

The pay scheme debate

The Government's plans to move towards performance-based payment progression in the public sector have been met with a mixed response. ANNIE MAKOFF looks at the pros and cons of performance-related pay

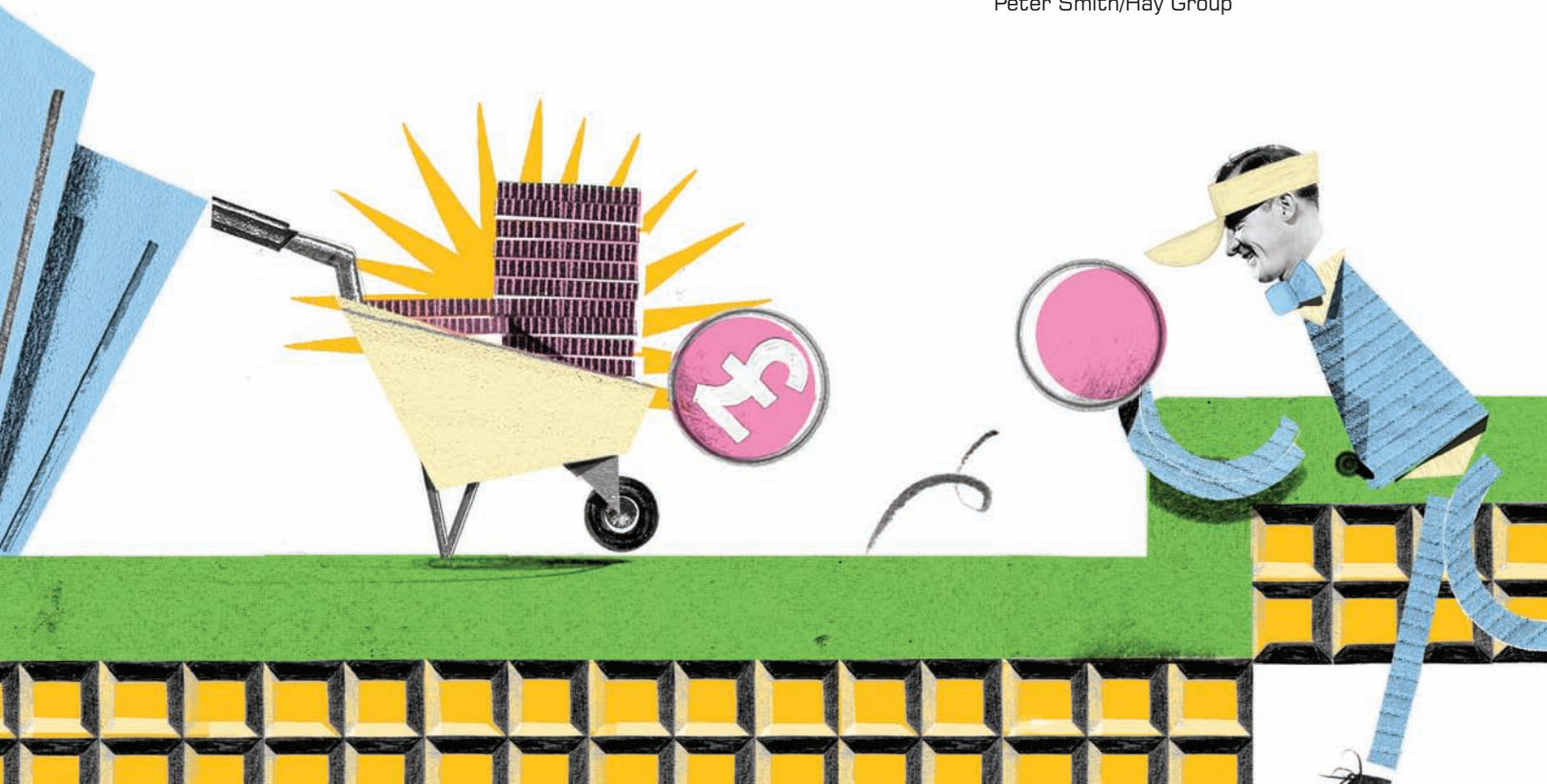
There has always been some tension between the private and public sector. IFF Research once described it as 'sectorenv'. And the radically different pay schemes – performance-based versus time-served models – have done little to ease it.

