

MANAGEMENT BOARD

MANAGEMENT OF STAFF RESOURCES

Note by the Director General of Resources

Purpose

This note suggests revised arrangements for monitoring the number of full time equivalent (FTE) staff, changes to grading profiles, and associated staff costs, as requested by the Management Board.

Action

2. The Board are asked to agree:
 - Continued use of budget allocations as the main control, subject to tighter virement limits being introduced for 2008/09:
 - Budget change control notes (CCNs) to differentiate between basic pay (with associated ERNIC and notional pension), agency staff, secondees and other staff related costs;
 - Project staff costs to be managed through the business case process with monitoring to ensure that temporary posts do not become permanent additions;
 - Virement flexibilities into and out of basic pay to be allowed but within a delegated limit of 5% of the budget line up to a maximum of £200,000;
 - Enhanced monthly monitoring of both staff numbers and pay bands within departments to be undertaken by DR, with budget holders being asked to provide explanations for any significant variances or trends.
3. The Board are asked to consider whether, in addition, there should be global control total for overall staff numbers.

Background

4. Departments are not currently funded on the basis of staff complement. Instead, they receive a budget derived from the 2001/02 staff baseline, adjusted for subsequent staff changes agreed by the Board uplifted for annual pay awards. This gives departments a degree of flexibility over the staffing profiles adopted to meet changing work needs from within their existing budgets.

5. The 3 Year Financial Planning exercise included a scrutiny of staff related expenditure profiles. This highlighted a total staff usage that had increased by around 200 FTE posts (14%) since 2001/02. Many of these posts (44% since 2004/05) had been specifically agreed to meet new requirements (e.g. additional staff for Select Committees, Visitor Assistants). Although some departments had offset increases through reductions elsewhere, there remained a significant number of new posts that had been funded out of delegated budgets. In addition, it was found that a number of grading adjustments had been made which had increased costs.

Current control system

6. Budget change procedures currently permit virement of funds into and out of pay provided they are marginal and do not create unfunded future budgetary commitments. Annual pay award uplifts to budgets also include an adjustment to recognise recyclable pay efficiencies (i.e. savings generated from staff turnover).

7. Following a review of the pay profile in departments, annual budgetary adjustments have sometimes been made to recognise the differing pay profiles of staff in some departments. For example, the Clerk's Department typically has had staff towards the upper end of pay ranges, while departments such as DFA with a greater staff turnover have had a lower average pay profile in each band.

8. The Annex provides a departmental analysis of the 2007/08 salary budget allocation against the total resource budget to highlight the scope available to different departments to vire funds into and out of basic pay. Overall, staff costs account for 31 per cent of the total budget. However, if ring-fenced and centrally managed expenditure items are excluded then the total resource allocation reduces from £233.1 to £102.8 million, of which salary costs represent 70 per cent.

9. The final element of the current system of control is on grading. Below SCS level, departments are free to determine grading of posts within the pay band guidance issued by IRS. As PEO I have a role of ensuring that "band drift" is kept in check. An initial IRS review of bandings of new posts a year or so ago was inconclusive on whether significant band drift had occurred; but there was at least a suspicion that it had. IRS/staff review therefore have a commitment to carry out a fuller review in the current year, and report their findings to me in due course. The review is intended to cover both the accuracy of the gradings and the *need* for the posts.

General principles

10 Care must be taken to ensure that any revised arrangements do not lead to dysfunctional behaviour. For example, the introduction of controls on staff numbers in central government in the early 1980s led to reductions in the number of permanent staff while staff costs remained broadly the same, as more staff were engaged in an agency or consultancy capacity. However, the Board are already aware that Works have recently converted some maintenance contracts into permanent posts to reduce costs, and PICT have recently been switching from contract to permanent staff. This can provide better VFM, provided hidden overheads are taken into account.

Proposed approach

11. I therefore propose that funding is retained as the main management control. However, the current flexibilities that exist within delegated budgets have been re-visited to identify where controls might be tightened to ensure the flexibilities provided do not lead to a permanent growth in staff numbers beyond those already agreed. There would be three elements:

- Stricter budgetary controls;
- Departmental finance and HR staff in the proposed new 'unified structure' would have not just an enabling role, but also a supporting stewardship role on my behalf as DG (Resources);
- Permission-seeking arrangements for all changes in posts could be built into workforce planning - a joint activity between departments and central HR - if desired. But I'd prefer local stewardship, other than for SCS posts (which should be overseen corporately).

