

# A perspective on local government reward

PPMA South West Employers Regional Forum

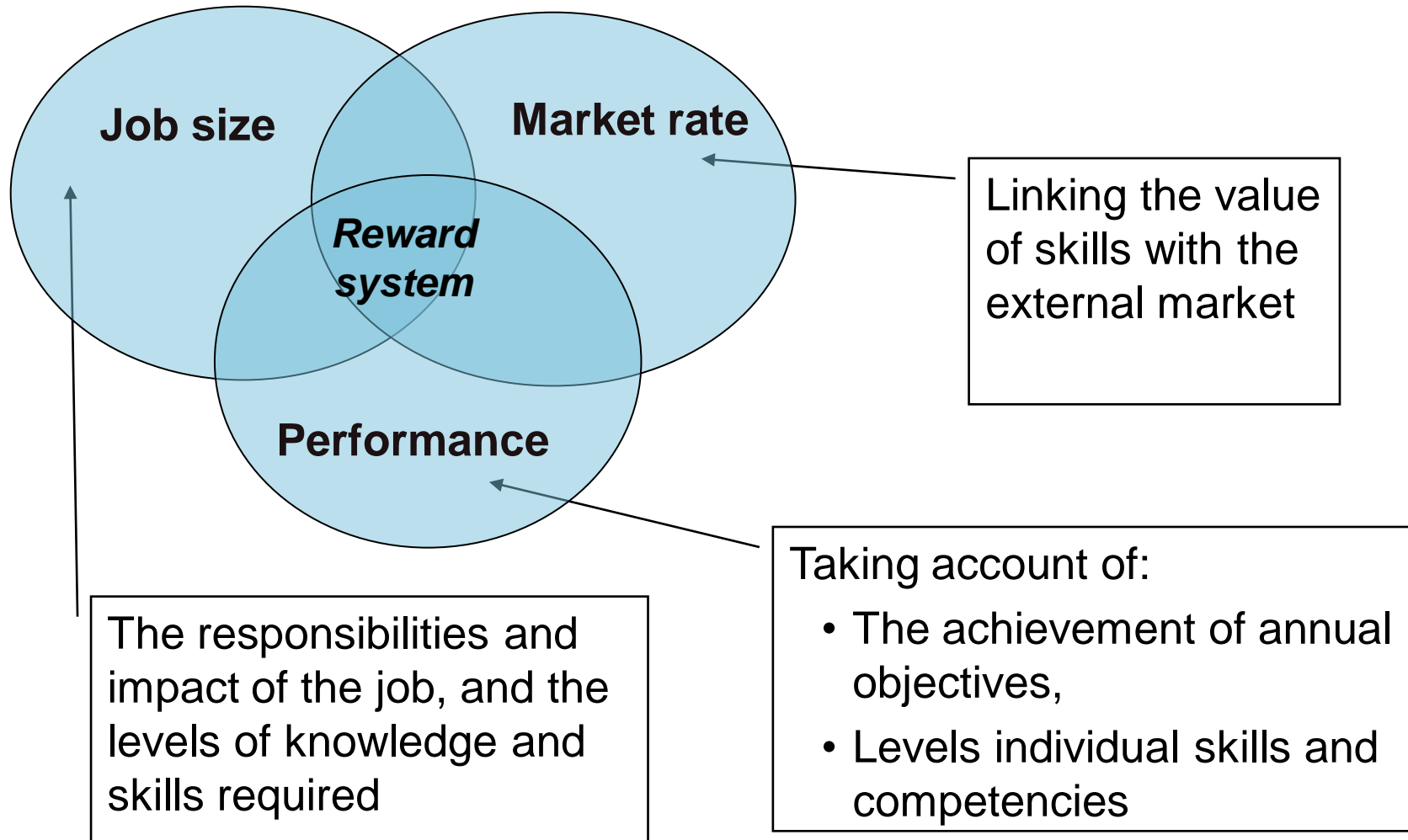
**22 February 2013**

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# The components of a reward system

Reward systems are comprised of three elements: job size, market rate and performance:



# Contrasting reward in the public and private sectors

## Public sector

### Reward strategy =

- A job evaluation system linked to fixed pay points
- Pension (dealt with separately)

