

EMPLOYMENT MATTERS COMMITTEE

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REVIEW OF MEDPAY

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Summary

Following a decision made at the January 2020 meeting of the Employment Matters Committee (EMC), and further at Full Council in February 2020 it was agreed Medway should review the Council's current performance pay arrangements (known as MedPay). Members agreed they wanted the scheme independently reviewed in order that Members could satisfy themselves it was robust and delivering its objectives fairly. Due to the pandemic the independent review has not taken place, however now we are almost 2 years on, the rationale for reviewing MedPay has significantly grown, due to recruitment and retention issues. This paper follows a Corporate Management Team (CMT) endorsement of February 2022 and presents EMC with a proposal to develop a reward solution to address the identified challenges with MedPay and the current market challenges. It offers a proposal to move to an enhanced MedPay pay approach and provides a further opportunity to add flexibility in a changing market.

1. Budget and Policy Framework

- 1.1 The decision on agreeing the scope and methodology for a review of MedPay has been agreed by CMT and where the costs of delivering the review cannot be met from existing budgets then funding will need to be considered. This paper highlights the significant challenges and resources required to undertake a pay review of this size.

2. Background

- 2.1 The Council's current performance related pay arrangements (known as MedPay) were introduced in April 2014. At the Employment Matters Committee meeting held on 30th January 2020 a paper was presented to request c£25,000 to carry out the independent review. This was endorsed at Full Council in February 2020.

- 2.2 The Committee agreed to review the scheme and requested this be done independently so that Members could satisfy themselves it was robust and delivering its objectives fairly.
- 2.3 Since the agreement in April 2020, there was the impact of the pandemic, which delayed the initial review. However, the backdrop of the rationale to review MedPay has significantly shifted and increased the scope due to the changing market conditions, some arriving from the legacy of MedPay, some from the impact of the pandemic.
- 2.4 As well as an inability to progress through the current bands under MedPay there is also a recognised challenge in attracting, growing, and retraining talent across several of our professions. This paper sets out to propose an enhancement to our approach to pay and has been created in direct response to requests from directorates to support their ambitions, and the challenges surrounding recruitment and retention, much of which is driven by external market forces.
- 2.5 The intention is to create greater pay consistency across Medway to ensure the Council can recruit and retain valuable staff. The approach also aims to allow directorates to retain some flexibility to respond to market pressures within their professions, providing it is affordable and is in line with business strategies, whilst providing a consistent set of data tools to inform departmental pay strategies.

3. Why we need to do something

- 3.1 There is a recognised challenge in attracting, recruiting, and retaining talent across several areas in Medway. There is a specific challenge on pay, progression, and the inability to compete with the external market.
- 3.2 Medway is not consistent in its approach to pay across all departments. This puts us at significant risk. Examples of concern are:
- In some areas there is a market premium (MP) automatically applied to all roles, in others this is market demand lead and rare. Some existing MPs are legacy and have not been reviewed, since to do so might result in an exodus of staff in key areas. New MPs are, in some instances, the result of a job being advertised locally, with no context to the salary they are recruiting to. (One off rather than benchmarked).
 - Most areas have budgets that are established at the mid-range salary level, Given the severe market challenges, there are a small number of services (for example children's) that are budgeted at the top of the range, creating greater flexibility for alignment of salary and an opportunity to bring existing staff in line with new entrants.
 - Some ad hoc salary increases have been applied, again largely to recruit and/or retain staff.
 - Despite having pay bands some are paid outside of the pay band to remain market competitive.
 - Due to the increase in the national minimum wage, Range 1 (R1) in our pay bands for 23+ no longer exists, and therefore R1 individuals aged over 23 are being paid the same as R2. Inevitably, this is starting to impact our R2 scope and impacting R3.

- R2, under 23 only ever achieve the national minimum. Therefore, they never move off the bottom of the band as the band moves up to match the national minimum wage. This was adjusted last year under the pay award as it sat outside of the tradition MedPay policy.
- Some areas, i.e., leisure and children's have career progression frameworks, that either move people up a band or allows for an incremental uplift every year, this means some have greater opportunity than others.
- NJC terms, Medway Council's previous pay programme, still used by many councils has seen pay bands increase above Medway's current rates. Some district councils have increased significantly under NJC arrangements, making comparable roles here less competitive.

3.3 Given the council's own review on the scale outlined in this paper, it is proposed that we forgo the need for an independent review. Instead, we should implement and advance to a new Pay Approach, noting the limitations listed above.

