

**MANAGEMENT BOARD****STAFF PAY 2008-10:****Reward strategy update and pay negotiations remits**

*Note by the Director General of Resources*

**Purpose**

1. This paper updates the Management Board on progress on the reward strategy and seeks approval to submit a pay negotiating remit for 2008 to 2010 for Bands A - E, and catering group (CG) pay bands to the February Commission meeting.

**Summary**

2. In summary, the Board is asked to advise on
  - a) whether 3-year deals should be sought
  - b) the quantum of the A to E remit (paras 26-30)
  - c) the quantum of the Catering Group remit (para 33)
  - d) the timing of approaching the Commission
3. This year's pay remit and negotiation guidance from the Treasury has not yet been published, and its contents are covered in a bigger shroud of secrecy than is normally the case. A higher remit would allow a settlement that deals with the important issues (e.g. shortening the length of pay bands to fall in with recommended limits set out in age discrimination law) more quickly than the lower remit.
4. SCS pay is not negotiated with unions, but is generally decided in the light of the annual Senior Salaries Review Body (SSRB) report on senior pay. There are rumours that this year's report may not be published until April or perhaps later.

**Background**

5. The House of Commons (Administration) Act 1978 requires that the complementing, grading, pay and other conditions of service be kept "broadly in line" with the Home Civil Service.

6. The House recognises:
  - a) for pay bands A-E, the FDA, Prospect and the Public and Commercial Services Union (PCS).
  - b) for Catering Group pay bands, the GMB and PCS.

*2007 pay settlements*

7. The A-E settlement was 3.95% consolidated pay and 0.8% non-consolidated.
8. The Catering Group (CG) settlement was 2.5% and 0.75% non-consolidated.

*Economic factors*

9. The consumer price index (CPI), the government's preferred measure of inflation, stood at 2.1% for December 2007 (January 2008 figures are released on 12 February, and will be reported orally). Forecasters are beginning to predict that the CPI will rise further over the coming months. The RPI stands at just over 4%.
10. The median pay settlements figure in the public sector during 2007 was 2.5% - down from 2.9% in 2006 (Source - IDS).

*Chancellor's published view*

11. As in 2005 and 2006, in January 2008 the Chancellor of the Exchequer published a letter (to the Prime Minister rather than the Public Review Bodies as in previous years) emphasising the continuing need to ensure pay settlements are based on the achievement of the Government's CPI target of 2%. This is likely to continue to be an issue as the unions claim that RPI measure more appropriately reflects real costs of living rises (CPI excludes housing costs) and provides the aspiration of their members.
12. The letter acknowledges that there may be circumstances where it may be necessary to offer higher pay increases to, for example, certain groups of hard to recruit key groups. However, the Chancellor goes on to say that the need to maintain economic stability overrides everything. It is not clear from this, therefore, how much flexibility the Treasury guidance will give to Civil Service departments, but it is likely that the chancellor's statement will be interpreted as giving less flexibility than in 2007. A 2% cost of living increase may therefore provide an upper limit for one-year deals, with any element above 2% being funded from paybill efficiencies.
13. One point that is clear is that the Chancellor expects all public bodies to move away from annual negotiations and towards three-year deals. It is not clear at this stage whether more than 2% per annum may be acceptable to help secure longer-term deals.

*Treasury pay guidance*

14. In the past, the Commission has been reluctant to make a decision on pay remits without being informed by that year's Treasury Civil Service Pay Guidance.
15. The Treasury's Civil Service Pay Guidance for 2008 has yet to be published. The Treasury's pay remit team has told us that they expect publication to be in mid-February, but both management and union negotiators are sceptical about this timetable, as the unions have not seen the draft guidance yet, and experience shows that the pay guidance is more likely to be issued in late March or sometime beyond.
16. The guidance in previous years allowed for:
  - a) some flexibility in remits to allow for pay systems to be restructured to reduce the risk of claims under the Equal Pay Act.
  - b) budgets for non-consolidated bonuses to be re-used each year without having to include these in the remits, as non-consolidated performance payments do not carry forward into subsequent years.
17. Major components of the 2007 guidance were that:
  - a) remits from Civil Service departments should not generally seek to pay more than 3.5% in terms of increase per staff in post (more commonly known as "earnings growth"). We were told by the Treasury that remits at 4% or above would almost certainly not be approved by the Treasury
  - b) The Chancellor's view was interpreted as meaning that the Treasury would assume cost of living at 2% when assessing remits.

