

<b>27 June 2023</b>		<b>ITEM: 8</b>
<b>General Services Committee</b>		
<b>Pay and Reward Review</b>		
<b>Wards and communities affected:</b> N/A	<b>Key Decision:</b> N/A	
<b>Report of:</b> Tina Dempsey, Strategic Lead, People and Organisational Development		
<b>Accountable Assistant Director:</b> N/A		
<b>Accountable Director:</b> Jackie Hinchliffe, Director HR, OD and Transformation		
<b>This report is</b> Public		

### **Executive Summary**

The Council have issued a S114 and all measures to reduce spend or avoid cost need to be pursued. The employee budget represents the largest spend within the council. Additional pressure on the employee budget arose as a result of the higher-than-expected NJC award in 2022/23 and the Council will be facing the same situation in 2023/24. In order to mitigate the pressure a review of pay was agreed by Council in January 2023. An initial scoping exercise has been undertaken to identify workforce expenditure that can potentially provide savings opportunities. However, more detailed analysis needs to take place over the next few months with comprehensive recommendations to further reduce our workforce expenditure.

The opportunities identified have been assessed to show the current level of expenditure, the type of organisation change required to achieve a reduction along with associated benefits, risks and timescales for delivery.

### **Commissioner Commentary**

The Council's Section 151 Officer has issued a s114 notice which places restrictions on what the Council can spend to ensure that the Council will be able to balance its budget in the future. However, the Council is permitted to continue spending on existing staff payroll and pension costs, and on existing legal agreements and contracts.

A review of pay arrangements needs to be carried out, including policies and all allowances, to ensure all opportunities for mitigating pay pressures and growth can be considered.

## **1. Recommendation(s)**

- 1.1 To agree the scope and timescale of the pay and reward review as recommended in the 2023/24 Pay Policy**
- 1.2 Immediate cessation of all discretionary payments to reduce avoidable costs**
- 1.3 Review of Performance Management council wide.**

## **2. Introduction and Background**

- 2.1 In 2019 the council carried out the Modernising Reward project over two phases. The first phase implemented in 2019/20 saw significant investment in the pay structure and introduced a new pay structure that better represented roles and the market and met the standards of the Equality Commission.  
  
Phase 2 in 2021 focused on changes to allowances, with the deletion of business user allowance and changes to shift, standby and overtime allowances.
- 2.2 To date the workforce savings as set out in the MTFS have been realised through the 2019 Pay review, vacancy control, recruitment freeze and service restructures. The council's financial position dictates that a further savings need to be achieved within 23/24 to reduce costs in 24/25.
- 2.3 Our pay bill is the Council's highest spend and as a result of the NJC pay awards has seen additional spend and pressure in 2022/23, this is likely to be repeated in 2023/24. In 2022/23 this resulted in a spend of £98.402m, an overspend of £1.772m against the general fund employee budget. The additional cost of the NJC change to the in-year pay policy was £2.032m, so this was partly mitigated in year. There was also a centrally held vacancy factor of £3m which was also achieved. To continue to mitigate the additional pressures and to ensure our pay structures and allowances are reflective of the roles we have within the council a Pay & Reward review will be conducted.
- 2.4 This review will also need to take into consideration the new organisational design work underway as part of IRP and the transformation of the Council. This will impact on role design and skills, attributes and scope of roles moving forward.
- 2.5 In context, changes are taking place in a highly competitive labour market which has resulted in increases in recruitment and a retention pressure beyond the established areas in local government such as social care and planning. Composition of services within each local authority impacts on the pressures they face e.g.; in-house fleet and transport related services have pressures from the shortage of HGV driver and direct provision of residential and domiciliary care by the first ever reported reduction of the care workforce by the LGA.

- 2.6 Upward pressure is likely to remain on annual cost of living pay settlements to compete with other employers for talent, higher levels of inflation and the government's commitment to a national living wage equal to two thirds of median earnings from April 2024.
- 2.7 Where we have high numbers of vacancies, along with an increase in the number of economic inactive people of working age and cost of living pressures leading people to seek higher levels of pay mean that employees have greater choice. Therefore, savings that can be realised need to be sustainable by taking into account both the financial benefit of realising savings as well the impact on workforce engagement and damaging Thurrock's reputation as an attractive employer.
- 2.8 Aligning our pay and reward to a workforce plan will ensure strategic and longer-term developments can still be achieved e.g., the Council's role in ensuring economic growth that benefits the community through development of the Thames Freeport, the Lower Thames Crossing and housing/population increases.
- 2.9 The majority of payroll expenditure is related to basic pay which is dependent on salary ranges linked to grades that are determined by job evaluation. However, to be effective, grade structures and job evaluation need to be aligned to organisational functions, structures and delivery models which inform job design that all are consistent with the future operating model of Thurrock.
- 2.10 Thurrock is not the only authority that is going through intervention following a s114 notice (currently Slough and Croydon). Establishing contacts to share learning and approaches on tackling related workforce matter will be beneficial. Establishing the short and long-term impacts of measures taken by Northamptonshire, particularly in relation to pay and conditions, prior to separation into two new unitary district authorities in April 2021.

