

ECC News Update

CONTROLLING THE PAY BILL

This News Update suggests ways in which pay costs can be managed by drawing on the experiences of other organisations that have already faced financial constraints and the need to manage reductions in the size of their workforce. We are grateful to the input made by Capita Health Services Partners.

The challenge ahead

Many organisations in the HE and FE sectors are facing the need to control costs tightly in the face of increasingly financial constraints. The pay bill will not be spared; not least because it represents the highest proportion of expenditure; indeed recent increases and the pressures ahead mean that pay cost growth is not an option.

Yet changing thinking and expectations after twenty years of expansion will be difficult.

Incremental scales

Most incremental pay policies lead employees to expect their pay to increase each year. This should continue until the grade's maximum point is reached but many, having become used to the annual increase, come to believe it should carry on regardless of the grade ceiling.

The true purpose of incremental pay scales is to reward increasing expertise in the role. Age discrimination legislation suggests that six points would not contravene the law, but scales with more points could do so, unless the relationship with the time needed to become fully competent in the role is clear. Long scales also contribute to the year on year expectation of pay increase.

Advertising linked grades can also lead to the belief that the highest pay point will be achieved.

Even though most pay policies allow increments to be withheld if performance is not satisfactory, this provision is rarely used. Clear information about the purpose of increments and the grade limits help staff remain realistic.

Managing pay and grade drift

Pay and grade drift occurs when pay increases more than that accounted for by normal incremental progression. Reasons for this include:

- The use of accelerated increments
- The use of the contribution points range over the top of the grade maximum
- The extra pay for exceptional performance
- Unmanaged regradings and promotions
- People being allowed to 'grow' their roles
- Recruits being appointed to a grade higher than the role's analysed grade to overcome recruitment problems.

Accelerated increments, if used to reward exceptional performance, should be used rarely and the reasons for making them should relate directly to the needs of the organisation.

The use of consolidated **contribution points** is not universal. Some employers do not use them at all while some use them for potentially unsustainable reasons, such as:

- To avoid red circling
- To reward people for one off achievements rather than sustained performance
- Placating those who did not achieve promotion but are regarded as good employees.

The grounds for allowing an individual to enter the contribution points range, if this is used, should be directly related to sustained performance and against objectively justifiable criteria.

Decisions regarding whether the payment should be a one-off or consolidated are needed as the latter would attract pension contributions and be an on-going increase in the pay bill.

Regrading should only happen when the role demonstrably has increased in size as evidenced by role analysis which indicates it has moved into the points range associated with the higher grade.

Before the role is regraded, the manager should be asked to justify why the work can not be accommodated within the team without altering the size of any of the roles. HERA and FEDRA can be used to model roles and explore how the work could be reallocated between roles and role holders.

Where planned **role growth** does occur, changes to role requirements should be agreed with the individual's manager and relate to organisational need. It is not a matter for personal choice.

Roles also shrink. So, there should be a process to allow roles to move down as well as up the grades.

Promotion decisions should be made against clear criteria. Consideration should also be given to the number of promoted posts that the organisation needs to achieve its strategic aims.

Labour market premia

Even with a shrinking workforce and a slack labour market, organisations will continue to compete for candidates of the right skills and calibre and need to take action to prevent highly valued individuals leaving for better pay and conditions by matching the 'going rate'. Often, pressure to increase pay is applied through assertions regarding other employers' pay rates.

Changing a pay rate in response to such pressure should only be done if there is adequate and relevant evidence to justify the increase. Failure to do so can result in wasting money and unsettling other existing employees. The latter could easily lead to equal pay or discrimination claims.

The increase in pay through the use of market premia should always be based on reliable and valid data, preferably obtained from several relevant sources to ensure the data is triangulated and therefore reliable.

Equal pay legislation means that employers should access benchmark pay data and labour market information to determine whether the use of recruitment and retention premia are justifiable. Recent ECC/Capita surveys suggest that few universities are paying market premia. The increase in the number of applications seen by many also suggests that salary levels are generally competitive with other employers. There is ample, other evidence to suggest that pay and benefits in higher education are competitive.

In the current economic climate it is probably reasonable to assume that recruitment and retention premia may not be needed. For those currently paying market premia, good practice and equal pay legislation suggests that these should be reviewed regularly to check whether they are still justified.

Research suggests that such reviews are often missed or become a formality resulting in premia continuing to be paid until they are seen as a contractual entitlement.

In some cases, labour market supplements have been combined with base pay, making it difficult to identify and justify the payments. This also makes it very difficult to withdraw them when they are no longer justified by market conditions.

Employers wanting to control pay costs may decide to set even stricter criteria to justify payments and will want to carry out a rigorous review of existing premia.

One of the justifiable grounds for using premia includes the failure to attract adequate candidates. Before deciding to increase pay, other options should be explored, including:

- Reviewing the recruitment process, including choice of media and wording of advertisements

- Assessing other factors that may discourage applicants, e.g. transport links, relocation costs, lack of career opportunities, poor descriptions of other benefits, prolonged selection procedures
- Examining other ways of getting the work done, e.g. by reallocating the duties between other role holders or reassigning lower level responsibilities.

If it is still not possible to recruit, it will be necessary to obtain actual and contemporary evidence to show that the rate of pay is lower than that of comparable employers and that this causes the recruitment problems.

