



**People, Performance and Development Committee
21 July 2014**

Reward Strategy Review 2014 -2018

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Purpose of the report:

The purpose of this report is to provide a rationale for the review of the current reward strategy in order to implement changes by April 2016.

In addition as part of phase one the report provides an overview of the current position.

Recommendations:

- 1 To note the rationale for the review of the current reward strategy and the overview of the current position.

Introduction:

1.0 The People, Performance and Development Committee (PPDC) at its meeting on 9 December 2013 recommended that HR carries out a review of how the County council pays, rewards and recognises its staff so that we can make sure that our pay system fits the future direction of the council.

- 1.1 We are commencing a series of conversations over the summer with senior leaders as well as members to take a good look at pay and reward in Surrey and ask ourselves the question:

"Using the "One Team in Action" vision as the guiding vision, "How can pay, reward and recognition support the building of a high performing and more networked organisation?"

- 1.2 We are running these as informal workshops and we will progress on to have conversations with the wider workforce. The collective views of all the workshops will help inform future decisions at PPDC around any changes to the pay system, including any changes to annual leave and on-call arrangements as previously highlighted.

- 1.3 Members of PPDC will have received a pack of data and information to give context and background to the current pay system to enable everyone to participate in the conversation from a more informed standpoint. The workshop with PPDC members will follow the committee meeting on 21 July 2014.
- 1.4 The main aim of our Reward Strategy is *"To ensure an affordable and sustainable pay, reward and recognition strategy fit for a high performing Surrey. This will enable us to attract and retain the best talent to deliver excellent services in the context of challenging financial circumstances"*.
- 1.5 In the last four years, there have been significant improvements in organisational culture and productivity in the council. The 2012 Employee Survey showed an increase in staff pride and there has been a 55% increase in resident perception of SCC employees "understanding their needs". The independent Peer Review of 2013 found:
- *'The cultural changes that have been brought about have clearly motivated people and generated an atmosphere of enthusiasm, coupled with significant goodwill'*
 - *'Most of the staff that we met indicated they now feel much more empowered and able to 'get on and deliver' and people spoke of having regained a sense of pride about working for the council'*
- 1.6 Productivity improvements over this period have resulted in an improvement in days lost through sickness absence – down from a high of 13.10 days lost per FTE in 2008 to 6.37 days lost (as reported February 2014).
- 1.7 At the same time the last four to five years have been a period of pay restraint in Surrey County Council in line with what is happening in the wider economy. This has seen the council make necessary efficiencies in its pay budget costs such as suspending increments and implementing affordable pay increases below the level of inflation as well as suspending contribution based pay for senior managers.
- 1.8 The council's strategic priorities recognise the significant pressures on Surrey due to population and demographic changes. When added to its significant budgetary pressures, the organisation has to shift and change to be ahead of these challenges. This will in turn impact on the council's workforce. The Strategic Workforce Plan and the People Strategy set out the nature of the future workforce and the desired culture we are working towards.
- 1.9 Following the implementation of a two year pay settlement on 1 April 2014 the council has a two year "window" to review its current pay & reward strategy to ensure that it is/continues to be fit for purpose for a high performing council.

Key Principles of the Current Reward Strategy

- 2.0 The council's approach to Surrey Pay settlements in recent years has been to uphold Surrey's Reward Strategy. This is to ensure that we fairly and reasonably reward the council's staff who have helped turn this organisation's performance around, and continue to do so, whilst at the same time continuing to make efficiencies and modernise pay and reward.
- 2.1 Key principles of the current Reward Strategy include:
- addressing recruitment and retention issues as evidenced by benchmarking data
 - legality and our reputation
 - fairness and proportionality
 - affordability
 - transparency
 - consistency
 - promoting our values and encouraging good performance
 - single status and clean pay
 - supporting those on lower incomes at a time of considerable financial challenge
 - support different models of service delivery
 - allowing flexibility and choice wherever possible.
- 2.2 The strategy has been successful in the last four years in maintaining front line services by achieving relatively low levels of redundancy and turnover, as well as achieving significant savings.
- 2.3 Over the past four years the pay strategy has been to suspend annual increments and to split the pay award between a standard award and a smaller progression amount. One result of this strategy has been that there has been virtually no movement for staff up their grades. This has had some impact on retention in key skill areas.
- 2.4 A marked differential has developed between those staff on the top of their grade (approximately 30%) and those who have headroom many of whom are towards the bottom of the grade (approximately 70%). The gap between these groups has opened up, resulting in "bunching" at both the top and the bottom of the grade.
- 2.5 The County Council is performing strongly. We are working as "one team" with our partners to ensure Surrey residents receive high quality and value for money services. We are making positive differences to people's lives every day. A large part of this success has been the growth in good leaders with exemplary leadership skills and behaviours. This has a direct impact on the morale and well-being of staff who, in turn, become happier at work and can give an excellent service to residents. A very important part of reward is the non-pay aspect of recognition. Our engagement with our own staff shows that having your work and

contribution recognised and acknowledged contributes to a sense of pride and well-being for staff.

- 2.6 The council's culture has improved significantly over this period. Our staff surveys and our own employee engagement shows the importance of non-pay factors in helping staff thrive and be happy at work. The council has invested in a coaching programme during this period as well as the STARS workforce development programme. The staff survey shows that the council scores higher than the Mori top ten companies as far as "I am treated with fairness and respect" is concerned as well as "I have a say in how I do my work", there has been a 55% increase in resident perception of SCC employees attempting to understand their needs and a 5% improvement in how employees view workload, supervision and change.
- 2.7 The council has introduced volunteering days and the rate of employee volunteering is going up year on year. A strong culture of saying thank you has emerged, recognising employee contribution in informal ways. Obviously, the "pound in the pocket" is a primary focus for everyone, but we must continue to take into account the pivotal importance of having a supportive, encouraging, learning culture where our people can thrive and be happy in order to give residents the exemplary standard of customer care they deserve.

Reward Strategy Savings & Efficiencies Achievements 2010/11–2011/12

- 3.0 Our Reward Strategy in recent years has been aimed at a good balance of restraint plus continued investment in leadership and staff development. It is estimated that through a combination of pay restraint and cost avoidance measures taken since 2010 the council will have achieved savings that will approach **£23 million** by March 2014.

Surrey Pay Restraint Measures 2010 – 2013

3.1 Pay Settlements

In total the measures taken to protect front line services from cuts and to avoid redundancies are projected to have avoided some £11.5m from the pay bill (excluding schools) between April 2010 and March 2014.

Table 1

Impact Of Surrey Pay Measures 2010 – 2014	Savings (net) £m
Pay Freeze	£4.1
Suspension of normal pay progression arrangements	£6.4
No pay progression for senior managers	£1.0
Overall Net Savings	£11.5 million

3.2 Pay Progression

Historically the funding of pay progression awards has been “self-financing” as a result of staff turnover and recruitment at the bottom of grades. In a “normal” year personal pay progression awards have typically been worth 3% of salaries. However since 2010 these “normal” arrangements have been suspended in favour of paying flat rate sums to those with headroom.

The total cost avoided (net savings achieved) over the period from 2010 – 2014 amount to £6.4 million, as detailed in Table 1a below.

Table 1a

Pay Progression Restraint : Approximate Costs Avoided				
Actual				Projected
2010 - 2011	2011 - 2012	2012 - 2013	2013 - 2014	2010 - 2014
£1.3 million	£1.7 million	£1.7 million	£1.7 million	£6.4 million

3.3 Agency Workers Manpower Contact

The introduction of a “Master Vendor” contract with Manpower in April 2009 has been successful in driving down the costs of engaging workers.

Table 2

Impact of Agency Worker “Master Vendor” Contract 2009 - 2013	Expenditure £m	Savings £m
2009/10	£ 16.3	
2010/11	£ 11.8	£4.5
2011/12	£ 12.5	£3.8
2012/13	£ 13.1*	£3.2
Overall Net Savings		£11.5

* Estimated

3.4 The Manpower contract is in its fourth year and contract charges have reduced in line with the contract by 1.4% for workers. In addition Manpower was successful in negotiating a further 2% reduction with their suppliers following work with the Surrey Project Resolve team for 2012/13. The increase in expenditure for 2012/13 resulted from an increase in the number of shifts filled by agency workers during 2011/12.

