

Pay Progression in Local Government



Survey report, commentary and
advice

September 2013

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Survey Report

In the 2015/16 spending review statement, the Chancellor confirmed plans to move away from traditional incremental pay structures where they remain in parts of the directly-employed civil service. Although this remit does not extend to local government the LGA continues to encourage councils to think about how best to link pay to contribution and has issued guidance on the available options.

While we regularly monitor progress on changes to pay systems through our annual workforce survey, the LGA approached all 353 local authorities in England and Wales in May 2013 asking for additional information about their pay systems to help refresh national advice and guidance.

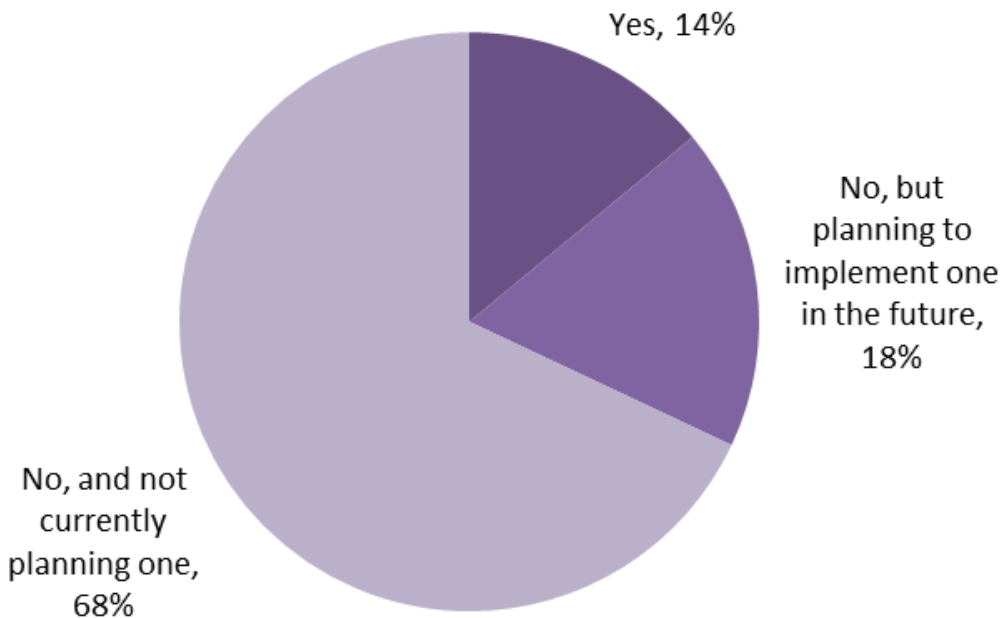
A total of 97 councils responded to the request for additional information; a response rate of 27%.

This report briefly summarises the main survey results and provides a commentary plus a set of characteristics that the LGA believes might be important for councils to consider if and when they introduce new pay systems.

Implementation of new pay progression systems

Respondents were asked whether they had introduced a new system of pay progression in the last five years, or planned to in the near future. 14% of respondents had implemented a new system of pay progression, with a further 18% planning to in the near future - see Figure 1.

