

**MANAGEMENT BOARD****Reward Strategy: A to E Pay**

*Note by Director General, Resources*

**Purpose**

I attach a paper by Harun Musho'd which canvasses a number of pay design issues which reflect the output of various joint management/union working groups, and the views of HRG.

**Issues for the Board**

2. The current basis of band A to E pay is unsustainable for various reasons, and we need to engage in deciding what really matters to us about our pay system. The paper gives us the opportunity to do that in broad terms, before more work is done.

3. There is a lot in the paper, and the Board's views on any or all of it will be welcome. However, the key *strategic* issues which I suggest the Board concentrates on as a minimum are:

- i. *the reward strategy itself (Annex A)*. Are the principles enunciated in it ones with which the Board agree, including:
  - o reward which is "attractive in the external market", which may mean pay premia for hard-to-recruit specialists?
  - o rewards for service delivery performance?
  - o recognising team performance?
- ii. *issues from Harun's paper*. Do we agree with:
  - o a pay structure which gets people to a "rate for the job" quickly, but makes additional rewards more difficult?
  - o simplifying the ASR system?
  - o more generous performance pay?

**A J Walker**

**Director General of Resources**

*December 2007*

## Management Board Reward Strategy

*Acting Director of Human Resource Management & Development*

### Purpose

1.1. This paper:

- considers the findings of the joint management and union reward work streams
- proposes some management priorities for a reward strategy
- reports the unions view of those priorities.

1.2. The paper, which covers pay for bands A to D, does not, however, seek to present a final reward strategy. It will require further discussion with the unions before a firm strategy can be proposed to the Board. Even then, as with any strategy, it will need to be constantly reviewed and revised.

### Decisions

1.2. At this stage, the Board are asked to comment on:

- the broad proposals in this paper; and
- the way forward.

### Background

1.3. We reached a stage some time ago where our pay system and our approach to negotiations with the unions had become unsustainable, and a project was therefore begun in the spring to bring management and unions together to work out a way forward. A number of joint union/management work streams and other discussions with unions and managers, including HRG, have to date, resulted in firming up some areas of reward. In some instances, however, there is still a way to go before management and unions share a view, in particular about the base pay structure and the size of the budget for performance related pay.

1.4. The personnel involved in this project from management and trade union are too numerous to list. However, the core management team consisted of Heather Bryson (Project sponsor to 11/07), Harun Musho'd (Project sponsor from 11/07) Johan van Den Broek (Project manager), Betty McInnes, Patrick O'Riordan and Tom White.

### Reward strategy

1.5. A reward strategy, based on the high-level HR strategy, is emerging from the work stream and is set out in tabular form in Annex A. It should be emphasised that this is still in its early stages, but is informing the work set out in the rest of the paper.

### Pay structure

- 1.6. The current pay structure for Pay band A-D is shown in abstract terms in Annex B1.
- 1.7. The strengths of the current structure are seen to be:
- Open and transparent pay system
  - Generally known how long it takes to progress from min to max
  - Appears to support low turnover and in staff surveys indicate broad satisfaction with the system (although there are notable exceptions)
- 1.8. However, the reported problems with this structure are:
- Too complex
  - Progressing from min to max takes too long to satisfy equal pay and age discrimination requirements
  - Progression system takes up too much of the paybill
  - Large minority of staff are paid above the maximum of their pay band due to the 2006 and 2007 pay settlements
- 1.9. The trade unions' priorities appear to be, in order:
- underpin minimum increases both in terms of cash amounts and percentage increases
  - speed up progression from min to max
  - reduce length of pay bands
  - fixing progression increases in advance through set progression in spine points.
- 1.10. Management's priorities are similar but subject to affordability and introducing a structure that contains all staff within pay band boundaries.
- 1.11. In November, consultation with DEOs and some other senior managers on the basis of a "straw man" pay structure produced an initial attempt at a pay structure. This is set out in Annex B2, and would involve similarly-positioned pay bands to the present ones, though with higher maxima. Progress through the bands would be quicker, but only up to a "reference point". Beyond that, progress would be harder, with no guarantee of reaching the maximum.
- 1.12. The unions objected to this initial proposal on two grounds:
- the removal of fixed points in each pay band.
  - no guaranteed progression to the maximum of the pay band, only to a reference point within the pay band.
- 1.13. Nevertheless, the proposed pay structure does, provide a basis for taking forward a pay design that meets the majority of the aims of both sides. **The next stage is to take the unions back to first principles and work with them to design a system that is the best suited to meeting management's and the unions' priorities.**