3.5 Redundancies & Redeployments

The introduction of reduced redundancy terms, with effect from April 2010, together with a more rigorous approach to redeployment has resulted in significant savings.

3.6 Other Savings

Measures have also been taken to reduce the cost of recognition payments, acting-up payments and standby payments.

Other measures have included:

- (i) A reduction in the length of pay protection in all cases to a maximum of one year with effect from April 2012;
- (ii) A freeze on the business mileage re-imbusement arrangements and the annual car user lump sum payments.
- (iii) A reduction in the number of annual leave days available to sell from 5 days to 3 days has avoided approximately £250,000 expenditure since 2010.

Future Direction Reviewing the Reward Strategy

4.0 Good practice for any large scale employer would recommend that a regular review of a pay strategy is carried out to ensure it is fit for purpose and keeping step with the economic environment and the changing workplace expectations.

The review of the Reward and Recognition Strategy will look at, a range of factors including;

- What are the pressures and risks which are shaping the direction of travel for services?
- What sort of employer do we want to be as regards pay and reward– high, medium, low quartile reward?
- Where are we now in the wide range of markets for talent and skills we operate in?
- What are the biggest pay and reward barriers and enablers to the service's success?
- What are the principles which should govern what we reward people for – their contribution?
- How people engage with customers and colleagues (values and behaviours)?
- What do the best organisations do in reward and recognition? Learning from good exemplars
- Strategic context – keeping abreast of potential changes at government level and in the economy which would impact on any new proposals

4.1 The review will be split into three main phases, with implementation April 2016.

Phase 1: Preparation and Planning - Now until October 2014

- Understanding organisational needs and drivers
- Overview of current reward package
- Summary of current issues
- Current reward effectiveness
- Benchmarking against external market
- Review of other companies
- Identifying key reward principles
- Engagement activities

Phase 2: Development and Design – October 2014 until October 2015

Phase 3: Implementation and Communication October 2015 – April 2016

Conclusions:

Phase 1: Preparation and Planning

- 5.0 As part of phase 1 and in order to help determine the direction for the council's reward strategy it is essential to review the current position and to fully understand the existing arrangements for pay and rewards. The data pack & key facts document, **Annex 1**, sets out relevant information and data which has been collated to help identify current issues.
- 5.1 The SWOT analysis (strengths, weaknesses, opportunities and threats) shown in Annex 1, helps to highlight key issues within the current reward package.
- 5.2 The reward strategies of other organisations; key principles that underpin the reward strategies and how they are implemented will be researched as part of phase 1. The reward strategies of ten companies will also be reviewed and a comparison provided, together with examples of pay flexibilities and other strategic reward approaches.
- 5.3 In addition we will be engaging widely with services and elected members to better understand the issues. Feedback from all these groups will help inform the new strategy.

Financial and value for money implications

- 5.4 The cost of any proposed actions and how these will be funded will be included as part of a future report.

Section 151 commentary:

The county council spends over £300 million per year on pay and pay related costs. The council has been successful over the last five years in containing the growth in the total pay bill, and this has contributed to the council's continuing financial resilience. To meet the financial challenges over the next five years and to maintain service provision will require a clear strategy that is affordable, enables the council to recruit and retain the right calibre of staff and demonstrates value for money to residents.

Equalities and Diversity Implications

5.5 An Equality Impact Assessment will be considered alongside any future proposed actions and included as part of a future report as appropriate.

Risk Management Implications

5.6 Not taking any action will potentially impact on recruitment and retention of key skill areas. Risk factors associated with any proposed actions will be included in any future report.

Next steps:

July – September 2014

- As part of the engagement exercise a workshop for elected COSC members will take place, 2 July
- PPDC discussion and workshop, 21 July
- Engagement with the workforce.
- Discussion with the trade unions

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Background papers:

Background papers: Annex 1, Reward Strategy Data Pack