4. Potential option – enhancing our pay approach

4.1 As a general principle, this is a proposal to enhance our current pay approach to attract and retain candidates, focussing in particular on candidates' roles where currently we do not pay in line with the market (e.g. lawyers.) It will also provide a mechanism to reduce historic 'over inflation' above market rates in other areas. This will help our recruitment challenges and the lack of in-post incremental pay, based on evidence by demonstratable improvements in capability, and will support the retention of good candidates who are performing well.

4.2 The intention is to implement this in a phased approach, targeting in the first instance those professions where skills are scarce and are in high demand, eg social care and legal.

4.3 This pay approach is not just about salary increases in our hard to fill jobs. That alone will not achieve all we need and in isolation will not be fit for purpose for the future. Also, it would most likely be unaffordable. Therefore, it is proposed approach should be aligned to growing capability (professional and generalist) to ensure a consistent reward and reduced turnover.

4.4 It is recommended the pay approach focusses on two distinctive parts:

- The Progression framework** – This would be a policy and guidance document for all roles within Medway, as designed by job families. It would outline expected pay bands for different capability levels within roles, providing a structure to inform rewarding in-post capability for individuals, allowing progression through the band based on how well they are performing and the contribution they are making (note this is not the same as incremental pay each year, in some instances, movement through the band may take several years).
- The Market Allowance Framework** – this would be a defined pay range(s) and allowance guidance for critical roles. This would be a special measure established for the most difficult to recruit professions (replacing the current market premium or salary increase processes). This would involve non-consolidated pay allowances which would allow

flexibility within the market and ensure individuals are contributing to the desired level.

5. The Progression Framework

- 5.1 The Progression Framework would provide salary guidance on pay bands based on benchmarked market data and level of demand, with progression levels aligned to pay increases (capability-based pay).
- 5.2 Moving to job families, a market aligned pay band and Progression Framework will:
 - Help with the retention of staff, (this would be measurable) and staff could see how they need to perform in order to move through the band.
 - Ensure fairness in pay and progression and reduce the administrative burden. Currently, in the exceptional cases that individuals receive additional pay, it is time consuming to undertake ad hoc benchmarking to live adverts, create business cases and seek authorization.
 - Introduce consistency across job families, rewarding similar roles, which require similar skills in an equitable way.
- 5.3 The approach will not just look at pay, but form part of a Progression Framework to form job families, job roles/profiles, career paths and common skills and competencies. It is intended this new framework would focus on levels and capabilities required for each role (for example each role could have 3 spines based of skills level), creating consistency and alignment across similar teams and within service areas.
- 5.4 It is essential to establish a transparent and understandable structure to provide:
 - A clear progression route for long-term careers in Medway
 - A consistent, professions-built career framework for all staff within that any profession to plan their careers
 - A common framework for directorates to use to identify gaps in the workforce and recruit/upskill as necessary.

6 The Market Allowance Framework

- 6.1 Implementation of a Market Allowance Framework in our hard to recruit areas, which will require access to a non-consolidated, capability-based allowance. This can be flexed and used in attracting and retaining staff in key roles where the risk and impact of failure to recruit or retain is high.
- 6.2 This approach would require hard to recruit professions, developing and embedding robust capability assessments, based on the skills required for that professional role(s).
- 6.3 This approach would need to be made available to existing staff and new hires to avoid a two-tier market. As a result, there would need to be a tight governance on decision making.
- 6.4 Annual assessment of specialist skills to determine eligibility for positioning staff within the pay range and, where applicable, the level of access to allowances is required.

6.5 This non-consolidated, capability based allowance, gives us the opportunity to be more competitive in external recruitment by offering a higher cash element, and provides a way to improve retention of critical talent to enable better succession planning.

7. Operating Principles and Governance for the Pay approach

7.1 There will need to be a guided distribution governing the number of individuals positioned in the 3 groups of the band at any one time. This will mitigate against the risk of unsustainable large numbers of individuals receiving the highest pay rates. It is also necessary to secure a distribution to ensure we allow growth in our workforce and space to progress. It is recommended that over time directorates and teams would aim to reflect a normal distribution of skills and experience, for example:

- a. 20% in the developing range
- b. 60% in the proficient range
- c. 20% in the accomplished range

7.2 There can be flexibility in undertaking capability assessments, but it is often recommended this is done annually, however not for everyone, only those who are ready to provide evidence at the next level.

7.3 In terms of the market allowance, a formula for allowance would need to be agreed, and the budget aggregated across the grades at any one time. Once the budget is established, directorates/teams will have flexibility on who receives the allowance, but this would have to demonstrate robust governance around the allowance criteria which is over seen by HR for consistency and Finance for overall budget control.

7.4 The justification for receiving an allowance should be strictly on the basis of an evidenced recruitment issue and/or flight risk where there is a demonstratable high impact (hence the reason why developing individuals would only receive the allowance by exception).

