

Draft Report

NORTH EAST DERBYSHIRE DISTRICT COUNCIL

OVERVIEW AND SCRUTINY PERFORMANCE RELATED PAY

APRIL 2016

Contents

	Page
Chair's Foreword	1
1. Recommendations	2
2. Introduction	2
3. Scope of Review	3
4. Method of Review	3
5. Evidence and Research	3
6. Key Findings	3
7. Conclusions	6

Chairs Foreword

I am pleased to present this report on behalf of the Organisation Scrutiny Committee. It details the findings, conclusions and recommendations of the Committee from its review of Performance Related Pay.

I would like to thank the members of the Committee, Sue Broadhead our Scrutiny Manager and Sarah Cottam, Governance Officer for the work they undertook in gathering evidence and co-ordinating the review.

Review Panel

The review panel comprised the following members:

Councillor B Wright	(Labour) – Review Panel Chair
Councillor J Barry	(Labour)
Councillor A Dale	(Conservative)
Councillor B Lewis	(Conservative)
Councillor T Mansbridge	(Labour)
Councillor S Peters	(Labour)
Councillor B Ridgway	(Labour)
Councillor R Welton	(Conservative)
Councillor J Windle	(Labour)

1. Recommendations

- 1.1 That if the Council decide to consider the introduction of a Performance Related Pay Scheme in the future, either internally or by using the services of a consultant, the Organisation Scrutiny Committee would welcome input into the terms of reference for any further review.

2. Introduction

- 2.1 The Organisation Scrutiny Committee was asked by the Director of Transformation to consider reviewing the options for introducing performance related pay in the future within the Authority. The Council's Transformation Programme was seeking ways to innovate and transform the way of working to underpin both the delivery of the Strategic Alliance and the re-shaping of services within each council to deliver priorities. Considering the way in which the Council could reward its workforce was part of this process.
- 2.2 The Organisation Scrutiny Committee agreed to undertake a review of Performance Related Pay at its meeting on 16th September, 2015. The Committee thought it timely to review this area as the transformation of the organisation was a key objective for the Council. The Committee wished to consider whether Performance Related Pay could provide an opportunity to motivate employees, improve performance and reward high performing employees.
- 2.3 The review aimed to:
- Understand what Performance Related Pay is and the most common types;
 - Consider the advantages and disadvantages of Performance Related Pay;
 - Consider whether Performance Related Pay could work in the Council and if so how;
 - Identify any barriers;

- Look at Local Authorities experience of Performance Related Pay and best practice.

3 Method of Review

- 3.1 The review panel met on three occasions to consider the scope of the review and the key issues they wanted to discuss.
- 3.2 Evidence was gathered from written sources and discussions with the Director of Transformation.

4 Evidence and Research

- 4.1 A number of documents and evidence were provided to the review panel for consideration. Details are provided below:
 - Scene setting presentation on Performance Related Pay– Director of Transformation;
 - ACAS Advisory Booklet: Appraisal Related Pay;
 - Hay Group – Overview of Performance Related Pay Options – District of Harborough;
 - London Borough of Hammersmith and Fulham Report on Options for a new Performance Related Pay Scheme for senior managers.

5 Key Findings

- 5.1 The first area the Committee looked at was why consider introducing a scheme. The review panel heard the Council was aiming to become more commercial as a whole in order to contribute to the Growth and Transformation Agendas. Performance Related Pay was considered one area that may be able to contribute to these agendas. Reference was made to Oxford City Council who had already implemented a performance related pay scheme and cited it as a major part of their improvement journey. They had won the Best Achieving Council category in the M J awards. The Committee had hoped to visit the Council to discuss their experience of operating a scheme but despite an approach this had not been possible. Therefore, the

Committee decided to look at a number of published documents on Performance Related Pay to gain an understanding of the issues associated with this method of reward.

5.2 It became clear that there is a wide mix of schemes available usually centred around a structured approach to measuring performance which in turn determines, to varying levels, an increase in pay for the individual. It was considered very important that a scheme should be based on criteria that can be measured. The Committee heard that a number of organisations operate such schemes both private and public. Their use in local government is becoming wider but is still not common. Most schemes include reward for good performance but some also contain withholding elements of pay where performance is judged poor. From the small sample of information the Committee looked at it was clear there is a wide mix of comments and arguments on whether Pay Related Pay Schemes are effective or not. Some of the main arguments are mentioned below.

5.3 **Advantages** – it was argued that schemes have the potential to:-

- Improve job performance;
- Address poor performance;
- Help motivate and retain employees;
- Reward high performers;
- Increase productivity;
- Assist in the targeting of resources;
- Deliver a clear message about performance expectations within an organisation;
- Engender more commitment and involvement from employees by identifying a clear link between efforts made and the rewards achieved.

5.4 **Disadvantages** – If not implemented well schemes can have the opposite effect on many of the potential advantages. Negative impacts can include:-

- Reduction in employee performance and motivation;
- Schemes being seen as a cost cutting measure;
- Potential challenges on equal pay;
- Takes a large amount of time and effort to introduce a scheme effectively;
- Can cost more than other forms of reward and recognition.

5.5 Risks

- Being able to make it work on the ground and fit into the local government environment. This argument was around the wide variety of jobs and services in local government and the different partners involved in delivery;
- Whether it was possible to correctly measure multi faceted jobs where outputs are not as easy to quantify as others;
- Objectivity / potential bias of line managers undertaking appraisals and a heavy reliance on their judgements
- Risk of people working the system, 'gaming';
- Competition within a team where focus is on achieving a financial reward to the detriment of any development needs of the service or individual;
- Potential to encourage risk taking;
- Views of unions which traditionally has been that schemes can be unfair and reduce the value of collective bargaining;
- Staff views as some may be suspicious of a scheme, especially given the current environment local government is working in;
- Trust needs to be in place and a willingness to adapt to the change or employee relations may be damaged;
- Restricted budgets can damage credibility of a scheme. Need to be managed and evaluated regularly to ensure continue to be fit for purpose.

5.6 Other considerations/comments

Timescales need to allow for proper consideration of whether to introduce a Performance Related Pay scheme. The Council should have clear objectives for introduction. Detailed research on the most appropriate scheme for the Authority should be undertaken. Proper consideration should be given to whether a

staged approach, perhaps piloting in one service area, is best to assess outcomes or whether an all at once implementation is best so no issues on unfairness are raised by those outside the scheme. Senior managers have to be committed to making it work or there would be a real danger the project would fail. Line managers responsible for making assessments under any scheme chosen would need to be trained to ensure objectivity and transparency. Employees would need to be engaged at an early stage, in advance of any scheme introduction, so they can understand why a scheme is being introduced, how the scheme will operate and what benefits it will bring. An appeals process should be put in place for employees who have grievances. There should also be a wide mix of stakeholder engagement to ensure the scheme is fair. Support from an Independent advisor may be beneficial.

6 Conclusions

- 6.1 The Committee from the evidence it has considered concluded that implementing a Performance Related Pay scheme was not an easy process and the Council would need to be sure the benefits it could potentially bring would deliver the outcome it intended. From this short piece of work the Committee has undertaken it was clear that with these opportunities come some risks which would require careful consideration and management.
- 6.2 It is for this reason the Committee resolved to prepare this interim report of their findings. It was felt that if the Council wished to pursue this issue further then a great deal of additional work would need to be undertaken to formulate a possible scheme that would be appropriate for the Authority.