

PUBLIC SECTOR PAY AND REWARD

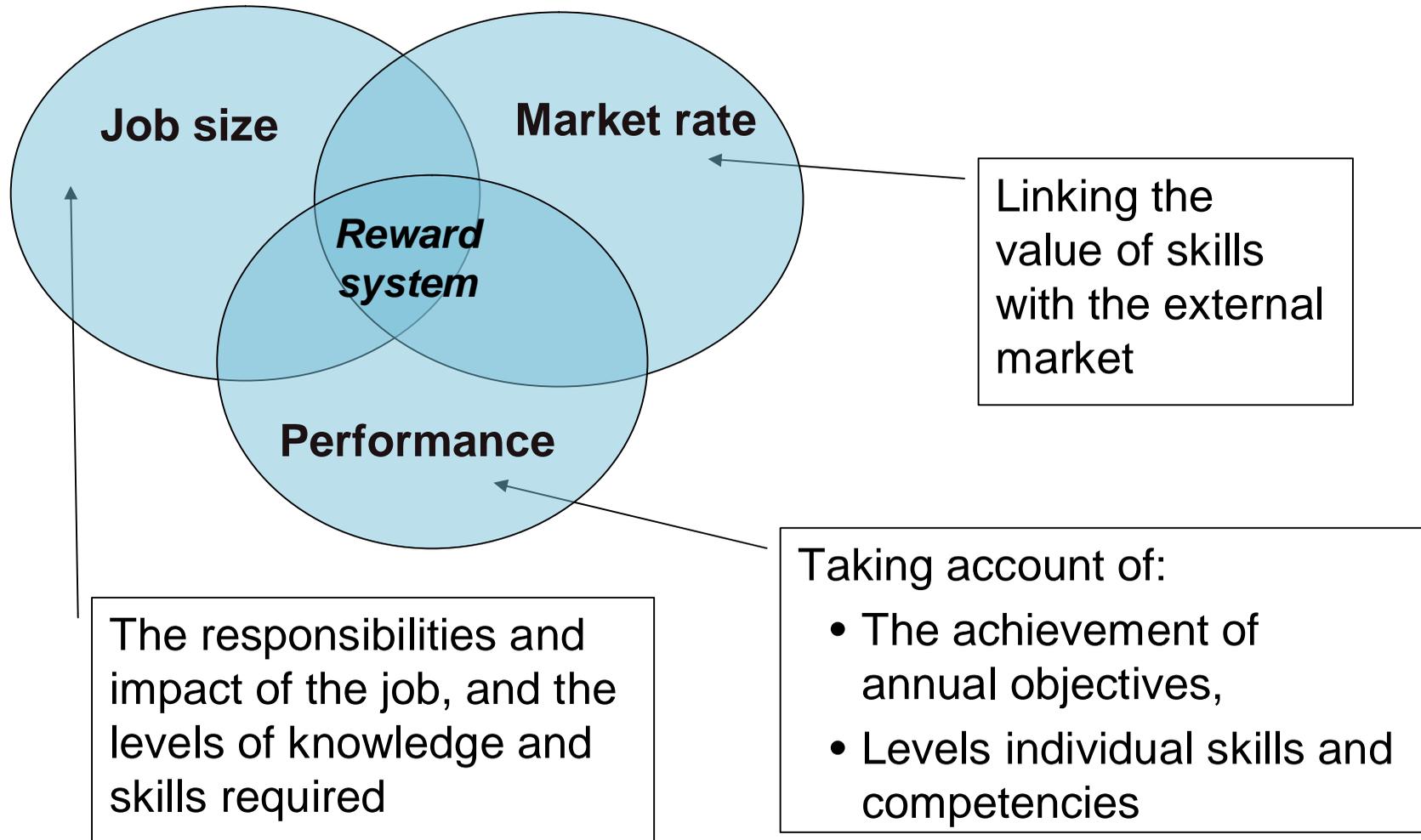
Regional Meeting – 5 October 2012

Agenda

	Page
Developing reward strategy	
• Components of a reward system	2
• Comparison of public and private sectors	3
The reward challenge for local government	5
• Linking pay to performance/contribution	6
• Segmentation of reward	9
• Integrating reward with an Employment Value Proposition	11
• Reward to support to transformation	12
Conclusions	14
Questions and discussion	15

