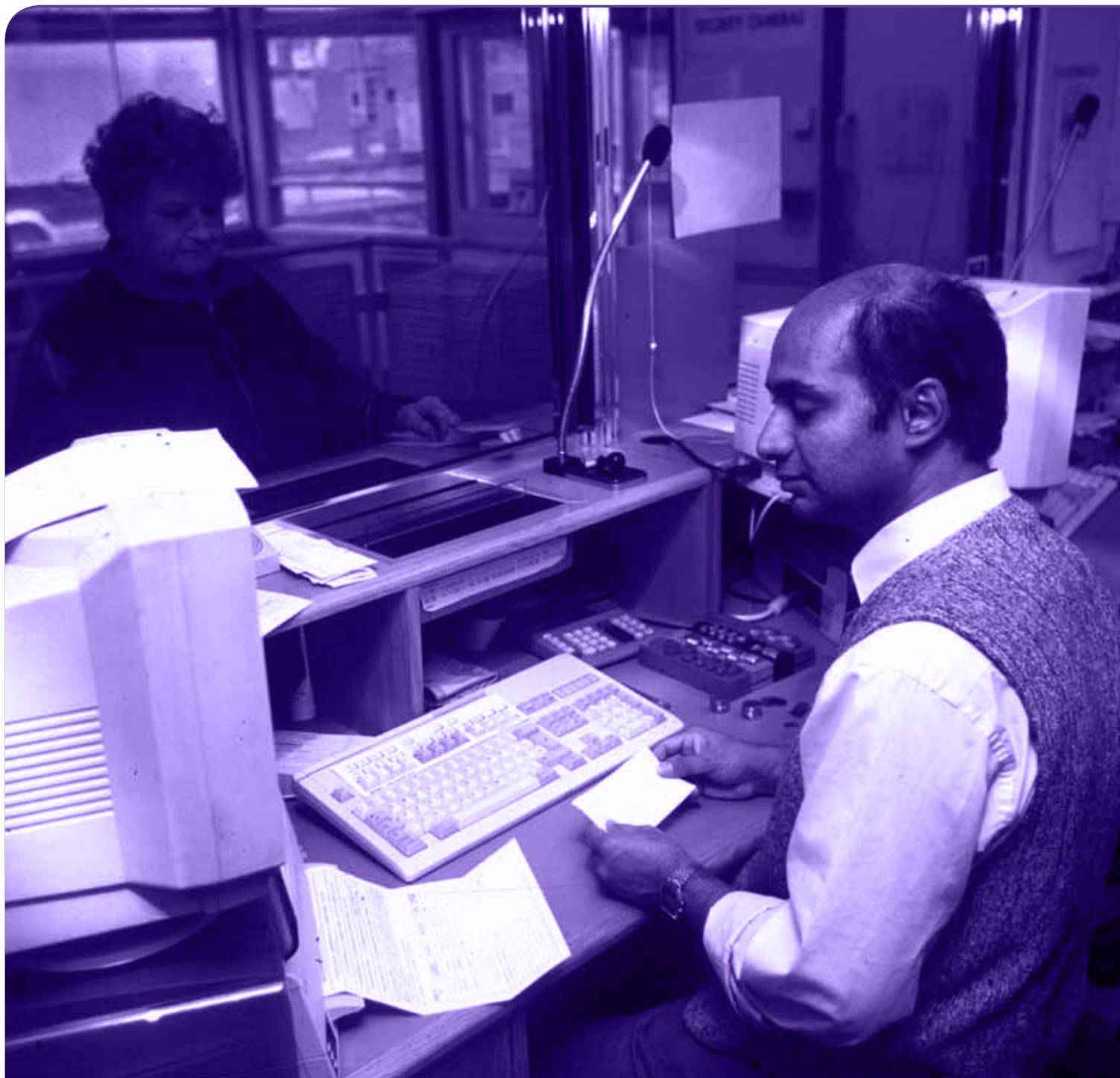


# Pay policy and practice in local authorities

A guide for councillors



# Executive summary

In recent months there has been extensive publicity about the pay of individuals particularly in the public sector and much debate about whether pay schemes actually deliver what they are designed to achieve. As a councillor in a modern public service organisation, you will have an interest in and a responsibility to decide how your council's pay system is designed and implemented. This document will give you an insight into some of the key features of modern pay systems and identify some of the key questions you will want to consider in deciding on the right approach for your council.

There are many reasons to be interested in pay at this time. It represents a significant part of the overall expenditure of the council; it is an important part of the employment offer you make to your employees, and through the Localism Act, the Government has introduced specific requirements on councils and councillors relating to pay.

**The Localism Act** brings together strands of increasing accountability, transparency and fairness in the setting of local pay and requires councillors to take a greater role in determining pay. Section 38 (1) of the Localism Act 2011 requires English and Welsh local authorities to produce a pay policy statement for 2012/13 and for each financial year after that. The Bill as initially drafted referred solely to chief officers (a term which includes both statutory and non-

statutory chief officers, and their deputies); but amendments reflecting concerns over low pay and also drawing on Will Hutton's 2011 Review of Fair Pay in the Public Sector introduced requirements to compare the policies on remunerating chief officers and other employees, and to set out policy on the lowest paid.

The Act does not apply to local authority schools. The Act as finally passed requires the pay policy statement to range over disparate aspects of remuneration policy. For this reason, and also in the interests of clarity and transparency, the Joint Negotiating Committee (JNC) strongly recommends local authorities use the opportunity to set out their overall rewards strategy for the whole workforce, and not to limit themselves to matters specifically required by the Act and statutory guidance. Detailed guidance on producing a wider rewards strategy is set out in Appendix 1 to this guidance.

**The Hutton Report on Fair Pay** made several recommendations including proposals on pay transparency and scrutiny, on creating links to performance and on tackling disparities between the lowest and the highest paid in public sector organisations. His recommendations included the idea of 'earn back' where an element of pay should be more strongly linked to an individual's performance. That element is 'at risk', and has to be earned back each year through meeting pre-agreed

objectives. So, for example 80 per cent of basic pay is guaranteed with 20 per cent dependent on performance.