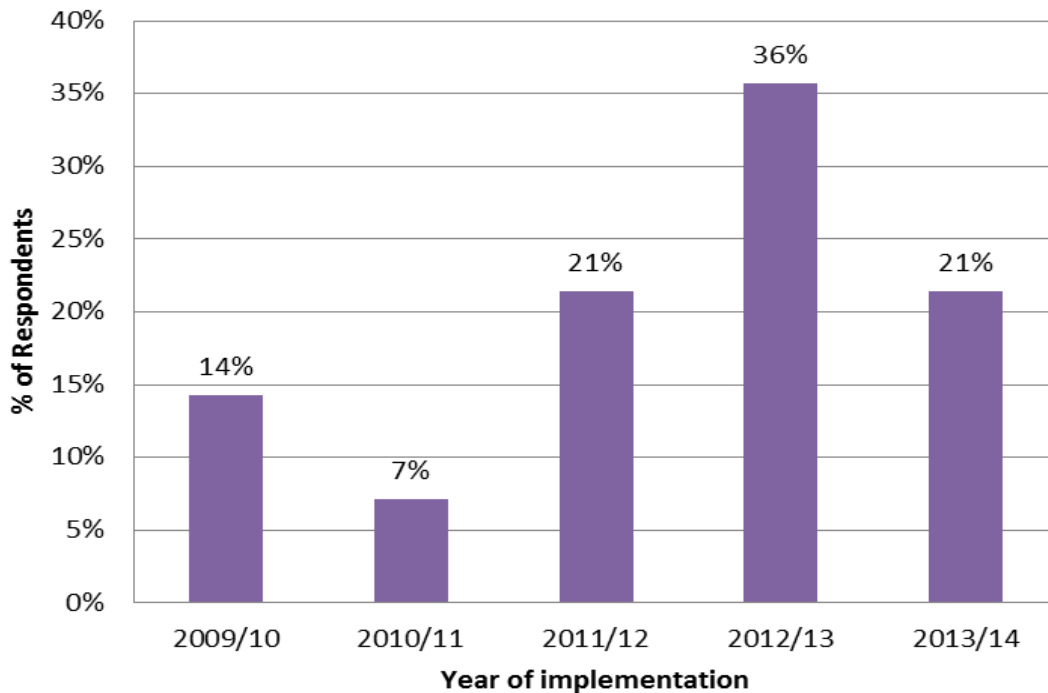
Figure 1: Have you introduced a new system of pay progression in the last five years?



Question Base: 97

There was a fairly even spread of councils in terms of the year of implementation, with over half of all councils having implemented their schemes in the last two years - see Figure 2.

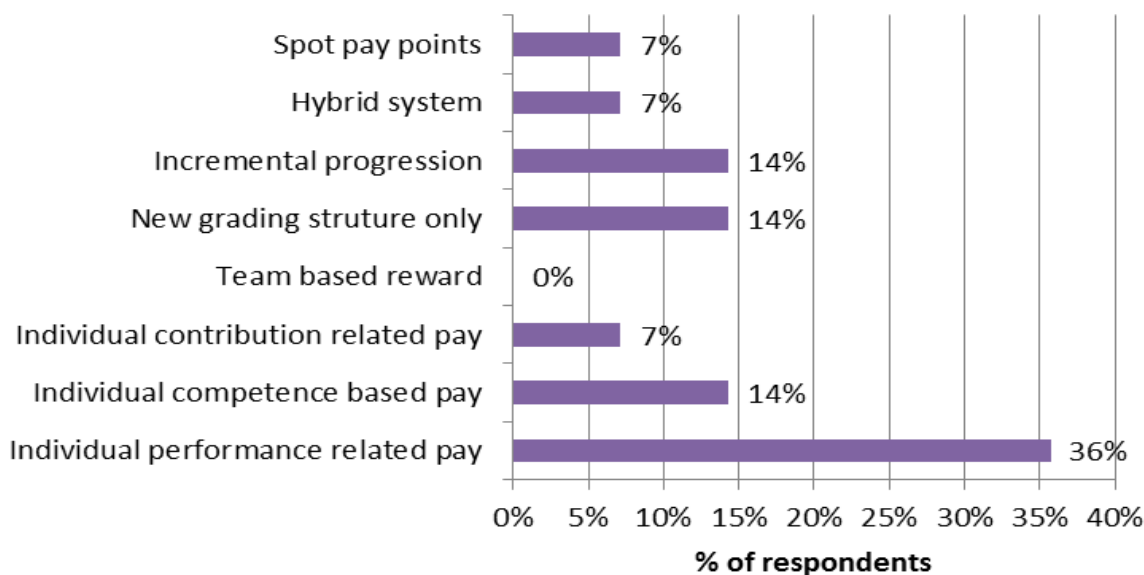
Figure 2: Please select the financial year in which your new system of pay progression was implemented:



Question Base: 14

Individual performance related pay (PRP) was the chosen system of over a third of respondents who implemented a new system in the last five years. Two councils had reverted back to using incremental pay progression, with a further two having implemented changes only to the grading structure – see Figure 3.

Figure 3: What system of individual pay progression did your council recently implement?



Question Base: 14

Motivations for new system

Respondents were asked what their motivations were for introducing the new pay progression system. The most frequently selected reasons were linking pay to performance and controlling/reducing workforce costs – see Figure 4.