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

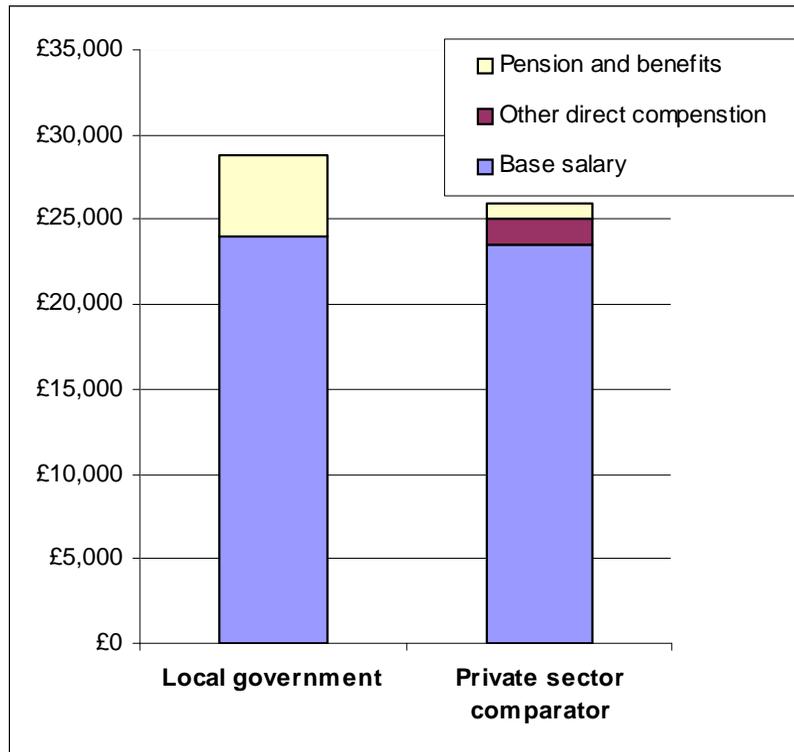
Strength:

- Flexibility

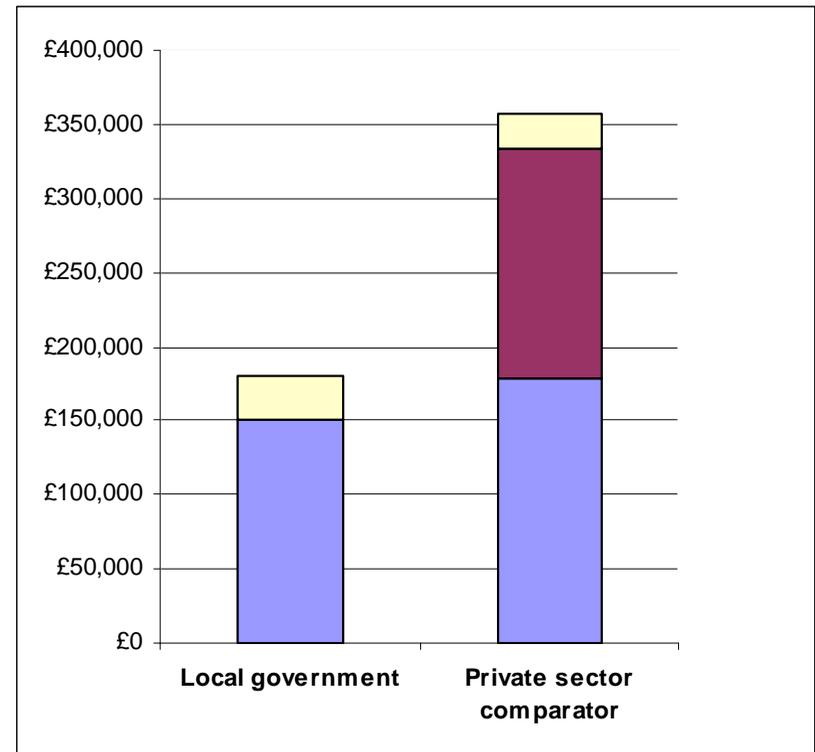
How do levels of pay compare with the private sector?