### Weaknesses:

- Reward is too easily mixed up with job design
- “Gaming” of job evaluation systems
- Inefficient and inflexible processes
- No link to performance

### Strength:

- Transparency

## Private sector

### Reward strategy =

- Copying others (market practice)
- An annual pay review process

### Weaknesses:

- No long-term planning
- Too much focus on executives so the majority of the workforce is neglected
- Weaker processes
- Ineffective use of bonus and share incentives

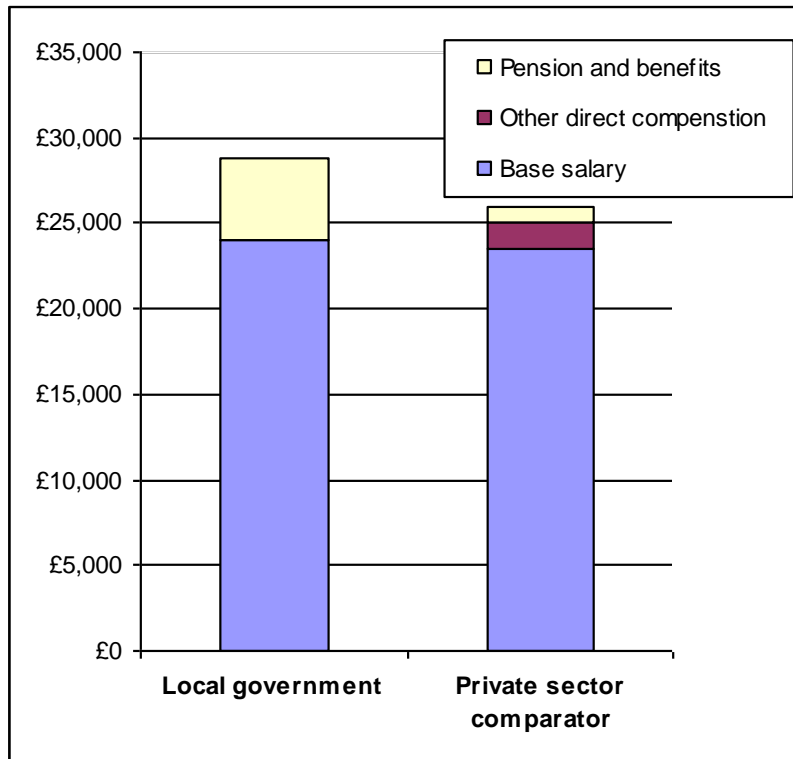
### Strength:

- Flexibility

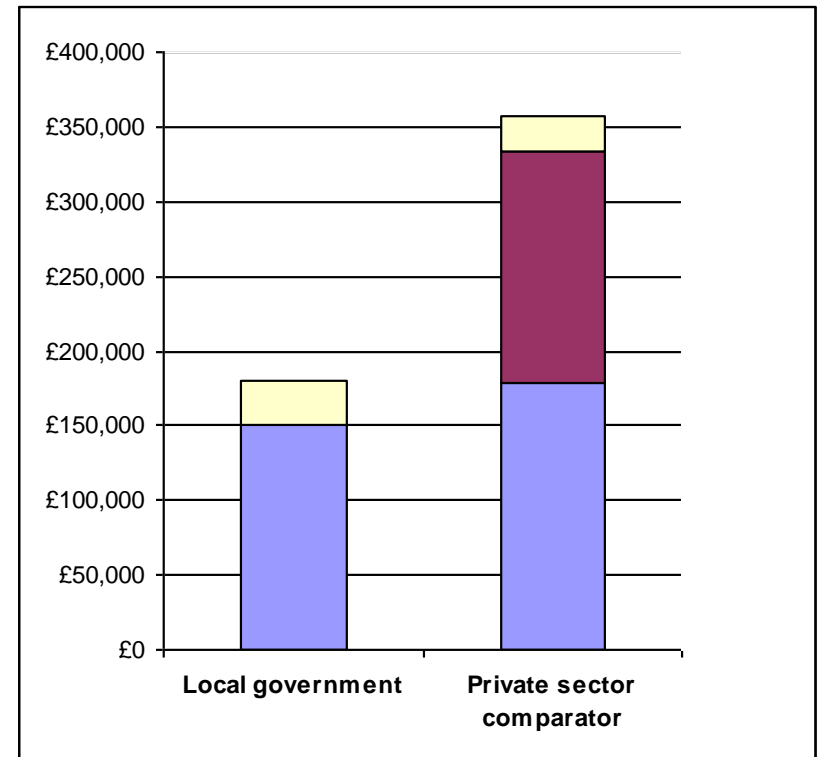
# How do levels of pay compare with the private sector?