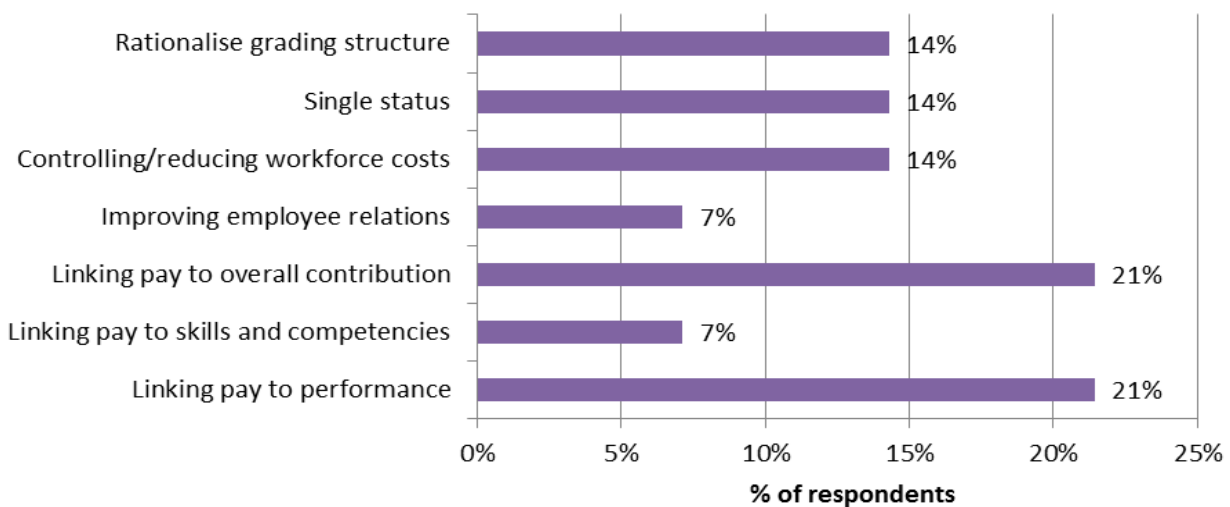
Figure 4: What were your council's motivations for introducing the new pay progression system?



Question Base: 14

Respondents were also asked to choose one main motivation for implementing a new pay system. The most popular motivations were linking pay to overall contribution and linking pay to performance (both selected by 21% of relevant respondents) – see Figure 5.

Figure 5: Of the motivations selected above, which was the main motivation in implementing a new pay progression system?

