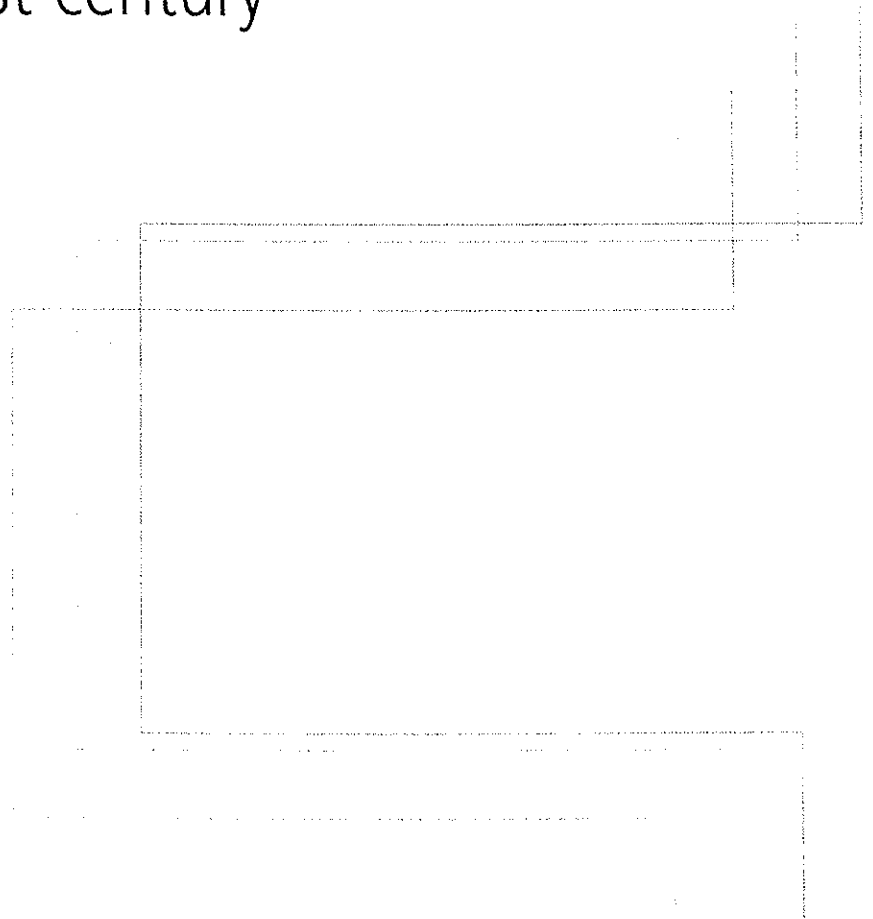

an LGE paper

May 2007

pay, pensions
and
employment
solutions

**delivering a rewarding
future:** an approach to
pay and benefits in
local government for
the 21st century



introduction

1. In consultation about the 2007 pay round, there was clear agreement that a one year deal in 2007 should pave the way for a more comprehensive multi-year deal in 2008. The 2008 deal will include some major reforms of the Green Book single status agreement.
2. However, the context of local government employment is changing very fast and the sector needs to look further forward. We need to develop an approach for the next 10-15 years that provides a framework for the changing role of councils as employers and facilitates the development of partnerships and new types of local public sector employment.
3. This paper has three main objectives:
 1. to discuss how an employers' strategy should be developed and reviewed in future;
 2. to explore what the strategy should actually look like;
 3. to begin the process of developing a working strategy in 2007-2008.
4. Some thoughts on the key priorities for a strategy are included but they are just a starting point. We need diverse views on these proposals and a large number of stakeholders have been sent a list of consultation questions. An employers' strategy will be of use only if it is fully owned by the sector.
5. Because the focus of this paper is to introduce ideas for discussion and consultation, it does not contain any details or timescales. We need to reach a broad consensus about the direction of travel. Once that is agreed, LGE will prepare a detailed draft strategy for discussion. This further document will form the basis of negotiation with the Trade Unions.

