

## **Local Government Workers Pay and Grading**

### **Report by John Blair, Director Resources**

#### **1 Purpose of Report**

The purpose of this report is to provide Audit Committee with details of the benefits arising from the changes in terms Local Government Workers and conditions which were implemented by the Council from 1 October 2016.

#### **2 Background**

##### **2.1 Previous Reports**

The previous reports considered by the Council are set out and are summarised below to provide the Audit Committee with context and background.

##### **2.2 4 February 2014 Financial Strategy 2015/16 and 2016/17**

This report set out proposals for the Council to review pay and grading for the Local government staff group. The Council pay and grading Structure was previously reviewed in June 2009.

##### **2.3 25 March 2014 Review of Local Government Staff terms and Conditions**

#### **Objectives and Remit**

The Objectives of the review was to:

- To provide research and analysis relating to the employees terms and conditions across Scotland compared to Midlothian Council
- To identify areas where potential efficiencies can be considered
- To provide details of Midlothian Council pay levels relative to other employers and comparator groups

The scope of the review included:

- All staff within the Council current pay grades 1 to 14
- Comparison of allowances and expenses with other organisations
- Options for reviewing the sickness absence provisions.

The scope as set out above required to comply with the following criteria:

- a) Equal Pay compliance
- b) The integrity of the Council's Job Evaluation scheme and processes must be maintained
- c) Any changes require to be financially sustainable and reflect future years budgetary projections.

The review specifically focused on:

- Levels of pay
- Working week
- Sickness absence provisions
- Overtime premiums and arrangements
- Public holiday arrangements
- Pay progression options
- Pay frequencies
- An examination of other allowances

#### **2.4 24 March 2015 Review of Local Government Working Team and Conduct**

The report presented to Council on 24 March 2015

- Outlined the financial restraints which required a refocus of the review towards the lowest grades together with consideration of a range of non-financial rewards to extend across all local government employees,
- Highlighted that improving pay levels for the lowest grades would have a positive impact on the local economy and as such contribute to addressing the wider issue of inequality,
- Highlighted that by increasing the base pay there would inevitably be an increase in the overall Council pay bill.

#### **2.5 23 June 2015 Review of Local Government Workers Pay and Grading**

This report provided Council with:

- An overview of the potential implications of the link to the Real Living Wage on pay differentials,
- An update on the ongoing pay modelling work,
- The equality and legislative implications of the pay and grading review,
- The outcome of the non-financial benefits survey,
- An outline of the policy changes which formed a key strand of the review.

The report also gave approval of the key principles, a cost ceiling for the review and authority for the Council to commence formal negotiations with the recognised Trade Unions.

#### **2.6 22 September 2015 Review of Local Government Workers Pay and Grading**

This report provided the Council with an update on the Review of Local Government Workers Pay and Grading arrangements, incorporating developments nationally and locally since the previous report to Council on 23 June 2015.

#### **2.7 15 December 2015 Review of Local Government Works Pay and Grading**

This report provided the Special Council meeting with an update on the Review of Local Government Workers Pay and Grading arrangements, incorporating developments nationally and locally since the last report to Council on 22 September 2015.

## **2.8 8 June 2016 Review of Local Government Works Pay and Grading**

This report appraised Council on the position with the Review of Local Government Workers Pay and Grading arrangements.

The report also updated Council on the outcome of the negotiations to secure a collective bargaining agreement and sought approval to make a formal proposal to the recognised Local Government Workers Trade Unions, Unison, Unite and UCATT.

The proposal encompassed the four strands of the review, namely:

- Changes to the pay and grading structure for Local Government Workers;
- Changes to the Council's HR Policy Framework;
- The adoption of an expanded employee non-financial benefits package; and
- The enhancement of Lifelong Learning.

## **2.9 28 June 2016 Review of Local Government Works Pay and Grading**

This report appraised the Council of the outcome of Trade Union ballot process in respect of the Review of Local Government Workers pay and grading.

The outcome of the ballots were in favour of the proposals and accordingly arrangements were put in place by the Council to formalise the collective agreement and proceed to implementation effective from 1 October 2016.