## Base pay

- 1.14. Base pay is the core element of reward.
- 1.15. It is not the purpose of this paper to suggest pay levels. That will be a matter for the pay remit and negotiation with the trade unions. Instead, here are set out the factors that should be taken into account in setting levels and proposes some extra work that needs to be completed prior to such negotiations. They are:
- 1.15.1. *General market rates* and more specifically in relation to the Civil Service. The relevant workstream also recommended that pay levels should be set at the high end of Civil Service pay rates. That, however, is likely to be not affordable. Still pay levels must remain broadly in line with those in the Civil Service and pay remits should reflect this. **It is proposed that a salary survey is carried out for core roles in each A-D pay band, in partnership with the unions prior to the commencement of negotiations.**
- 1.15.2. *Pay levels of existing staff.* Particularly problematic will be those whose pay exceeds current pay band maximums either as a result of the pay settlements in 2006 and 2007, or because of rights to 'protected pay' given to some staff in 1998 (although the strongest phase of the rights is due to end in 2008).
- 1.15.3. *Equal pay.* An equal pay audit recently concluded that the current A-E pay system is not systematically biased in gender or ethnicity terms. However, a new pay structure will need to be reviewed at regular intervals to ensure this continues.

## Performance reporting

- 1.16. The current Annual Staff Reporting (ASR) system focuses on the assessment of past performance and the allocation of reward through a 4-box marking system.
- 1.17. A performance management system should:
- link corporate objectives with section or individual objectives;
  - help align effort and expenditure of resources;
  - inform decisions on planning and prioritisation;
  - help improve communications between staff and line managers.
- 1.18. There was agreement amongst management and unions that a future performance management system should be:
- focused on:
    - reviewing past performance, on a continuous basis. In particular, managers should be trained and encouraged to recognise and acknowledge good performance when it happens (see also 8.3 on financial rewards)
    - identifying areas for future development,
    - encouraging and training managers to recognise performance

- not linked to pay
  - simpler to use, with more effort made on presentation of the documentation. Everyone also agreed that, whilst the other points are longer term aims, there should be an interim project to simplify the current system for use in 2008/9.
- 1.19. **It is proposed, therefore, that changes to the performance management system are made in two stages**
- 1.19.1. **Before circulation of the 07/08 ASR forms, HRM&D will in consultation with managers and unions, simplify the layout of the form used in the current system and clarify the process.**
- 1.19.2. **From April 2008, a management/union working group will review the current performance management system and make recommendations for improvements with a view that these should be implemented in time for any forward looking elements to be in use by April 2009 and any review elements in April 2010.**

#### **Performance Related Pay (PRP)**

- 1.20. This work stream, as well as DEOs and other managers, considered that the current PRP system does not motivate the majority of staff. The work stream report was backed up by primary research (analysis of the staff surveys) and a literature review on PRP. The evidence from the latter indicates, on the one hand, that most employers that were surveyed thought that PRP helped to improve performance. On the other, that finding was not generally supported in the public sector.
- 1.21. It was also recognised by unions and managers in the House that the House was required to retain an element of PRP to remain 'broadly in line' with the Civil Service.
- 1.22. The prevailing view was that any alternative PRP system introduced should:
- Be separate from the Performance management process (other than for withholding pay increases for unsatisfactory performers – see Annex B2)
  - recognise performance at the time of achievement, not at a particular time in the year.
  - continue to be non-consolidated
  - Address fairness and transparency but without being too bureaucratic (it should be recognised, however, that there is a tension in those aims)
- 1.23. Although the unions remain opposed to PRP as a principle, there is recognition that there will need to be an element of PRP to remain broadly in line with both the Civil Service and current government policy.