Creating the right strategy and approach for your council means understanding how pay drives performance and motivation; the impact of employee engagement strategies; what your future skills needs will be; how organisational culture and behaviour can deliver success.

Designing detailed pay arrangements may be the role of specialists and national negotiators but understanding pay strategy and getting it right for your organisation is the responsibility of councillors.

This guide provides an overview of the main issues relating to pay and is divided into three main sections. These are:

- **pay policy** – a review of legislation requirements, recent developments, emerging trends, the principles of effective pay policies
- **pay statements** – a summary of the information your council is required to publish
- **governance and transparency** – the role of remuneration committees, job evaluation, pay data and the importance of understanding equal pay.

There are two appendices to this guide. One contains a model pay policy statement and the other contains a number of case studies providing examples of innovative approaches to pay and reward within local government.

Other sources of information are widely available from:

- the LGA website at [www.local.gov.uk/workforce](http://www.local.gov.uk/workforce)
- the Chartered Institute of Personnel and Development at [www.cipd.co.uk/](http://www.cipd.co.uk/)
- the Treasury at [www.hm-treasury.gsi.gov.uk](http://www.hm-treasury.gsi.gov.uk)



# Introduction

The total pay bill for your local authority is likely to be in excess of 50 per cent of the gross revenue expenditure in any one year. It is the biggest single item of ongoing expenditure. Small changes to overall pay levels will add or subtract substantial sums from the annual budget. Consequently you will want to be satisfied that you have a pay system which is effective, fair and transparent. What people are paid shouldn't be a mystery – understanding how pay and benefits work and how they relate to the council's approach to people management is an important part of your role and responsibilities. This doesn't mean you need to know the pay levels of every individual in the organisation but you should understand the grading structure, how it was developed, and be aware of the council's position in the local labour market.

There are three main reasons why you should be looking at pay now:

**One** – The Government has laid down specific requirements for councils to publish pay statements and for councillors to be accountable for them. This means that you need to understand what is being published in your name. Other issues of probity and fairness have been highlighted as well, such as the need to understand the relationship between the lowest and highest pay rates in the organisation and the need to discourage unusual tax arrangements for off-payroll employees

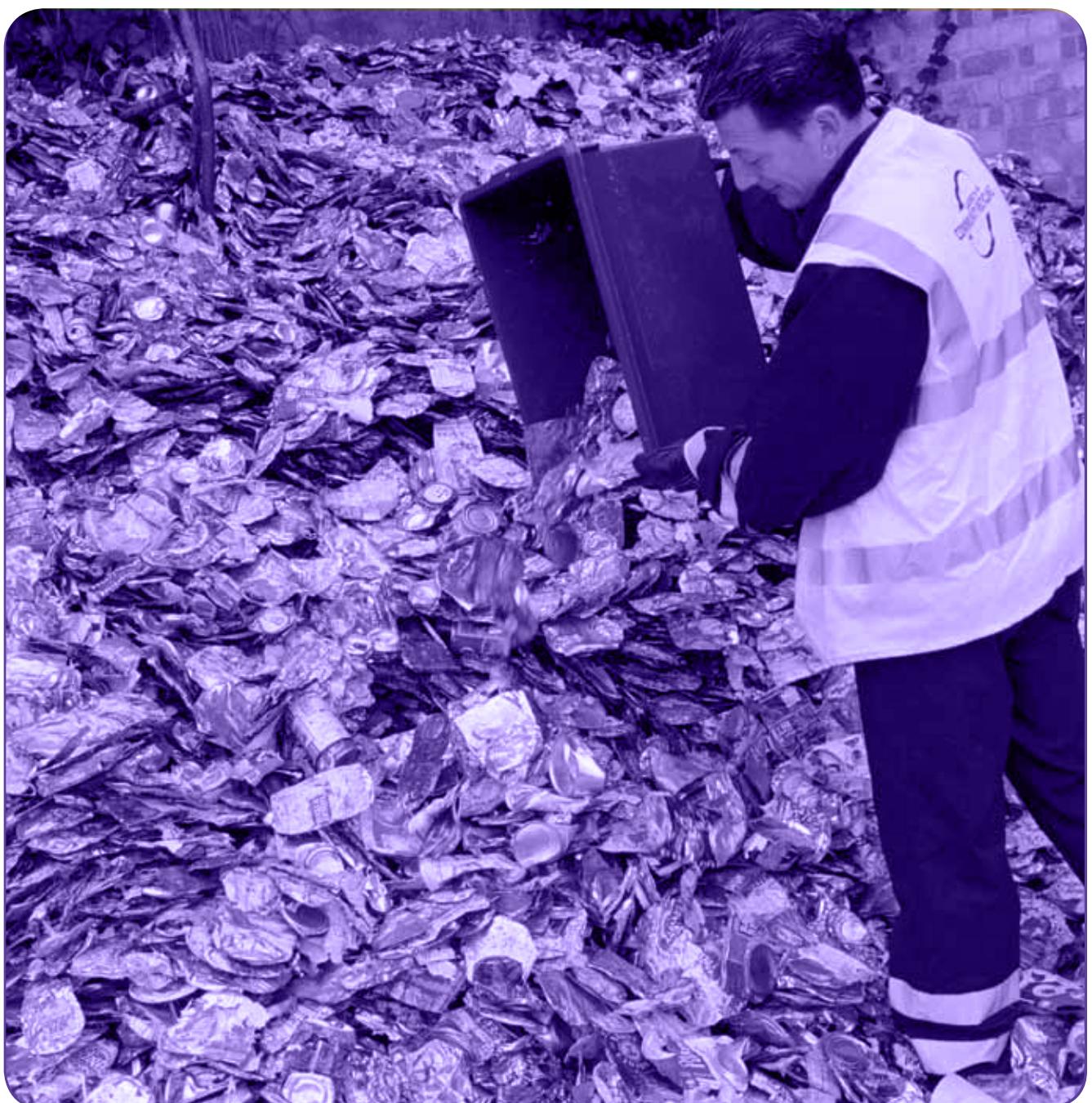
**Two** – The way in which councils commission and deliver services is changing considerably resulting in new organisational structures, new skills, different ways of working, etc so the pay systems of the past may no longer be appropriate. This means that you need to be thinking about how new structures and operational arrangements will work and whether this will have any impact on terms and conditions and pay and reward.