# **3 Local Government Works Pay and Grading**

## **3.1 The Case for Change**

The overarching aims of the proposed package of changes set out by the Council was to change culture and sustain employee relations through a transformational program of service reviews, e.g. by removing the premium of a fifth that applied to weekend working. The package was designed to promote workplace flexibility and employee work life balance and enhanced the provision of lifelong learning. The other benefits of the review of pay and grading included:

- Tackling in-work poverty;
- Positioning Midlothian as an employer of choice in the employment market;
- The need to ensure that the Council has a pay and grading structure which can sustain future increases in the Living Wage and which maintains differentials across pay grades;
- Adopting terms and conditions and an HR Policy Framework which supports and facilitates service change, ensuring that services can be adapted to continue to meet customer needs;
- Adopting terms and conditions and an HR Policy Framework which will bring improvements in attendance and productivity across the Council

Alterations to terms and conditions included:

- A reduction to four recognised public holidays (two at Christmas and two at New Year) with the remaining five public holidays becoming part of employees annual leave entitlement.
- Contracted Saturday and Sunday working paid at the standard hourly rate (except 10pm – 6am) rather than the current time and a fifth;

- Contractual night working between the hours of 10pm to 6am to be paid at time and a fifth;
- Raising the threshold before overtime premium applies from 36 hours to 40 hours in any week;
- Reducing the overtime premium paid for hours worked above 40 hours per week from time and a half to time and a quarter;
- Annual Leave entitlement enhanced by one additional day with the exception of Chief Officers;
- Standby arrangements remain as at present, i.e. payment for first two hours for first call out and time and a half premium for time worked under standby arrangements. The standby payment increased to a flat rate of £20 per 24 hours.

### **3.2 Progress since Implementation**

A significant amount of work has been carried out with regards to each of the four strands as identified in section 2.8. and this section provides a brief update with further information and commentary also being provided.

#### **3.2.1 Changes to Pay Grading structure for Local Government workers**

The changes necessary to integrate the Scottish Government Living Wage were significant. The new pay scales delivered a substantial increase in pay for the lowest earners (grades 1-3) of between 7.7% -14.4% in the first year. This was made possible by successfully agreeing with the Trade Unions limited criteria for the application of and a reduction in the value of, premium rates of pay. The objective was to end a culture of dependency on premium rates to boost earnings.

The changes also had a positive impact on the gender pay gap as the majority of employees in these pay bands (76%) are female. It should also be noted that the next section provides details of the benefits realised and will be further expanded and enhanced by the Investing in Our Workforce (IioW) Board over the coming months.

#### **3.2.2 Benefits realised from the Introduction of Revised Terms and Conditions and Changes to the Councils HR Policy framework**

##### **Gender Pay**

*An independent Equality Impact assessment was carried on the revised terms and conditions in February 2017. The EQIA concluded “On the basis of the information supplied, the new pay scheme is consistent with the principles of equal pay for work of equal value. It reduced the overall gender pay gap for both basic salary and the salary package.”*

*Specifically it was noted the new scheme reduced the pay gap at three grades, left the gap unchanged at ten grades and increased it slightly at one grade. Although each of these changes was relatively small.*

*The report observed that overall gender pay gap is influenced by the distribution of men and women across the grades, as well as by pay structure issues. A major contributor to the overall pay gap is that the two grades with the highest number of women are grades one and two, while the two grades with the highest number of men are grades two and five.*

However, there was a reduction from 11.3% to 10.7% in the overall pay gap between men and women under the new arrangements. This was largely because the largest increases in basic salary were at grades one to three, where there were significantly more women than men.