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

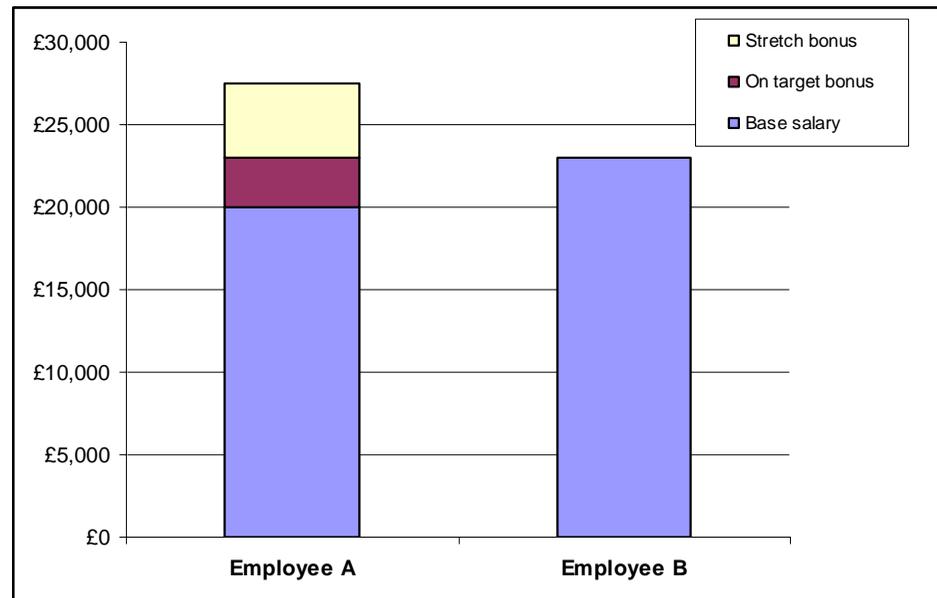
Segmentation of reward

- 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!



An approach to segmentation

	Front-line and support staff	Senior manager/professional roles
Job size	<ul style="list-style-type: none"> • Determines a fixed “rate for the job” based on the size of the role. 	<ul style="list-style-type: none"> • Determines a pay range within which job is placed.
Market	<ul style="list-style-type: none"> • The “rate for the job” for specific roles may be adjusted where there is clear market evidence that this is necessary. 	<ul style="list-style-type: none"> • The maximum of the pay range may be increased where there is clear market evidence higher levels of pay are needed for particular specialist roles.
Performance	<ul style="list-style-type: none"> • Staff may be appointed at below the rate for the job, progressing to the full rate over no more than 12 months. • Further base salary progression is only available through promotion to a larger job (as and when vacancies arise). • Where performance can be differentiated and measured salary can be set at below the rate for the job with <ul style="list-style-type: none"> – An on-target bonus to bring pay up to this level, and – Additional pay for outstanding performance. 	<ul style="list-style-type: none"> • Progression through the pay range typically takes place over several years and is based on performance, including the evidence of the job-specific skills and competencies. • Pay in the top part of the range is not consolidated (i.e. it may cease to be paid if performance subsequently declines). • Additional amounts of non-consolidated pay are available for exceptional performance, with more being available for those whose base salary towards the top of their pay range.

Linking pay with performance/contribution

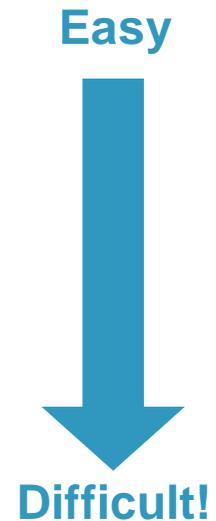
- Performance-related pay has had limited success because:
 - Schemes tend to have over-ambitious/unclear objectives leading to poor design, and then disillusionment;
 - A “one size fits all” approach to individual performance-related pay often does not work;
 - It is not helped by political rhetoric 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:

