

Committee: Establishment Committee	Date: 19 April 2016
Subject: Refreshing the Pay and Reward Strategy for the City of London Corporation	Public
Report of: Director of Human Resources	For Information
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Summary

Work is underway to refresh the City of London Corporation reward and recognition strategy. The last major review was implemented in 2007, overhauling the pay structure; reducing twenty overlapping grades to ten; introducing performance related pay progression and removing life time pay protections. One of the driving factors at that time was a multi-million pound Equal Pay liability facing organisations, particularly in the public sector, which was significantly reduced by the implementation of these changes. More importantly, they provided a frame-work for a fair and equitable system of pay and reward and linked reward to performance for the first time.

It is now time to refresh our reward and recognition approach for a number of reasons. Firstly, in the short term, the current controls and authorisations which were put in place, for good reason at the time, are now counter intuitive and counterproductive within a modern responsive organisation. Secondly, culture and technology has moved on significantly in the last ten years. The removal of the default retirement age in 2011 means that a significant number of workers expect to work until 70 years of age and beyond. Within the next two years it is expected that five generations will be working alongside each other. It will be necessary to adapt our benefits offering to recognise the different motivators of these different groups of employees. Additionally, with the changes to the Local Government Pension Scheme (LGPS), this may not now be as attractive a benefit as it once was, particularly at a senior level.

This paper is the first stage of taking the Establishment Committee through our research on the current issues facing the organisation, in the short term initially (i.e. which of our current processes we will be looking to adapt to be more flexible), as well as indicating some of the longer term changes we are looking to develop. This is to enable the Committee to be involved at the beginning of the development of the strategy rather than be presented with a final proposal

Recommendation

That the Committee notes the approach and proposed way forward for refreshing our pay and reward strategy both in the short and longer term.

Main Report

Background

Short term

1. At the time of introducing very strict controls around the ability of Chief Officers to have the delegated authority to make decisions about pay and reward for their staff, very different cultural, structural and management systems were in place.
2. Each department had a local Human Resources team and acted very independently from each other. This led to very different and sometimes conflicting decisions being implemented in relation to pay, reward and other terms and conditions. Thus, the potential for Equal Pay liability to emerge again increased. It also had the potential for different pay and treatment of staff without a Justifiable Business Objective being demonstrated. This increases our vulnerability to discrimination claims (if successful, an Employment tribunal can make unlimited awards (as opposed to the current cap circa £78,000 for unfair dismissal).
3. We did not have an integrated Management Information System which would enable us to track payments to employees within departments, to monitor trends on recruitment and reward and contribution pay awards. Therefore, control systems were put in place to ensure that every individual Market Forces Supplement; honoraria payment; starting salaries and contribution pay awards has some sort of individual authorisation.
4. These rigorous processes were right for their time; however, they have become restrictive and unnecessarily bureaucratic in a much faster paced environment than we were competing in before.
5. In 2010 the departmental HR functions (excluding the Barbican, GSMD and the Police) moved under the management of the Director of Human Resources. Additionally, we now have Corporate and departmental Management Information which allows detailed analysis of departmental employee related decisions. We are therefore proposing that we look to removing many of the rigid controls which were necessary in the absence of these things.
6. We have set up a Chief Officer Working Group to look at the detailed work we have been doing within departments. In November 2015 we analysed the departmental work force plans on pay and reward, alongside other data including the Investors in People report. Issues identified:-

Contribution pay

7. This involves a “forced” distribution curve whereby Chief Officers must ensure that a limited number of eligible staff can achieve the set payment of 3% for a very good rating and 6% for an outstanding rating. The curve is determined by a monetary pot which is held centrally. The purpose of this at the time was to ensure payments were made on performance and money was not just

allocated out across to all staff equally. The organisation did not have an appraisal system at that time and assessing staff formally was not within the “DNA” of managers at that time. The pot was held centrally to ensure that departments did not go outside of the curve by subsidising awards from local risk budgets.

8. Feedback from the liP assessment and other feedback cites the scheme as being misunderstood, perceived as unfair and a de-motivator. Essentially because the forced distribution curve is now a monetary control rather than a distribution curve for guidance. It can be seen as a de-motivator as an employee can achieve a rating of very good or outstanding year on year but because of the forced distribution curve (enabling only 50% of eligible staff to receive a payment), they never actually receive any financial recognition.
9. The liP report highlighted that managers were often not taking responsibility for assessing performance properly and deflected by criticising the scheme and/or senior management “I gave you very good but they disagreed with me...”
10. Chief Officers overwhelmingly support the removal of the forced distribution curve. Recognising that there would need to be guidelines to adhere to and ways of ensuring fairness and consistency between departments.