### **Sickness Absence Levels**

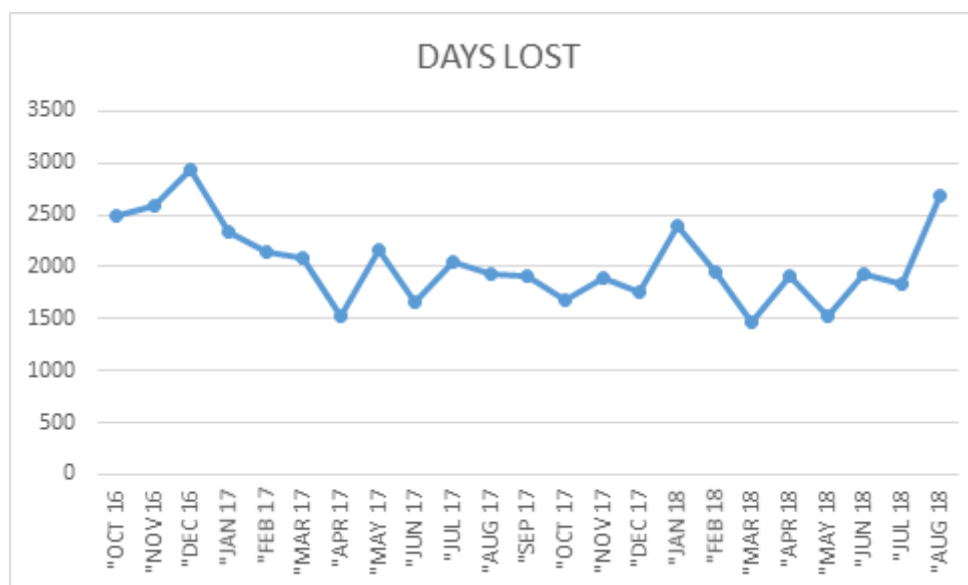
Since October 2016 the following headline statistics relate to sickness absence.

The average days lost per month for each of three financial years are as follows:

Year	Months	Days	Average Monthly Days Lost	Monthly Change	Cumulative	Percentage reduction	Notes
2016/17	6 months	14,602	2,434	--	--	---	(a)
2017/18	12 Months	22,405	1,867	567	567	23.3%	(b)
2018/19	5 Months	9,912	1,982	(115)	452	18.5%	(C)

#### Notes

- December 2016 all-time high of 2,939 days.
- Significant improvement consistently during 2017/18.
- The increase in the 2018/19 part year monthly average is due to an August 2018 high of 2692 days which is the second highest month since October 2016. This is being investigated with service managers through workforce management protocols in-order to facilitate a continuation of the downward trend. .



#### Commentary

- Committee are invited to note the downward trends regarding sickness absence levels.
- Committee are invited to note that Midlothian Council in 2016/17 ranked in the first quartile for non-teacher sickness absence (seventh) based on the Local Government Benchmarking Framework Indicators.

Note that information on sickness absence trends is included in the Councils quarterly performance monitoring, and that going forward more detailed information will be included to explain the trends.

## Agency Spend

Whilst recognising there is a place for agency workers as part of the overall workforce strategy required to deliver services, one of the outcomes of the review supported by the Council and previously considered by the Performance Review and Scrutiny Committee was a reduction in Agency spend through the adoption of a more robust Agency Workers Policy. This approach has been delivered with a review of business need. The production of detailed data from the registration and assessment process introduced to comply with the HMRC legislative changes for these workers allowed the lioW Board to focus on and prioritise the reduction in Agency spend.

The following table details the Council spend of agency personnel since April 2016.

Year	Months	Amount	Monthly Average	Notes
2016/17	12 months	£3,829,000	£319,000	--
2017/18	12 Months	£3,371,000	£281,000	
2018/19	4.5 Months	£727,000	£161,000	(a)

(a) Month 1 traditionally low due to year end processing Easter Holidays and actuals spend for month 2 over the last three years in the same period is as follows:

Year	Panel 5 Spend
2016/17	£1,337,000
2017/18	£1,136,000
2018/19	£727,000

Please note Period 5 ledger period generally ends mid-August.

### Commentary

- Committee are invited to note the Council has a robust policy, secured through the low pay negotiations, covering the use of agency staff leading to a significant reduction in agency spend.
- Committee are invited to note the significant reduction in agency spend.
- Committee are invited to note that the Council has a process in place to monitor spend on agency staff.
- Notes that monthly payroll metrics are prepared for (and reviewed by) the Investing in Our Workforce Project Board.

## Additional Hours

The following table details the change in additional hours which includes hours worked at plain time and those hours worked at premium rates time since October 2016.

Payroll	Year	Months	Hours	Monthly Hours
661 – Monthly	2016/17	6 months	139,000	23,170
	2017/18	12 months	278,000	23,170
	2018/19	5 months	121,000	24,200

Payroll	Year	Months [period]	Amount	Period Amount
662 – Four Weekly	2016/17	6 months	25,000	4,160
	2017/18	13 months	41,000	3,150
	2018/19	5 months	23,000	4,600

### Commentary

- The static position regarding additional hours for monthly payroll remains disappointing and could be considered as the next possible priority for the Investing in Our Workforce board. The statistics would suggest some consistency in the service demands for hours that could either be made contractual or translated into additional posts, to allow employees to sustain a healthy work/life balance.
- The collective agreement included a commitment to increase contractual hours to reflect regular additional hours up to and including full time status to increase employees security over their earnings
- With regards to the four weekly payroll the reduction in additional hours reflects the decrease in premium hours which is set out in detail in the next section.