**Three** – There is increasing evidence to show that effective employee engagement strategies (of which pay and reward forms one element) are integral to improved productivity and organisational performance. This means that you need to be sure that your current scheme is effective in engaging and motivating staff and that it is delivering value for money for the council.

In local government the focus on pay and reward has tended to be on senior managers' salaries and on national pay negotiations for other staff. Where there has been more detailed scrutiny of pay policy and practice it has generally been undertaken in relation to a specific event, eg periods of difficult recruitment. This has often resulted in the introduction of separate initiatives such as market supplements, regional allowances, discount schemes, etc. Few councils have undertaken a longer-term review of the pay strategy coupled to workforce planning and organisational performance needs.

The LGA believes that such a review is important and this document is designed to give members of remuneration committees and other councillors an insight into some of the key issues which need to be considered in the development of a pay strategy for your council.

Creating the right strategy and approach to pay for your council means understanding how pay drives performance and motivation; being clear about the impact of employee engagement strategies; defining your future skills needs; understanding how organisational culture and behaviour can deliver success.



# Section 1 – Pay policy

## The local and national context to local government pay

Public sector organisations, including local government, tend to have a relatively large number of narrow grades or job levels linked to incremental ranges or grades. These grades are typically drawn from a top-to-bottom pay spine, and progression through the increments is in most places automatic and related to service. In most councils senior managers have slightly different arrangements and some may be on fixed points or spot salaries. Other approaches may include an element of performance pay although this is now not common. The reward offer primarily includes three elements: base pay, pension and holidays.

However, a number of councils have already taken steps to create more tailored arrangements based around local pay schemes. Many continue to use the existing national salary scales as the basis of their approach but such arrangements frequently also include:

- removal of automatic incremental pay progression based on service
- scope for accelerated progression based on contribution (personal performance) or related to development
- market premiums – in response to particular labour markets, such as skills shortages

- tracking of regional labour markets, turnover, retention, recruitment and other data and its incorporation in the reward process
- consideration of total reward
- new systems to replace preceding performance review and competency frameworks which proved ineffective.

## National bargaining

Local government has well established national bargaining arrangements which help ensure that certain minimum standards are maintained in relation to pay levels, conditions of service, fairness, etc. Details are contained in something generally known as 'The Green Book'.

The council's human resources specialists can provide you with information about these arrangements and can explain the flexibilities that exist to negotiate terms and conditions outside the scheme.

There are significant opportunities within these conditions to create tailored arrangements which suit your council and it is important that you understand what is possible.

Most councils use the national bargaining scheme as the basis for developing a local framework, consulting and negotiating with staff and trades unions to vary certain conditions or to add new provisions. See section five for further details.

The LGA believes that there are some strong arguments in favour of national bargaining, within the context of high levels of local discretion over pay. For example, it provides:

- a basic set of minimum terms and conditions that are part of the core employee value proposition in working for local government
- great economies of scale in resources devoted to negotiation
- a common approach to the trade unions
- a valuable tool in recruitment
- strength and coherence in relationships with government and key partners
- demonstrable flexibility and market-responsiveness that makes local bargaining unnecessary
- a much more coherent approach than regional bargaining, which wouldn't work because homogenous regional labour markets don't exist
- well-managed growth in pay in the long-term, compared with other sectors
- an ability to act in a usefully coordinated way on big national issues
- an effective way of developing terms and conditions by collective agreement that acts directly on contracts
- lower pay deals over the long-term than opted-out councils.

## Creating a strategy – what needs to be included?

In 2012, the Government made a commitment to strengthen councillors' powers to vote on large salary packages for council officers and to increase transparency about how taxpayers' money is used, including in the pay and reward of public.

An effective pay and reward strategy should include the following components:

- reward philosophy – this sets out the ways in which reward is aligned to organisational requirements and defines key issues such as the preferred market position; the balance between creating internal equity and comparing to the external market
- pay design – puts into practice how the council interprets issues such as internal consistency (job evaluation) and the relationship to markets rates; defining the way in which individual development and performance is measured and recognised
- pay structures – the framework for valuing jobs and understanding how they relate to each other; includes individual pay rates, salary bands, incremental progression steps
- pay rates – defining levels of pay which take into account factors such as ability to pay, market rates, inflation linking, etc
- other pay elements – describing defined situations which attract additional financial payments – for example acting up payments, market supplements, location allowances
- other benefits – aspects of the overall package which are not pay-related but include training opportunities, welfare schemes, and discount schemes.

There are a number of questions that will help you to consider whether your council's pay policy is fair, effective, delivers value for money and complements and communicates your organisation's values. Collectively these questions should form the basis of a debate within your council about the approach you want to take to pay.

- Which key features underpin your pay strategy – eg pay progression, grading structure, market related features etc?
- Do you know whether your current pay policy attracts and retains the right staff?
- How well aligned are your pay policies to your organisational goals and values?
- Do your current arrangements give the council good value for money? For example there should be benchmarking data available that compares the relative costs between councils for providing the same services. While this will be dependent upon a number of factors salary levels and staff numbers will be a significant factor in explaining differences. For comparative information on relative costs of services between local authorities please visit the Audit Commission website, [www.auditcommission/valueformoney](http://www.auditcommission/valueformoney)
- Do you understand what is covered by national negotiations and what isn't?
- Is your pay policy available in one place and clearly explained both to staff and any interested members of the public?



# Section 2 – Pay statements

## Publishing your pay statement

As indicated above the Localism Act requires the council to produce and publish a pay statement (there is a model pay policy statement document attached as appendix 1 to this document). You should check with your council's legal adviser about the specific details. The following is an extract from previous LGA: ALACE advice and so provides a summary of what the pay statement should include:

- policy on the level and elements of remuneration for each chief officer
- policy on the remuneration of its lowest-paid employees (together with its definition of 'lowest-paid employees' and its reasons for adopting that definition)
- policy on the relationship between the remuneration of its chief officers and other officers
- policy on other specific aspects of chief officers' remuneration: remuneration on recruitment, increases and additions to remuneration, use of performance-related pay and bonuses, termination payments, and transparency.