The examples below shows how the total package for local government jobs compares with those of comparable size in the private sector:

### Housing Officer v private sector role of comparable size



### Chief Executive v private sector Head of Organisation



# The reward challenges in local government

## External drivers

Cost pressures

Maintaining/  
improving  
services

Workforce  
change

## The HR challenges

Maintaining  
engagement in  
tough times

Building capability

Managing  
performance

Controlling costs

## The reward challenge is to:

- Achieve more segmentation of reward for different jobs
- Link pay with performance/contribution
- Integrate reward as part of an Employment Value Proposition (EVP)
- Adapt reward for transformed organisations

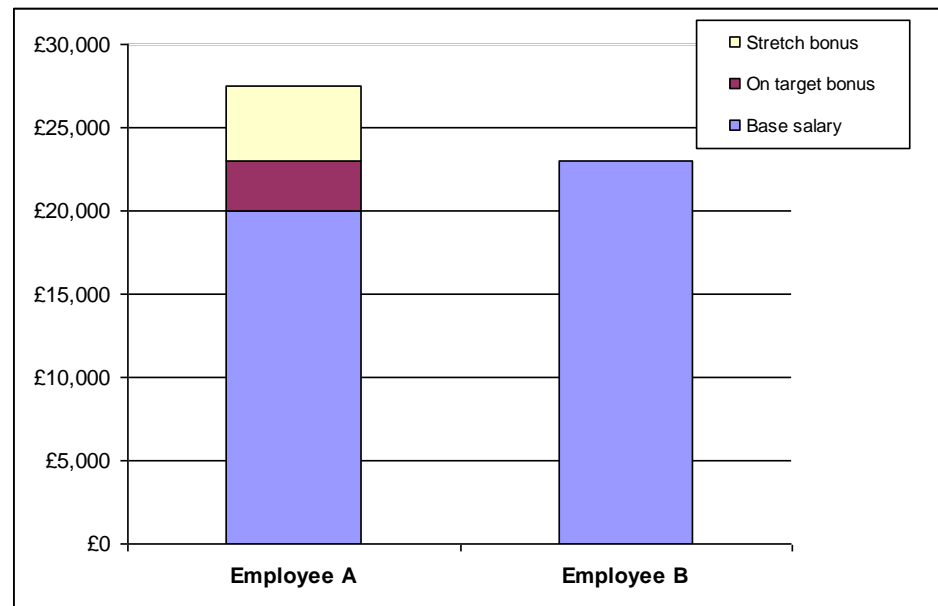
# Segmentation of reward

- Reward systems need to:
  - Reflect the different types of work being carried out;
  - Support different career development paths;
  - Be connected with wider talent management processes.
- Equal Pay legislation does not prevent this:

The example shows two different jobs with employees carrying out work of equal value.

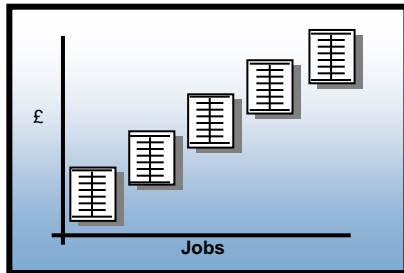
Employee B would not succeed in an Equal Pay Claim with Employee A as a comparator because the target earnings or “rate for the job” are the same.

Provided that the bonus system is managed properly!