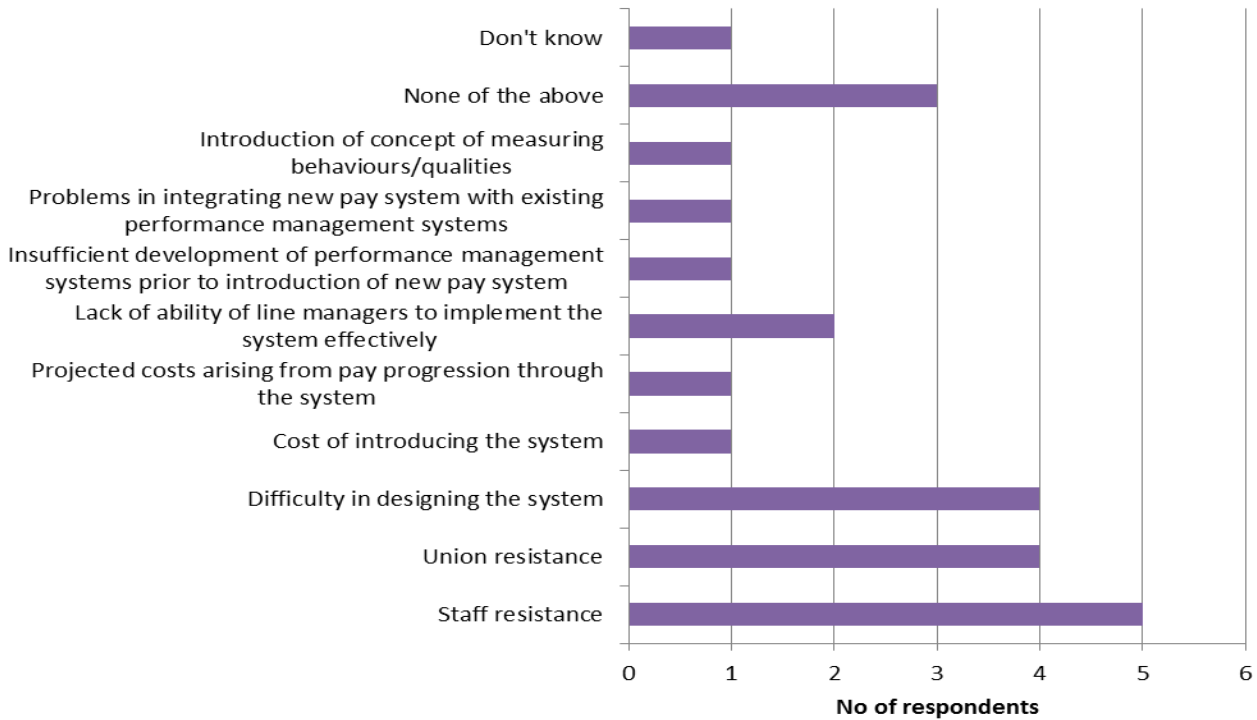


Question Base: 14

Challenges encountered

Respondents were asked what their challenges they encountered when introducing the new pay progression system. The most frequently selected reasons were staff resistance, union resistance and difficulty in designing the system – see Figure 6.

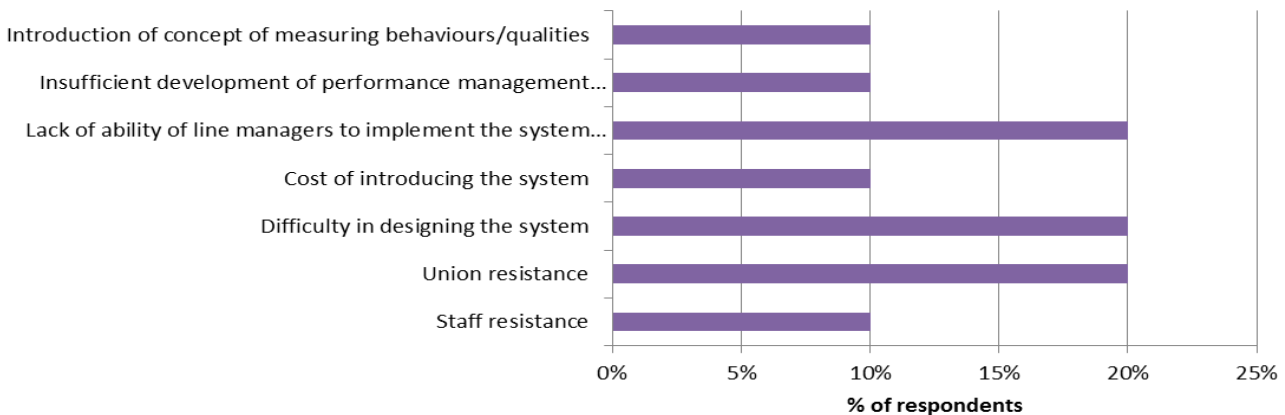
Figure 6: What challenges, if any, did you encounter when introducing the new system of pay progression?



Question Base: 14

Respondents were also asked to choose the challenge that was most difficult to overcome when implementing a new pay system. The most difficult challenges were union resistance, difficulty in designing the system and lack of ability of line managers to implement the system effectively – see Figure 7.

Figure 7: Of the challenges selected above, which was the most difficult to overcome when implementing your new pay progression system?