The Act defines remuneration widely, to include not just pay but also charges, fees, allowances, benefits in kind, increases in/enhancements of pension entitlements, and termination payments.

The Act also defines the process for approving the pay policy statement as follows. It:

- must be approved formally by the council meeting itself
- must be approved by the end of March each year, starting with 2012
- can be amended in-year
- must as a minimum be published on the authority's website
- must be complied with when the authority sets the terms and conditions for a chief officer.

The statement may also set out the council's policies relating to the other terms and conditions for chief officers. Previous legislation requires councils to formulate, review, and publish policy on making discretionary payments on early termination of employment and regulation 66 of the Local Government Pension Scheme (Administration) Regulations 2008 requires an authority to publish its policy on increasing an employee's total pension scheme membership and on awarding additional pension.

Councils are also required to use the pay policy statement to set out its policies on paying charges, fees (such as for returning officer or joint authority duties), allowances, and benefits in kind.

The Localism Act doesn't require details of salary levels to be published in the pay statement. However, The Accounts and Audit Regs 2011, Accounts and Audit Regs Wales 2005, do require councils to publish the number of employees in the year to which the accounts relate paid over £50,000 in bands of £10,000. This information must be provided by job title except for persons who earn in excess of £150,000, who must be identified by name. In the light of this existing requirement the LGA recommends that councils include this pay information in their pay statement.

Furthermore, it would also be good practice to make any differences in remuneration between different groups of employees clear, together with the reasons for them. It is a legal requirement that the statement explicitly sets out a local authority's policies on the remuneration of one particular group of employees (the lowest paid), and also how the remuneration of another group of employees (chief officers) relates to the remuneration of officers who are not chief officers.

Similarly, it would be good practice also to signpost information on the actual remuneration paid to chief officers in the previous financial year (publication of which is recommended in the statutory guidance on transparency).

Where pay scales as opposed to point salaries apply, it would be helpful to make clear what factors are taken into account in deciding on what point of a scale a recruit is appointed, and by whom the decision is made. And finally, it would be good practice in providing a complete picture if the pay policy statement showed the percentage rate at which the employer's pension contributions had been set for the year in question.

Councils will wish to ensure that the pay policy statement allows the retention of sufficient flexibility to cope with a variety of circumstances (foreseeable or not), such as authorising the use of market supplements or other such mechanisms for individual categories of posts, individual posts, or even individual employees.

Key questions:

- Has your council published a pay statement?
- Does it comply with all legal requirements?
- Have members had a discussion about the statement?
- Does it contain some of the features of good practice described here?

# Section 3 – Governance and transparency

One of the key principles within the Localism Act is transparency. Council tax payers have a right to know how their money is being spent. All councillors should be able to justify salary levels paid to senior staff and feel confident in the rationale underpinning these decisions. Establishing a remuneration committee, common practice in the private sector, will go a long way to ensuring greater transparency when setting pay levels and provide a forum for robust challenge and regular scrutiny of the council's policy.

## Remuneration committees

Using a remuneration committee, or equivalent, allows the council to consider its overall approach to pay and reward in an objective and transparent manner. The terms of reference for the committee will be specific to your council. Having a Remuneration Committee can help ensure that the council has:

- a structured environment in which the council can consider its decisions on pay policy and strategy, allowing it to take into account key factors such as short term objectives and long term strategy, relevant market data, the total reward package, internal comparisons
- the opportunity to take a longer term perspective on determining key principles and approaches, rather than responding to immediate needs

- a real appreciation of the importance of job evaluation, pay progression, equal pay, etc in implementing pay policies
- the opportunity for collective decisions to be made on individual pay levels, particularly those of senior managers, within an agreed set of principles or context
- the opportunity for remuneration strategy and policies to be reviewed on an ongoing basis and developed in the light of experience, context and changing organisational need
- access to accurate information about the total cost of pay and reward over the short, medium and long term so that affordability forms a key factor in any decision
- the opportunity for councillors to develop increased knowledge and experience of pay and reward
- a mechanism for commissioning independent advice.

## Who should sit on the Remuneration Committee?

Who should be on the committee is of course for the council to determine. However, pay and reward is a complex and often sensitive subject and getting it right is fundamental to the success of the council.

Committee members should therefore be people with:

- a good understanding of organisational strategy and people management
- analytical skills and the ability to understand complex data
- effective questioning skills who able to provide robust and constructive challenge
- an understanding of how local and national pay markets vary
- a clear understanding of the differences between job evaluation, salary determination, pay progression, etc.

## Defining pay

Using agreed terms when referring to pay and reward helps ensure clarity. The specific terms are not important as long as they are widely understood in your council. Pay is generally described in two ways:

- **Base pay** – the guaranteed wage or salary paid for performing work over a contracted period of time. Sometimes also known as 'fixed pay'.
- **Total earnings** – this includes base pay and any variable elements of earnings such as overtime, bonus.

Other terms used are '**reward**' and '**remuneration**'. These are often used interchangeably and refer to all the financial provision made to an employee including base pay and the wider benefits package (pensions, paid leave, etc).

The term '**total reward**' is used to encompass all the aspects of work and the working environment that are valued by employees including learning and

development opportunities, working environment, flexible benefits, autonomy, employee involvement opportunities, etc.

## Areas of activity for the Remuneration Committee

### Job evaluation and market pricing

Job evaluation is usually used as the basis for determining pay and grading structures, and to ensure a fair system for internal job comparison. Using one or more job evaluation schemes helps ensure transparency and fairness.

Job evaluation is used to rank jobs and their relative importance within an organisation. What job evaluation does not do is determine the pay level or rate. This is determined separately.

Market pricing involves an element of job matching to enable pay rates to be compared with equivalent jobs in other organisations.

Comparisons may simply, although rather unreliably, be done by using job titles and comparing salaries or more accurately through the use of a job evaluation scheme to compare roles with an equivalent job size. The majority of pay and reward consultancies provide such comparative data.

It is important to consider which aspects of reward are being compared – base pay only, total earnings, total reward. The Committee will want to be satisfied that job evaluation is being carried out regularly and appropriately within the council and may want to advise on which JE scheme to use.

