

<b>8 October 2018</b>		<b>ITEM: 6</b>
<b>General Services Committee</b>		
<b>Pay Review Project - members proposal</b>		
<b>Wards and communities affected:</b> All		<b>Key Decision:</b> N/A
<b>Report of:</b> Lyn Carpenter - Chief Executive		
<b>Accountable Assistant Director:</b> Jan Cox – Strategic Lead HR & OD		
<b>Accountable Director:</b> Jackie Hinchliffe – Director of HR, OD & Transformation		
<p><b>This report is Part Exempt</b> This report is public but Appendix 2 is not to be published by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 because it contains exempt information as set out in category 3, as the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information)</p>		
<p><i>If the report, or a part of this, has been classified as being either confidential or exempt by reference to the descriptions in Schedule 12A of the Local Government Act 1972, it is hereby marked as being not for publication. The press and public are likely to be excluded from the meeting during consideration of any confidential or exempt items of business to which the report relates.</i></p>		

## **Executive Summary**

Commitment was made in the Pay Policy Statement 2018/19 to ‘a pay review with the intention of modernising and simplifying current pay arrangements’. This report presents the outcomes of the pay review project work and seeks approval to move to commence formal consultation with trade unions as well as starting staff communication over changes.

It offers a summary of risks and drivers for change, presents options and proposes a revised pay structure which aligns to the agreed principles. Costed options for transitioning from current to proposed model are included along with budget impact over multiple years as part of an exempt appendix.

The outcome of the consultation will be reflected in the annual pay policy statement which will be brought to February 2019 Council for approval.

## **1. Recommendation(s)**

**That the committee:**

- 1.1 Agree to the recommended new pay structure as outlined in Appendix 2;**
- 1.2 Delegate authority to negotiate a new Single Status agreement with Trade Unions to the Director of HR, OD & Transformation in consultation with the Portfolio Holder for Central Services, subject to the parameters detailed in Appendix 2.**

## **2. Introduction and Background**

- 2.1 Commitment was made in the Pay Policy Statement 2018/19 to 'a pay review with the intention of modernising and simplifying current pay arrangements'.
- 2.2 This report is set amongst the wider context of publicity around gender equality with the introduction of gender pay gap reporting requirements and a number of high profile equal pay cases lost by councils.
- 2.3 The Council's current pay structure remains unchanged since implementation of the Single Status agreement in 2006. Under the agreement, Council agreed to move away from National Joint Council for Local Government (NJC) pay rates but to continue to honour any pay awards determined through nationally negotiated pay settlements as a minimum.
- 2.4 In April 2018 agreement was reached between National Employers and Trade Unions on changes to the NJC pay scales, to come into effect from April 2019. Along with the issues identified by the equal pay audit (see section 3.1) mean the council must review and change the pay structure.
- 2.5 It has been agreed that any changes to the pay structure needs to meet the principles previously signed off:
  - Remove the overlaps between Bands
  - Limit the number of incremental points in each Band in line with the Equalities and Human Rights Commission guidance on having no more than 5 increments (6 points within each Band)
  - Re-establish pay differentials
  - Take account of the UK Living Wage (£8.75 from 1st April 2018)
  - Investigate the pay anomalies identified as part of the Equal Pay Audit
  - Take account of the recommendations with the Gender Pay Gap report, published annually as per the Gender Pay Gap Reporting legislation.
  - Ensure the pay model is underpinned by a robust Job Evaluation scheme
  - Commitment to no reduction in base pay

### **3. Issues, Options and Analysis of Options**

3.1 An equal pay audit was completed with assistance from Northgate Arinso in July 2018. The report (attached as Appendix 1) highlighted issues, these included:

- Overlapping Bands - Staff in overlaps paid more than next band – a direct equal pay issue.
- Length of Bands - Taking too long to reach top of band: according to the provisions of the Equality Act 2010 and age and disability discrimination legislation, the Equalities and Human Rights Commission suggests that it should take an employee no more than five years to maximise the value of any benefit that is linked to service.
- Gender Pay Gap within Band 9 - Direct equal pay issue identified: men earning more than women.

3.2 Thurrock introduced the independent UK Living wage in 2014 (not to be confused with the national living wage which replaced the national minimum wage in April 2016 – currently £7.83). The UK Living wage has risen from £7.20 when it was introduced in 2011, through to the current level of £8.75. So far, this has led to the removal of the bottom 4 pay points. By 2021, it is likely to impact almost all of the current pay points in Bands 1 & 2 as the living wage rises faster than the current pay scales, negating those entirely and compressing/removing the pay difference between those roles and bands above.

3.3 Changes to job evaluation were approved by General Services Committee previously on 9 March 2015 – currently outsourced at cost, will be brought in-house, aligned with competing boroughs and basically now doing what others do.

3.4 There are a limited range of options for a pay model that manages all these risks and follows the principles shown in 2.5:

#### **3.5 Option 1 – Map to NJC – Do nothing**

3.6 The classic ‘do nothing’ option would involve translating the NJC arrangements into our current pay scales. This would represent an overall increase of 2.5% on the pay line at a cost of £1.3m including on costs. Annual increments would then increase this to £2.6m.

3.7 This approach does not correct any of the issues and risks identified and would keep the existing pay model with the issues detailed in report. There would also be a total shortfall of £1.75m to budget over the next 5 years.

3.8 Cost of this option in year one:

Pay line	£2.6m
Transition	£0
Total	<b>£2.6m</b>

### 3.9 Option 2 – redesigned

3.10 This is a completely new pay scale. It adopts clear differentials to straighten the payline by moving to a direct mathematical relationship between spinal points, as shown in full in Appendix 2. Increasing this costs £1.36m including on-costs, whilst allowing increments for all staff (currently approx. a third of staff are held due to being at the top of the band) costs £1.76m.

3.11 Cost of the proposal in year one, including on-costs:

Pay line	3.13m
Transition	£996k
Total	<b>£4.12m</b>

3.12 By redesigning the pay scales from scratch, it is necessary to break the current link to NJC scales. We can decide how to determine pay scale increases in future years (as the bottom value would now define the pay scales) using any of these methods:

- Living wage
- NJC 'headline' increase
- Minimum value of NJC scale
- Independent TU negotiation
- Other.

3.13 Whilst making significant changes, renumbering the scales is also an opportunity to 're-launch' the scheme, so employees view the changes as a major improvement in how their pay is determined. Transition to the proposed pay scale is recommended to take a maximum of four years, see Appendix 2 for full multi-year costs and MTFS impact.

3.14 Adopting this approach will allow the Council to mitigate the largest risks identified by the equal pay audit immediately, with an additional reduction in equality risks over the proposed transition period of 4 years, whilst remaining affordable.

### 3.15 Option 3 - Full risk reduction

3.16 Whilst it is not actually possible to remove every risk, the maximum realised risk reduction is achieved by transitioning people into the new bands immediately.

3.17 This option costs considerably more as some existing bands are very long (10+ points) so moving those with 5 years' service to the top of the new band immediately could be more than the equivalent of 5 annual increments for a sizeable number of people.

3.18 Cost of this option in year one:

Pay line	£3.5m
Transition	£8.8m
Total	<b>£12.3m</b>

3.19 Whilst this would fix the issues in one go, the consolidation of costs means it would be clearly unaffordable, so is not being proposed and is included in the full multi-year costs (Appendix 2) for context.

3.20 Some caveats are required for these figures – they are all based on the current pay bill and assume no change in grades from job evaluation. Also, as many other variables are also in play (e.g. living wage rises, staff turnover & NJC negotiations) they should be taken as indicative only for later years.

#### **4. Reasons for Recommendation**

4.1 The modelling of the structure has focussed on removing overlapping grades and limiting incremental points to 6 per grade as suggested by equal pay audit – it aims to provide a full, sustainable solution.

4.2 The issues with the current system have so far been shared internally and with Trade Unions. We are also required to publish the equal pay report as part of an FOI request. Having shared the identified issues means that not addressing these risks is not an appropriate option.

4.3 The overlapping bands in the current structure represent the largest single risk – paying people more for work of lower value (e.g. the top of band 6 is paid more than the bottom of band 7) and so the removal of overlaps by uplifting the bottom of the bands affected to the next spinal point above the overlap addresses this risk immediately.

4.4 Ideally incremental values should be consistent across the pay scale, this is considered to be best practice and is an aim of the changes to the NJC scales. We have used this as a principle. In technical terms we are aiming to 'straighten the payline' by applying a direct mathematical relationship between points. Taking our design principles and affordability into account, Appendix 2 shows the proposed pay structure. This 'straightens our payline' and represents an overall increase of 2% before increments, in line with the second year of the two year agreement signed with trade unions in 2017

#### **5. Consultation (including Overview and Scrutiny, if applicable)**

5.1 Work has been done to ensure that our Trade Unions have been kept up to date with progress of the project and have had opportunities to question and challenge our approach and thinking during regular meetings since the start of the project.

- 5.2 GLPC training sessions have been completed and comprised both HR team and Trade unions, ensuring that there are sufficient in-house skills to manage the scheme going forward. Local Conventions, which set out how the scheme will work in practice have been drafted and issued to Trade Unions for discussion. The policy and supporting process, including digital approach to record keeping of results are all underway in HR and with Trade Unions.
- 5.3 These changes, along with the potential requirement to review the Single Status agreement may need to go through TU regional, national & legal procedures. This could lead to tight timeframes and the requirement for negotiated changes to terms & conditions - hence the request for authority to be delegated to the Director of HR, OD & Transformation, in conjunction with the Portfolio Holder for Central Services to negotiate with the Unions, in line with Appendix 2.

## **6. Impact on corporate policies, priorities, performance and community impact**

- 6.1 Upon approval, the changes proposed in this paper will go to consultation, with particular attention being paid to the communication and engagement of staff to ensure they understand the impact on them as individuals. The changes will be incorporated into the annual pay policy to be laid before Council in February, to be implemented with effect from April 2019.

## **7. Implications**

### **7.1 Financial**

Implications verified by: **Sean Clark**  
**Director of Finance, IT & Legal**

It is clear that there are a number of issues with the current pay grades in terms of both length and overlaps that need to be resolved and we have considered a number of options to achieve this to various degrees. As the approach has been that there should be no financial reduction to officers, rather than see a mix of 'winners and losers', all options cost more than is currently budgeted within the General Fund (MTFS), HRA, capital and grant funded posts.

There is currently £2.1m included within the GF. As approximately 80% of the pay bill is within the GF, this equates to an overall annual increase in the pay bill of £2.625m. Before considering the options, it is also worth noting that, due to the NJC published intention to grant higher increases to the lower grades, that the amount budgeted is already insufficient to meet what are contractual commitments and this shortfall is currently estimated at £1.4m (GF) over the next six years. (Where GF/MTFS is quoted, the impact on the HRA will be circa 25% of this figure).

Considering the options, continuing the 'business as usual' options does not resolve the main issues and leave the council open to challenge. The cost of losing an equal pay claim should be considered, with Birmingham Council paying out £757m following the 2012 judgement against it and Glasgow City Council currently negotiating a bill estimated between £500m and £1bn following the August 2017 ruling against it. The option to transition immediately is simply unaffordable and this needs to be a consideration.

The recommended solution shows an increase to that budgeted within the MTFS of £2.65m over the next six years of which £1.2m impacts in 2019/20. Should this option be supported, the additional financial pressures will be added into the MTFS and HRA business plan and will need to be absorbed. The GF has forecast surpluses at this time and so the pressure can be offset. The impact on the HRA will need to be met from ongoing efficiencies.

## **7.2 Legal**

Implications verified by: **David Lawson**  
**Assistant Director Legal Services**

In setting out the proposal in this paper, due consideration has been given to:

- Equality Act requirements and compliance
- The requirement under the Localism Act for transparency over the Council's approach to pay.
- Recent high profile equal pay cases successfully brought against councils. ((e.g. Birmingham City Council v Abdulla & others, Armstrong v Glasgow City Council amongst others))

In identifying potential equal pay risks and setting out a clear approach to dealing with them, the Council will be adequately protected from concerns of inequalities. The approach is in line with appropriate legal process in renegotiating the Single Status agreement.

## **7.3 Diversity and Equality**

Implications verified by: **Becky Price**  
**Community Development Officer, Community Development and Equalities Team**

The Equal Pay Report has highlighted a number of issues which need to be addressed to ensure that the Council meets its diversity and equality obligations – the suggested approach and model, supported by a robust Job Evaluation process will ensure transparency of approach and will address the identified equality issues in current pay system, providing a long term solution.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

Staff – it is recognised that staff will be significantly affected by the pay review; the changes proposed provide a positive approach to modernising pay and introducing achievable progression through the pay bands. Focused work will centre on an engaging communication plan where staff will be clear about how they are affected and why the changes are needed to ensure the Council has a modern approach to how staff are paid.

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. **Appendices to the report**

- Appendix 1 - Equal pay report
- Appendix 2 – **Exempt**
  - Current & final models
  - Proposed pay line values
  - Financial implications over next 5 years
  - Consultation parameters

**Report Author:**

Jackie Hinchliffe

Director of HR, OD & Transformation