

FAREHAM

BOROUGH COUNCIL

Report to Council

Date **11 December 2014**

Report of: **Chief Executive Officer**

Subject: **PAY AND GRADING REVIEW**

SUMMARY

This report proposes changes to the Pay and Grading Structure of Fareham Borough Council. It includes proposals to amend the senior management pay structure from three grades to four grades to provide a more proportionate reflection of responsibility levels. It also includes proposals for a combined pay award for employees covering the two year period between 1 April 2014 and 31 March 2016.

RECOMMENDATIONS

That the Council approves:

- a) the pay award for mainstream employees, as detailed in paragraphs 17 to 19 of this report;
- b) the pay award for senior management employees, as detailed in paragraphs 20 to 23 of this report;
- c) that the senior management pay structure is amended from three grades to four grades, as set out in Appendix 2 to the report;
- d) that the updated Pay Policy statement for 2015/16, as set out in Appendix 3 to the report be agreed; and
- e) that the costs of the pay awards be funded from the savings accrued through the implementation of the Vanguard Method.

INTRODUCTION

1. The purpose of this report is to set out the results of an independent review of the Council's Pay and Grading Structure and to propose a pay award covering the 2014/15 and 2015/16 financial years.

BACKGROUND

2. Earlier this year, the Executive Leader asked the Chief Executive Officer to undertake a review of the Council's Pay and Grading Structure. This was in the light of a number of changing circumstances. For example :-
 - There had been a 14% reduction in the headcount of the Council's workforce since the recession began in 2008, but no reduction in service provision. The commitment of Council employees to continue to deliver high quality services throughout a period of a major recession deserved recognition;
 - There had been no inflationary increase to public sector salaries in 2010, 2011 and 2012 due to the impact of the recession;
 - As a result of this ongoing freeze on pay levels, the gap between the national minimum wage and the lowest point of the Council's pay structure had been completely eroded;
 - The differential pay gap between Senior Management and the rest of the workforce had also been eroded because, in some years, whilst mainstream employees received a pay award, Senior Managers did not;
 - Over the last 18 months the Council has been experiencing problems in recruiting to professional vacancies in areas such as Planning, Building Control and Environmental Health. There has been a shortage of such technical skills in the marketplace and the Council's employment package needs to be competitive to attract good quality candidates; and
 - There had been significant changes to the management structure in 2014 which resulted in new responsibilities for a number of posts at Director and Head of Service level. Senior posts therefore needed to be reviewed using the Council's job evaluation scheme.
3. As a result, the Chief Executive Officer (in his role as Head of Paid Service) commissioned an independent review of the Council's Pay and Grading Structure, including a job evaluation of senior management posts.

INDEPENDENT REVIEW

4. The independent review was carried out by Mr Steve Vale, an external Human Resources specialist. He has assisted many public sector bodies in assessing the competitiveness of their remuneration packages against the market, and is fully conversant with the problems of combining market data with the results of job evaluation to create pay structures which are fair in terms of both internal relativities and external comparisons, whilst at the same time supporting

recruitment, retention and workforce development initiatives.

5. Fareham Borough Council's pay structure has three distinct elements:-
 - (i) The Chief Executive Officer
 - (ii) Directors and Heads of Service (i.e. senior management)
 - (iii) All other employees (i.e. mainstream)
6. The consultant was asked to review the competitiveness of the salary structure for senior management and mainstream employees. (The Chief Executive Officer's pay is not included as part of this pay award). He was also asked to undertake a job evaluation exercise on all senior management posts in the light of changed responsibilities following a management restructure in early 2014.

RESULTS

7. A benchmarking exercise was undertaken to understand how Fareham Borough Council's salary levels looked when compared to median salary levels for District Councils in the South East region (i.e. in Kent, East Sussex, West Sussex, Surrey, Hampshire, Oxfordshire and Buckinghamshire). Salaries in Unitary and County Councils were not included as they were not considered comparable with those for District Councils. Although their pay levels can often be higher, it needs to be recognised that County and Unitary Councils will be recruiting from the same pool of candidates as District Councils.
8. In terms of mainstream employees the benchmarking exercise suggests that a general increase of 4% in pay rates would be required to achieve alignment with the local government pay market for the South East. (Appendix 4)
9. The benchmarking exercise on senior management (i.e. Directors and Heads of Service) also demonstrated that pay ranges were well below regional median values, to the extent that they were in the lower quartile. (Appendix 5).
10. The Chief Executive Officer has received the result of the confidential job evaluation exercise on senior management posts. The exercise recognised the change in responsibilities for some senior posts and the resultant job sizes are contained in confidential Appendix 6. The review concluded that the current three grade structure for senior management should be changed to a four grade structure which would be much more logical in ensuring that grades are a proportionate reflection of relative responsibility levels.

PROPOSED PAY AWARD

11. It is important to recognise that the Council's Pay and Grading structure is based on a nationally recognised job evaluation scheme which is used to determine the points score of each job. Once each job has been evaluated it is assigned a pay grade. These pay grades are carefully constructed to ensure that the differential between jobs is fair, transparent and appropriate.
12. It is essential to the overall integrity of the Pay and Grading Structure that these differentials are maintained.

