

# Report

## Council

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### Part 1

Date: 27 September 2016

Item No: 9

**Subject** **Review of Senior Pay**

**Purpose** To review the current Head of Service pay grades as agreed by Council in September 2015

**Author** Will Godfrey – Chief Executive

**Ward** All

**Summary** The Head of Service structure was last considered by Cabinet in September 2015 and matters related to pay were deferred until the pay structure for Total Reward was determined. Additionally, the pressure to reduce management costs and realign services is a constant challenge and one which has been cited during public engagement during the budget setting process.

There is clear evidence to suggest that equal pay claims continue to be a risk to the Council at senior management level and the number of changes that have been made at this level in recent years has led to the requirement to review the pay arrangements.

**Proposal** **Council is asked to:**

1. Acknowledge the outcome of a recent job evaluation exercise for Heads of Service and move three identified posts to HDS02 in line with the outcome of that exercise
2. Note the ongoing recruitment and retention issues for this staffing group due to market rate values being inconsistent with NCC's current pay levels

**Action by** Chief Executive

**Timetable** Immediate

This report was prepared after consultation with:

- Strategic Directors
- Leader of the Council

**Signed**

## Background

The Head of Service structure has been the subject of a number of Cabinet reports - October 2008, October 2012, July 2014 and September 2015. All reports have highlighted the need to develop a senior level structure that provides capacity and appropriate alignment to drive forward the strategic change required to modernise services but also meet the growing financial challenges. Each report has also referred to the pay position for Heads of Service posts, highlighting the increasing divide between pay in the council versus other Welsh authorities and then more generally across professional disciplines and pay markets.

In the Cabinet report of July 2014 the level of turnover in the then 10 posts had resulted in 4 vacancies, bringing with it immediate issues about the council's ability to recruitment and retain senior managers. The pay structure at this point was over 10 years old and Hay Management Consultancy (the original architects of the pay structure) were asked to comment on the appropriateness of the pay structure and how it compared in the climate at that time. Contained in the report approved by Cabinet, Hay recognised the increased breadth of roles and reducing numbers of Heads of Service meant there was justification to review the pay structures. They said:

*'As a result of the above points related to market rates and the grading of roles we would support the Council's proposal for all Heads of Service roles to be paid a minimum of the bottom point of HS02 (£70,966) with potential progression to the top of HS01 - £87,382.'* They went on to acknowledge the timing of this proposal and said *'If the Council does put in place the above arrangements it will need to consider how they fit with the pay policy adopted for its total reward project and develop an approach to the communication and governance issues involved.'*

## Job Evaluation

Both the timing of the fieldwork by Hay in March 2014 and then the subsequent Cabinet report in July 2014 coincided with the council entering into negotiation on the design and arrangements for Total Reward for the rest of the workforce. Cabinet concluded that there should be no consideration of senior pay until such time as pay arrangements for the rest of the workforce had been concluded through a Collective Agreement with the Trade Unions. This has now taken place and the Council implemented single status for the NJC workforce in April 2015. Residual appeals continued throughout 2015, concluding in December 2015.

Agreement was given by Cabinet in September 2015 that senior pay would be reviewed in June 2016. Whilst work commenced on this review between September 2015 and June 2016, independent legal advice was provided to suggest that the most appropriate way in which to provide evidence based judgement on senior pay was to undertake a job evaluation exercise for the affected staff group. The Hay Group were engaged to carry out this exercise with all 8 Heads of Service in July 2016. The rank order and subsequent recommendation from Hay suggests that the pay grade of HDS03 is no longer appropriate and that all Heads of Service with the exception of the Chief Education Officer should be remunerated at HDS02 (Appendix 1). Whilst there is slight variation in the scoring of those officers in Band 2, they are all ranked equally and the job weight between the group is considered to be broadly comparable in size and complexity.

This would mean that 5 Heads of Service remain in their current pay grade, but 3 are moved from HDS03 up to HDS02 as shown in the table below:

Post title	Pay Grade	Current pay range	Proposed pay grade	Proposed pay range
Chief Education Officer	HDS01	81,446 - 90,022	HDS01	No change
Head of Finance	HDS02	73,109 - 78,726	HDS02	No change
Head of Legal and Regulation	HDS02	73,109 - 78,726	HDS02	No change
Head of Streetscene and City Services	HDS02	73,109 - 78,726	HDS02	No change
Head of People and Business Change	HDS02	73,109 - 78,726	HDS02	No change
Head of Adult's Services	HDS03	63,363 - 68,233	HDS02	73,109 - 78,726
Head of Children's Services	HDS03	63,363 - 68,233	HDS02	73,109 - 78,726
Head of Regeneration, Housing and Investment	HDS03	63,363 - 68,233	HDS02	73,109 - 78,726

## Market rate

The job evaluation exercise was to set a position for the relative ranking of officers within the context of current pay grades, and this report is principally about implementing that exercise to remove any equal pay issues and to have a sound basis on which to make future decisions. However, there are risks and implications with the current pay grade for Heads of Service which Council may wish to consider.