7.5 The initial focus for these arrangements is the identified critical job roles. However, the solution is designed to be scalable and flexible across other roles, depending on the market in terms of supply and demand.

8. Affordability and Costs of the Pay approach

8.1 It is recognised this move will not come without budget pressure, so cost modelling has been commissioned. This may look at opportunity to reduce contractor spend in critical jobs, recycling that into the payment of these. It is also essential that we pursue a phased approach, aligning the current workforce using reliable bench marked data. Crucially, this will allow cost modelling to determine the budgetary impact.

8.2 The scope and scale of such a large programme would need to be implemented over several years. It will need to be overlaid with large data sources, which include demographics, market demand, performance management, talent identification and a reward strategy.

8.3 Given the size of the project there is a need to consider the resourcing and tools to aid design and implementation. The Council's Transformation Board recognised this need for change, much of which will support the transformation journey the organisation is on. From existing revenue budgets, the Board allocated £224,400 from the Transformation Fund to support the review over a three-year period. The investment is to commission a system to future proof the pay approach, develop the model, evaluate every post, and implement the new scheme. This is a cost that, in all likelihood, we would have had to incur associated with the independent consultant and the independent review. In addition, by increasing capacity at the senior leadership level we have a dedicated senior team of HR professionals who can undertake the review and manage the phased implementation.

9 Advice and analysis

9.1 Noting the issues outlined above, it should be recognised that there will be no immediate quick fix to the issue of MedPay or current recruitment challenges. However, implementing this new pay and progression framework, as recommended in this report, will resolve many of our current pay framework critically address the market challenges impacting on recruitment and retention, ensuring a fair and consistent pay range(s), and regular review of performance against required skills.

9.2 It would be beneficial to start with at least 10% as a pilot so that the principles and framework can be tested on a live sample. Identification of the 10% will be determined by range of key recruitment and retention issues.

10. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
That the current MedPay Scheme is not fit for purpose and discriminates against some cohorts of staff bringing the council into conflict with the Equality Act 2010.	The Trade Unions have challenged that the performance related pay element of the MedPay scheme may discriminate against part-time workers who are pre-dominantly female.	To continue to robustly manage the MedPay scheme and to closely monitor the equalities data.	D2
That the current MedPay Scheme is not fit for purpose and the Council will lose their skilled workforce to other work providers.	An assertion that the removal of increments from pay has meant that staff have not had increases to salaries, compared with market average.	To continue to monitor exit surveys and reasons for leaving. To benchmark posts	B2

Funding: Budget not sufficient to cover increase to pay due to bench marked roles in the pay approach	Work will need to be undertaken to determine the extent of salaries that will fall within the bench marked ranges, and the system designed accordingly to ensure affordability	Increase in priority areas only Self-funding model may need consideration for a small workforce but one with higher skills	B2
Upon Assessment all role holders deem accomplished providing a funding challenge	Everyone with high skills sets, therefore difficult to fund and retain	Capability assessments to be conducted ahead of a pay award to provide an indication of the model and financial forecast	C3
Over time (est 2-3 years) as capability improves more role holders may be assessed as Accomplished and receive capability base pay, exceeding distribution assumptions supporting the model (20.60.20)	As above	Mitigation as above, and align forecasts to future medium term financial planning	C3
Failure to change MedPay and benchmark job roles with a reward system will continue to see high attrition	If we do nothing, we will continue to have high attrition, high recruitment costs and a lack of experience in the organisation	A phased implementation plan is required to ensure consistency and affordability. HR to continue to develop and promote the wider employment offer for staff including benefits both financial and non-financial.	B2

11. Financial implications

- 11.1 There is a financial implication to reviewing any pay model. The scheme design, project management, and cost modelling will be undertaken as priority, and will be funded from the Transformation fund. Elements of the implementation cost will be funded from transformation and new ways of working, with the later phases of implementation to be reflected in the medium-term financial planning process.

11.2 The resources to actually lead and undertake the review will be met from the £224,400 allocation from the Transformation Fund and the strengthened management capacity within the FBI division, following its recent restructure.

12. Legal implications

12.1 There are no direct legal implications to this report, however doing nothing may present an equal pay risk. Equally, consultation in terms of contract change will need be conducted for collective agreement purposes.

13. Recommendations

13.1 The Employment Matters Committee is asked to:

- i. Support the approach not to pursue an independent review given the issues already identified.
- ii. Agree the principles and framework of the new pay approach as recommended in this report, noting the transformation funding already approved to enable the design and cost modelling to be undertaken, as well as a phased approach to implementation.
- iii. Note the contents of the report and provide comment.

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Appendices

None

Background papers

None