1.24. However, unions and management disagree about how large the budget for PRP should be. Most DEOs would prefer to see the size of the PRP budget increased, but the unions have indicated that they will strongly oppose such a move (as, indeed, they have done in the past). The literature review indicates support for both views. On the one hand, one of the reasons why PRP is less effective in the public sector is because the amounts are often not considered worthwhile. On the other hand, the unions view is supported, because problems with procedural fairness often undermine the motivational aspects of the scheme, and it is very difficult to get those right.

1.25. **Key proposals:**

1.26. **Amend the PRP system as set out in paragraph 8.3.**

1.27. **Management should press, in principle, for larger PRP budgets.**

#### **Allowances (eg for evening work)**

1.28. The allowances work stream and DEOs agreed that the policy on allowances and payments for attendance should be reviewed. The current payments are somewhat ad-hoc, and there would be a benefit in having a strategy for determining when an allowances or attendance related payments are appropriate. However, DEOs have differing views on the desired outcomes of such a review, in particular about the balance of, payments for supporting the chamber in the evenings, against the “no requirement to attend” practice during recess.

1.29. The unions and management disagree about timing of such a review. Management, on the whole, feels that such a review should be conducted after the 2008 pay round is completed for logistical reasons. The unions (and some managers) would like the process to commence earlier. However, both sides have agreed that the timing issue can be resolved at the next joint meeting (also on 13 December).

1.30. **Key proposals:**

- **that there should be a review of allowances and payments for attendance**
- **timing of the review should be left to agreement between management and unions**

1.31. **Issue: should the review be steered in a particular direction or be more open?**

#### **Non-financial rewards**

1.32. The House, at present, offers a substantial package of non-financial rewards which evidence has suggested are valued by staff of the House. These rewards were considered by the work stream to play a greater role in motivating and retaining staff than the current PRP system.

- 1.33. This particular work stream made a number of recommendations, which management and unions support (although in some cases with qualifications):
- 1.33.1. A definitive list of all non-financial rewards should be produced allowing increased awareness of current rewards raised through an on-going publicity campaign.
- 1.33.2. The House should, in recruitment campaigns, highlight the total reward package clearly demonstrating its financial value.
- 1.33.3. Where feasible, the non-financial rewards should be extended from one department to others.
- 1.33.4. Identify remaining officers' entitlement and align them with the business needs of the House. Although agreed by HRG in principle, there is some scepticism as to the extent to which this can be achieved, given that the Officer Status Working Group (which was wound up this month) was only able to scratch the surface.
- 1.33.5. Current leave arrangements should be retained but should become more transparent to deal with the perceived inequalities staff feel between and within departments. Non-contractual leave is perceived not to be equal and could be renamed, to emphasis its link with business needs, as "not required to attend".
- 1.34. Unions and management agree that this aspect of the reward project can wait until after the 2008 pay round.
- 1.35. **Proposal: non-financial rewards to be emphasised, but work to make them more equitable should await the outcome of the 2008 pay round.**

#### Other issues

- 1.36. Unions and management also agreed to make some small changes to communication and negotiation mechanisms to improve those processes.
- 1.37. There are a number of issues that remain to be discussed with the unions. These include:
- the extent to which other pay groups will fit with a new structure
  - Settlement date. Should it stay at 1 April?
  - Pay on promotion and higher starting pay.
  - Pay Convergence

#### Timescales

- 1.38. Due to logistical constraints it is proposed that further work is completed in two broad phases:
- 1.38.1. *Phase One – work that needs to be completed in order to reach a settlement for 1 April*

- pay structures
- base pay
- performance pay, and
- some interim work on performance management (paragraph 8.4.1)

1.38.2. *Phase Two – work that can wait until the 2008/10 pay round is settled*

- policy and practice on allowances, premiums and overtime. Note that the unions will, however, be pressing for an earlier start (paragraph 10.2).
- the basis for non-financial rewards and how these can be better communicated

The aim would be to negotiate and implement changes with effect from 1 April 2009.

