

Independent Overview Report for on Performance-Related Pay

1. Introduction

The purpose of this report is to provide an overview of information that has been gathered relating to performance-related pay to provide an independent perspective on options the Council may wish to consider.

2. Background

In support of a corporate objective of the Council to make the best use of its assets and resources, the Council's Workforce Strategy contains a commitment to review terms and conditions of employment. A report was taken to the Employment Committee in December 2014 setting out the Council's existing position regarding pay and conditions of employment for the Committee's consideration. The report also provided benchmarking information on the Council's pay and benefits compared to similar organisations, confirmation of the legal position regarding the Local Government Pension Scheme, and options for introducing performance-related pay at the Council which had been provided by Hay, the rewards company.

From that time, work has been undertaken to build on this information, including an independent assessment of the options for performance-related pay and a staff survey.

3. Overview of Information

3.1. Information Provided to the Committee

It may be helpful to summarise the information that had been provided to the Employment Committee in 2014.

The report set out the pay and benefits being offered at Harborough District Council and benchmarking information, showing how the Council compared to similar organisations. It showed that Harborough was broadly similar to most authorities regarding the pay and benefits offered. It also confirmed that it is a legal requirement for Councils to offer membership of the Local Government Pension Scheme (Schedule 2, Part (1) of the Local Government Pension Scheme Regulations 2013). The Pensions Act 2008 also makes it unlawful for employers to coerce employees into opting out of the scheme. A copy of the email to East Midlands Councils confirming this is available. Even if it were lawful to do so, there would be significant financial costs of withdrawing from the Scheme.

When comparing pay levels at Harborough with other public sector/not-for-profit organisations, Hay found the Council's pay levels to be broadly similar to its comparators – typically at the lower quartile to average pay points for the sector.

Recruitment difficulties at the Council tended to reflect those experienced nationally, indicating that the problem was not related to Council-specific or pay factors, but linked to skills shortages experienced throughout the sector.

The Committee was provided with a report from Hay, which suggested three options for introducing performance-related pay into the Council:-

- A performance matrix and bonus scheme
- Performance-based increments
- A bonus scheme

A copy of their report is provided at Appendix 1 of this report.

3.2. Additional Information Gathered Since the Committee

3.2.1. Independent Analysis of Performance-Related Pay Options

Since the Committee, work has taken place to further analyse the performance-related pay options suggested by Hay. This analysis has been undertaken by an associate of East Midlands Councils who is a pay and rewards specialist in order to provide an independent assessment of the practical implications and costs of implementing performance-related pay. His independent assessment is provided at Appendix 2 of this report.

The analysis shows how problematic performance-related pay can be, with just one option potentially workable, but still presenting drawbacks.

3.2.2. Staff Survey

A staff survey was conducted by East Midlands Councils in September 2015 to find out the views of employees on pay and benefits. The survey was carried out to ensure anonymity and a copy of the results is provided at Appendix 3 of this report. There was a 58% response rate, which is much higher than average response levels. Staff survey information can be helpful in ensuring that the Council is not making assumptions about what employees want or would be motivated by in terms of pay and benefits.

According to the survey responses, performance-related pay was not particularly popular amongst staff, with it being rated fourth behind other factors such as cost of living increases, experience, and the going rate for the job. Linking pay to the performance of the Council overall was particularly unpopular.

4. Commentary

The independent analysis of the performance-related pay options provides little confidence that clear benefits and improvements in performance could be achieved and outweigh the costs of implementation.

Performance-related pay can work effectively, but particularly when:-

- individuals can see a clear link between their own performance and contribution and their pay
- performance outputs are able to be assessed objectively
- managers are competent and confident in assessing performance fairly and able to differentiate performance levels
- sufficient money can be invested into the performance-related element to provide a real incentive to perform at higher levels
- employees are motivated by money and individualised pay
- there is an appropriate performance management system in place

It is unlikely that many of the above factors can be found in local government, and therefore it would be less likely for performance-related pay to be effective. It would take a significant amount of resources and training to put in place the necessary levers and mechanisms to introduce and maintain effective performance-related pay systems, and there is a risk that performance levels would actually fall, as the introduction of the new system would present a significant distraction from service delivery.

It should be noted that in their report, Hay stated that an effective, appropriate performance management process is required to ensure that performance-related pay is successful.

Generally, people don't choose to join local government because they are motivated by money, and this is supported by the staff survey results. A performance-related pay scheme is therefore unlikely to act as a motivator for the workforce. Employees are more likely to want their pay based on what is fair and objective, rather than individualised according to performance. The preferences outlined in the Harborough's staff survey support this viewpoint. It is likely, therefore, that employees would be more concerned that poor performance is tackled, rather than be linked to pay levels. There is therefore a risk that the investment made into performance-related pay would not lead to higher performance levels.

Managerial competence in being able to manage a performance-related pay system would take time to build and embed. Managing performance is often one of the more difficult aspects for managers, and this would be worsened by creating a link with pay, as the stakes are even higher. It is therefore common for performance-

related pay to be introduced only when an effective performance management approach is already in place.

In reviewing the information and providing a commentary for Members to consider, it is important to be clear about what it is that Members want to achieve. If the aim is to have a more performance-focused culture at Harborough, then this can be achieved without performance-related pay and its associated costs and risks.

The Council could instead put a greater emphasis on supporting performance management through developing the competence and confidence of managers and reviewing the Council's performance management, probation and capability procedures to ensure these are as effective as possible.

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