### Premium Hours

The following table sets out the position with regards to premium hours paid, i.e. hours which attract a premium of greater than 1.0 excluding night working.

For completeness and to monitor trends the full year spend for 2014/15 and 2015/16 has been reflected in the following table. It should also be noted that year 2016/17 includes 6 months under the previous terms and conditions and 6 months of the Investing in Our Workforce terms and conditions.

Year	Months	Double Time	Time half	Time Quarter	Total
2014/15	12 Months	£213,000	£1,699,000	£0	£1,912,000
2015/16	12 Months	£144,000	£1,750,000	£0	£1,894,000
2016/17	12 Months	£183,000	£1,128,000	£145,000	£1,456,000
2017/18	12 Months	£156,000	£480,000	£422,000	£1,058,000
Four Year Change		£(57,000)	£(1,219,000)	£422,000	(£854,000)
2018/19	12 weeks	£76,000	£16,000	£117,000	£209,000

### Commentary

- The reduction in premium rate payments was a key element in delivering an affordable uplift in base pay for grades 1-4.
- Over the last four years the cost of premium working has reduced significant particularly post investing in Our Workforce.
- Note that level of hours paid at premium rates continues to be monitored by the Investing in Our Workforce Board.

### Case Work Levels

The following table sets out the levels of casework for Disciplinary Cases by Directorate, following the introduction of the Resolution Policy as part of the collective agreement.

Year	Months	Health Social Care	Education Communities Economy	Resources	Total
2014/15	12	3	12	2	17
2015/16	12	4	6	4	14
2016/17	12	3	4	7	14
2017/18	12	1	4	3	8

## Commentary

A new Code of Conduct and a range of new progressive People Policies were introduced in April 2017. Three of the cases in Education, Communities and Economy are traditional grievances as this is still the procedure used by teachers to raise issues in this manner. The figures in 2017/18 do not reflect the number of resolutions dealt with at an informal stage as this is not recorded. The ethos of the resolution policy is to seek early resolution to issues in the workplace so this is being followed as much as possible and dealt with informally if applicable.

## 4 Report Implications

### 4.1 Resources

The financial implications were fully set out in Chief Executives report to the special meeting of Council held on 8 June 2016.

In this report the financial implications of implementing Investing in our Workforce were as follows:

#### Financial Overview

	2016/17	2017/18	2018/19	2019/20	Total
	£	£	£m	£m	£m
Impact of National Living Wage	0.000	1.000	1.700	2.300	2.300
Cost of Proposals	0.800	1.613	1.270	1.030	1.030
Additional cost of Proposals	0.800	2.613	2.970	3.330	3.330
Less Offsets	(0.330)	(0.660)	(0.660)	(0.660)	(0.660)
<b>Net Cost of Proposals</b>	<b>0.470</b>	<b>1.953</b>	<b>2.310</b>	<b>2.670</b>	<b>2.670</b>
<b>Pay Protection</b>					
Upfront	0.302	--	--	--	0.302
Cash Conservation	0.071	0.061	0.030	0.016	0.178
<b>Pay Protection total costs</b>	<b>0.373</b>	<b>0.061</b>	<b>0.030</b>	<b>0.016</b>	<b>0.480</b>

Committee should note that the changes have contributed to ensuring that the Council's pay and grading structure has the capacity to meet future increases in the living wage without having a detrimental impact on grade boundaries or compromising the Council's performance framework due to a significant compression of grades. A proportion of the additional cost was offset by significant changes in the hours which attracted premium rate payments.

## 5 Risk Implications

The Investing in Our Workforce Board has been chaired by the Chief Executive in recognition of the need to ensure that services maximise the flexibility and other changes introduced from the collective agreement. Whilst positive efforts have already been made to reduce premium overtime and Agency workers costs, it is essential that Service Managers ensure that their workforce plans maximise the benefits and opportunities provided by the changes and increased flexibility secured in terms and conditions and people policies.