### Way forward

1.39. If the broad thrust of the proposals is accepted, the next stages are to hold further discussions with the unions, conduct the market survey, to cost various models and prepare a remit for MB and the Commission. The proposed timetable:

- Treasury Guidance February 2008
- Pay remits February 2008
- Formal Pay Negotiations March 2008

However, there are two areas for potential slippages in the timescale. The first is the publication of the Treasury guidance which, more often than not, is late. The second is that discussions with unions about the principles behind pay structures, base pay and PRP are at not a stage by February 2008 where it is possible to move from partnership and consultation to formal negotiation. Given the big reservations from the unions about pay structures and PRP, this could cause delays in the timetable.

**Harun Musho'd**  
**Acting Director of HRM&D**  
**Department of Finance and Administration**  
6 December 2007



Annex A

HR strategy

<p><b>Goal</b> <b>Functional area</b></p>	<p>Strengthening the service ethos</p>	<p>Continuously improving effectiveness and efficiency and demonstrating value for money</p>	<p>Anticipating and adapting to changing requirements</p>	<p>Being a diverse, outward looking organisation, where equality of opportunity is valued</p>
<p>4: Retaining, rewarding and motivating the right people  (Reward)</p>	<p>Install reward systems that are attractive in the external labour market, and are motivating and cost effective for the business</p> <p>Give service delivery performance high weighting in any reward scheme</p>	<p>Ensure continuous improvement through performance management and reward</p> <p>Install a common reward framework that provides a clear and fair basis for differentials based on external conditions, responsibilities and varying working arrangements</p> <p>In discussion with the TUS, establish Civil Service and market rate benchmarks and regularly publish the results</p>	<p>Install reward arrangements that positively encourage the adoption of flexibility and new working methods</p>	<p>Develop a role/reward arrangement that is capable of accommodating people of all ages</p> <p>Regularly audit pay and reward systems for equal pay and diversity proofing purposes</p>

<p>Base Pay</p>		<ul style="list-style-type: none"> <li>• The A-E equal pay audit considered salaries of 1,382 HoC employees n.</li> <li>• No evidence of a gender or ethnicity bias in pay.</li> </ul>	<ul style="list-style-type: none"> <li>• Current culture of giving box 3 in first year of job does not encourage movement?</li> </ul>	<ul style="list-style-type: none"> <li>• House make a commitment to being an excellent employer and should aim to bring pay-scales and journey times at least in line with those of the best paying CS departments.</li> <li>• Carry out full pay benchmarking exercise and feed into 2007/08 pay negs.</li> <li>• <a href="#">Short progression journeys</a></li> </ul>
<p>PRP/Performance Management</p>	<ul style="list-style-type: none"> <li>• Any future bonus or recognition schemes should allow for recognising exceptional team-based work and recognition at time of achievement</li> </ul>	<ul style="list-style-type: none"> <li>• Effective performance management has greater impact on organisational effectiveness in terms of managing existing resources and improving future performance</li> <li>• Reconsider value of continuing PRP (as motivational tool)</li> </ul>	<ul style="list-style-type: none"> <li>• An appraisal system should only attempt to satisfy one of three broad categories (reward, potential or performance review)</li> <li>• Consider merit of breaking links between House appraisal system and PRP scheme.</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Design &amp; operation of PRP scheme should fully address fairness.</li> <li>• No increase to overall size of PDP should be considered until procedural &amp; distributive issues are addressed.</li> <li>• May need to retain an element of PRP to remain 'broadly in line with CS'</li> </ul>

<p><b>Allowances</b></p>	<p>Produce clear guidance on the payment of overtime, ensuring that staff and line managers know the criteria and to reduce possibility of anomalies.</p> <p>Allow DEO's greater flexibility in awarding/recommending discretionary payments or allowances to reward work on specific tasks, supervisory duties and special projects.</p>		<p>Institute House-wide review of duty/responsibility allowances and premiums with particular reference to current business needs.</p> <p>Set up working group to discuss future development/modification of additional hours/night allowance scheme</p>	
<p><b>Non Financial</b></p>	<ul style="list-style-type: none"> <li>Clarify role of line-managers in reward system: provide coaching /mentoring, include as key objective in FJP's, provide managers with immediate &amp; flexible way to recognise and reward performance within team they manage.</li> </ul>	<p>Define &amp; publicise the total reward package and recognise 'trade-offs'</p>		<p>Promote HOCSPS in recruitment campaigns. Extend 'flexible' benefits (work-life balance). Reconstitute 'Officer Status' working group to explore outstanding benefits &amp; whether they are linked to business need</p>
<p><b>Negotiations</b></p>	<p>Timely provision of info relating to pay negotiations to be provided</p>		<p>Pay negs meeting to be structured in more formal manner. Revised House procedural agreements for negotiating pay and relations. Size of all negotiation teams to be considered and revised.</p>	<p>Improved negotiations skills of both sides through L&amp;D</p>

Annex B1

Current A-D pay structure (abstract)

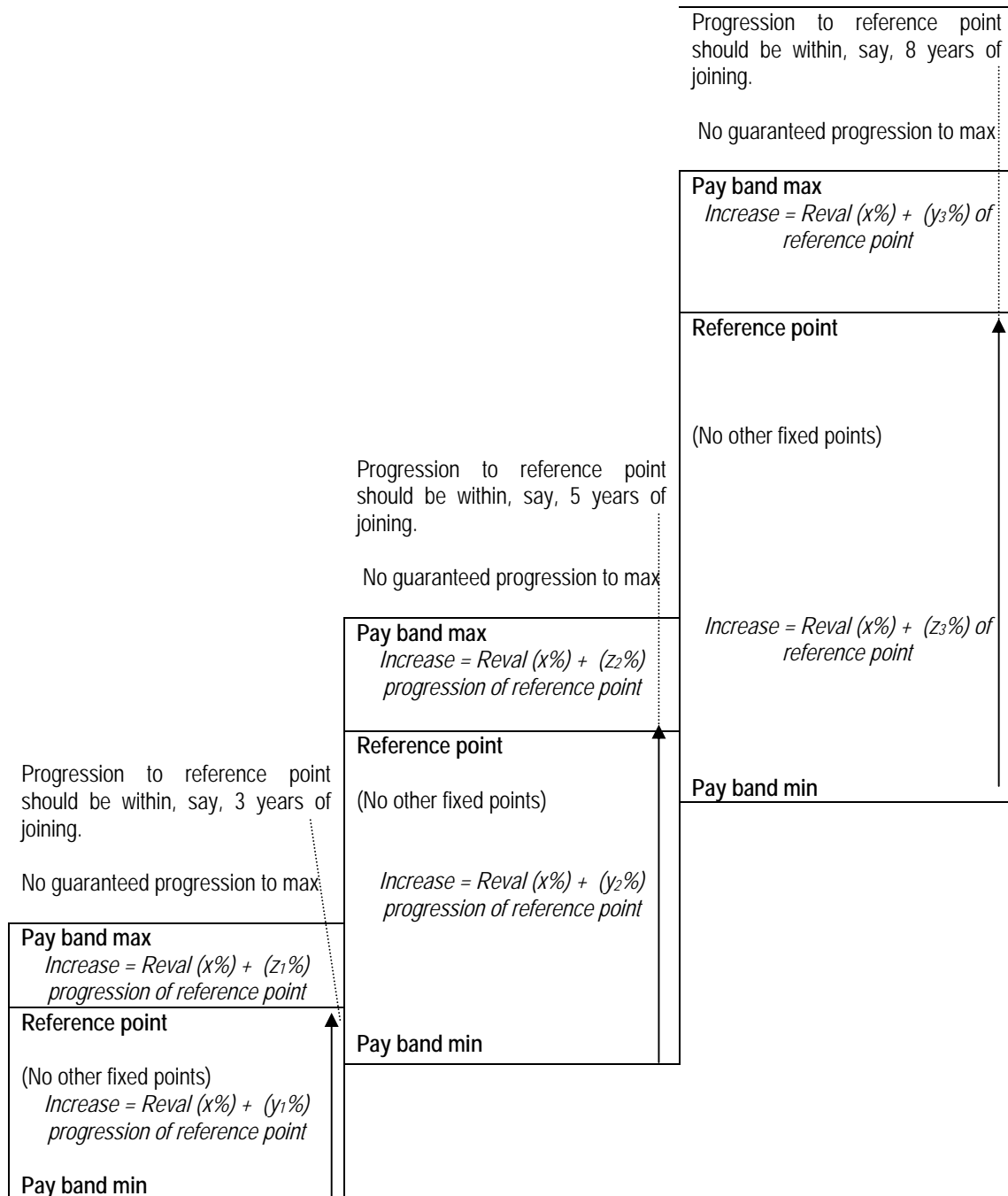
no principle behind gap between maxima of different pay bands	no principle behind gap between maxima of different pay bands	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Pay band max – Spine point 40	
				39	
				38	
				37	
				36	
				35	
				34	
				33	
				32	
				31	
no principle behind gap between maxima of different pay bands	no principle behind gap between maxima of different pay bands	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Pay band max - Spine point 30	
				29	
				28	
				27	
				26	
				25	
				24	
				23	
				22	
				21	
Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Some staff are above the current pay band max due to 2006 and 2007 pay settlements	Pay band min – Spine point 23	
				24	
				25	
				26	
				27	
				28	
				29	
				30	
				31	
				32	
Pay band max – Spine point 20	Pay band max – Spine point 20	Pay band max – Spine point 20	Pay band max – Spine point 20	Pay band min - Spine point 11	
				12	
				13	
				14	
				15	
				16	
				17	
				18	
				19	
				20	
Pay band min – Spine point 1	Pay band min – Spine point 1	Pay band min – Spine point 1	Pay band min – Spine point 1	Pay band min - Spine point 1	
				2	
				3	
				4	
				5	
				6	
				7	
				8	
				9	
				10	

- o The whole of pay bands A-D are on one of two spines (One for A1 and A2, another for B-D)
- o Spine points are:
  - o fixed amounts of £.
  - o Only increase through negotiation by a fixed % for all spine points
- o Progression through pay band to max
  - o is well defined, but
  - o slow (5 years minimum at the lowest pay bands – except some craft team pay bands where ranges are shorter)
- o For illustrative purposes only – does not match an actual pay band
- o The illustration does not hold for:
  - o pay band E can only progress through one or two service points over 5-10 years.

- o catering grades who are on spot rates

**Annex B2**

**Proposed pay structure for Band A-D (abstract)**



- o No overall spine. One advantage is that different pay bands could be awarded different amounts. So, for example, y<sub>1</sub>%, y<sub>2</sub>%, y<sub>3</sub>% or z<sub>1</sub>%, z<sub>2</sub>%, z<sub>3</sub>% could all be different amounts.
- o Only fixed points in each pay band are min, max and reference point
- o The priorities for consolidated pay settlements could be, say (in suggested order of priority):
  - o Paying a minimum increase (x%)
  - o Moving staff to the reference point that have completed the required length of service for that pay band (say, 3 years in most junior, 5 years in intermediate and 8 years in most senior pay band).
  - o Paying progression below reference point (y% of reference point). This will give bigger percentage increases to those who are paid less within a pay band.

- Adjusting any of the fixed points by more than X%
- Paying progression increases for those between reference point and max (z% of reference point), subject to pay not exceeding the max.
- Consolidated increases only paid to satisfactory or better performers.
- Setting the values for individual mins, maxs and reference points should be done with reference to current market rates, the pay levels of existing staff and affordability(see paragraph 4 for more details).