It may be that the remuneration committee is used as the steering committee for any future job evaluation exercise, proving the process with strategic guidance while moderating final results to ensure quality and consistency.

## Sources of pay data

There are several sources of pay data. A few examples are:

- the new Epaycheck service which helps councils determine the market rate for common jobs. This service is run by a partnership of Regional Employers and the LGA, further information available at [www.epaycheck.org.uk](http://www.epaycheck.org.uk)
- published data from pay surveys – for example incomes data services
- pay clubs – where a group of employers regularly exchange information on pay levels
- tailored surveys – commissioned for a particular set of jobs or circumstances
- consultants' pay databases – collected on a systemic or ad hoc basis and related to their job evaluation data, allowing comparison across organisations using the same scheme.

The Committee will need to decide which ones it considers most appropriate and to determine how its approach will be based on this data. For example, will there be a link to a particular data source? Will a range of data be used to provide a broad base for comparison?

## Equal pay and equality audits

Equal pay legislation has been in place for some 40 years but despite this there is still a significant gender-related pay gap across the economy as a whole. There are many reasons for this which includes the concentration of women in certain job roles, an increased likelihood of working part-time, maternity leave and childcare requirements which can impact on promotion opportunities and the previous tendency for male jobs or qualities to be awarded higher value, in job assessment.

The gender pay gap in local government is not

as high as that within the economy as a whole and many councils have undertaken significant work to assess and address equal pay issues within their workforce. However, there is still a need to be vigilant since equal pay responsibilities are ongoing and employees are much more likely to assert their rights if there is evidence of discrimination, albeit unintentional, in pay decisions.

The law on equal pay is now contained in the Equality Act 2010. The basic principle is that women and men have the right to be paid the same for:

- **like work** – two employees doing the same or similar roles
- **work rated as equivalent** – these could be totally different jobs given the same rating by an analytical job evaluation scheme
- **work of equal value** – where the jobs are different but the employee claims they require a similar level of skill and ability.

The right to make a claim under equal pay legislation applies to employees and also to anyone with a contract personally to carry out any work or labour.

The Equality Act 2010 does not include a requirement to report gender pay gaps but in 2011 the Government launched a voluntary gender equality reporting scheme to encourage organisations to make public information relating to workforce gender profiles and aspects of pay. The reporting framework 'Think, Act, Report' was developed by the Equalities Office with guidance from ACAS.

The Act also included legislation prohibiting the use of pay secrecy clauses in employment contracts.

The Remuneration Committee will want to ensure that the council's pay structures are not discriminatory and will want to ensure that the pay structure or policy does not unintentionally create an equal pay issue.

## Dealing with off-payroll arrangements

You will be aware that the public sector use of arrangements for paying individuals a fee for services rather than having them on the permanent payroll has raised some challenging questions this year. A Treasury audit took place after the head of the Student Loans Company was alleged to have taken the idea too far in the view of many and arranged for fees to be channelled through 'tax efficient' company arrangements.

Although blatant tax avoidance is not the automatic outcome of off payroll arrangements, the student loan case and others prompted the Treasury to issue instructions to Government departments that they should use relevant systems only by exception with a clear business case and that any arrangements should be carefully monitored and regularly reviewed.

Local government is not bound by any Treasury instructions but the Communities and Local Government Department wrote to the LGA suggesting that the intent of the Government policy should be taken seriously in local authorities.

As part of our response, we referred to the need to take great care with such arrangements in a supplementary guidance circular on local pay policy statements issued through the Joint Negotiating Committee for Chief Executives on 1 March 2012.

## Interim appointments

The Treasury view is that many of the cases that they identified in Government departments were unjustified because the individuals involved could really be seen as permanent members of staff with ongoing contracts. There is no justification for such jobs not being on the permanent payroll.

The Treasury concluded that specialists in technical areas in which the civil service has no expertise could legitimately be hired using off payroll arrangements. This is not necessarily the same as a typical interim appointment however.

In this context some questions for consideration are:

- Does your council have a Remuneration Committee? Do you know its terms of reference? Does the committee receive any independent expert advice?
- Do you (and the council's employees) understand the value of all aspects of the council's pay and reward offer – pay, pensions, financial and non-financial benefits, employee engagement, etc?
- Does your pay policy state clearly how jobs are evaluated, how pay levels and pay progression are determined, how individual performance is assessed?
- Does your council have a clear policy on when it is acceptable to have off-payroll arrangements for staff who could otherwise easily be on the payroll?
- Does the Remuneration Committee receive reports outlining the gender pay gap within the council?
- Is there a plan of action to address this where possible?

# Appendix 1

## Model pay policy statement – December 2012

The ‘model’ pay policy statement provides a framework for local adaptation. The LGA encourages councils to go beyond the minimum statutory requirements regarding pay policy and practice in order to promote transparency and greater understanding.

This model includes the minimum statutory requirements as set out by the Localism Act 2011 and other relevant guidance. Where council’s opt not to include the requirement information in the pay statement they must ensure that these requirements are fulfilled in other ways.

### Introduction and purpose

Under section 112 of the Local Government Act 1972, the council has the “power to appoint officers on such reasonable terms and conditions as authority thinks fit”. This Pay Policy Statement (the ‘statement’) sets out the council’s approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011. The purpose of the statement is to provide transparency with regard to the council’s approach to setting the pay of its employees (excluding those working in local authority schools) by identifying:

- the methods by which salaries of all employees are determined
- the detail and level of remuneration of its most senior staff ie ‘chief officers’, as defined by the relevant legislation

- the [Committee(s)/Panel] responsible for ensuring the provisions set out in this statement are applied consistently throughout the council and recommending any amendments to the full council.

This policy statement has been approved by the council and is effective from (insert date). It will be subject to review annually and in accordance with new or proposed legislation to ensure that it remains relevant and effective.

### Accountability and decision making

In accordance with the constitution of the council, the [Committee(s)/Panel(s)] are responsible for decision making in relation to the recruitment, pay, terms and conditions and severance arrangements in relation to employees of the council.

### Responsibility and scale

The council is directly responsible for a budget of £xxxxyy and for the employment of xxxx staff. It has indirect responsibility for £ xxyyzz and for a further xxxx employees. The council provides services to a total population of xxxx residents and visitors.