12. Budget holders would continue to be encouraged to identify those work areas that have a reducing impact on the delivery of services and consider switching staff resources, rather than simply bidding for additional resource to deliver new or improved services.

Budgetary controls

13. For 2008/09, the intention is to show budget allocations separately as follows on departmental change control notices:

- Basic pay (with related ERNIC and superannuation costs)
- Agency staff
- Secondees
- Other staff related (e.g. allowances, overtime)

This will help to identify permanent staff post funding while continuing to allow some flexibility around the engagement of temporary staff to meet short term business needs.

14. Project staff costs would be approved through the business case process with appropriate monitoring to ensure that temporary posts do not become permanent additions to staffing.

15. Virement flexibilities on basic pay would remain, allowing departments to switch funding into their pay budgets from other non-ringfenced running costs. But a delegated limit of 5 per cent of the budget line would be introduced, up to a maximum of £200,000. Budget transfers outside this limit will need central approval before they were loaded on HAIS.

16. Expenditure would continue to be monitored against budget on a monthly basis to identify any significant changes against planned levels of expenditure.

New local stewardship roles

17. The proposal for new local stewardship roles is based on the presumption that self-policing is the best policy. This approach might involve local HR staff identifying changing work priorities in conjunction with their departmental senior management, and determining the best staff mix to deliver business requirements within agreed ceilings. The same individuals would *also* be personally responsible to me for ensuring that their department managed within agreed corporate parameters. In practice this would entail each departmental HR manager working hand-in-hand with the centre and the other three departments. Training would be needed, and good practice would need to develop over time.

Monitoring

18. We would need to bring together various areas of staffing statistics (e.g. FTE staff in post broken down by department and pay band) on a monthly basis to monitor staff numbers and pay band profiles. Departmental resource teams will be able to access their department's information and would be asked to account for any significant variances in their staffing profiles. I would propose to begin this monitoring from 1 April 2008 after the staffing consequences of moving to the new unified structure have been documented and agreed.

19. On control and monitoring of grading, I do not propose any changes at present, but would be happy to review the arrangements once the staff review work (para 9 above) is completed.

A global control total?

18. One option would be for the Board, at a global level, to set a single control total for manpower numbers. The simplest way to do this would be to fix overall staff-in-post numbers at the year end; but this could easily be manipulated, so a measure such as the average staff-in-post number (i.e. full time equivalent – FTE) would be better. This would be difficult to manage and would probably herald a need to move towards more specific permission-giving for changes in staff numbers. On balance I am against this, and would prefer to see how the other measures worked out first.

Summary

19. In summary, if the Board wishes to see more control on growth of staff numbers I recommend:

- *against* reintroducing staff complements;
- *against* a global control total;
- *for* tightening budgetary controls for manpower, with more limited virement arrangements, plus enhanced monitoring and accountability

Further consultation would be needed with departments on the detail, and the revised arrangements would need to be reviewed after a period of operation to ensure that they struck a reasonable balance between flexibility for departments and overall control of staff numbers.

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Director General of Resources

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ANNEX

FLEXIBILITY AROUND SALARY BUDGETS

This table shows the existing 2007/08 salary budget allocations as a percentage of the total resource budget (Commons only).

In some departments where salary constitutes the greater part of the total resource budget there is limited scope for virement. The same is true for other department where a greater part of the non-salary budget is ring-fenced limiting the scope for virement. However, there currently remains scope in many areas to take on additional staff using funding from elsewhere in the budget.

Department	Salary budget (£k)	Total budget (£k)	% of total budget
Speaker	404	639	63.2
Clerks	19,538	34,934	55.9
SAA	12,200	87,966	13.9
Library	8,998	11,586	77.7
F&A	6,438	9,669	66.6
OR	5,564	9,922	56.1
RD	9,273	6,569	141.2*
Office of the Clerk	613	764	80.2
PICT	9,245	17,258	53.6
Security Coord	118	123	95.9
Other	0	53,670	0
Total	72,391	233,100	31.1

* Offset by income (adjusted figure would be 66.9%)