The way forward

11. Each Chief Officer will be required to produce a pay statement for their department for 2015/16 this will detail a breakdown of pay including contribution payments, honoraria and MFS payments. A Chief Officer working group has been set up to review the link between performance and pay to provide recommendations for going forward, including looking at non-financial rewards.

Market Forces Supplements/ Honoraria

12. Business cases for MFS or honoraria payments are agreed by the MFS board if they are below £5,000 and below grade I. Over £5,000 and for any amount for grade I and above approval has to be given by the Establishment Committee.

Issues which have arisen with this process:-

13. The general feedback is that the system is too slow particularly when trying to recruit to difficult to fill, specialist posts. Additionally that the threshold for approval is too low. Chief Officers and senior officers, particularly those joining us from other organisations in recent years have expressed surprise and frustration at how hampered they feel in being unable to make quite low level salary decisions within their professional areas. They feel it is unnecessarily bureaucratic and time-consuming and diminishes their executive decision making.
14. With the advances in technology and social media, recruitment is a fast paced environment with candidates often being pursued simultaneously by other organisations via linkedin etc., £5,000 is seen as a very small amount of

money to require such a lengthy approval process and Committee approval is needed for lesser sums if the grade is I or above.

15. Chief Officers recognise that there needs to be market evidence for awarding MFS payments and this must be done in a fair and consistent way across the organisation. They would like delegated authority to be increased, with a requirement to report through to the appropriate MFS Board and/or Committee, more for monitoring purposes rather than needing to go through a lengthy process before hand and lose potential candidates/staff due to the approvals required.

The way forward

16. The Chief Officer working group will look at how a consistent methodology for evidencing market data for determining competitive recruitment packages could be established. This includes us currently testing a salary benchmarking data base with an external specialist organisation. The group will consider all of the aspects of the current MFS and honoraria systems and bring forward recommendations for streamlining and expediting the processes.

Longer term

17. As set out earlier, culture and technology has moved on significantly in the last ten years. Significant number of workers expect to work until 70 years of age and beyond. Within the next two years it is expected that five generations will be working alongside each other. It will be necessary to adapt our benefits offering to recognise the different motivators of these different groups of employees. Additionally, with the changes to the Local Government Pension Scheme (LGPS), this may not now be as attractive a benefit as it once was, particularly at a senior level.
18. The five generations working alongside each other are known as – the veterans; generation X (baby boomers); generation Y (millennials) and generation Z. Whilst it is important not to “stereotype” a lot of research has and is being undertaken looking at the different values and motivators for these generations.
19. For example the millennials (now holding a significant % of managerial positions in the UK) are more likely to want to have a better work life balance, expect much more flexible and mobile working. Their focus is on productivity and outcome rather than being “present” in the office. This generation grew up with technology and “instant, real time” information at their disposal. They expect instant access to anyone they want to talk to via text, email, skype, face time etc., This generation is unlikely to want long careers with one organisation and will move on quickly if bored or dissatisfied with their working environment. Millennials are values driven and will refuse to undertake work if it crosses those values. Deloitte Touch Tohmatsu limited undertook its fifth annual Millennial Survey in 2015. Their survey concluded that there was a remarkable absence of allegiance or loyalty to their current employers.

20. In contrast Baby boomers have had a very different approach to work life balance and very much placed work as a high priority. They will expect progression through an organisation based on experience, commitment and loyalty. Job security is very important and they expect a stable career.
21. This is only a snap shot of the research being undertaken around motivation and reward, with an emphasis on the need to avoid stereotyping. However, it begins to demonstrate that the City of London needs to develop a much more flexible approach to reward. A one size fits all system will not be effective going forward. The current pay structure is designed for people to “work their way up” a pay scale over years. This is unlikely to attract staff who will no longer see their long term careers as being with one organisation. That is not in itself a bad thing, we do not necessarily want to encourage life time loyalty, but do we want to attract the right people in the right place at the right time. This might mean looking at different, shorter term incentives such as paying towards student loans; offering to fund professional qualifications. We may wish to look at salary sacrifice schemes, whereby salary can be exchanged for a preferential rate of a benefit such as health insurance; care vouchers. This type of approach is often referred to as cafeteria benefits.
22. Many of the current pay systems have been subject to Collective Bargaining and are part of Collective Agreements with the recognised Trade Unions/ Staff representatives. Therefore any changes we propose will be subject to extensive consultation to implement them. Hopefully the changes will be seen as constructive and offering more flexibility for the work force.

Next steps

23. A review of our existing benefits is under review and being externally benchmarked by an independent specialist organisation. As part of the work force planning process all departments have identified their market factors in attracting and retaining staff in their sectors. We are using this and other research to develop proposals for the longer term pay and reward strategy, which will look to integrate the short term changes we hope to implement.

Recommendation

24. That the Committee notes the approach and proposed way forward for refreshing our pay and reward strategy both in the short and longer term.

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