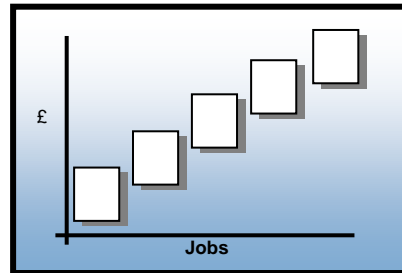
# Segmentation – four approaches to reward design

## 1. Incremental Progression



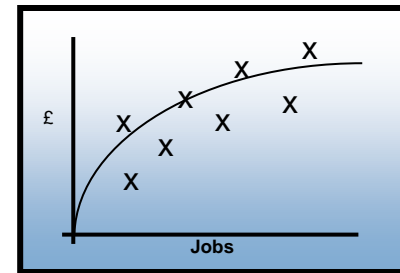
Progression through a pay spine based on performance, increased capability and/or time in role.

## 2. Banded Pay Structure



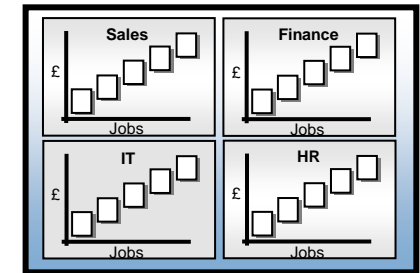
For each level/grade an organisation identifies pay bands and flexible zones within those bands. All employees then have the opportunity to progress to a higher zone based on the achievement of pre-defined levels of capability/achievement.

## 3. Spot Rates



Salaries are fixed with increases being limited to cost of living as part of annual pay review processes. Higher levels of performance are usually rewarded through non-consolidated payments/bonus.

## 4. Job Families

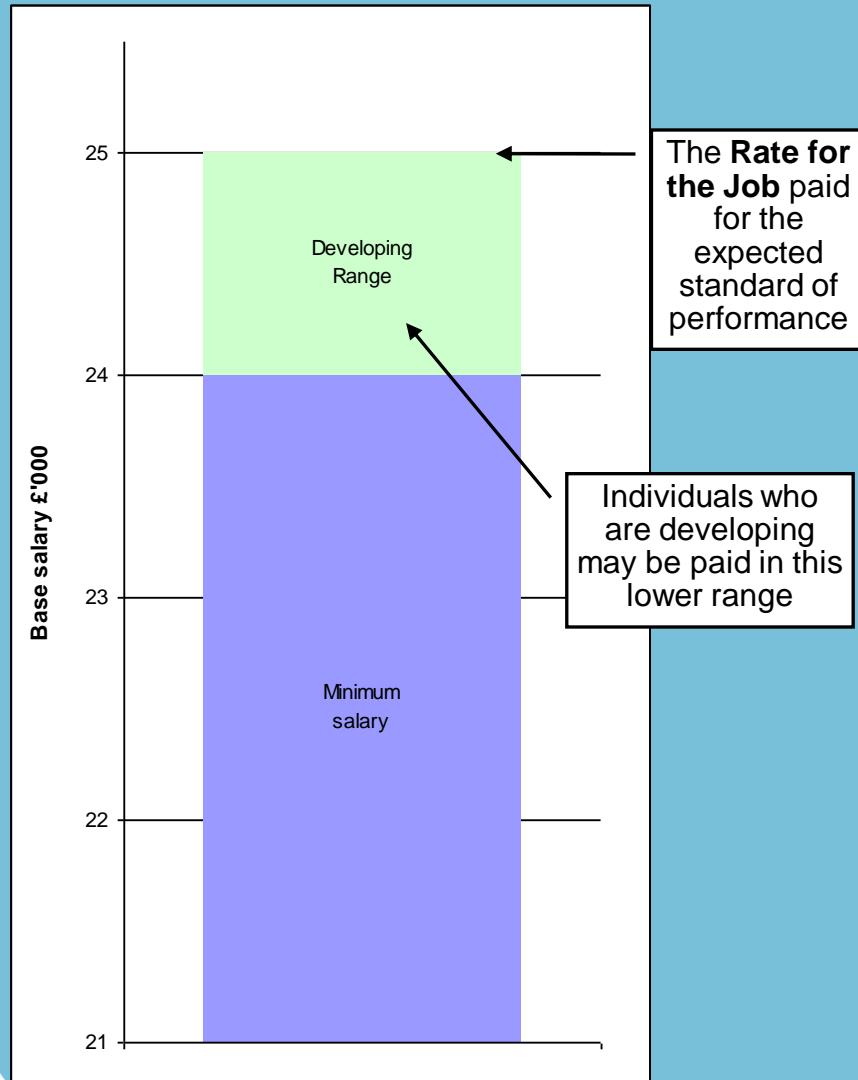


For each job family within an organisation pay ranges and different levels are defined within the job family. Progression within the pay range will depend on pre-defined skills and competency milestones that are specific to each job family.