The current value of the Council's pay grades for Heads of Service has been out of line with market rate for some time and the Council has faced considerable difficulty in recruiting to posts at this level. Most recently, the Head of Streetscene and City Services and the Head of Adult's Services are two posts where the HDS03 base pay was out of kilter with the market and impacted upon our ability to recruit. These two live examples demonstrate evidence that the Hay report in 2014 identified; that market rate not being applied in Newport could impact upon effective high quality recruitment at a senior level.

The risk with continuing with low base pay could be that retention rates decline further. We have seen significant turnover in the Head of Service staff grouping in the last 4 years and we still have two current gaps – an interim Head of People and Business Change, and a temporary vacancy in the Head of Regeneration, Investment and Housing post.

However, Heads of Service are not a singular group with regards to market rate for pay. We have other areas of the Council where market pay is not applied and our NJC job evaluation scheme is clear in that its scope does not cover market rate. There are potentially other areas of the Council where we have struggled to recruit high calibre individuals to provide the best services to our resident population and we know that pay has been a significant factor when applicants consider the rate of pay in neighbouring local authorities or other sectors.

It is not imperative at this time that pay levels are increased to market rate, but Council need to be fully informed that the risks of continuing to disregard market rates could have significant implications for the future. However, Council need to balance the need to attract and retain talent at the most senior level in the organisation with potential reviews of service provision that our financial settlement may require, reducing budgets, increasing demands on service delivery and the way in which the rest of the workforce have pay determined.

## Independent Remuneration Panel

Following the job evaluation exercise, a referral was made to the Independent Remuneration Panel (IRP) for assessment of the appropriate levels of pay for Chief Officers in Newport.

The IRP considered the matter on 14 September and confirmed on 15 September that they were content with the Council's proposal to implement the job evaluation outcome and therefore uplift salary for the identified employees (Appendix 3).

## Financial Summary

### Removing HDS03 and assimilating to HDS02

Should approval be granted by Council, movement to the new pay grade will be immediate. Those employees in the NJC workforce who were assimilated to a higher pay grade were made an offer of consolidated pay between the period November 2014 (the committed implementation date) and April 2015 (the actual implementation date) in order to limit equal pay liability for those employees who could identify a comparator now that their individual outcome identified that they should have been placed on a higher pay grade.

In line with the NJC workforce, those Heads of Service who receive an upward lift to their pay could claim that equal pay for equal value work is due to them. Given that a commitment was given in September 2015 that senior pay would be reviewed in June 2016, consolidation offers could be made to the Heads of Service who are directly affected for the period June 2016 to September 2016.

There are no additional costs to implementing the results of job evaluation. When the Head of Information and Technology post was deleted, the savings from that post were identified as possible budget to cover any unexpected costs from reviewing senior pay. As a result, there is sufficient budget within existing resources to fund this change.

In terms of considering a move to market rate Council would need to consider its priorities in light of reducing budgets and possible reviews of the provision of services against the risk of failing to recruit and retain talent at a senior level in the organisation.

Costs of moving the three Heads of Service to HDS02 is £35,000 in the first year which can be funded from the £91,000 saving that was made by deleting the Head of Digital Information and Customer Services.

	<b>Year 1 (Current) £</b>	<b>Year 2 £</b>	<b>Year 3 £</b>	<b>Ongoing £</b>	<b>Notes including budgets heads affected</b>
<b>Costs</b>	<b>36,000</b>				<b>Costs for 2<sup>nd</sup> and 3<sup>rd</sup> year would be dependent on achievement of increments by individual post holders. This would be reflected in future MTFP.</b>
<b>(Income) Net Costs (Savings)</b>	<b>(91,000)</b>				
<b>Net Impact on Budget</b>	<b>(55,000)</b>				

## Risks

### Failure to implement job evaluation

Failure to implement the recommended outcome of job evaluation could result in equal pay risks for the Council. The three Heads of Service in HDS03 are all female and could use a male comparator in the HDS02 pay grade to claim equal pay for work of equal value.

The independent analysis provided by Hay gives the recommendation that these three employees carry equal weighting of job responsibility to those in the HDS02 pay grade and rejecting that analysis carries risk of undermining the independent work carried out.

### Failure to consider market rate

Continuing to work within the existing pay grades could result in further increase of turnover in a small pool of individuals with significant responsibilities towards the organisation and the delivery of its objectives. Several reports to Cabinet in recent years have highlighted the difficulty in recruiting and retaining senior officers in the Council and pay levels lag behind the market. However, the risk has to be assessed against a backdrop of diminishing resources and competing priorities for Council budget at this present time. There is further opportunity for senior pay to be reviewed at a time of Council's choosing but this will need to be done with the knowledge that there is no budget provision allocated for this exercise other than some residual saving from the deletion of the Head of Digital Information and Customer Service role.