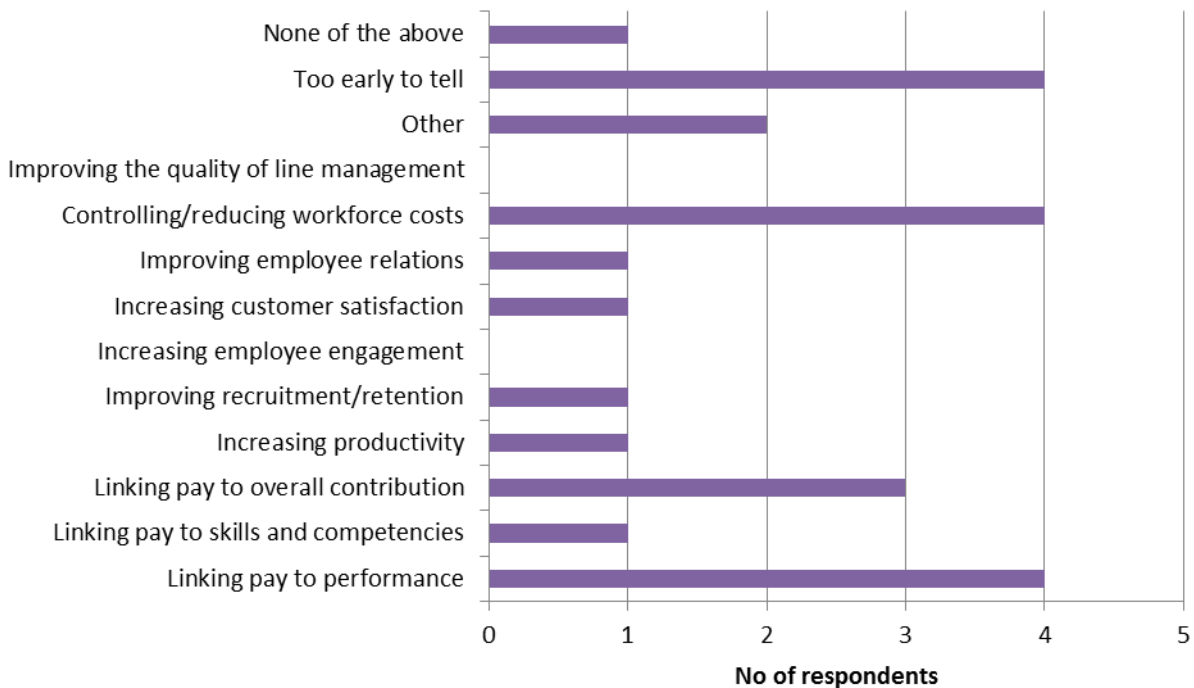


Question Base: 14

Measure of success

Respondents were in which ways their new pay progression system was considered a success. The most frequently selected options were controlling/reducing workforce costs, linking pay to performance and linking pay to overall contribution (including performance, skills/knowledge and behaviour), with a number of respondents answering that it was too early to judge the success of their new pay system – see Figure 8.

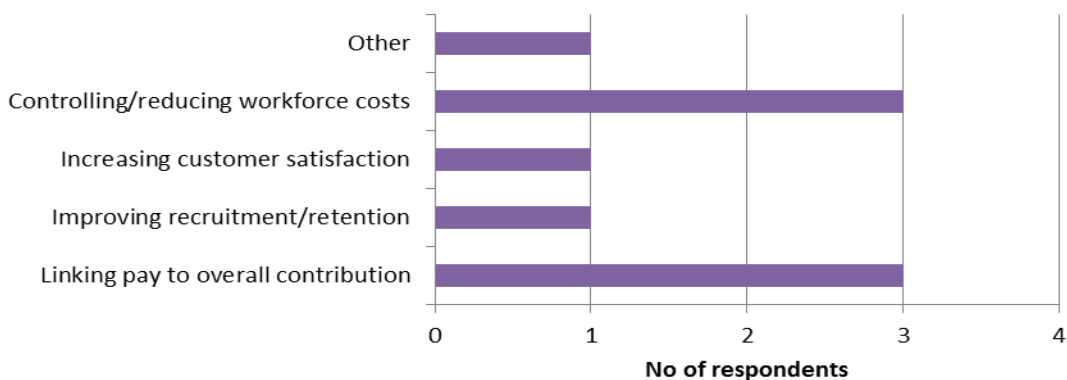
Figure 8: In which, if any, of the following ways is your new system considered a success?



Question Base: 14

Respondents were also asked to choose one main measure of success of their new pay system. The most popular options motivations were linking pay to overall contribution (including performance, skills/knowledge and behaviour) and controlling/reducing workforce costs – see Figure 9.