This data can be obtained through the ECC labour market pay and data service. This gives access to:

- A web site which contains over 500 responses to helpdesk queries. It may be useful to look to see if another ECC member has already requested similar pay information before raising a helpdesk query. The web site also contains reports from the pay surveys
- A dedicated help desk service. Each member is entitled to up to 8 helpdesk enquires a year as part of their ECC membership. If more helpdesk time is needed or a more extensive report required, Capita will be happy to do this additional work and offers ECC members preferential rates. The helpdesk can be accessed by email to ecc@capita.co.uk or by telephoning 01423 720200
- A thrice yearly survey of "hot roles" providing information on the pay rates offered by universities, colleges and other public and private sector employers. The survey results are collated and benchmarked in three reports, usually published in December, April and July. Copies are sent to members and are available on the web site.

Benefits and non-pay initiatives may be more cost effective

Recognition of the fact that pay is only one way to motivate staff is growing. Many employee surveys suggest that staff value the freedom that working in the sector provides and appreciate the opportunities to access training and development.

There has been some interest in the use of "Total Rewards" to draw attention to the value of the other benefits available to employees as many people do

not fully appreciate the value of the reward package that they receive from their employer. This is particularly true when employees have no experience of working for other employers.

Many universities and colleges are making increasing use of salary sacrifice schemes as a cost effective, tax efficient way of providing benefits and some now use total reward statements to draw staff's attention to the value of what is available.

Components of a total rewards statement include:

- Tangible benefits such as holiday, sickness, pension and other contractual entitlements
- Intangible benefits such as flexible working, interesting or stimulating work, access to development opportunities, sporting facilities and child care facilities

The value of benefits, however, is a very personal matter and hard to assess. The use of staff surveys is probably the best way of finding out what is important to staff and what they seek in return for their efforts as they provide structured information which may be more accurate than the anecdotal evidence or pre-conceptions often used to inform policy development.

Future challenges

There is no doubt that public sector finances, including those of universities, will be constrained for a number of years to come. This means that employers will not be able to rely on the approaches they have used in the last decade to reward, motivate and incentivise staff. New and different ways will be required.

Developing such approaches will be difficult as it is likely they will accompany reduction in the workforce and the redeployment of remaining staff into new roles and priority areas of work.

The situation will be compounded by reductions in turnover as mobility is constrained by fewer opportunities and tighter rules on early retirement will mean people will remain in their roles longer.

There is also likely to be a period of pay restraint. The change from expansion to controlled growth may be seen by some as curtailing their opportunities for career progression.

Lessons can be learnt from other employers that have experienced similar challenges and have brought about change in a positive way. The methods commonly used include:

- Providing clarity of direction. Avoid a “slash and burn approach” by using the organisation’s strategic plan to identify which aspects of its work need to change, where developments are required and which are no longer needed
 - Using the need to reorganise as an opportunity to add value rather than simply reduce cost
 - Reviewing the design of services and operations to find ways of improving their efficiency, effectiveness and quality
 - Taking a whole systems approach and considering the side effects of an intervention, such as redundancies, on the organisations long term strategy, rather than a reductionist approach to solve a short term problem
 - Reducing administrative overheads and increasing efficiency, rather than sacrificing services
 - Reviewing working practices and making use of IT as much as possible
 - Defining the roles required to deliver the strategic plan and organising them appropriately
 - Identifying staff’s abilities, making use of and developing talent by redeploying displaced staff rather than using redundancy. The latter can be an expensive option and will affect the morale and productivity of staff who remain. It could also result in the employer losing knowledge and skills which may need to be replaced by later costly recruitment
 - Employing support workers rather using expensive professionals to carry out lower level work
 - Investing in training and development to help staff develop new skills so they are equipped to take on new work and roles
 - Managing performance and absence and making sure people are in roles that are appropriate for their level of ability
 - Avoiding the use of agency and temporary staff by creating an internal ‘pool’ to provide flexibility and cover
 - Working in partnership with trade unions, staff representatives and other organisations
 - Investing in internal communication and finding ways of engaging staff. Everyone will want to know what the changes will mean to them and in times of uncertainty they will have an increased need for regular, reliable information from their employer. There may also be ways of enabling them to contribute positively to bringing about change, for example through membership of task groups aimed at finding ways of making improvements, or involvement in focus groups to test out proposals. The use of a greater pool of talent and ideas may reveal good and practical ways of making savings
 - Investing in leadership development. In times of turbulence, strong leadership and shared responsibility can make the difference between success and failure
 - Developing management processes and managers’ skills. These will be key to taking people along with the changes. Managers have a critical role in explaining the meaning of the change and clarifying the direction. They will also be required to provide information about new roles and provide the support to enable changes in working practice to take place. They also need processes that support the changes rather than protect previous practices
- Making use of the full range of people management practices to reinforce the overall direction of the organisation and communication of the values and behaviours required for future success. ECC’s publication *Developing people, delivering results* outlines how these can be put into practice
- Using other ways of rewarding staff rather than relying on pay, including some very simple things, like managers saying well done now and again.

Let us have your feedback

We are always keen to know what you think of our services and hear your ideas about how we make improvements. If you would like to make suggestions, please contact ECC via email to contactus@ecc.ac.uk.

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