



## Restructuring at senior level – pay and grading implications

Report by Steve Vale, HR Consultant

### Background

1. Earlier this year, Fareham Borough Council made changes to its senior management structure, which has resulted in changed responsibilities and portfolios for a number of posts at Director and Head of Service level.
2. Because the Council uses a job evaluation (JE) system to determine the grading and pay of posts at this level (which I designed and helped to implement in 2008), these changes in responsibilities will have implications for the levels at which the jobs concerned are evaluated, and could therefore have implications for their correct grading within the current structure.
3. In addition, following on from the restructuring, certain Head of Service roles have been given enhanced corporate functions, which, in terms of responsibility level, means that they sit somewhere between the current Heads of Service and the current Directors. These roles have both Head of Service responsibilities and a significant element of over-arching strategic input to the running of the Council.
4. It is also important that, at the current stage, the Council ensures that the pay levels of its senior managers align with market norms in the local authority sector. Given the challenges the Council currently faces, avoiding unnecessary turnover at senior level will be important, so that the Council needs to avoid the risk that a high proportion of managers leave because remuneration for comparable roles elsewhere is more attractive. (It has recently undertaken a review of its Chief Executive's remuneration to address this risk).
5. Benchmarking senior management salaries is particularly important, given:
  - The growth in responsibilities at Director level and in a number of Heads of Service posts referred to later in this report;
  - The importance of continuity in senior management at a time when the Council has a number of key projects in progress, so that the risk of turnover as a result of the current remuneration packages being below market rates need to be minimised;
  - Indications that the labour market in the local authority sector is beginning to tighten again as the national economy picks up.
6. This report:
  - Looks at the current relationship between the Council's senior management remuneration and that in other District Councils in the south east of England, through a benchmarking analysis;

- Sets out changes to JE scores of senior posts as a result of changes to the Councils structure\*, and considers the implications of these outcomes for the current grading structure and the grading of individual posts; and
- Suggests a new pay and grading structure takes account of the benchmarking analysis and of the implications of the structural changes, which is designed to ensure that the Council's remuneration at this level remain fair and competitive in terms of both relative internal responsibilities and in comparison to pay levels in other District Councils elsewhere in the south east of England.

\* Details of the rationale for the changes and the re-evaluations of the posts concerned are set out in a separate confidential report which has been sent to the Council's Chief Executive

### Benchmarking

7. The approach taken in benchmarking the Chief Executive's salary was to seek to achieve alignment with median salary levels elsewhere in the ***south east region (i.e. in Kent, East Sussex, West Sussex, Surrey, Hampshire, Oxfordshire and Buckinghamshire)***. This approach was supported by the policy statements in the Council's statutory pay policy, pursuant to the Localism Act 2011.
8. It therefore makes sense to take a similar approach to benchmarking in relation to senior managers' (Directors and Heads of Service) salary levels.
9. Current benchmarking data from across the region has been assembled from a number of sources, including Epaycheck and the transparency data on Council websites. As a result it includes data from virtually every District Council across the region (salaries in Unitary and County Councils are not comparable with those for Districts although it should be recognised that all types of councils will be recruiting from the same pool of candidates).

### 10. Directors

The table below sets out data on Directors pay in District Councils across the south-east region :

	<b><i>Lower end of pay scale</i></b>	<b><i>Top of pay scale</i></b>
<b><i>Minimum</i></b>	£ 61,200	£ 70,000
<b><i>Lower quartile</i></b>	£ 74,450	£ 82,229
<b><i>Average</i></b>	£ 78,295	£ 88,038
<b><i>Median</i></b>	£ 77,434	£ 86,714
<b><i>Upper Quartile</i></b>	£ 81,053	£ 94,000
<b><i>Maximum</i></b>	£ 103,383	£ 112,695
Fareham	£ 72,688	£ 80,080

11. The table shows that the current Director pay range at Fareham is well below regional median values, to the extent that it is also below lower quartile values.

## 12. Heads of Service

The table below sets out data on the pay levels for **all** Heads of Service/ 3<sup>rd</sup> tier posts in District Councils across the south-east region (i.e. in Kent, East Sussex, West Sussex, Surrey, Hampshire, Oxfordshire and Buckinghamshire).

