

REPORT TO THE EMPLOYMENT COMMITTEE MEETING OF
14th DECEMBER 2016

Meeting: Employment Committee
Date: 14th December 2016
Subject: Performance Related Pay
Report of: Head of Finance and Corporate Services and Service Manager,
Human Resources
Portfolio Holder: Councillor King
Status: Recommendation
Relevant Ward(s): None

1 Purpose of Report

- 1.1 To outline key information on Performance Related Pay Schemes for members consideration.
- 1.2 For members to consider a report of East Midlands Councils on Performance Related Pay (**Appendix B**) which was commissioned after the last Employment Committee.
- 1.3 To consider if a performance related pay scheme should feature in the pay structure.

2 Recommendations:

- 2.1 **That that a performance related pay scheme should not be introduced into the pay structure**

3. Summary of Reasons for the Recommendations

- 3.1 The costs of implementation and operation significantly outweigh the limited benefits identified from external research and independent overview by East Midlands Councils.

4 Impact on Communities

- 4.1 Performance Related Pay is not the main motivator for staff as evidenced in the 2015 staff survey staff (**Appendix A**).
- 4.2 Monetary related schemes are proven to be short-term motivators, and not aid staff retention.
- 4.3 The potential risk of a loss of skills, experience and expertise to other employers who offer benefits more in line with staff survey results and the value set of employees.

5. Key Facts

- 5.1 Within Local Government and the private sector there are a myriad of schemes operating in respect of performance. It is also worth noting that many organisations have ceased operation of such schemes after their initial introduction.
- 5.2 Performance based reward schemes often operate on top of the core pay and grading frameworks of organisations and can therefore lead to additional costs.
- 5.3 Performance based reward schemes are not universally popular with employees and employers. The staff survey in 2015 highlighted that employees considered linking pay to the performance of the Council overall was particularly unpopular, i.e. that they would not be particularly motivated by the introduction of performance related pay.
- 5.4 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

5.5 The Employment Committee considered previously an option paper produced by Hay on the operation of performance related pay schemes. A summary of the key three performance related pay options is detailed below.

- Option One – Performance matrix and Bonus Scheme
- Option Two – Performance based increments
- Option Three – Bonus

Option One – Performance matrix and Bonus Scheme

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Provides a clear link between performance and pay ▪ Faster progression for those lower in the grade ▪ Has a ‘levelling’ effect – after time employees performing at the same level will be paid approximately the same ▪ Bonuses will allow the council to control costs by being a variable amount ▪ Provides greater flexibility in the recruitment and retention of staff 	<ul style="list-style-type: none"> ▪ Broader grades will probably mean significant grade overlap, risk of equal pay challenges ▪ Coming out of national pay bargaining, which will be opposed by the unions, involve consulting with whole workforce to vary terms and conditions, could result in dismissal and re-engagement ▪ Requires the pay structure to be re-designed, six years after the implementation of the current structure ▪ Significant investment in systems changes and training managers ▪ Significant cultural shift ▪ Can be very costly if not managed well – i.e. many employees moving too far through the grade, ▪ Reducing the number of grades would undermine the value of job evaluation in the organisation. Fewer grades leading to much broader ‘points’ ranges for each grade, thereby jobs of differing sizes being placed in the same grade

Estimated costs: £171, 500 plus additional management time in preparing for and attending appeal panels, payroll time to update records, which overall could double the operating costs.

Option Two – Performance based increments

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Provides a link between performance and pay ▪ Easier to introduce as the current pay structure is retained ▪ Retains national pay bargaining ▪ Lower costs in system design and training 	<ul style="list-style-type: none"> ▪ With only four increments per grade employees reach the top quickly. Need to introduce incentive payments for those on the top of the grade ▪ If not managed employees will continue to receive an increment regardless, which is no change from time-served ▪ Most employees are already on the top-most point of the grade so this will mean nothing for them

Estimated costs: £101,500 plus additional management time preparing and attending appeal panels, payroll time to update records, which overall could double the operating costs.

Option Three – Bonus

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Provides a clear link between performance and pay ▪ Easier to introduce as the current pay structure is retained ▪ Retains national pay bargaining ▪ Lower costs in system design and training 	<ul style="list-style-type: none"> ▪ There will always be issues with affordability ▪ If not managed most employees will receive a bonus therefore paying more for the same level of performance ▪ May need to come out of national pay bargaining in order to create a 'bonus pot' ▪ The council may lose employees who are not motivated by 'bonus culture'

Estimated costs: £156,500 plus additional management time preparing and attending appeal panels, payroll time to update records, which overall could double the operating costs.

5.6 The report also highlighted a number of practical issues in implementing a performance related pay scheme.

- (a) Some roles are difficult to compare and measure within a single assessment framework due to an increasing amount of 'hybrid' roles.
- (b) Disproportionate resource and financial implications of designing a new pay structure.
- (c) Changes to the payroll system would need to be written and would incur cost.
- (d) Developing the links between progression through a grade within the current pay and grading framework and those payments attributable to the

operation and outcomes being measured through a performance related pay scheme would be difficult to achieve.

- 5.7 Following the last Employment Committee, an independent review of the Hay Report has been undertaken by East Midlands Councils (Appendix B) at the Council's request, which concluded:
- (a) Generally, people do not choose to join local government because they are motivated by money. A performance-related pay scheme is therefore unlikely to act as a motivator for the workforce.
 - (b) Employees are more likely to want their pay based on what is fair and objective, rather than individualised according to performance.
 - (c) Employees would be more concerned that poor performance is tackled, rather than be linked to pay levels.
 - (d) A risk that the investment made into performance-related pay would not lead to higher performance levels.
- 5.7 The review suggested that if the aim is to have a more performance-focused culture within the Council, this could be achieved without performance-related pay and its associated costs and risks. The Council could instead put a greater emphasis on supporting performance management and through a series of targeted interventions and initiatives create the right conditions for continuous improvement and delivery of services.
- 5.8 The review by East Midlands Council also indicates that successful implementation of a performance-based reward scheme needs to have the support of staff and be seen as a motivational tool. The independent staff survey undertaken in September 2015 does not demonstrate that this would be the case.
- 5.9 Whilst it is the decision of the Employment Committee to determine whether to recommend to Council that a performance based reward scheme is introduced, the review from East Midlands Council commissioned on the Council's behalf concludes it is not confident that clear benefits and improvements in performance would be achieved from its introduction and that as a result it is unlikely that this would outweigh the costs of implementation.
- 5.10 Other considerations for the Committee to consider are
- (a) It is unlikely that the benefits of introducing the scheme would outweigh the additional costs detailed in the options above.
 - (b) How the introduction of a scheme at this time would contribute towards the Council's efficiency agenda
 - (c) Potential pressures on the Council's pay and grading structure arising from increases in living wage to £9.40 in 2020

- (d) Perception by staff that any scheme could be mis-managed and would not drive the required outcome. Instead, they would like the focus to concentrate on dealing with poor performance when and if it occurs
- (e) Research has indicated that investment into performance-related pay does not necessarily lead to higher performance levels long term.
- (f) The need for a significant increase in resources to devise, train, implement and maintain the scheme.
- (g) The potential for the scheme to increase the total pay bill at the same time as the Council is reducing costs through delivery of the MTFS and maximising income generation opportunities

5.11 Based on the original review of Performance Related Pay options by Hay and the subsequent review by East Midlands Council it is felt that the potential costs of introducing a performance related pay scheme significantly outweigh any tangible benefits from introducing such a scheme. It is therefore recommended to the Employment Committee that a performance related scheme should not feature in the pay structure at Harborough District Council at the present time

6 Legal Issues

6.1 If adopted a scheme should be designed to mitigate the risk and cost associated with equal pay claims.

6.2 If moving away from national pay bargaining and NJC pay structure, negotiation of a new scheme with trade unions would be a legal requirement through collective bargaining.

6.3 Changes to terms and conditions would be through a process of voluntary sign-up or dismissal and re-engagement. There would be a potential risks from unfair dismissal claims, employee engagement and transient impact on productivity.

7 Resource Issues

7.1 Significant training for managers would be essential both in terms of robust application of the new scheme and in behaviour to ensure a consistent and fair approach.

7.2 All three options detailed within this report would lead to increased costs on the pay bill in excess of £100,000. This is not provided for within the MTFS and should be placed against the context of reduced public sector finances arising from the withdrawal of Government Grant.

7.3 There would be additional one-off and ongoing costs arising from new or amended IT systems, such as payroll, HR and job evaluation. This presents not only financial resource pressures but also additional pressures for ICT, Finance, HR, the team job evaluators and union representatives. These would need to be quantified for each of the options if the Employment Committee

were to recommend to Council the introduction of a performance related pay scheme

- 7.4 There could be the need for increased officer time arising from a potential volume of appeals. If unfair dismissal were made against the Council this would require considerable management and HR time managing casework.

8 Equality Implications

- 8.1 The design of a performance related pay scheme would require fully taking into account equal pay implications and ensuring equity in the application of any such scheme.

9 Impact on the Organisation

- 9.1 The adoption of a performance related pay scheme would need to be consulted upon and communicated well. There could be an impact on employee wellbeing and efficiency during the implementation as they are suspicious in respect of the intentions and motivation of the Council in introducing a scheme.

- 9.2 As performance related pay schemes are not viewed as a motivational tool (as viewed in the 2015 survey) there could be increased turnover and/or ability to recruit during its implementation and operation.

10. Risk Management Implications

- 10.1 There are risks in the design, implementation and operation of a performance related pay scheme as detailed in the report.
- 10.2 Introduction of a scheme would require formal consultation and if approved the need to seek voluntary agreement or the need for dismissal and re-engagement of employees. There is a risk of claims for unfair dismissal.

11 Consultation

- 11.1 There has been no formal consultation with staff or the Unions on the potential for introducing a performance related pay scheme.
- 11.2 In order to ensure all employment practices required through such a change are adhered to, all staff and Unison would need to be formally consulted with if Council were to approve a performance related pay scheme.

12 Options Considered

- 12.1 Not to implement a PRP scheme at Harborough District Council
- 12.2 To implement one of the schemes outlined in 5.4 above

Previous report(s): Employment Committee Report 19 January 2015 Terms & Conditions Review,

Information Issued Under Sensitive Issue Procedure:

N/A

Ward Members Notified:

N/A

Appendices:

Appendix A: Staff Survey Report on Pay and Benefits September 2015

Appendix B: Independent Overview Report on performance related pay by East Midlands Councils (February 2016)