*Internal factors*

18. Between 2003 and 2006 our A-E pay settlements were at the top end in comparison with those in the Civil Service to allow pay levels to catch up. As a result, pay bands in the House are now comparable to those in the Civil Service in terms of the minima and maxima of each pay band. However, we are still slightly behind in terms of the numbers of years it takes to move from the minimum to the maximum of the pay bands.
19. In 2007, our remit was tighter, although still slightly above the Civil Service average. This resulted in an A-E settlement that slightly reduced the journey-time from minimum to maximum but at the cost of increasing the pay band maxima by just over 0.5% and paying some staff above the new pay band maxima.

### Reward strategy

20. There are two aspects of the reward strategy that directly affect this remit – the core pay structure and performance-related pay. They are the two issues that have been discussed the most.

#### *Core pay structure*

21. As previously reported in December (MB2007.P.26), the unions objected to management's initial proposal for a pay structure. After further discussion with the unions and individually with Board members, it is now proposed to take forward a pay structure as set out in Annex A.
22. The immediate driver from the corporate Business Plan<sup>1</sup>, is to improve progression times from minimum to maximum of each pay band, with a long term aim of reducing journey times to 5 years to meet age discrimination regulations. The regulations say that benefits that are increased by length of service are deemed automatically fair if they increase over 5 years or less; above that, the length has to be justified. Justification is easier where it can be argued that it takes longer than 5 years to reach maximum competence in a role. It might be possible to justify longer journey times at pay band A, but such justification would be more difficult at junior pay bands. It is important, therefore, to skew reduction in journey times to the more junior pay bands.
23. The longer term aim is for our pay structure to secure competitiveness with the external labour market<sup>2</sup>. To this end, we have commissioned a benchmarking survey. A provider (IDS – Income Data Services) has been contracted and it is expected that the exercise will be complete by end of March. This work is expected to inform further at what levels we set minima and maxima for individual pay bands for the next three years.

#### *Performance related pay (PRP)*

24. In December, the Board endorsed the broad approach to PRP, and asked that funding for PRP should be increased. In late January, the unions wrote to the Clerk of the House repeating their concerns over procedural fairness and asking the Clerk to review the decision to increase funding for PRP. Writing on behalf of the Clerk, I declined to do so but agreed that the process for assessing performance for PRP awards needed to be carefully designed. Annex B sets out some design principles that have been shared with the unions and will be discussed more fully at the next meeting of the Pay Principles Group on 20 February.

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<sup>1</sup> p20

<sup>2</sup> Corporate Business Plan p19

*Performance management*

25. A recommendation to simplify the current appraisal form is in hand. Simplified forms have been sent to HRG and TUS members for comment and will be implemented in time for use for the next appraisal round.

**Pay negotiation remit (A-E)***Consolidated pay*

26. Paragraphs 28 to 30 set out three options for pay remits and what can be achieved within those constraints. The middle ground set out in paragraph 29 would be supported by the last year's Treasury Pay Guidance (paragraph 16). However, if the yet-to-be published 2008 Treasury Pay Guidance allows for extra money to deal with fixing risks of claims under the age discrimination regulations (as previous editions used to, to allow for pay systems to be restructured to reduce the risk of claims under the Equal Pay Act), then the opportunity might be taken to persuade the Commission to agree the higher remit in paragraph 30. But the likelihood that they will easily agree a remit with a headline figure of 4.5% a year is not great. They may be persuaded, however, if any element beyond a cost of living increase is paid for from genuine and ongoing running cost savings, together with any recyclable element we can muster (not likely to be more than 1%).

**Option A (no change)**

27. The minimum remit needs to do three things:
- a) increase pay band maxima to resolve the current position where a significant number of staff earn more than the current pay band maximum.
  - b) allow for minimum consolidated increases of 2% to all staff
  - c) retain progression with the current system (taking between 6 and 10 years depending on grade).

The cost in the first year would be 3.85% and would be slightly less in 2009 (3.80%) and 2010 (3.75%). However, this would be a very tight remit that might struggle to gain acceptance from the unions, and does not move the reward system or strategy forward for the next three years.