## The council's pay strategy

In determining the pay and remuneration of its employees, the council will comply with all relevant employment legislation. This includes the Equality Act 2010, Part Time Employment (Prevention of Less Favourable Treatment) Regulations 2000, The Agency Workers Regulations 2010 and where relevant, the Transfer of Undertakings (Protection of Earnings) Regulations. With regard to the Equal Pay requirements contained within the Equality Act, the council ensures that all pay arrangements can be objectively justified through the use of Job Evaluation methods.

The council takes the following approach (or equivalent ) to assessing individual and overall pay levels.

- **Defining the role** – this describes the activities, responsibilities, accountabilities and behaviours which relate to each job and helps ensure that the role and its requirements is fully understood by the individual and the manager. This allows the council to assess the performance of its staff and so improves efficiency and effectiveness.
- **Determining the job size** – this process ranks all the council's jobs by using job evaluation techniques in order to ensure fairness and transparency and to allow for direct comparison between roles.
- **Determining overall pay levels** – this allows the council to assess the right pay policy and pay levels based on a number of key factors, including ability to pay, national pay comparators, local and regional pay comparators, etc

- **Determining pay structure** – pay is frequently made up of a number of elements. This council has adopted an approach which includes... (basic pay, incremental progression related to service or performance, financial and non-financial benefits, performance-related pay, etc). The council uses fixed point salaries (where there is no pay progression) and pay grades made up of between x and y pay levels. Where different pay arrangements apply to different groups of staff the reasons are clearly evidenced and documented. The council's approach to pay is detailed below and where different arrangements are in place these are explained.
- **Recruiting the right staff** – where necessary the council may apply market supplements or other individual pay levels for specific roles in order to ensure that it can recruit the best staff. This approach will only be adopted where there is clear evidence of recruitment difficulty and any such payments will be time limited and in accordance with council policy.

## Pay design

The council's pay policy is based on (insert details as per examples below):

**Option one** – one or more of the nationally negotiated pay schemes which apply to local government employees. This/these schemes determine the salaries of the majority of the non-school based workforce. Government legislation allows schools to determine their own pay arrangements for staff.

There have been no increases in the national pay spine since April 2009/There were no increases in the national pay schemes between 2009 and 2012, the most recent pay award was x per cent.

**Option two** – a locally determined pay scheme based on a recognised job evaluation process and developed as the result of (Details to be provided)

**Option three** – a combination of one or more of the national schemes and a locally determined scheme applied to employee groups as follows: (Details to be provided)

In determining its grading structure and setting overall pay levels for all posts the council takes account of the need to ensure value for money in respect of the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community, delivered effectively and efficiently and at times at which those services are required.

## Pay structure

### Pay grades and progression

To encourage employees to develop in their role and to improve their performance the council has arranged its pay levels within ?? pay grades. Grades contain between x and y pay levels or increments. Progression through the pay grade is based on meeting identified performance goals/a combination of service and performance targets/ development and performance target/etc. New employees will usually be appointed to the minimum pay level for the relevant grade.

Managers have the discretion to recommend an employee for acceleration of increments within the grade when they have demonstrated exceptional performance (also include any other policies and arrangements for introducing variations to the norm)

### Fixed pay rates

The council also uses fixed pay rates or points. These are used:

- for short term appointments
- where the required duties are in a limited range, can be closely defined and easily implemented so that there is limited scope to undertake additional responsibility or to develop expertise
- where the level of salary paid is designed to cover the full range and scope of the job – for example senior managerial posts.

### Pay supplements

From time to time it may be necessary to pay special allowances or supplements to individual employees as part of their employment contract where specific circumstances require this and where it can be justified in accordance with council policies. Such allowances are negotiated nationally or locally through collective bargaining arrangements and/or as determined by council policy.

The council uses the following:

- market supplements in order to attract and retain employees with particular experience, skills and capacity, for example when there are skills shortages locally or nationally

- special payments where an employee has taken on additional duties and responsibilities for a defined period of time, for example covering a vacancy or taking on a special project
- other payments – details to be added where appropriate.

The council will ensure that the requirement for additional allowance or supplement is objectively justified by reference to clear and transparent evidence and where market supplements are considered that this is with reference to data available from within and outside the local government sector.

## Other employment-related arrangements

### **Local government pension scheme**

Subject to qualifying conditions, employees have a right to belong to the Local Government Pension Scheme. The employee contribution rates, which are defined by statute, currently range between 5.5 per cent and 7.5 per cent of pensionable pay depending on full time equivalent salary levels. The Employer contribution rates are set by Actuaries advising each of the 89 local LGPS funds and reviewed on a triennial basis in order to ensure the scheme is appropriately funded. The current average rate is 18.4 per cent (NAPF annual survey 2011) set following the 2010 valuation.

### **Benefits schemes**

The council believes that it has a responsibility to help support the health, wellbeing and welfare of its employees in order to ensure that they are able to perform at their best. As part of this approach, and in common with other large employers it provides or makes arrangements for any health, fitness and wellbeing benefits; and discounts schemes which support the local economy.

### **Arrangements for senior managers**

The council believes that additional or specific requirements are necessary for the employment and reward of senior manager to reflect the nature of their roles, responsibilities and accountabilities and the national employment market. (or other appropriate wording to suit council policy). Such arrangements are described below. The organisational structure for senior posts is shown below/attached.

### **Employment arrangements**

Due to the nature and responsibilities of their role senior managers are normally employed on full time permanent employment contracts. The council's policy and procedures with regard to recruitment of chief officers is set out within the [Officer Employment Procedure Rules] as set out in [Section/Part xxx] of the Constitution. When recruiting to all posts the council will take full and proper account of its own [Equal Opportunities] [Recruitment] and [Redeployment] Policies. The determination of the remuneration to be offered to any newly appointed chief officer will be in accordance with the pay structure and relevant policies in place at the time of recruitment.

Where the council is unable to recruit to a post at the designated grade, it will consider the use of temporary market forces supplements in accordance with its relevant policies.

In exceptional circumstances, where the council remains unable to recruit to a chief officer or senior manager post or where there is a need for interim support to provide cover for a vacant post, the council may consider engaging an individual through a 'contracts for service'. Such arrangements can be advantageous because they can reduce employment costs and are flexible because they can be used for short periods of time without the need to pay termination payments. Where these arrangements are used the council will use relevant procurement processes to ensure that it can demonstrate value for money. Such arrangements will be kept under regular review by the Remuneration Committee.

## Pay arrangements

The council has chosen to introduce local arrangements for senior manager pay because it believes that this delivers a better outcome in terms of manager performance and flexibility (or as appropriate).

For the purposes of this statement, senior management means 'chief officers' as defined within S43 of the Localism Act.

The posts falling within the statutory definition are set out below, with details of their basic salary as at 1 April 2012:

- Chief executive [or relevant title] – the current salary of the post is [£xxx]. The salary falls within a range of xx incremental points between [£xxx], rising to a maximum of [£xxx]. [need to state if inclusive of any payment for returning officer duties]. The postholder is a full time employee on a permanent employment contract/on a fixed term appointment/an interim appointment for x period
- (Executive/corporate) directors – the salaries of posts designated as [xxxxxxxx] fall within a range of [xx] incremental points between [£xxx] raising to a maximum of [£xxx]. All directors are employed on full time permanent employment contracts (or as appropriate).

[Repeat as necessary to include all tiers of chief officers and falling within the statutory definition]

### Performance-related pay and bonuses

**Option one** – The council does not apply any bonuses or performance related pay to its chief officers.

**Option two** – The council operates a performance-related pay structure for certain staff groups in accordance with council policy. The scheme is based on (details as appropriate).

## **Pay supplements**

From time to time it may be necessary to pay special allowances or supplements to individual employees as part of their employment contract where specific circumstances require this and where it can be justified in accordance with council policies. Such allowances are negotiated nationally or locally through collective bargaining arrangements and/or as determined by council policy.

The council uses the following payments:

- [post/tier of post] [payment details] (to include, individually identified or grouped where relevant)
- fees paid for returning officer duties where identified and paid separately (defining how these are determined)
- salary supplements payable for fulfilling statutory officer duties (eg S151/MO) where identified and paid separately
- market forces supplements in addition to base salary where identified and paid separately
- lump sum or lease car allowances (and detail of mileage rates where these exceed HMRC threshold)
- salary supplements or additional payments for undertaking additional duties and responsibilities
- any arrangements for payment of untaken annual leave falling outside the requirements of relevant legislation.

## **Lowest paid employees**

The lowest paid persons employed under a contract of employment with the council are employed on full time [37 hours] equivalent salaries in accordance with the minimum spinal column point currently in use within the council's grading structure. As at 1 April 2012, this is [£xx,xxx] per annum (the council applies a living wage policy).

The council employs apprentices [or other such categories of workers] who are not included within the definition of 'lowest paid employees' as they are employed under (define terms).

## **Pay multiple**

As described above the council uses an established process of defining roles, determining job size and salary levels. This process determines the relationship between the rate of pay for the lowest paid and senior manager post, including chief officers, described as the pay multiple. The current pay multiple between the lowest paid (full time equivalent) employee and the [Chief Executive] as [1:XX] and; between the lowest paid employee and average chief officer as [1:XX]. The multiple between the median (average) full time equivalent earnings and the [Chief Executive] as [1:XX] and; between the lowest paid employee and average chief officer as [1:XX].

This is currently within/beyond the limits recommended by The Hutton Review of Fair Pay in the Public Sector (2010) and will be monitored and recorded annually. If beyond – state why

## Payments on termination of employment

The council's approach to [statutory and] discretionary payments on termination of employment of chief officers, prior to reaching normal retirement age, is set out within its policy statement in accordance with Regulations 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 [and if adopted] Regulations 12 and 13 of the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007.

Any other payments falling outside the provisions or the relevant periods of contractual notice are subject to a formal decision made by the full council or relevant elected members, committee or panel of elected members with delegated authority to approve such payments and will be determined on a case by case basis.

It is not the council's policy to re-employ or to contract with senior managers who have been made redundant from the council unless there are exceptional circumstances where their specialist knowledge and expertise is required for a defined period of time or unless a period of (define number of years) has elapsed since the redundancy and circumstances have changed

## Publication of pay statement

Upon approval by the full council, this statement will published on the councils website [and xxxx]. In addition, for posts where the full time equivalent salary is at least £50,000, the council's annual statement of accounts will include a note setting out the total amount of:

- salary, fees or allowances paid to or receivable by the person in the current and previous year
- any bonuses so paid or receivable by the person in the current and previous year
- any sums payable by way of expenses allowance that are chargeable to UK income tax
- any compensation for loss of employment and any other payments connected with termination
- any benefits received that do not fall within the above.

## **Additional notes to councils**

1. ‘Payments on Termination’ is covered by Regulations 12 and 13 of the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007. These relate to the power to increase total membership of active members and the award of additional pension benefits (commonly known as ‘augmentation’). These only need to be referred to where adopted within council policy (even where done so on a ‘case by case’ discretionary basis). There is no explicit requirement to append details of these discretions or (where possible) provide a hyperlink to the relevant council policy. Authorities are free to do so if they consider it appropriate and necessary on grounds of full transparency.

2. The statutory guidance includes two further references set out below. These have not been included with the model pay policy statement. In light of the requirement that the council ‘must have regard’ to that guidance, it will be necessary to reference their exclusion within any cover report to council, thus providing an opportunity for elected members to determine to the contrary.

## **Pay practices of external contractors commissioned to deliver services**

### **(Paragraph 29)**

Authorities can include any additional information relating to policies on pay they consider is appropriate to do so, including (for example) towards the pay of staff working for external contractors commissioned to work on behalf of the council, or to explain their approach to any shared senior management arrangements that are in place.



# Appendix 2 – Approaches and case studies

## London Borough of Barking and Dagenham – Flexible benefits

The council recognises that a broad strategy of employee engagement is important at a time of pay restraint and is adopting policies to create a more engaged and motivated workforce.

The council's primary approach in relation to pay and reward is to introduce a range of benefits which will 'help stretch salary further. As with Bristol City Council the principle of paying a living wage sits behind its approach.