Peter Smith, director of public sector consulting at Hay Group, says as 80% of taxpayers work in the private sector, many are frustrated they have had pay cuts while public sector workers received pay rises due to incremental pay. In response to this, the

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Peter Smith/Hay Group

Arthur Chiverton



Using increments to help drive performance

Louise Tibbert, head of HR and OD at Hertfordshire County Council and vice president of the PPMA

"In 2009, some councils were stopping increments completely and others were cutting wages by 5%. But at Hertfordshire we wanted to keep increments but use them differently to help drive performance.

We had to cut some things as part of the savings drive, like removing time-and-a-half and premium rates for weekend working.

Moving to performance-related increments was a key element of the restructure. Under the old system, you got an automatic pay increment regardless of your performance, so this new system improved engagement. It affects anyone on £48,000 and less.

Increments are paid for those who 'fully achieve' or 'exceed'. Those who 'exceed' also get a 1% non-consolidated payment. This year, 4% of our workforce was in the 'exceed' category.

We also used the opportunity to re-package our employee benefits as the Herts Reward Scheme, which focuses on five areas: financial, health, support and development, travel, and work-life balance.

Since implementation, we're seeing a good direction of travel. Sickness absence has improved – in 2010 it was 8.6 days per employee, but in 2013 it's 5.5 days.

There isn't a 'one size fits all' in local government, so it's about thinking what we need to achieve and getting there steadily and carefully, which is the Hertfordshire way."

Government announced at its Spending Review last month that automatic incremental pay progression would be scrapped in most public sector organisations from 2015 as part of a £11.5 billion cuts package.

So what does the future hold for automatic incremental pay progression? "It's likely there will be a move towards making increment programmes based on performance rather than on time-served," Smith predicts. "The original idea behind incremental pay is that everybody takes a while to become fully competent in a role, so you reward them as they grow in competence and experience."

Smith says the private sector would never advocate automatic pay increments – a pay increase regardless of how well the organisation or individual has performed.

"The bottom line is if you don't get rid of automatic incremental progression, you can't control pay, and that is what the Government has realised," he says.

Richard Crouch, president of the Public Sector People Managers' Association, points out that despite public sector organisations having powers to withhold increments, very few do, so there is a culture of people moving up the pay scale irrespective of their performance.

With that comes the issue of incentives and staff morale. "[Under incremental pay] people were feeling that however well they performed everyone would get a pay rise," says Jabbar Sardar, director of HR and OD at children's services body Cafcass, which switched to performance-related pay in 2008.

"Our pay structure is already based on performance-related pay, so you only move up to the next pay point if your performance is good," Sardar explains. "But because the Government wants to remove pay progression from 2015, we've been looking at how we can implement their new approach whilst remaining competitive in the marketplace from a recruitment and retention perspective."

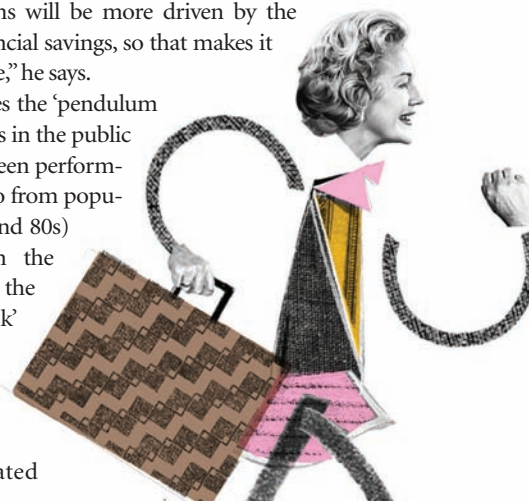
Thames Valley Police also made the switch to performance-

related pay in the late 1990s. Like Cafcass, it had identified a sense of frustration among staff. "Introducing a performance element to our pay structure was about recognition and retention of high performers," says John Summers, head of HR, innovation and reward at Thames Valley Police. Summers and HR director Steven Chase helped implement the force's current performance-related pay system.