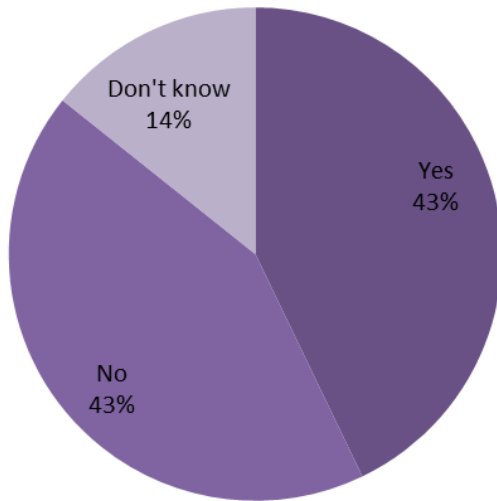
Figure 9: Of the successes selected above, which is considered to be the main success of your new pay progression system?



Question Base: 9

Respondents were asked whether they had done a value for money assessment as part of the evaluation of the new pay progression system. It was evenly split between those who had completed a value for money assessment and those who had not – see Figure 10.

Figure 10: Have you done a value for money assessment as part of the evaluation of the new pay progression system?



Question Base: 14

Commentary

We are very grateful to the 97 councils who found time to take part in this quick survey which was an extra piece of work on top of our normal workforce and earnings surveys. Although not particularly high, the response rate of 27% is representative enough to give us some food for thought.

Level of activity

It is significant, though perhaps not surprising that 68% of respondents told us that they are not currently planning to introduce a new pay system. Projects of this sort are substantial undertakings and can, as responses to other questions show, lead to a good deal of disquiet amongst staff. Given the huge amount of effort put into downsizing and cutting back on other terms and conditions, extra upheaval is perhaps off the agenda. However, 18% are planning to make a change in the near future and the sense has to be that this number will grow; basic pay increases will not be large over coming years and some form of opportunity for individual reward growth will become increasingly important. Moreover, 57% of the new systems identified were introduced this year or last, indicating a strong recent growth in activity; incidentally, this means also that the answers to the other survey questions are based on very fresh opinions and assessments.

Choice of progression system

The responses on the basic type of progression system introduced suggest that councils are adopting a fairly cautious approach; all the systems used involve assessments and consequences for the individual against common criteria. The most common option is PRP which involves the simplest assessments against objectives. Less common are competence-based pay (which assesses acquisition of key skills, competencies and sometimes behaviours) and contribution-related pay which in essence combines performance and competence assessment but is the most complicated to administer. Clearly councils are looking for simplicity.

There are no examples as yet of the use of team-based rewards which some argue have the advantage of bringing teams together rather than introducing competitive behaviour – though this pre-supposes that there is something inherently wrong in all competitive behaviour, which could be seen by some as a typical “public sector” attitude. Talking frankly about the perceptions that go with new pay systems will be important in developing fresh approaches because there has to be an ambition to change the prevailing culture through altering what the LGA and PPMA have referred to elsewhere as the “employee value proposition”.

The survey identified some evidence of councils introducing spot salary systems which involve no potential for anything beyond a basic pay increase until the spot levels are reviewed or an individual is moved to another spot point. Such systems are interesting in that the first year of adjustment may involve some cost increases when staff can be offered higher salaries as an incentive to agree the new system. After that, costs are likely to stabilise for a period but strong corporate control will be needed to ensure that, for example, equal pay risks are not increased by discretionary adjustments to individual spot points.

Some councils have actually moved back to automatic incremental systems, presumably because the systems have not delivered expected results and are complex to administer. This illustrates the longstanding advice that assessment-based progression systems cannot really be

used to drive cultural change but instead are best used to sustain and develop changes that have already been made through stronger performance management etc.

The importance of having clear objectives for introducing new systems is amplified by the section of the survey covering motivations.

Reasons for introducing new systems

A wide range of possible motivations for introducing new systems was canvassed in the survey. It is interesting that councils tended to suggest that their motivations were mainly about achieving things very directly linked to the pay system itself, rather than second-order motivations around factors that could *possibly* be influenced by the pay system. For example, introducing PRP in order to link pay to performance is almost a tautology, whereas nobody suggested that their ambition was so great as to think that customer satisfaction could be increased by the new reward system. This demonstrates a healthy level of caution about just what a reward system can genuinely deliver in a local government context. The exception is the confidence that some have in the ability to control or reduce workforce costs.