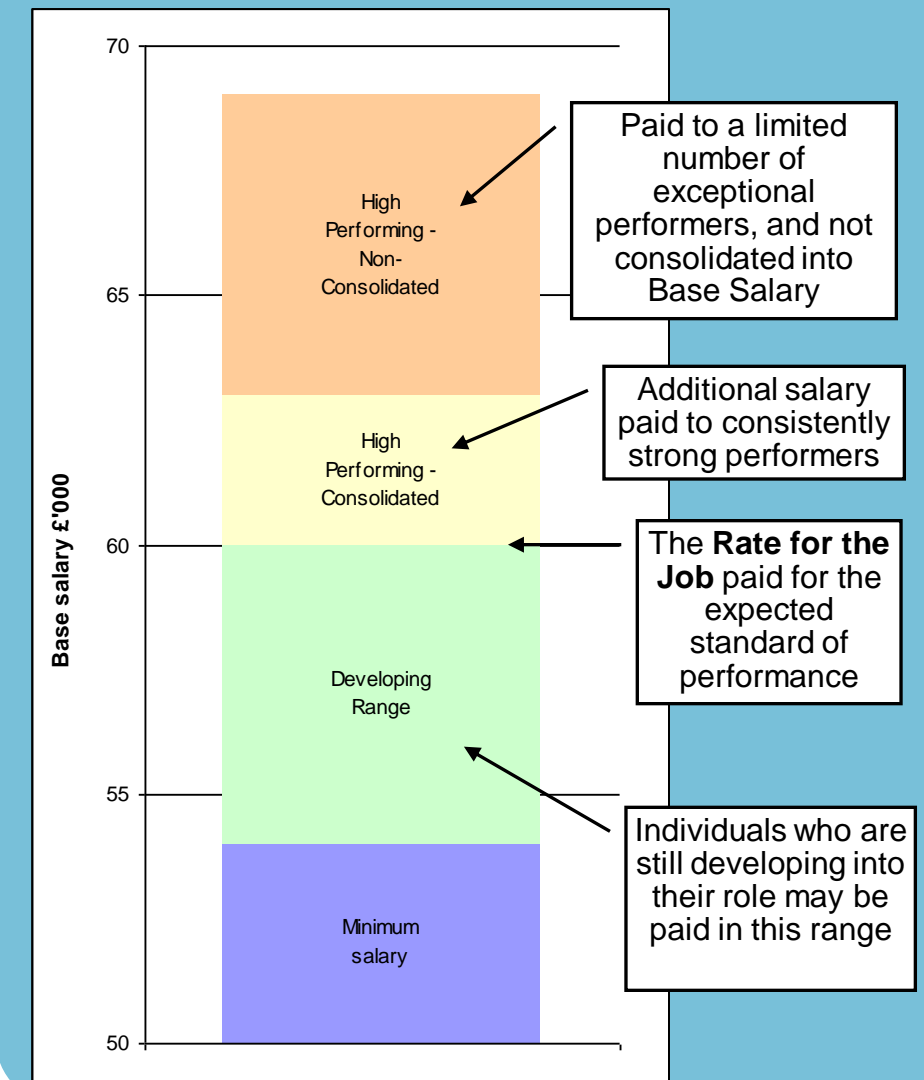


# Segmentation – designing reward for different job types

## Front-line and support staff



## Senior manager/professional roles



# Linking pay with performance/contribution

- Performance-related pay has had limited success because:
  - Schemes tend to have over-ambitious/unclear objectives leading to poor design, and then disillusionment;
  - A “one size fits all” approach to individual performance-related pay often does not work;
  - It is not helped by political rhetoric about bonuses!
- Two simple questions determine whether performance-related pay is appropriate:
  - Can the pay system be fair without recognising different levels of performance within the organisation?
  - Can the organisation achieve higher levels of performance without making performance part of its reward system?