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?
Head of Service job evaluation – not approving the proposed changes to pay bands	H	M	Implementing an independently conducted job evaluation process mitigates current equal pay risks	Head of Paid Service/Council
Pay – Inequality continues within the senior pay bands which is inconsistent to the council's commitment to equality proofed pay arrangements	M	L	Proposing the adoption of an equality proofed pay structure that has been job evaluated	Head of Paid Service Head of People and Business Change
Failure to review senior pay leads to additional turnover and ongoing recruitment challenges	H	H	Analysis of market rate has been undertaken but competing financial challenges have to be balanced with the Council's priorities at this time	Head of Paid Service/Council

\* Taking account of proposed mitigation measures

## **Links to Council Policies and Priorities**

People Plan 2013-17 (reward and recognition)

## **Options Available**

**Option 1** – no change is made to the current pay levels of Heads of Service

**Option 2** – approve the implementation of the job evaluation outcome by deleting the pay grade HDS03, and assimilate the Heads of Regeneration, Investment and Housing, Adult's Services and Children's Services to HDS02.

## **Preferred Option and Why**

Option 1 is not considered to be a viable option for several reasons which are outlined throughout this report. The Council remains at risk of equal pay claims if no change takes place, further strengthened by the outcome of the job evaluation exercise which has shown that the roles are considered to have equal job weight to those posts that are graded at HDS02.

Option 2 is therefore considered to be the minimum point that Council should consider moving to at this time.

## **Comments of Chief Financial Officer**

To note: the Head of Finance has a personal interest in this Report and therefore these comments are being given by the Assistant Head of Finance.

The option to move the three Heads of Service to HDS02 is achievable within existing budgets due to the deletion of the former Head of Digital Information and Customer Services post. This will lead to an overall saving on the MTFP. The affordability of moving to market rate within existing budgets is dependent on the individual posts and the rates that are proposed.

## **Comments of Monitoring Officer**

To note: the Head of Law and Regulation has a personal interest in this Report and therefore these comments are being given by the Chief Legal Officer.

Geldards have been instructed by the Chief Executive to provide legal advice in relation to the issue of Heads of Service pay and their comments are contained in Appendix 2. They recommended that a job evaluation exercise be undertaken. This has been done and the results are contained in Appendix 1. Geldards have pointed out the risk of challenge in the event of the recommendations by Hay not being implemented, however although they refer to a possible risk based on equal pay factors they advise that the question of whether any equal pay claims would succeed is outside the scope of their advice and that this matter would require in depth investigation to assess whether any pay differentials are related to the gender of post-holders or whether they are due to genuine and material factors.

The adjustments recommended by the Hay Report to the Heads of Service grades are within the Council's powers. The Chief Officers' pay grades are non-executive matters for full Council to determine, in accordance with the Constitution. In accordance with the Local Government (Wales) Measure (as amended by the Local Government (Wales) Act 2015) Council must have regard to any representations made by Independent Remuneration Panel for Wales before fixing chief officers pay. The IRP have been consulted about the proposals and their responses are set out in the Report.

## **Staffing Implications: Comments of Head of People and Business Change**

To note: the Head of People and Business Change has a personal interest in this Report and therefore these comments are being given by the HR Manager.

The starting point for assessing Head of Service pay is to determine the job weight and responsibilities of each post, resulting in a rank order being determined. Hay have independently carried out this exercise, and all Heads of Service engaged fully in this process through being interviewed and providing additional documentation as part of the analysis of their posts. In addition, the right to appeal against the outcome was provided and this was again heard by a further independent consultant. Recommendations on assimilating the rank order to the current pay grades suggested that it would be inappropriate to continue with HDS03 and that this grade should be removed. The outcome of the job evaluation exercise was that the Heads of Service jobs are on the whole comparable with each other and that with the exception of the Chief Education Officer, should be paid at HDS02. This recommendation was therefore duly sent to the Independent Remuneration Panel (IRP) who concluded that the proposal was acceptable.

It has been acknowledged in previous reports to Council that Newport has pay rates for Heads of Service that fall in the lower quartile when benchmarked against other local authorities or private industry. It is also true that there have been considerable recruitment and retention difficulties at Head of Service level and that market pay is a significant factor in this challenge, with both the Head of Streetscene and City Services and the Head of Adult's Services being two recent examples.

### **Comments of Cabinet Member**

N/A

### **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**

Appendix 1 – Hay report on job evaluation for Heads of Service, August 2016

Appendix 2 – legal note from Kim Howell, Geldards, September 2016

Appendix 3 – IRP recommendation, September 2016

Dated: 19 September 2016