Flexible benefits options being considered include:

- discount schemes from high street brand stores
- health, dental and optician related offers
- access to credit union and financial training for staff.

As part of the broader approach to engagement the council is developing a staff charter to cover:

- fair and affordable pay
- training and development
- employee voice
- management quality.

## Wiltshire County Council – Revised salary grades

The council has not introduced performance-related pay for senior staff but it has made a number of other changes which have included:

- reducing the number of management grades from seven to five
- introducing generic job profiles and broad bands across the organisation reducing the number of grades from 14 to 10
- removed the use of automatic increment progression
- introduced a range of behaviours and competences which are more business focused.

The council has positioned itself as a median level payer and is paying market supplements for some IT posts because of recruitment difficulties. The council's HR director supports the principle of performance-related pay but believes that the levels of PRP required to make it effective are too high for the council to afford.

## London Borough of Lewisham – Independent executive remuneration panel

The council has adopted a radically different approach to the assessment of pay and reward by using an Independent Executive Remuneration Panel. The Panel is made up of local people, those with an understanding of reward and includes people with both management and trade union backgrounds. Its role is to:

- advise the council's appointments panel on the appropriate pay framework and pay structure for the chief executive post
- advise the chief executive on the appropriate pay framework and pay structure for executive directors and heads of service
- consider and commission reports on pay levels for the above roles
- consider how any pay anomalies should be addressed
- provide a sounding board for consultation on national pay issues.
- salary and market information is made available to the Panel through a specialist reward company.

The advantages of this approach are seen as including:

- a more strategic assessment of reward
- internal and external credibility because of the independent assessment
- separation of advice from council staff eg HR director
- a focus on managerial performance.

## London Borough of Haringey – Performance-related pay model

The council still operates a performance-related scheme but this is currently under review. The scheme covers all senior managers and operates through the use of accelerated increments for enhanced performance. The council uses broad pay scales with eight salary points in each band. The Remuneration Committee oversees all senior manager pay progression. The process involves a three-point assessment of performance – objectives not met; objectives met; objectives exceeded. Each manager will have a number of objectives for the year and so this approach creates an effective, if straightforward, method of assessing overall effectiveness.

## Buckinghamshire County Council – Contribution pay

The council operates a locally determined pay scheme and so uses a wide range of national and local indicators to help it determine its pay levels. Like most councils its current arrangements are based on time-served increments with little or no action to withhold increments for poor performance. Over 60 per cent of staff are at the top of their salary scales and further progression is therefore only available through re-grading. The council considered the recommendations of the Hutton review and decided that the most important action for it to take was to introduce contribution-based pay – the aim being to help focus on measurement and outcomes rather than service.

The council's previous pay system has 12 pay bands with five incremental points in each band. The current band widths are not consistent and there are significant differences in the value of incremental steps. In addition research has shown that council managers are not using the honorarium pay arrangements in a consistent or equitable way which is leading to unmanaged increases in the paybill. The aim of the new system is therefore to:

- control costs
- reward performance and desired behaviours
- create a transparent process
- improve administration and cost management
- improve productivity.

It is recognised that to be successful will require the development of a robust and accurate performance management system. The contribution-based scheme will involve the use of pay bands with three key points – entry; competent; advanced. Position in the band and progression will be dependent on the contribution to the organisation. The new scheme will have defined elements eg the width of pay bands and the position of the 'competent point' in each grade. Alongside this will be important to ensure that there is enough flexibility for market alignment and for the amounts payable for top performance to be varied according to ability to pay, etc.

## Somerset County Council – Pay and reward transparency

The council has decided to adopt an approach on salary transparency which goes beyond that required by Government by publishing the exact salaries of its senior staff.

The emphasis of the strategy is to create arrangements which are specifically suited to the council and so reflect local circumstances and to demonstrate to the community that the arrangements offer value for money. As part of this approach it is also looking at the terms and conditions of employment of the top 150+ managers with a view to creating a more business-focused set of terms and changing organisational culture. One action has been to move from incremental pay to a spot salary approach. The new arrangements are linked to the introduction of a new competency framework and a performance related pay scheme will be introduced later.

A recent staff survey has shown (in common with national reward surveys) that pay is not the only determinant of staff satisfaction – other factors are also important and these include:

- recognition
- promotion
- empowerment and role variety.

Part of the council's overall strategy will therefore include secondment and development opportunities. Benefits schemes linked to local business are also being considered.

## Bristol City Council – Dealing with low pay

The council sees low pay as a priority for the city and wishes to introduce a living wage policy. To achieve this it plans an overall review of working practices including contractual overtime, sickness entitlement, etc. The review will be set in the context of a wider engagement strategy designed to create an improved employee relations climate and to develop an organisational philosophy more suited to the changing environment. Included in the review will be the design a new pay framework based on job families and a shorter pay spine. Coupled with this work is a programme to enhance leadership development and improve the quality of management and performance management.

## Birmingham City Council – Pay progression framework

The council utilises a seven grade pay structure (previously there were 24 grades) with each grade consisting of nine spinal column points with the exception of GR1 that has seven. The salaries for the spinal column points are determined by the nationally negotiated rates for APTC employees within local authorities.

Grades are now far wider and progression through a combination of time served and contribution related increments. Time served increments are available in GR1 – GR5 and there are none in GR6 and GR7. This variation in the offering of time served increments is to reflect how progression within the grades is more demanding the higher you progress.

Progression within a grade is determined by a moderated Performance Development Review with a rating scale of A – E. Each grade has three zones and the assessment needed to achieve an increment gets progressively tougher through the grades. In zone one (the growth zone) a ‘D’ rating would be acceptable to be awarded an increment. In Zone 2 the minimum level is ‘B’ and progress within Zone 3 requires an A. Progression into and within Zone 3 is also reliant upon an employee having a challenging performance agenda. Without this they cannot achieve an ‘A’ rating in their PDR.

Previously where the increments would of all been time served this would of accounted for around 2.5 per cent of the total pay bill, whereas by using contribution to also determine pay progression this figure is now around 0.91 per cent. This is equal to a saving of around £6 million per year depending on the amount of increments.



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