# Clarifying the objectives for performance-related pay

When designing performance related pay systems it is important to be clear about the objectives that are to be achieved:

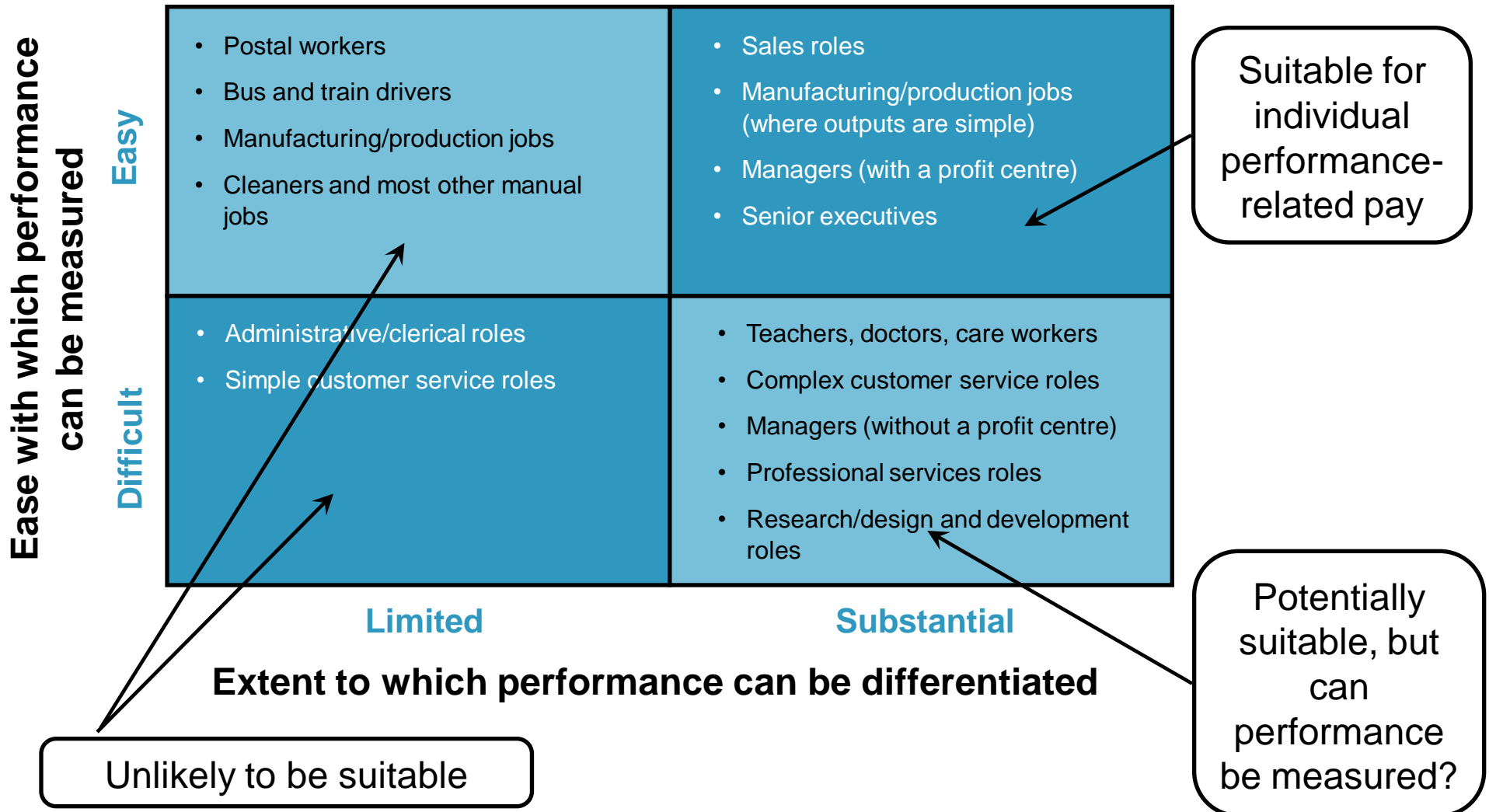
## Possible objectives are to:

1. Reflect market practice and recruit and retain talent
2. Align reward with organisational performance and communicate priorities
3. Reward employees fairly, based on their individual contribution
4. Create an incentive for improved performance



Local government should focus on levels 2 and 3: aligning reward with organisational performance and enabling a system that distinguishes between stronger and weaker performers where the job is suitable for individual performance-related pay.