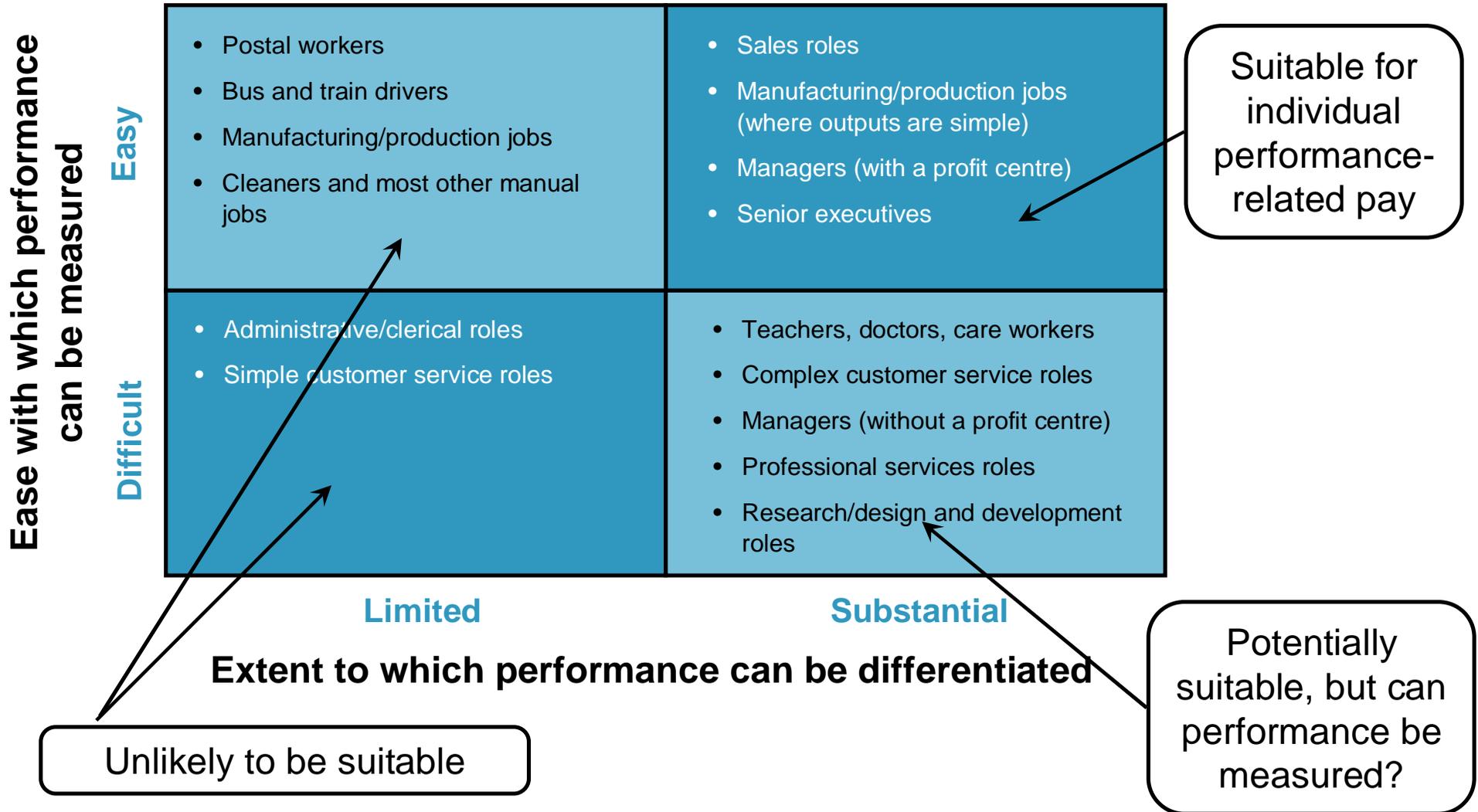
Possible objectives are to:

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		
Pay and benefits	– Base pay		<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div> <div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block; margin-left: 10px;">Private Sector</div>	<ul style="list-style-type: none"> Public sector competes in most areas but there is less potential for long-term wealth creation. 	
	– Profit sharing and incentives	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div>		<div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block;">Private Sector</div>	<ul style="list-style-type: none"> The private sector is able to offer more valuable bonus and incentive opportunities, especially for more senior roles.
	– Pension		<div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block;">Private Sector</div>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div>	<ul style="list-style-type: none"> The public sector clearly offers much better pension than the private sector.
	– Other benefits	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div>	<div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block;">Private Sector</div>		<ul style="list-style-type: none"> 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		<div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block;">Private Sector</div>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div>	<ul style="list-style-type: none"> The public sector is strong in this area. For example, holiday, childcare, sickness and wellbeing policies are usually better than in the private sector.
Development opportunities		<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div> <div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block; margin-left: 10px;">Private Sector</div>		<ul style="list-style-type: none"> Most parts of the public sector are able to offer similar development opportunities to the private sector. 	
Working environment		<div style="border: 2px solid red; border-radius: 50%; padding: 2px; display: inline-block;">Private Sector</div>	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Local Government</div>	<ul style="list-style-type: none"> 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

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

Conclusion – 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

The background features a dark blue top section. Below it is a large teal shape that tapers from left to right. A horizontal light blue band runs across the middle. At the bottom, a darker teal shape tapers from right to left, mirroring the top teal shape.

Contact details

Daniel Hibbert

Principal

Mercer

Tower Place

London, EC3R 5BU

+44 (0) 20 7178 5520

+44 (0) 7557 031371

daniel.hibbert@mercer.com

© 2012 Mercer LLC. All rights reserved. The information and data obtained through the report are for information purposes only and are not intended nor implied to be a substitute for professional advice. In no event will Mercer be liable to you or to any third party for any decision made or action taken in reliance of the results obtained through the use of the information and/or data contained or provided herein.