	<i>Lower end of pay scale</i>	<i>Top of pay scale</i>
<b>Minimum</b>	£ 44,736	£ 46,259
<b>Lower quartile</b>	£ 54,660	£ 62,506
<b>Average</b>	£ 58,709	£ 67,454
<b>Median</b>	£ 57,433	£ 66,996
<b>Upper Quartile</b>	£ 64,000	£ 73,327
<b>Maximum</b>	£ 75,900	£ 84,462
Fareham	£ 48,131	£ 59,203

13. The table shows that the current Head of Service pay ranges at Fareham are also well below regional median values, to the extent that they are below lower quartile values.

14. However, it needs to be borne in mind that organisational and pay structures vary between one Council and another at Head of Service level much more markedly than at Director level. In broad terms, a distinction can be between:

- Those Councils who use a single pay scale of all Head of Service posts; and
- Those, like Fareham, who have more than one grade (usually 2) at Head of Service level.

15. The former normally have smaller numbers of Heads of Service (perhaps only 3 or 4), with broad service portfolios, and the latter usually have larger numbers, with service portfolios of different dimensions (thus the requirement for differential pay and grading levels).

16. It is more logical for Fareham to benchmark itself against the latter group. The table below therefore sets out data on the pay levels for Heads of Service/ 3<sup>rd</sup> tier posts in the upper grade for such in District Councils across the south-east region which have more than one Head of Service grade.

	<i>Lower end of pay scale</i>	<i>Top of pay scale</i>
<b>Minimum</b>	£ 56,040	£ 62,000
<b>Lower quartile</b>	£ 60,000	£ 64,404
<b>Average</b>	£ 61,781	£ 67,892
<b>Median</b>	£ 62,864	£ 66,492
<b>Upper Quartile</b>	£ 64,179	£ 71,255
<b>Maximum</b>	£ 65,330	£ 76,430
Fareham	£ 52,672	£ 59,203

17. It will be seen that this comparison makes little difference to the nature of the relationship between Fareham's remuneration levels and the median and lower quartiles for the region, but it does suggest that Fareham pay levels are not so far below the upper quartile and the maximum.
18. The table below sets out data on the pay levels for Heads of Service/ 3<sup>rd</sup> tier posts in the lower or lowest grade for such in District Councils across the south-east region who have more than one Head of Service grade.

	<i>Lower end of pay scale</i>	<i>Top of pay scale</i>
<b>Minimum</b>	£ 51,732	£ 56,000
<b>Lower quartile</b>	£ 54,623	£ 58,352
<b>Average</b>	£ 55,023	£ 60,504
<b>Median</b>	£ 54,770	£ 61,136
<b>Upper Quartile</b>	£ 55,571	£ 62,654
<b>Maximum</b>	£ 58,177	£ 64,070
Fareham	£ 48,131	£ 54,332

19. This table shows that the pay rates in the lower Head of Service grade at Fareham are well below regional benchmarks, and that, in fact, pay for posts at this level is probably the lowest in the region.
20. The outcomes of benchmarking show clearly that there is a need to consider increases in senior manager remuneration to give a better alignment with regional norms and to address the risk that managers will leave because remuneration for comparable roles elsewhere is more attractive.
21. The Council has budgeted to pay a 1% pay award to its senior managers with effect from April 2014 in line with the national pay policy but at the time of writing, this is not currently agreed by

the Joint National Council (JNC) for Chief Officers. But this will not have only any impact on how its remuneration compares with other Councils. There is therefore a need for revised pay scales which will bring pay levels closer to the regional medians for comparable senior management roles.

22. The precise nature of the revised scales will need to take account of the outcomes of the senior management restructuring as well as the results of benchmarking exercise, and the results of the former are therefore summarised in the next section of this report.
23. In addition, any new pay scales will need to take account of changes proposed to the mainstream pay scales (these are set out in a separate report), and to ensure that existing differentials between the highest paid mainstream posts and its senior managers are maintained, so that the higher responsibility levels of the latter continue to be reflected properly.