# Individual performance-related pay and types of job



# Integrating reward with the Employment Value Proposition

Element of Employment Value Proposition	Overall market positioning			Comments	
	Lag	Compete	Differentiate		
<b>Pay and benefits</b>	– Base pay		Local Government, Private Sector	• Public sector competes in most areas but there is less potential for long-term wealth creation.	
	– Profit sharing and incentives	Local Government		Private Sector	• The private sector is able to offer more valuable bonus and incentive opportunities, especially for more senior roles.
	– Pension		Private Sector	Local Government	• The public sector clearly offers much better pension than the private sector.
	– Other benefits	Local Government	Private Sector		• Large employers in the private sector usually offer a larger and more flexible range of benefits, such as car choices and medical insurance.
	– Wellbeing policies and practices		Private Sector	Local Government	• The public sector is strong in this area. For example, holiday, childcare, sickness and wellbeing policies are usually better than in the private sector.
<b>Development opportunities</b>		Local Government, Private Sector		• Most parts of the public sector are able to offer similar development opportunities to the private sector.	
<b>Working environment</b>		Private Sector	Local Government	• Usually the public sector is able to offer rewarding work in a supportive working environment.	

# How can reward support transformation?

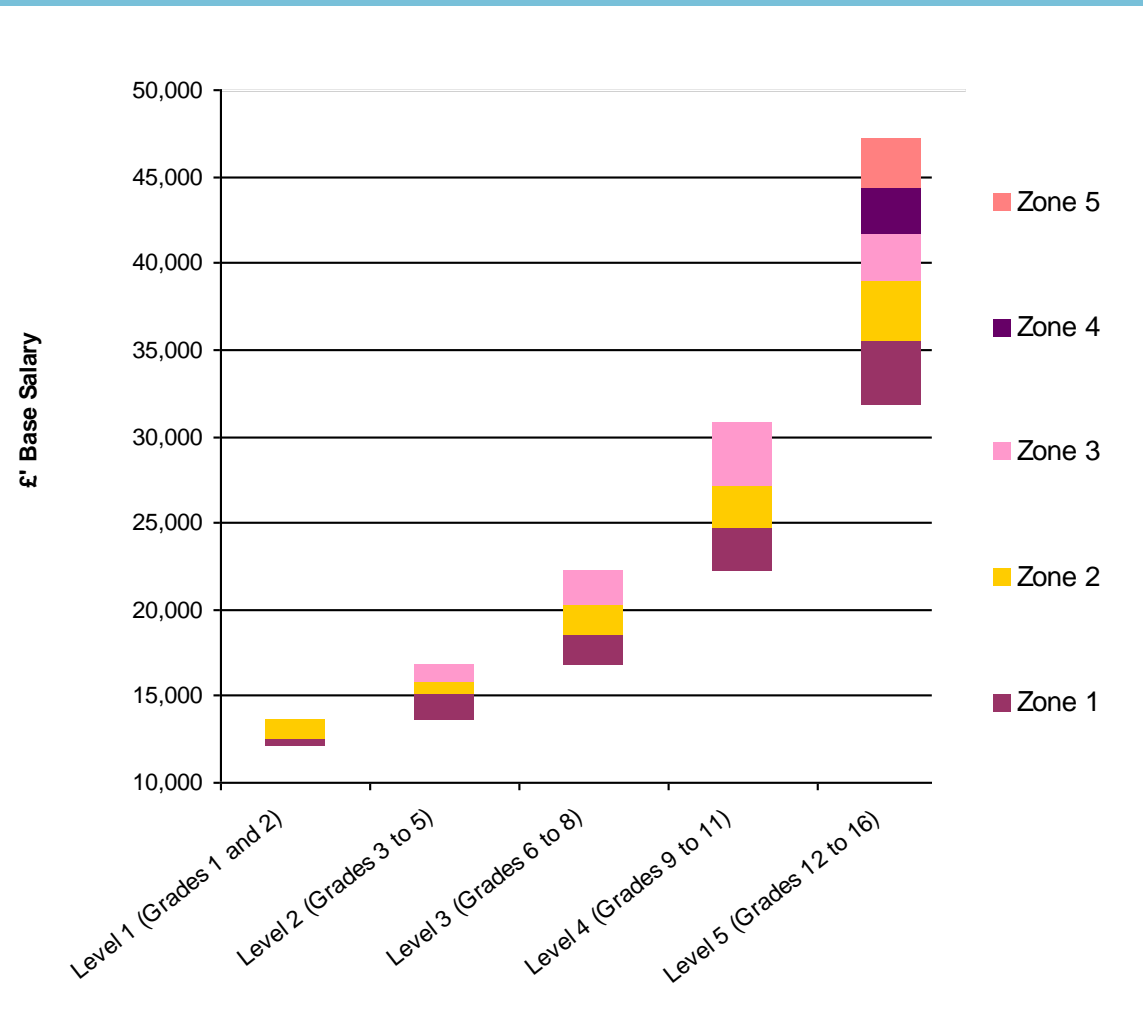
- Is the existing reward system a barrier that involves:
  - Inflexible job design,
  - Costly and distracting processes, or
  - Rewarding the wrong behaviors (tenure, “empire building”, resisting change etc)?
- Can a reward system be used to support transformation by:
  - Enabling more flexible job design?
  - Identifying and rewarding the right behaviors?
  - Rewarding strong performance ahead of indifferent performance?
  - Enabling employees to share in success?