**Option B (minimal progress)**

28. To make any progress on reducing journey times from minimum of the pay band to maximum of the pay band would cost around 3.95% per year. This would allow, say:
- a) removal of length of service points for staff in pay band E (potentially the most vulnerable area in the age discrimination in 2008).

- b) reduce progression times to 5 years for pay band D2 by 2009 and pay band D1 by 2010.
- c) minimum consolidated increases of 2.1% to all staff. That would still be below current CPI inflation.

### Option C (optimal progress)

29. A remit of 4.5% in each year would allow for the journey times in all pay bands, except band A to be reduced to five years. In the case of pay band A, journey times could be reduced from 10 to 8 years for pay band A1 and 8 to 6 years in pay band A2 by 2010. It would also provide for minimum consolidated awards of 2.1% each year.
30. The pay team believe that a remit of 4.5% for each of the next three years is needed. The political difficulties of this are manifest, and much may therefore depend on the precise wording of the Treasury pay guidance when it appears. The Board's steer is sought on:
- the quantum of the remit we should ask for
  - the timing of approaching the Commission

### *Recyclables and cost to the paybill*

31. Pay progression systems produce savings called "recyclables". These accrue in-year from staff changes where a member of staff is promoted or leaves and consequential appointees are placed on a lower pay point. The figure can vary a little from year to year but calculations have shown that it runs in the region of 1 per cent in the House. This means that the cost to the paybill of the proposals paragraph 29 will run at around 3.5% each year.

### *Non-consolidated pay (PRP)*

32. Treasury guidance rules in the past allow for budgets for non-consolidated increases to be re-used each year without having to rebid for the money through the remit process (paragraph 18). However, the Board have said in principle that PRP budgets should be increased. **The pay team propose therefore that an increase of 1.3% is sought for 2008.** That would give total non-consolidated payments of around 2% in 2008 and slightly less in percentage terms in each of the subsequent two years. This would presumably have to be funded from savings.

### **Pay negotiating remit (Catering group)**

33. This group of staff are paid at single rates with no progression systems in place. **It is proposed therefore that for:**
- a) **consolidated pay, a remit of 2.5% for each of 2008-2010 is sought.**

- b) **non-consolidated pay an increase of 1.1% is sought for this year.** This gives total non-consolidated payments of 2% in 2008 and slightly less in percentage terms in each of the subsequent two years. The intention is to include CG staff in the wider changes to PRP.

### **Conclusion**

34. The Board are asked to approve the recommendations in paragraph 30, 31 33, and 34.

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**Director General of Resources**  
February 2008

*Annex A**Proposals for core pay structures*

Given the likely constraints caused by a tight pay remit and opposition from unions to more radical initiatives (such as removing defined steps within pay bands), it is proposed to retain the current broad system but to make the following changes:

1. Increase current pay band maxima so that they are higher than current personal pay points (which affects around 20% of staff) that were created in 2006 and 2007 and affects 20% of staff . This will re-establish the credibility of the maximum as the highest point which people in a pay band can be paid.
2. Currently all pay bands are on one of two common sets of linked points called a spine. It is proposed that the pay bands are no longer linked in this way. The advantage of “breaking” these spines is that it will be possible to award different pay increases to different pay bands in future, and help better align pay bands with external market rates.
3. Over the course of the next three years, to increase minima and maxima for each pay bands to achieve two things:
  - a. reduce the length of each pay band (by increasing minima more than maxima each year). This will help reduce journey times from pay band minimum to maximum to five years.
  - b. realign pay bands with benchmarked rates in and outside the Civil Service where appropriate. Management and unions are currently steering an external salary benchmarking survey to inform this approach.
  - c. further seek to reduce journey time from minimum to maximum by increasing the number of steps that a person can progress each year.

*Annex B***Design criteria for performance related pay system**

1. Paid close to the achievement which is being rewarded
2. Not linked to appraisal process
3. funds available on regular basis
4. Centrally set criteria
5. Decisions made departmentally
6. Funds:
  - a. negotiated in advance with TUS
  - b. Ringfenced by department and pay band
7. Payments as lump sums, non-consolidated and non-pensionable, closer to the point of delivery
8. Annual monitoring for fairness and discrimination
9. Transparent and simple to operate