### **3. Issues, Options and Analysis of Options**

There are a number of categories that as a council we need to put in place that will give us quick wins as well as contribute to the longer-term goal to reduce our spend on workforce.

- 3.1 **Compliance** – S114 dictates this approach and to date strict enforcement and changes to current work processes to ensure value for money is achieved with control processes for any flexibility required e.g., agency and interim expenditure within and outside approved frameworks.
- 3.2 **Operational Management** – Through the introduction of panels to monitor opportunities to reduce expenditure through tighter controls/monitoring of overtime and vacancy management is in place however, this needs to align to

the wider transformation of the council and changes to roles. At present capacity is widely affected across the organisation which is impacting on resources. There needs to be short term investment in resources to support the organisation with its transition.

- 3.3 **Terms and conditions** – reviewing non-salary payroll expenditure to benchmark levels of reward and scope for reducing costs, for example, overtime, shift allowances and expenses. Can more be achieved? Should following further analysis indicate change is required this will require formal consultation and notice periods taking up to 6 months to complete with associated industrial and employee relations risks. It is essential proposals are in place by September 2023 to enable savings to be realised.
- 3.4 **HR Policy Discretions** – review all HR policies to identify and cost discretionary decisions by managers, for example, approving extensions to sick pay. This can be achieved immediately through tighter controls or issuing new guidance unless a formal change is made to the policy or custom and practice has been established that requires formal consultation to secure change.
- 3.5 It should be noted, that in circumstances where there is not a collective agreement with Trade Unions a dispute could result. If employees do not accept a variation of their contract, the Council will need to consider whether to proceed using a dismissal and re-engagement process. This brings not only legal risks but also reputational, industrial relations, employee engagement and motivation risks as well.
- 3.6 **Establishment Control**

The headcount of the Council's workforce in March 2023 was 2,513, which is a reduction almost 200 since March 2020. This has been through vacancy control and service restructures. There are currently 314 vacant posts (272 FTE) funded by the General Fund. The average salary of a FTE post is £35k (excluding on-costs). If a vacancy management approach was taken, if workloads could be managed to allow 10% to be unfilled, it would deliver a saving of £945k (27 FTE x £35k excluding on-costs).

Vacancy management requires discipline to realise benefits and a flexible approach to allow senior managers to select where benefits can be realised to allow for critical front-line services to operate safely to meet demand.

This option is delivered through operational management and does not require formal consultation and can be implemented promptly. The approach would be discussed with Trade Unions to provide reassurance that the scale of savings to be achieved would not result in excessive pressure on the workforce and can be achieved without redundancies.

### 3.7 Agency Use

The Council spent £12.5 million on agency staff in 2022/23. This is an increase of £1.7 million on 2021/22 and £3.6m higher than 2019/20 when the Thurrock headcount was 200 lower than it is now.

Highest levels of agency use are for qualified social workers, domiciliary care and waste. To reduce spend, action has been taken to encourage agency workers to accept fixed term or permanent contracts. Whether financial benefits are realised from moving agency workers on to payroll depends on whether the agency assignments cost is greater than the post budget taking into account salary and employers on costs.

Financial cost is only one factor to consider, if large scale workforce change is imminent, releasing agency workers reduces redundancy and early retirement costs. There are also risks to quality of service to residents, safeguarding and management time from high turnover of agency workers. Ultimately there is a balance so the Council may wish to review the target for maximum use of agency staff as a % of the workforce or % of pay bill. At the present time the council is spending more on interim costs due to intervention this impacts on spend, however, with the new operating model and organisational design work ongoing this should reduce the requirement for interims.

To estimate the potential saving on salaries budgets from reduced agency use, it would be prudent to work on an assumption that a benefit of 10% will be realised e.g., for every £1 million reduction in spend on agency, a saving of up to £100k could be achieved. Reducing spend to 2021/22 could deliver £170k.

A greater reduction in the agency spend is benefit from vacancy management which has been estimated above so as not to double count.

Minimising off framework spend is an area which can deliver further efficiencies by ensuring compliance with the agency hiring process through Matrix. The Council's off framework spend is forecast to be £700k in 2022/23.

Flexibility for some roles to secure suitable interims, in particular some highly specialised skills for which there are a shortage of candidates is required. For these roles, agencies are reluctant to provide them through managed service providers such as Matrix because they can supply them to other clients with a higher mark-up. There is a process in place to control and review use. If a reduction of 10% on the mark-up charged on this current spend can be achieved, it would reduce expenditure by £70k through stronger compliance and explore use of a secondary framework for hard to appoint interim roles. This will be explored as part of the review and consider wider options.

### **3.8 Performance Management**

The Council's current workforce Performance Management framework will form part of the review, at present the process is aligned to pay following the end of year performance development review. This means all staff (excluding senior managers) who score a performance rating of 3 or above receive an incremental pay increase dependent on banding. For those at the top of their bands they do not receive any increase. As part of the review there will be a complete review of our performance management processes including senior managers.