# Comparison of delivery and commissioning organisations

	<b>Delivery</b>	<b>Commissioning</b>
<b>Organisation Structure</b>	<ul style="list-style-type: none"> <li>• Larger “pyramid shaped” organisations</li> <li>• Complex but stable with clear structures</li> </ul>	<ul style="list-style-type: none"> <li>• Smaller “diamond” shaped organisations</li> <li>• Simple, flexible and responsive, but with less structure/more ambiguity</li> </ul>
<b>Culture</b>	<ul style="list-style-type: none"> <li>• Diverse cultures and approaches in different services and functions</li> </ul>	<ul style="list-style-type: none"> <li>• A strong and consistent culture focussed on outcomes</li> </ul>
<b>Job design</b>	<ul style="list-style-type: none"> <li>• Diverse career paths for different professional groups</li> <li>• Prescriptive job design based on tasks</li> </ul>	<ul style="list-style-type: none"> <li>• A common career structure based on generic competencies</li> <li>• Flexible job design based on outcomes</li> </ul>
<b>Reward</b>	<ul style="list-style-type: none"> <li>• Differentiated based on job content</li> <li>• Many narrow pay bands</li> </ul>	<ul style="list-style-type: none"> <li>• Differentiated by individual competence</li> <li>• Fewer broad pay bands</li> </ul>

# Moving towards a simplified grading structure

Below we show how the existing grades for a local authority can be restructured into a limited number of levels



## Components:

- Existing grades combined into broad **Levels**
- **Pay Zones** within grades to retain control of costs
- A standardised **Job Catalogue** to limited the number of different jobs

## Benefits

- More operational flexibility
- Reduced hierarchy
- Administrative simplicity
- Flexibility to tailor pay to different jobs within a robust equalities framework



## Conclusions – what needs to change:

Current structures	The future
Pay systems administered through complex and inflexible processes	Pay systems actively managed to respond to the needs of the business
Talent management separated from reward and dealt with in unconnected groups	Reward aligned with an integrated approach to talent management
Emphasis on equal pay compliance	Emphasis on flexibility whilst maintaining equal pay compliance
Fixed costs, including incremental costs that have no connection with performance	Flexible reward models which are tied in more closely with performance
Reward for tenure	Reward for contribution and performance
Each term and condition of employment managed separately	An integrated “Total Reward” approach to all terms and conditions, including pensions
Reward dealt with in isolation as a specialist technical area	Reward integrated with the wider “Employment Value Proposition” and linked to HR and business strategies

# QUESTIONS AND DISCUSSION

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