Looking forward it is necessary to monitor the implications of changes from:

- The Real Living Wage
- Future Nationally agreed Pay Awards

Which potentially could have implications for the structure of the Council's pay and grading structure in the medium term.



## 5.1 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

## 5.2 Key Priorities within the Single Midlothian Plan

The single Midlothian Plan sets out the partnership three key priorities of:

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

The proposals set out in the Investing in Our Workforce Strategy directly support the third of these priorities and are expected to have a positive impact of the other two priorities. This is particularly relevant given the number of staff who are also Midlothian residents.

Moreover, whilst pay and grading structures and People Policies do not in isolation create organisational change, they can assist in facilitating change which allows the Council to focus on its key priorities and to utilise the staff resource in an effective manner.

## 5.3 Impact on Performance and Outcomes

The Council is committed to having a motivated and high-achieving workforce in order to adapt to changing service demands and reducing financial resources. By ensuring that the Council offers a range of appropriate rewards it is likely they will be more committed and motivated in the workplace.

### 5.3.1 Adopting a Preventative Approach

Implementing all elements of the review, including increased lifelong learning opportunities may make frontline employees feel more valued and result in a reduction in staff turnover and absence levels.

### 5.3.2 Involving Communities and Other Stakeholders

The proposals regarding low pay as set out in this report have been developed through negotiation with the recognised local government Trade Unions resulting in a collective agreement. This process adopted the partnership arrangement set out within the Recognition and Procedural Agreement.

This report addresses internal employment issues and therefore does not involve external stakeholders, although the proposals require to be considered alongside the contractual arrangements of the Council's contractors, suppliers and other external providers. In this respect Council is recognised as a living wage employer, having received accreditation in April 2016.

The Council has been recognised nationally for the approach adopted resulting in shortlisting for the Living Wage Award in 2018.

## **5.6 Ensuring Equalities**

The proposals regarding low pay have been independently equality impact assessed. The assessment has confirmed that the improving pay levels for the lowest grades has a positive impact on addressing in work poverty, with a positive impact on pay for female workers. It will also contribute to the local economy and as such contribute to addressing the wider issues of inequality.

## **5.7 Supporting Sustainable Development**

There are no issues relating to environmental sustainability arising from this report.

## **5.8 IT Issues**

The implication of the proposals required changes to the business applications, principally I Trent, the Councils Payroll and HR system, to facilitate the revisions to pay and grading etc. as set out in this report. These were encompassed and resourced in the associated implementation plans.

## **6 Summary**

The changes to the pay and grading structure have had a positive impact on the gender pay gap. An independent EQIA completed on the Pay and Grading Structure revealed a reduction of 0.4% and 0.6% in basic and total pay respectively.

Additional work is required to reduce the gender pay gap further, specifically progression opportunities for female employees and issues of occupational segregation.

The framework has provided a sound foundation for the delivery of both the financial strategy and service excellence through a programme of service reviews.

Progress towards the ambitions outlined above are monitored at the Implementation Board using a set of metrics that demonstrate:

- Between October 2016 and July 2018 FTE absence days lost fell significantly.
- Additional hours worked over the period from October 16 has reduced and premium costs have also been reduced.
- The overall average hours worked by employees has reduced by 1.5% but earnings have reduced by less than 0.5%, demonstrating that employees can sustain their earnings without the need to work additional hours.
- The overall employee head count in Midlothian Council has increased by 4.6% as spend on agency workers is reduced, more employees are being recruited and the commitment to further reduce regular additional hours remains.

- Performance appraisal ratings show a 31% increase in employees recorded as having delivered an outstanding performance since April 2016, demonstrating that employees are engaging with and delivering on the Council's ambitions.
- Employee testimonials have revealed the career opportunities and impact on self-esteem that participation in lifelong learning has presented to those who have participated. Evening HNC courses in Early Years have been offered to learning assistants to allow access to the career opportunities presented by the expansion in Early Years.
- Other employees have reported the extra income has allowed them to save for the first time, or that flexible work practices now allow them to achieve a work life balance without being absent from work.

## 7 Recommendations

Audit Committee is recommended to:

- Consider the commentary as set out in section 3.2.2 of the report;
- Note the monitoring of the Investment in Our Workforce Project by the Board;
- Note the ongoing development and the use of payroll metrics by service management.

**15 June 2018**

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### Background Papers: