

Report

Audit Committee

Part 1

Date: 26th March 2015

Item No 07

Subject Pay Reserve

Purpose This report sets out the funding and use of the Council's Pay Reserve, since its inception in March 2012

Author Head of Finance

Ward N/A

Summary The Council established its pay reserve in March 2012 for the purpose of funding Equal Pay settlement costs and the team involved with delivering this project. The position regarding the actual level of funding required has not been known with absolute certainty or even the funding sources to fund these costs and therefore the planning of the reserve has been affected by this unavoidable uncertainty. As the project and costs and funding sources have become more certain, the reserve has been adjusted as appropriate to current levels. It is envisaged that the final costs related to Equal Pay will be paid out in 15/16 and the reserve will also fund one off costs related to Total Rewards, over the financial years 15/16 and 16/17 mainly.

Proposal That Audit Committee note the report and information requested

Action by There are no specific actions stemming from this report

Timetable n/a

This report was prepared after consultation with:

- Head of People and Transformation

Signed

Background

1. Following the completion of the 2013/14 accounts and progress on the Council's Total Rewards/Equal Pay projects, the Audit Committee requested background information on the Council's Pay reserve, specifically costs related to these projects and the use of the reserve to date. A verbal update was provided to the Committee previously on the above but given the volume and complexity of the issue, a written report was requested.
2. The reserve was established initially in March 2012 and in all published financial accounts since establishment has been called 'Pay reserve' with a note explaining its use, as follows: "established to fund potential pay liabilities in future years". In the Cabinet revenue budget outturn reports since its establishment, reference to its uses has included Equal Pay, Total Rewards team and Total Rewards project and one –off costs on Total Rewards.

As part of the 2013/14 outturn conversations with the Audit Committee, the pay reserve was discussed in the context of funding 'equal pay' and its use for Total Reward was not made clear. As noted above, the reserve has always been described as a 'Pay Reserve' in general terms with use for 'potential pay liabilities in future year's' whilst the Council's Cabinet reports have always described its use as wider than equal pay, though set up initially with that issue in mind as it was the main focus of the Total Reward project at that time. Indeed, the Total Reward' project has always been a generic project name for the Council's solution to both equal pay and new pay and grading framework as both are linked.

3. The reserve was established at c£6.5m at end of 2011/12, increased to c£9.6m at end of 2012/13 and reduced down to c£6m at end of 2013/14 financial years. These changes show the key challenges in planning this reserve, namely:
 - The amount of the Equal Pay settlement. Clearly, this has been subject to long and intense negotiation and a balance found between acceptable settlements and affordability. It is only towards the end of negotiations that any certainty is known.
 - Timing has been challenging and the timescales for settlements of equal pay and Total Reward have slipped from original plans
 - Funding sources for Equal Pay was not known with certainty until the year of settling these costs - mainly 2013/14. This is because Councils are allowed to 'capitalise' the equal Pay costs, following specific 'permissions' from WG to do so, in the year of incurring the costs. We always knew that there was a cap on the value of these permissions across Wales in total and a number of Councils were finalising their own settlements and therefore the availability or subsequent value to Newport was not certain. Cabinet reports always flagged up this uncertainty and the need to keep all options open until there was certainty on values, timing and access to potential 'capitalisation' approvals.

In broad terms, the reserve was built up over the first 2 years (2011/12 – 2012/13) based on funds available to do this and the potential need for the reserve to fund the majority of costs of 'equal pay', in so much that it could and therefore maximising the reserve, within affordability and other issues was a key consideration. The funds used to build up the reserve came from

- (i) utilising Council wide under-spending
- (ii) the base budget established for the new pay/grading framework costs which were not required at these times and were available to put into reserves.
- (iii) Any surplus funds on other reserves which, in the round, were available to put into this reserve.

As the main settlement of Equal Pay occurred in 2013/14 and permission was given to capitalise equal pay costs, a major liability on the reserve was dealt with in this way without the need of the reserve and in addition, more certainty was available on the new pay/grading framework. Given

these, it was reduced in 2013/14. At this point in time, we will soon be closing the 2014/15 accounts and the known liabilities on the reserve are:

- Final settlements of Equal Pay to those not yet completed
- The Total Rewards team within HR who have dealt with Equal Pay and Pay/Grading framework
- Pay protection to those adversely affected by Total Reward outcomes – for 2 years,

In closing the accounts for 2014/15, we will ensure that a very clear statement is included within the reserves section of the report on what the 'pay reserve' reserve needs to fund within this Total Rewards project to ensure it is clear.

4. The following tables provides summary information on some of the costs incurred in the 2 projects of Equal Pay and Total Rewards

Total Rewards/Equal Pay Team

The costs for the Total Reward team by the end of the 2015/16 financial year are estimated to be £2.32m. This includes staff costs of £1.55m and legal, consultancy & other non-staff costs amounting to £0.77m.

These costs have been charged against the Pay Reserve each year (£1.49m by the end of 2013/14) and the annual costs are shown in the table below:

Financial Year	£'000s	Note
2010/11	105	
2011/12	330	
2012/13	525	
2013/14	530	
2014/15	420	estimated
2015/16	410	estimated
Total	2,320	

Equal Pay Settlements

Financial Year	£'000s	Note
2013/14	4,089	actual payments
2014/15	658	actual payments *
2015/16	400	estimated payments
Total	5,147	

* actual payments in 2014/15 are £658,000 but the 2013/14 accounts included a creditor of £310,000 so only £348,000 will be chargeable to 2014/15 accounts.

Total settlement payments to date include £1.067m paid to HMRC.

Main bulk of settlement, incurred in 2013/14, was 'capitalised'. Cabinet have already agreed that the HoF may use 2014/15 capital receipts to fund equal pay costs, as is now allowed under new WG

regulations and the impact of this on the reserve balance at the end of the 2014/15 financial year will need to take this into account.

Pay Reserve – current position

The Pay Reserve balance at the 31st March 2014 was £5.946m. This is earmarked to cover various costs as shown below together with the current estimate of likely future costs.

	Bal as at 31/03/2014	Anticipated future costs	Difference to reserve
	£'000s	£'000s	£'000s
TUPE / Other settlements	1,000	748	252
Bridging payments *	500	500	0
One-off implementation costs	3,500	3,300	200
TR team costs	946	830	116
	5,946	5,378	568

* the bridging payments from equal pay settlements paid up to 30th June 2014 can only be calculated once the terms of payment are finalised with the Trade Unions

As can be seen, the current balance is more than sufficient to pay known liabilities although a degree of uncertainty is inevitable. The current balance is not too unrealistic and will be reviewed at 31 March 2015 and which now will take into account how 2014/15 and 2015/16 equal pay costs can now be funded from current year capital receipts.

Financial Summary

Contained above

Risks

The 2 projects here have significant risks and these reduce as the Council has agreed how it will deal with the issues concerned. At this time, there is only a relatively small residual equal pay risk and implementation of the Total Rewards outcomes is imminent.

The risk table refers to funding issues only

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Insufficient funds to deal with Total Rewards	H	L	Regular review of forecasted costs for consideration and use in planning level of pay reserve at end of 2014/15 financial year.	HoF / HoP&T
Insufficient funds to deal with Equal Pay	M	L	As above	As above

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

The Equal Pay and Total Rewards projects are 2 very significant projects which have far reaching consequences on the organisation.

Options Available

To note the report . The level of reserves is a matter for Cabinet, taking the advice of the Council's Head of Finance.

Preferred Option and Why

N/A

Comments of Chief Financial Officer

The author of the report is the HoF and financial issues are dealt within the main body of the report.

Comments of Monitoring Officer

No direct legal issues related to this report

Staffing Implications: Comments of Head of People and Business Change

In October 2010 Cabinet agreed to endorse a Total Reward approach to pay and benefits which included establishment of a project team to scope and develop an equal pay settlement strategy, conduct a comprehensive pay and grading review, and develop flexible benefits.

Both the equal pay settlement strategy and the pay and grading review were essential activities. One managing risk posed by collective litigation, the second seeking to comply with contractual and legal obligations in terms of approach to pay.

The contents of the report in terms of associated costs with each are confirmed.

Comments of Cabinet Member

Report author to confirm that the Cabinet Member has approved the report for consideration by cabinet.

Local issues

n/a

Scrutiny Committees

n/a

Equalities Impact Assessment

n/a

Children and Families (Wales) Measure

n/a

Consultation

n/a:

Background Papers

Revenue budget outturn reports to Cabinet on the 2011/12 – 2013/14 accounts set out the reasons for the use of and setting level of reserves.

Dated: