



People, Performance and Development Committee
17 July 2015

Pay Policy Exceptions Analysis 2012 - 2014

Purpose of the report:

The People, Performance and Development Committee (PPDC) acts as the council's Remuneration Committee under delegated powers, in accordance with the constitution of the county council. All Surrey Pay and terms and conditions are determined by the PPDC and approved by Council on an annual basis.

Requests from council offers for changes to pay and terms of conditions which fall outside of the policy (pay exceptions) are decided by PPDC on an on-going basis. PPDC considers pay exceptions for senior officers (grade 13 and above) has delegated responsibility for deciding all other pay exceptions to the Director of People and Development and the relevant Head of Service.

This report provides a review of pay exceptions over the last three financial years (2012/13, 2013/14, 2014/15) in order to:

- Provide assurance to Council Members that the processes to determine decisions in relation to pay are fair, simple, systematic, transparent and in line with the Council's Pay Policy Statement;
- Determine whether scrutiny of cases at the right level and consistent across the Council;
- Determine whether cases support key Council imperatives, e.g. helping to recruit and retain key skills;
- Provide an analysis and comparisons of data on all cases going back three years to establish:
 - o The trends in pay exceptions and what do these tell us;
 - o The implications, if any, for our new pay strategy;
- Identify recommendations as to how process and/or practice for deciding and reporting pay exceptions could be improved.

1 Recommendations:

1.1 It is recommended that:

- i) the current delegations and process for approval of pay exceptions is maintained and all services must adhere to this process;
- ii) pay exceptions, including exceptional starting salaries, for grades S12 and below are delegated by PPDC for decision by the Director of People and Development;
- iii) pay exceptions for grades S13 and above are presented to the Director of People & Development, for challenge, review and endorsement before being presented to PPDC for decision;
- iv) All pay exceptions must be first be approved by the relevant Strategic Director;
- v) where it is necessary to expedite decisions on exceptional starting salaries for grades 13 and above in order to secure new staff, then the business case will be forwarded to the Director of People & Development for challenge, review and decision, in consultation with the Leader on behalf of PPDC, and will be reported to the next PPDC for information. The Council's Pay Policy Statement will be amended to reflect these changes and presented to Council for approval; and
- vi) services will be required to use a standard business case template to improve consistency of decision; a central record of all approved exceptions will be maintained in Human Resources and reported to PPDC on a quarterly basis.

1.2 The HR&OD team will provide guidance and support to managers should there be any uncertainty about the process and determining the appropriateness for exceptions.

2 Introduction:

2.1 In the last three financial years, expenditure on pay exceptions has amounted to around £45K in 2012; £315K in 2013 and £449K in 2014. In 2014, this sum represents 0.3 per cent of the Council's pay bill. This review has included an analysis of:

- All pay exceptions recorded between 2012 and 2014 for both staff graded above and below S13 for each Directorate;
- Exceptions to the current Pay Policy and a business rationale to support management decisions taken on pay that fall outside the current Pay Policy; with a particular focus on:
 - Starting salaries above the grade minimum that falls outside of the resourcing policy; and
 - Pay progression awarded above agreed as part of the annual pay settlements.

- The process operated for agreeing and implementing pay exceptions.

3 Background:

- 3.1 The Council's Pay Policy Statement is approved by a meeting of the full County Council on an annual basis. It is then published on Surrey's external web pages in April each year to comply with the requirements of Section 40 of the Localism Act 2011 and the need for transparency in our policy on pay and reward.

Surrey Pay

- 3.2 The Council's reward strategy is based on the local negotiation of "single status" Surrey Pay terms and conditions of service. This means that the majority of staff are on consistent terms and conditions of service, except for teachers and fire fighters who are employed on separate national frameworks.
- 3.3 Salary progression for individual members of staff may be awarded exceptionally during the current period of pay restraint. These must be approved by the PPDC for all staff on senior pay, or by the appropriate Head of Service and the Director of People and Development for staff on salaries below senior pay.

Governance

- 3.4 The People, Performance and Development Committee (PPDC) acts as the council's Remuneration Committee under delegated powers, in accordance with the constitution of the county council. All Surrey Pay and terms and conditions are determined by the PPDC.
- 3.5 Pay exceptions are approved by the People, Performance and Development Committee (PPDC). PPDC approves all senior pay exceptions, grade S13 and above. Approval for decisions on pay exceptions for grades S12 and below is delegated by PPDC to the Director of People and Development and the relevant Head of Service.

4 Current Process for Pay Exceptions

- 4.1 For all pay exceptions, the Service Manager or HR Advisor prepares a business case with the Head of Service support and forward to the Strategic HR Relationship Manager and the Reward Team. Internal and external benchmarking data is then added for the majority of requests and comparison across services before making a decision. We have introduced a standard business case to improve the consistency in decision making.
- 4.2 For pay exceptions for grades 12 and below the Reward Team assesses the business case, including any previous recognition in recent history and other relevant payments made. Consideration is given as to whether the case is reasonable, fair and in line with other requests and a recommendation is made to the HR Strategic Relationship Manager for decision which may be different to the original request.

- 4.4 Decisions are confirmed in writing to the service and both the original request and the approved exception (if applicable) are recorded.
- 4.5 Pay exception requests for senior staff (grade S13 and above) follow a similar approach. However, a more detailed business case is developed which will then be presented to PPDC for decision. The business case will be written by the relevant Head of Service or Senior Manager guided by the Strategic HR Relationship Manager and will include internal and external benchmarking data for comparison.
- 4.6 A template business case was designed following feedback from Internal Audit and Senior Managers.
- 4.8 With the exception of Adult Social Care, (ASC) all directorates operate the above process (see “Section 8.Process Analysis” for more information).

5 Methodology and approach to analysis

- 5.1 An analysis has been completed on the pay exceptions data that has been collected from all directorates for the years 2012 – 2014. This analysis has been split between each directorate and grouped into two categories for pay grades according to the different approval processes: grades S12 and below; and senior grades 13 and above. The pay exceptions are analysed by directorate and reason. Pay exceptions were classified into three groups:
 - Increasing starting salary;
 - Pay progression (over and above annual pay awards, or usual promotional uplifts); and
 - All pay exceptions (including pay in lieu of annual leave, extended sick pay entitlement, etc).
- 5.2 Some pay exceptions were identified in ASC with incomplete records. Each of these have now been investigated and it is confirmed that all decisions have been approved by the Strategic Director in line with the ASC process and these exceptions have been included in the analysis. ASC has adopted the business case and recording templates to improve future recording.

6 Increasing starting salary

6.1 A summary analysis of the pay exceptions for each directorate is included in Table 1 below.

Table 1: Summary pay exceptions for increased starting salary

Directorate	2012		2013		2014	
	No. Increased Starting Salary	Average Pay Exception Increase	No. Increased Starting Salary	Average Pay Exception Increase	No. Increased Starting Salary	Average Pay Exception Increase
ASC	1	£1,680	26	£2,050	32	£2,817
BS	3	£702	1	£981	24	£2,190
CC	1	£819	0	£0	3	£1,793
CEO	0	£0	0	£0	7	£1,488
CSF	0	£0	20	£3,147	20	£2,550
E&I	0	£0	1	£1,210	5	£1,042

Adult Social Care

6.2 For Adult Social Care, the key findings are:

- Starting salaries for roles below grade 12 over period 2012 to 2014 show there is increasing frequency and value above the bottom point;
- The posts affected are mostly professionally qualified social workers, occupational therapists or approved mental health practitioners;
- Starting salaries for roles above grade 13 also show a low number pay exceptions and posts show these reflect internal changes in senior management; and
- The December 2014 turnover rate of 11.9 per cent in professional roles is above the target rate for the directorate.

6.3 In conclusion: evidence points towards Surrey's needing to pay more to staff in professional roles to attract experience staff; respond to a steady increase in turnover; and a highly competitive market.

Business Services

6.4 For Business Services the key findings are:

- Starting salaries for roles below grade 12 over period 2012 to 2014 show there is a change increase in frequency and value above the bottom point in 2014;
- Starting salaries for roles above grade 13 also show some pay exceptions of significant value and posts and a range of roles affected;
- There are a variety of posts affected by pay exceptions and the December 2014 average turnover rate of 5.3 per cent for all services

- 6.5 In conclusion: evidence points towards Surrey's pay lagging the market in a range of roles; a need more to replace steady turnover; and to pay higher salaries for senior roles.

Customers and Communities

- 6.6 For Customers and Communities the key findings are:

- Starting salaries for roles below grade 12 over period 2012 to 2014 show there are very few pay exceptions, with a recent small number of cases this year;
- The December turnover figures of 10.3 per cent suggest turnover in these services is line with industry expectations; however a very low turnover in SFRS (5.9 per cent) is balanced with a 15.9 per cent turnover in customer services roles.

- 6.7 In conclusion, there is some evidence of need for higher start salaries to attract staff to replace turnover this year.

Chief Executives Office

- 6.8 For Chief Executive's Office key findings are:

- Starting salaries for roles below grade 12 over period 2012 to 2014 show there are very few pay exceptions, with a recent increase in the number of cases this year;
- Starting salaries for roles above grade 13 also show pay exceptions of significant value and posts show a range of roles affected;
- The December turnover figures of 10.3 per cent is not excessive.

- 6.9 In conclusion, there is some evidence of need for higher start salaries to attract staff to replace turnover this year and a need to pay more to replace senior roles

Children, Schools and Families

- 6.10 For Children, Schools and Families key findings are:

- Starting salaries for roles below grade 12 over period 2012 to 2014 show there are relatively high numbers of pay exceptions albeit the average increase reduced this year;
- The posts affected are a range of skilled and professionally qualified roles;
- The December turnover figures show an average of 18.2 per cent which is high.

- 6.11 In conclusion: evidence points towards Surrey's needing to pay more to staff in professional roles to attract experience staff; respond to a steady increase in turnover; and a highly competitive market.

Environment and Infrastructure

- 6.12 For Environment and Infrastructure key findings are:

- starting salaries for roles below grade 12 over the period 2012 to 2014 show there are very few pay exceptions, with a recent increase in the number of sates this year;
- the December turnover figures show and average of 12.8 per cent turnover.

Summary

- 6.12 In conclusion, there is some evidence of need for higher start salaries to attract staff to replace turnover this year. There is a year on year increase in the number of exceptions for all roles (6 in 2012, 55 in 2013 and 97 in 2014). A further analysis of the value of these show that 78 per cent have been for an increase of five per cent or more.
- 6.13 Overall, analysis of the starting salary pay exceptions points to an increase in start salaries for most roles, particularly in 2014. This may be aligned to an improved economy, an increasingly competitive employment market and also that Surrey's pay has fallen behind market rates.

7 Pay progression and other pay exceptions

- 7.1 There is a step change increase in the number of pay progression increases from 2012 to 2014, increasing from 15 to 34 and a slight increase to 39 in 2014. A summary of the pay exceptions is included below (see Table 2).
- 7.2 The overwhelming majority of pay exceptions below grade 12 are for increase start salaries (144 in total). There are a number which relate to annual leave (30 in total). These are for payment in lieu of leave where a member of staff has been unable to access contractual leave due to sickness and occasionally pressure of work. Most others are for pay progression (52 in total). The average percentage pay progression for posts below grade 13 is 8.26 per cent (the lowest average of 3.76 per cent in Chief Executive's Office and the highest average pay progression of 10.89 per cent in Business Services).
- 7.3 For posts graded 13 and above there are more cases here are for pay progression (36 in total) than increasing start salaries (16 in total). The average salary progression is 7.72 per cent; the lowest average is 4.17 per cent in Children Schools and Families and highest average is 9.12 per cent in Chief Executive Office. This reflects our pattern of recruitment and the salary restraint in senior positions. The posts affected by these salary progressions are professional, middle management and senior roles around grade 8 and above. There is a focus on retention of senior roles.

Table 2: Summary Cost Pay Exceptions by Year Combined Total

Grade	Increasing Starting Salary	No.	Pay Progression	No.	Other	No.	Total
Main Grade	£338K	144	£83K	52	£21K	59	£441K
Senior	£101K	16	£208K	36	£48K	17	£357K
Total	£439K	160	£291K	88	£70K	76	£799K

Summary

- 7.4 Overall, pay exceptions represent a small amount of the total base pay bill (excluding additional hours and overtime) amounting to 0.3 per cent. The annual pay settlement (basic award and pay progression) is nearly ten times more than the amount passed through pay exceptions; £3.9M compared to £449K (see Table 3)

Table 3: Expenditure on Pay Exceptions as % of Base Pay Bill

Additions to pay	Amount	Total Pay Base Pay Bill	% of Total Pay Bill
Pay exceptions	£448,718	£150,000,000	0.30
Pay progression (including cost of living award)	£3,900,000	£150,000,000	2.6

