rate of growth are properly managed is now well recognised in local government. The Joint National Committee for Chief Executives and Chief Officers **has issued guidance** on how best to do this in the light of requirements set out by the government in the Localism Act and elsewhere. There is a clear argument for ensuring that top pay is dealt with strategically alongside pay and rewards for all staff, in order to promote a one-organisation ethos that contributes to employee engagement. For this reason, this resource guide and the JNC guidance are closely aligned.

The LGA believes that the overall decisions on executive pay lie properly in the hands of councillors. We have long recommended the use of remuneration committees – preferably with some members from outside the council - to ensure a systematic approach.

The key purpose of a remuneration committee is to act in an independent way to oversee the systems set up to set top rewards. The Committee receives reports and evidence on proposals for pay structures, analysis of markets etc., makes recommendations on these and oversees operations. The LGA believes also that serious consideration should be given to having lay members on the remuneration panel from outside the council. Within clear terms of reference, external members will greatly enhance the public accountability of decisions over top pay. Committees can also be useful in giving a steer on the approach to be adopted when making a new appointment.

Local Government's own survey evidence on pay and rewards for Chief Executives and Chief Officers does not suggest that pay is particularly high compared with other sectors overall. Press coverage of exceptional examples does not make it easy to discuss these difficult issues rationally.

The LGA does not believe that it makes sense to set any artificial constraints on top pay. Tighter prescription of pay in previous national agreements was not successful because councils simply could not operate flexibly enough when trying to develop modern managerial roles. Until the recent budget reductions caused some dramatic one-off reductions in top pay packages, there was a case for saying that the earnings of Chief Executives in particular have grown via annual reviews to an extent that is out of line with other employees. It is important to develop approaches that avoid dramatic changes in future that bear no relation to any strategy for senior executive appointments.

The LGA recommends that councils should seek to adopt mechanisms that serve to limit the growth in earnings in any one year – unless there are exceptional reasons that can be clearly explained to the public. Councils should agree voluntarily to commit to growth in Chief Executives' and perhaps Chief Officers' earnings that does not exceed, for example, the average earnings index for the public sector for the year leading up to any pay review. It is however a matter for individual councils to decide on what sort of mechanism they will use. Different approaches would probably be needed for incremental pay structures as opposed to spot salaries for example, perhaps based on much stronger performance assessment.

<http://www.icsa.org.uk/assets/files/pdfs/guidance/071014.pdf>

Do we need a policy to deal with the interests of lower-paid staff in the authority?

The [Hutton Report on Fair Pay](#) in the Public Sector focuses on the issue of top pay but it does so by stressing the need for perceived fairness in the relationship between top pay and the median average pay in an organisation. The report encourages the publication of a pay multiple and the government has now expects this to be done, having set out its views in guidance on transparency.

However, as well as producing data on the pay multiple, a strategic review should examine the messages about organisational values that the relationship between the top and bottom of the organisation is meant to convey.

Reviews of this sort should not be conducted in a vacuum but instead need to examine the relationship to relevant local labour markets. Key examples that are available include the detailed work done on the [London Living Wage](#).

Do we use proper market analysis to ensure salary levels are correct?

The need to comply with equal value legislation has ensured that most local authorities set pay for posts that ensures salary levels are fair and correct based on internal comparison. However, very few local authorities undertake detailed market analysis to ensure that their pay line reflects the place that they want to be in comparison to the local, regional or national labour market. Detailed market analysis ensures that resources are targeted more efficiently and that organisations are neither overpaying nor underpaying for posts in comparison to those of an equivalent size in the wider economy. Several key sources of comparative pay data are available. The LGA carries out a range of surveys the majority of which are free to its member organisations and provide a wide range of information on benchmark jobs within the sector and the wider economy. Market data is particularly important when determining senior management pay and should be provided to remuneration committees to inform their decision making.

Salary supplements paid to individuals or groups of postholders to recognise specific recruitment and retention issues have been used with varying success to address shortages of key staff. These payments must be made in accordance with equal value principals and must be regularly reviewed to ensure they continue to be relevant.

The National Joint Council has issued guidance on the use of market supplements which is available in the [Green Book](#) for subscribers

Is our job evaluation system fit for purpose?

The single status scheme is a bespoke scheme developed specifically for local government. It comprises a factor plan that is able to differentiate between both former manual worker and administrative professional, technical and clerical jobs within an all purpose unitary local authority. In addition the LGA have developed a scheme specifically developed to evaluate chief officer posts, but which can be used to evaluate any posts paid above the national spinal column point range. In this context our job evaluation schemes are current, robust and specifically designed to meet the needs of the sector. Problems arise because employers place too much emphasis on the outcomes of job evaluation when determining individual pay. Job evaluation should only be part of the pay jigsaw. As a subjective process, not a science, the outputs should determine the grade of a job but other elements should be considered when determining individual pay, e.g. performance, competence. If a local authority develops a pay structure with narrow bands tightly linked to job evaluation outputs then the job evaluation system will constantly be subject to challenge and appeal as the only means by which individuals can increase their level of reward.

Do we carry out regular equality health-checks of our pay structures and systems?

The 2004 national implementation agreement on local pay reviews (part of the national Green Book) required councils to carry out local pay reviews in order to complete the introduction of single status grading structures. The agreement acknowledges that because ensuring equal pay is a cornerstone of any pay structure, regular update audits will be required to check that no anomalies have developed in new structures.

The NJC has produced advice and guidance about equal pay audits and equality impact assessments, which is available from our website.

Do we manage to retain our key staff?

[Tips on retaining talent](#)

Annex 1: Example gap analysis:

Assessing current reward practice against desired characteristics

Reward strategy highly aligned with organisational requirements	1 D	2	3 C	4	5	6	No clear alignment between reward and organisational goals
Pay driven on internal equity		C	D				Pay driven by external competitiveness
Reward based on job requirements							Reward based on the person and their competence and behaviours
Harmonised, consistent reward systems for all staff							Reward systems vary for different types/groups of staff
Emphasis on cash rewards							Emphasis on non-cash rewards
Emphasis on cost control eg narrow bands							Focus on flexibility and development eg broad bands
Organisation-wide systems, centrally managed by HR							Locally determined assessment driven by managers
High level of openness and understanding of pay systems	1	2	3	4	5	6	Pay information not well understood by employees

The elements examples of the questions organisations should ask as part of their assessment of the effectiveness of their reward strategy and policies in delivering required outcomes. None are right or wrong. The assessment highlights the areas of difference which will then need to be addressed by further development. C indicates the current position; D the desired position

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