**The revised JE outcomes for the current grading structure and the implications for future grading of posts are set out in Confidential Appendix 6**

24. The revised JE rank order which results from the changes to the senior management structure is set out in Confidential Appendix 6.
25. The new rank order shows a different distribution of scores to that seen in previous rank orders, in that posts score across the whole spectrum from 720 to 1425 points, rather than the previous pattern, where they were in two clusters (one at c. 700 to c.1000 points and other at c.1300 to 1400 points).
26. The current points-to grades arrangement gives a three-grade structure:

Senior Manager Grade 2: up to 900 points  
Senior Manager Grade 1: 901 – 1250 points  
Director: More than 1250 points

27. But this is difficult to sustain this arrangement in relation to the new structure, as retaining it would imply that either the Head of Service posts which now score above 1250 points would have to be graded the same as the Directors, which would be unworkable in practice, or there would need to be an adjustment so that they would be in the same grade as posts scoring just 915 points, which would be unfair, and fail to recognise their significantly higher responsibilities. (It would be very unusual for the bandwidth in any JE-based grading structure to place jobs scoring more than 300 points apart into the same grade.)
28. On this basis, a four grade structure would be much more logical in ensuring that grades are a proportionate reflection of relative responsibility levels. The following structure is based on equal point ranges, in line with normal practice for setting points-to-grades ranges for JE schemes:

Senior Manager Grade 3	up to 920 points
Senior Manager Grade 2	921 to 1120 points
Senior Manager Grade 1	1121 to 1320 points
Director	more than 1320 points

29. If this structure is applied to the anticipated JE scores, the grading outcomes would apply to individual posts and these are shown in Confidential Appendix 6.

**Pay scales for the new four-grade structure**

30. The current Director and Senior Manager scales consist of 5 spinal column points. There is a two- point overlap between the pay ranges for the current two Senior Manager grades. There is no overlap between the upper Senior Manager scale and the Director scale.

31. However, the new 4-grade structure at senior level gives an opportunity to create a more logical grading structure, which parallels the relationships between grades in other parts of the Fareham grading ladder, so that all 4 grades have 5 increments and overlap with the grades above and below them to some extent.

32. In practice, this would mean that the new Senior Manager Grade 1 would overlap with both the Senior Manager Grade 2 at the lower end and the Director Grade at the upper end.

33. In setting pay levels in this new 4 –grade structure, the Council needs to:

- Take account of the results of benchmarking, by seeking to align the maximum of new Fareham pay scales with the regional median maximums for the most populous grades of (a) Director and (b) Senior Manager Grade 2,
- Ensure that there are appropriate differential between senior manager and mainstream pay scales – see paragraph 34, below; and
- Consider the size of incremental steps within the grades – it would be logical to use incremental steps similar to those used in the current Chief Executive pay scale, i.e. 3.5%.

34. With regard to differentials, the Council has always recognised that there is a step-change in responsibility level between mainstream and senior management posts: thus the use of a separate job evaluation system and separate pay and grading structure at senior levels. When the current pay structure was introduced just over 5 years ago, this step change was recognised in the pay levels which then applied. The differential between the maximum pay point of the highest of the GLPC grades and the maximum pay point of the lowest senior manager grade was around £8,000, so that any new pay scales should seek to preserve the same measure of differential.

35. The suggested pay scales below take account of all the criteria in paragraph 33:

£ 50,752	Senior Manager Grade 3				
£ 52,593					
£ 54,500					
£ 56,477					
£ 58,526		£ 58,526	Senior Manager Grade 2		
	£ 60,648				
	£ 62,848				
	£ 65,127				
		£ 67,489	Senior Manager Grade 1		
		£ 69,851			
		£ 72,296			
		£ 74,458			
		£ 76,632		Director	
			£ 76,632		
			£ 79,092		
			£ 81,961		
					£ 84,934
					£ 88,015

36. As well as achieving desirable market alignments at Senior Manager Grade 2 and Director level, this structure would:

- Reflect the JE outcomes for the posts in new Senior Manager Grade 1;
- Ensure better alignment of new Senior Manager 3 with regional norms (note however that, given the JE outcomes, it is not possible to increase pay further in this grade without pushing pay levels in more senior grades above regional norms, which would be difficult to justify.)