8. Process analysis

- 8.1 PPDC takes decisions on senior pay exceptions and delegates decisions on pay exceptions below grade 12 to Director of People and Development. All services follow this process with the exception of ASC where pay exceptions are decided locally by the Strategic Director who has direct oversight of each of the cases. This level of Strategic Director oversight does not take place in all other directorates.
- 8.2 Cases submitted to the pay team are assessed using defined business case criteria to improve consistency and this has also been adopted in ASC. Whilst the majority of cases are turned around quickly, service managers have asked for more flexibility by having local discretion to decide business cases related to starting salaries and salary progressions.
- 8.3 Comparisons of the rate of approval between ASC and other services are informative about whether there is more or less control when responsibility is delegated. Tables 4a and 4b show the percentage of pay exceptions by directorate and grade and there is no material difference in the approval rates where exceptions have been decided locally in ASC or corporately through PPDC and the Director of People and Development.
- 8.4 For grades 12 and below the approval rate is fairly consistent across the biggest services with ASC responsible for 33 per cent of all pay exceptions and CSF responsible for 35 per cent. The next highest is Business Services responsible for 19 per cent and all other services are progress low numbers of pay exceptions. In terms of grades 13 and above there have been similar numbers for ASC (22 per cent), Business Services (28 per cent), Customers and Communities (15 per cent) and Chief Executives Office (19 per cent).

Table 4a: Percentage Pay Exceptions by Directorate Grade S12 and Below.

S12 and below				
Directorate	2012	2013	2014	Total Percentage
ASC	13%	38%	33%	33%
BS	39%	7%	23%	19%
CC	4%	3%	3%	4%
CEO	4%	3%	10%	7%
CSF	39%	45%	27%	35%
E&I	0%	2%	2%	3%
Grand Total	100%	100%	100%	100%

Table 4b: Percentage Pay Exceptions by Directorate Grade S13 and Above.

S13 and above				
Directorate	2012	2013	2014	Total percentage
ASC	40%	22%	22%	22%
BS	40%	22%	30%	28%
CC	20%	11%	16%	15%
CEO	0%	30%	14%	19%
CSF	0%	11%	8%	9%
E&I	0%	4%	11%	7%
Grand Total	100%	100%	100%	100%

9 Conclusions

- 9.1 In terms of trends, the data clearly shows that pay exceptions are being used to support key council imperatives by helping to recruit and retain staff. There has been an increase in the number of pay exceptions approved over the last three years. The majority of these are for increased starting salaries above the bottom point of the scale for most roles, particularly during 2014. This would seem to reflect an improved economic situation and strengthening employment market. Also a policy of appointing to the lowest point of the grade will not always reflect the salary expectations of experienced staff.
- 9.3 In terms of salary progressions, the data points to an increase in the number of pay progressions for skilled roles and hard to fill roles. This follows a sustained period of restraint in progressing salaries with flat rate annual pay increases favouring lower graded staff. The pay and reward review provides an opportunity to make sure our pay scales reflect market pay and mainstream pay progression as part of the annual appraisal process.
- 9.4 The process for agreeing pay exceptions has been improved by introducing a standardised business case. There is an opportunity to make sure the all services fall in line with PPDC's delegation.

- 9.5 Reviewing the Pay and Reward Strategy will allow the Council to re-assess its market position so that pay bands reflect market rates; create a process for salary progression which is linked to performance and consider whether to increase delegation to managers on starting salaries for more experienced staff.

10 Financial and value for money implications

- 10.1 The Section 151 Officer confirmed that the additional cost of these pay exceptions would be met from the relevant service budgets at the time of processing. It was advised that although this would cause budget pressure, it would not be material.

11 Equalities and Diversity Implications

- 11.1 The adoption of consistent and business related decision making criteria helps protect the organisation from claims of unfair treatment in deciding business cases. Further equality proofing will result from the Pay and Reward Review as the new pay system will reduce the need for exceptional intervention from managers and will ensure that pay for all staff will progress without 'in the normal course of events'.

12 Risk Management Implications

- 12.1 There are a number of risks associated with this process and paper.
- i) Reputational risks, around senior management pay increases will be managed through the decision making process whereby PPDC acts as Remuneration Committee.
 - ii) Morale risks; trades unions are distrustful of pay decisions which fall outside of the collective bargaining process and where they are not aware of the scale and number of payments. Their concerns would be that their role is diminished and there is no opportunity to challenge the distribution of rewards to staff. This risk is mitigated by sharing a suitably anonymised analysis with the trades unions and
 - iii) Equality risks; having exceptional pay circumstances increases the risk of allegations of fairness and transparency. The introduction of director oversight, standardised decision taking criteria, annual reporting and the new pay and reward system will reduce these risks.
 - vi) Workforce risks; the council needs the ability to respond quickly in a competitive recruitment market. Our speed of response will be increased with local delegation of decisions at grade 12 and below. The pay and reward strategy will help us to understand our market position and what is reasonable in terms of pay.

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Background papers: None.