Chase says the transition to performance-related pay had to be made carefully. "At the time, like a lot of police forces, we were on the police staff council pay structure, so it was about giving staff the opportunity to stay on that if they wished, or move with us to the new system," he recalls.

Although the majority of staff opted to move to the new system, Chase and Summers acknowledge that they were only able to implement the new pay structure because Thames Valley Police had the financial means to do so and were able to offer a 4% pay rise. Summers says although not everyone was on board with the new structure, the incentive did make it more worthwhile. This might not be possible today. "Public sector organisations will be more driven by the need to make financial savings, so that makes it more of a challenge," he says.

Crouch describes the 'pendulum effect' of pay trends in the public sector, which has seen performance-related pay go from popular (in the 1970s and 80s) to avoided (from the 90s). He refers to the 'open cheque book' issue where line managers were automatically awarding performance-related



How employees really feel about pay

- **1 in 3** public sector workers agree with the concept of performance-related pay
- **55%** of public sector workers believe pay should reflect the cost of living, compared with 36% in the private sector
- **54%** of private sector workers believe pay should reflect performance
- **3 in 10** public sector workers believe pay should be negotiated through trade unions
- **55%** of private sector workers believe public sector staff should be paid according to individual performance

Source: CIPD report, Employees attitudes to pay

bonuses to staff. The idea of staff bonuses ultimately became a dirty word – connotations of banker's bonuses never being far from the mind.

"The pendulum is now swinging back towards performance-related pay," he says, but points out that measuring staff performance in a predominantly non-profit industry may be problematic.

"How on earth can you objectively measure performance fairly with some of the roles we have within the public sector?" he continues. "You can't tell a child protection social worker that their target is to have 30 caseloads a month, but they must get them off their books within a full month period."

The solution to these challenges, Crouch says, is to get more sophisticated by basing performance on contributions and positive interventions, rather than solely on input and output. Crouch adds that allowing HR to deal with performance-related pay rather than line managers would also help.

Ultimately though, the success of implementing a new pay system boils down to staff attitudes and the public sector's reaction to such a radical change. The CIPD's 2013 *Reward Management Survey* revealed huge gaps in attitudes towards pay. While private sector employees favoured the performance-driven model of payment, public sector workers preferred the more traditional methods of reward management.

Trade unions, too, are cynical about private-sector inspired reward-based pay schemes, fearing it will result in reduced members' pay and, ultimately, fewer workers' rights. But the success of introducing such schemes into organisations like

Thames Valley Police and Cafcass suggest it is possible to reach amicable agreements. Crouch asserts that it's a case of "instilling the advantages" to the unions rather than focusing on the "draconian message" from the Government, which he believes is exacerbating the situation. "It's about people being paid fairly for a fair day's work. Focus on that rather than the tough Government message in their Spending Review," he advises.

"It's definitely an issue of trust," Smith adds. "Incremental pay is a fixed system with key elements that can't be easily removed, but with this new fluid pay structure comes the fear that management could take advantage and use it to cut pay."

So, what about the divide within the public sector? Under plans put forward in the Spending Review, the civil service, police and NHS will be expected to move to performance-related pay from 2015, but there was no mention of local authorities. As they are essentially independent bodies, are they immune from these changes? Crouch doesn't think so. He maintains that as the majority of local authorities are run by Conservative-led councils, they will still be under pressure to change to performance-related pay.

Steve Houghton, performance and reward manager at Essex County Council, agrees: "Local authorities are moving from being service providers to commissioning-based organisations, so their pay structures will need to appeal to those in the private sector if they are to remain competitive." The council introduced its own form of performance-related pay in 2001 using a staged approach with "continual communication with employees". Houghton believes the new system has created 'a direct link' between pay reward schemes and improved performance.

There is a consensus among HR specialists like Smith, Crouch and Sardar that performance-related pay can do much to enhance the public sector's reputation.

"There has always been the point of view that the private sector is good and the public sector is bad. Incremental pay does nothing to reverse that reputation," says Crouch. "The public sector should be mirroring some of the good practice that the private sector is undertaking. Performance-related pay is based on incentives and clarity for the employee and that can't be a bad thing." **HR**