Based upon the current scheme the expected distribution of the awards would result in 95% of staff achieving the level required to receive an increment. The value of increments equates to a 2% pay increase in addition to Cost-of-Living award. 28% of staff are currently at the top of their grade.

End of year reviews are conducted by managers in January/February and moderated through March by Assistant Directors, Directors and SLT.

### **3.9 Pay Settlements**

Thurrock left the national collective bargaining arrangements for local government pay in 2007. Since then, annual pay settlements have been determined locally in consultation with Trade Unions, although linked to the NJC. As this has been in operation for a considerable period of time and in light of the s114 notice, it is appropriate to review the effectiveness of this approach against the initial objectives and benefits that were envisaged and best fit for the future.

### **3.10 Proposed phasing and timescale**

#### **Phase 1 – June to September - Diagnostic and Development of Proposals**

- Why and where are we overspending, analysis work, pay elements
- Budget – including 2 million vacancy factor for 2023/24
- Identify where overspending
- Breaking down by elements
- Vacancies
- Agency data
- Options to reduce employee spend
- Performance management
- Impact on employment policies relating to pay

## **Phase 2 – October to December – Consultation**

- Consultation on proposals with trade unions and staff.
- Review proposals and determine outcomes.
- Assess costs and protection arrangements.

## **Phase 3 – January to March – Implementation**

- Contracts reissued
- Oracle updated
- Pay Policy 2024/25

## **Phase 4 – April 2024 onwards**

- Review of JDs in line with new operating model and structures
- Revision of job families and career pathways
- Assess and evaluate impact of pay and reward

3.11 All policies relating to pay and allowances are governed through general services committee. Enacting these policies is through line management and system controls.

## **4. Reasons for Recommendation**

4.1 The council is currently overspending on its Pay budget, there is a need to explore the potential for further savings across all aspects of pay and reward. As this report sets out there are many elements to be considered to ensure our pay and reward offerings are comparable, keep us competitive for recruitment and retention purposes and is fair and equitable. The critical elements of the outputs will be to reduce expenditure.

## **5. Consultation (including Overview and Scrutiny, if applicable)**

5.1 Not applicable

## **6. Impact on corporate policies, priorities, performance, and community impact**

6.1 Pay is the largest expense of the council and pressures impact across the organisation. In the current context all elements of pay need to be examined to support the financial sustainability ambition and the changing organisation.

Changes to pay and benefits can impact on individual and organisational performance through disputes, disengagement and the Council's ability to attract and retain appropriate skills and talent.

As part of the review there is a requirement to review HR policies and procedures.

## **7. Implications**

### **7.1 Financial**

Implications verified by: **Jo Freeman**  
**Finance Manager**

In-year changes to the pay policy impacted the outturn position against pay in 2022/23 as noted in para 2.3.

£8.3m has been build into the 2023/24 employee budget to reflect the 4% cost of living increase £3.6m, the incremental progression through the pay bands based linked to end-of year performance reviews £1.7m, backdated impacted of the 22/23 pay policy changes £2.5m and changed to employer NI and pension contributions £0.5m

A 2m vacancy factor has been applied to relevant service budgets with the intention of achieving a saving through the natural turnover of staff.

Any changes made to the pay policy will impact the assumptions used to calculate the 2023/24 employee budgets and appropriate action will need to be taken to identify mitigation action to ensure delivery within budget and all proposals for savings related to pay will need to be modelled against budget with the support from Corporate Finance to ensure deliverability.

### **7.2 Legal**

Implications verified by: **Mehzabeen Patel**  
**Employment Lawyer**

The report correctly identifies that the need to reduce or avoid unnecessary spending pursuant to the S114 notice, is subject to the Council's ongoing contractual obligations. Whilst non contractual obligations/benefits can be modified or withdrawn; express, implied or incorporated terms cannot be unilaterally withdrawn. As identified in the report, terms and conditions should only be amended via agreement. A unilateral change to terms and conditions can result in breach of contract and constructive unfair dismissal claims. A last option which is also identified in this report is dismissal and re-engagement. All reasonable steps and meaningful consultation should be considered before taking such action as it risks damaging industrial and employee relations. Claims for unfair dismissal and wrongful dismissal can still be lodged using this method, but the benefit of "fire and rehire" is that the new terms are offered immediately, thereby limiting any loss suffered.

### **7.3 Diversity and Equality**

Implications verified by: **Rebecca Lee**  
**Community Development and Equalities**

Community Equality Impact Assessments will be completed as part of the pay and review process to understand the diversity and equality implications from



the proposals that arise and fulfil council's responsibilities set out in the Public Sector Equality Duty.

All information regarding Community Equality Impact Assessments can be found here: <https://intranet.thurrock.gov.uk/services/diversity-and-equality/ceia/>

7.4 **Other implications** (where significant) – i.e., Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

None

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. **Appendices to the report**

- None

**Report Author:**

Tina Dempsey

Strategic Lead People and OD

HR, OD Transformation