13. Therefore, giving a fixed lump sum rather than a percentage increase on their salary would not work. The result would be that the value of the lower grades would rise by a higher percentage than those above. The differential between grades would be eroded and eventually merge.
14. It is also important to recognise that the implementation of a national pay award (negotiated for all Councils), whatever the figure might be, has no impact on the relativity of Fareham Borough Council's pay levels to median regional pay levels. In order to align our pay levels with the other Councils, there is a need for Fareham to "catch up" by making a step change to the Pay and Grading Structure.
15. Finally, it should be noted that the proposals detailed below cover a two year period, not a single year, as is the norm. This is to take account of the national pay negotiations which currently cover a two year period.
16. With this in mind, it is proposed that the following pay awards are made to cover the two year period from 1st April 2014 to 31st March 2016:-

Mainstream Employees

17. Mainstream employees are contractually entitled to receive the national pay settlement which is proposed to cover a two year period, resulting in an average rise of 2.2% plus a one off lump sum, from 1st January 2015.
18. The lump sum is a non-consolidated payment negotiated at national level. The figure will vary, with lower graded posts receiving a lump sum of £325 and those on a higher grade receiving £100.
19. Then, in order to align Fareham Borough Council's pay with regional pay levels, it is proposed that all mainstream pay-scales would be increased by a further 4% from 1st April 2015. The figures are shown in Appendix 1. As well as making the Council's employment package more competitive, (and just below the median for the South East), this would re-establish a gap between the national minimum wage and the lowest point of the Council's pay structure.

Senior Management

20. Senior Management employees, not including the Chief Executive Officer, fall under a different national negotiating structure to mainstream employees.
21. The national offer, as at 21 November 2014, is for a 1% increase back-dated to 1st April 2014 (i.e. not 2.2% over two years, as with mainstream employees). The Trade Unions have indicated that they would wish to re-open negotiations. This would not conclude until after agreement is reached on the mainstream pay and may take some time to finalise. Given that the Council has budgeted for a 1% pay award the Council would implement this pay award as a local agreement.
22. Then, in order to align senior management pay with regional pay levels, it is proposed that senior managers would transfer to the new pay scales shown in Appendix 2 from 1st April 2015. They would be assimilated to a pay scale similar to their current salary plus an average uplift of 3.9%. It should be noted that, as a result of this rise, Fareham Borough Council would take itself out of any national negotiations for 2015.

23. Whilst senior management would generally be receiving a lower percentage pay rise than mainstream employees, they would benefit from changes to the increased 'range' of pay and the longer term opportunities for progression.

PAY POLICY

24. Fareham Borough Council's Pay Policy for the whole organisation is presented for approval by the Council on an annual basis and is linked to the Medium Term Financial Strategy. If the proposals set out in this report are approved then the Pay Policy will need to be amended to reflect the new figures. (Appendix 3).

FINANCIAL IMPLICATIONS

25. The Council's budgets already include a sum for the annual inflationary pay award based on national negotiations to pay for the increase in 2014/15.
26. An additional sum of £370,000 would be required to fund the proposed local award in 2015/16.
27. It is proposed that this additional sum is funded from the savings that the Council is making through the implementation of the Vanguard Method. This new way of working has already produced annual savings of £168,000, as reported to the Executive in October 2014.
28. Since then, further savings have been identified as a result of Vanguard interventions. A restructure of the Building Services team will provide savings of £88,000 per annum, whilst a restructure of the Parking team will provide £75,000 per annum. Plans are currently being formulated for a restructure of the Benefits team which should generate at least £50,000 in savings.
29. The combined total of savings accrued from the implementation of the Vanguard method therefore stands at £381,000 per annum, with more to follow.
30. To date, there have been two redundancies as a result of these restructures.

RISK ASSESSMENT

31. There are a number of risk considerations that need to be taken into account in relation to this report. These include the potential loss of skilled and experienced personnel and/or the ability of the Council to attract high calibre employees in the future should its pay package be seen as uncompetitive.
32. There is also a risk to the integrity of the Council's existing pay structure if the lower grades continue to be adjusted in line with the national minimum wage without adjusting all grades above to maintain a suitable differential between job sizes.

CONCLUSION

33. This report proposes changes to the Pay and Grading Structure of Fareham Borough Council. It includes proposals to amend the senior management pay structure from three grades to four grades to provide a more proportionate reflection of responsibility levels. It also includes proposals for a combined pay award for employees covering the two year period between 1 April 2014 and 31 March 2016.

Enquiries:

For further information on this report please contact Sarah Robinson. (Ext 4564)

Appendices:-

- **Appendix 1 – Mainstream pay grades – adjusted**
- **Appendix 2 – Senior management pay grades – adjusted**
- **Appendix 3 – Pay Policy statement 2015/16**
- **Appendix 4 – Consultant report on Pay and Grading Issues / mainstream posts**
- **Appendix 5 – Consultant report on Pay and Grading Issues /senior management**
- **Appendix 6 (Confidential) – Job sizing for Senior Management Posts**