It is worth noting that although the most commonly introduced system was individual PRP, some councils felt that simple systems based on achieving objectives would provide a way of linking pay to overall contribution without any assessed link to behaviours, skills and competencies. It will be useful to see how councils assess success in this in future.

Challenges and difficulties

Respondents were asked to identify both the full range of challenges that they encountered in introducing their new systems and also which challenges were the most difficult to overcome. It is instructive that although system design problems, union resistance and staff resistance were the most commonly identified challenges, there were some subtle differences in the challenges that proved the most difficult; general staff resistance felt somewhat easier to overcome than more formal union resistance. System design problems were clearly difficult to overcome for some and interestingly, the inability of line managers to implement the system effectively also emerged as a big problem in some cases.

All this illustrates the importance of working in partnership with staff and unions as far as is possible and also investing in management development. Fairly simple system design also seems important and this has been a key consideration in developing some LGA suggestions on the key characteristics of pay progression systems.

Success measures

The ways in which new pay systems are considered to be successful correlate quite well with the reasons for introducing systems in the first place, save for the fact that many respondents think it is too early to tell. Controlling costs and linking pay to performance and overall contribution are well to the fore. Given that linking pay to overall contribution is also considered the *biggest single success* by several respondents to the separate question, it does seem to emerge that simple systems can have sufficient advantages to outweigh concerns about relatively crude methods of assessment.

Value for money

The fact that 43% of respondents have carried out a value for money assessment of their systems relatively quickly after introducing them shows that councils are taking the need to regular review seriously. All lessons from the past indicate that systems quickly become moribund if they are not refreshed.

LGA recommendations on the key characteristics of pay progression systems

These are the basic characteristics that the LGA recommends for pay progression systems that provide a good link to performance management and are also simple enough to be viable in the context of many councils and easily operable by most managers with sufficient training. A system with these characteristics would also provide good cost predictability and control and minimal equal pay risks.

The recommendations are based on the assumption that grades have 4-6 spinal column points on average and that these opportunities are available to all directly-employed staff in the same negotiating group. These characteristics will help to minimise equal pay risks.

Incremental progression is best based on assessment: Councils should be explicit about expected standards of performance and only award increments when objectives are fully achieved; payment of an increment need not require exceeding objectives.

Employers may want to consider extra non-consolidated payments or other rewards for exceptional performance. Such extra payments would need a moderation committee to assess managerial recommendations, as they would probably need to be distributed from a cash-limited pool.

Increments should not be given to individuals who are performing poorly. This option is best exercised in the context of a transparent pay system which is well understood by staff. Performance management systems do need to deal effectively with performance issues with stronger development plans implemented before matters reach a point where it is best for an employee to exit the organisation, though this can become unavoidable.

The criteria for assessment should involve a variety of factors. The weighting of elements in an assessment matrix should vary according to the stage of development that the employee has reached. In the first year, more weighting would be given to evidence of developing into the role. Most roles generally involve a 1-4 year cycle of acquisition of skills and competencies. Once development is complete, assessment is best based solely on clear objectives.

One of the main challenges for performance management schemes in local government is the difficulty of identifying, agreeing and measuring individual objectives. Research demonstrates that this is because the majority of local government roles do not lend themselves to this process and are better performance managed via an assessment of team or business objectives. For example a unitary local authority is simply using the criteria of improvement in customer satisfaction, measured via external and staff surveys to measure the performance of their senior managers.

The key point is not to rely on just a single factor for assessment. Although there is a lesson from the survey that systems should be as simple as possible it is appropriate to develop an assessment matrix and the LGA can help with this.

Criteria for assessment should be developed through wide consultation with staff and their representative bodies

Only managers who have received appropriate training should be allowed to make assessments for incremental progression.

Ideally **a culture of effective performance management** should be embedded in the organisation prior to linking pay to an assessment of performance

Simplicity is the key to success; don't introduce a system that costs more in time and effort to administer than it delivers through the benefits of improved motivation and performance.



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