recent developments

6. Local government has been modernising the way services are delivered for some years. Outsourcing and partnerships mean that, in some regions at least, councils no longer operate as direct suppliers of services but rather as leading commissioners on behalf of local communities. In part, this is a response to government policy. However, a number of important business factors are also involved. The opportunities of new technology can only be realised and leveraged with the help of partners. Such partners can also bring extra resources for investment. Larger-scale service delivery vehicles, such as those shared with other councils can also bring significant economies of scale, allowing extra investment in the quality of services at a time of significant budgetary tightening. The focus on quality of service becomes ever more important as citizens become ever more aware and empowered.
7. Councils will always have a core workforce and some will choose to employ staff directly to run key services for a variety of reasons, such as being a beacon employer within their communities. All councils will need to manage their workforces affordably in a context of tightening budgets. Workforces are likely to shrink over the next few years but whatever happens, councils should take the opportunity to manage their pay bills more effectively and control the proportion of budgets taken up by staffing costs.
8. Organisational restructuring and changes in workforce management now happen all the time in councils. However, since the major shift to single status in 1997, some opportunities have been missed to help deliver the new local agenda through new national employer aims and objectives.

moving forward from the achievements of single status

9. The LGS “Green Book” (single status) agreement remains a radical proposition, with the principle of equality at its core. However it is now ten years old and it is timely to examine which of the original objectives have been achieved in order to assess how best to move it forward. Five to six years is considered the maximum lifespan for any pay structure in this era of rapid organisational change and the Green Book has stood the test of time in many ways.
10. The first objective of single status was to harmonise the basic terms and conditions of the former Manual and APT&C groups. This has been largely achieved but of course, the agreement was quite prescriptive about what needed to be done to slot manual jobs into existing pay structures for example.
11. The agreement has also improved market flexibility in pay levels. There is evidence in the LGE pay survey that jobs evaluated at similar levels receive different basic pay in the north and south of England, indicating good market responsiveness. This suggests that there is no need to introduce the additional complexity of regional pay in local government. More can be done to extend flexibility though and there is a role for a revised national agreement in helping individual employers to achieve their goals.
12. The other objectives – a full review of pay structures based on job evaluation, introduction of equal pay and modernisation of terms and conditions set out provisionally in part three of the agreement, have only been achieved by a minority of local authorities, largely because of equal pay problems.
13. The 2006 White Paper and the LGA document People and Places have set out twin visions of where local government aims to go over the next few years. The visions of double devolution to authorities and communities and of councils as leaders and shapers of place will lead to even more dramatic changes impacting on the workforce. The implication is that, whilst immediate reform of the Green Book will begin a process of realignment of pay frameworks, completely new agreements will be needed in the medium to longer term.

developing an employers' strategy

14. A draft strategy will be developed by LGE after detailed consultation with councils, especially the HR community. It will include the new LGE HR Sounding Board, as well as Regional Employers. It is absolutely central to the success of the strategy, since we need to ensure we are addressing the needs of councils in developing national policy.
15. The strategy needs to sit within the overall vision for the local government workforce set out in the national Pay and Workforce Strategy, which in turn will form part of the new national Improvement Strategy. This will bring an appropriate level of influence for CLG as the lead department responsible for local government. The strategy must also take account of the general objectives for public sector pay and workforce development set out by Government.
16. This wide variety of influences and stakeholders brings a risk that the development of the strategy could become incoherent or tend towards the lowest common denominator. Dealing with these risks will require a shared sense of responsibility and commitment among councils.

what should an employers' strategy look like?

17. The strategy needs clear short, medium and long-term goals and milestones, rather than being cluttered with detail and very specific outcomes. councils will all have specific aims and objectives for particular aspects of rewards and the national vision is about helping councils to achieve their goals.
18. However, given the key principles and the variety of influences on the strategy described earlier, there is no way that it can simply amount to a statement that rewards are wholly a matter for local determination. The strategy needs to combine the goal of local flexibility with a sense of direction and clear statements of good practice as well as support for individual councils. This involves learning lessons from the past about how national agreements should be structured.
19. It is now becoming accepted that what national agreements should do is provide jointly agreed ideas about how progress might be made locally and what radically new reward systems might look like.

outlining an initial strategy in 2007-2008

core principles

20. A coherent employers' strategy will need to be based on some agreed principles. Some widely accepted principles are set out here but the list is neither exhaustive nor set in stone:

- local government needs an approach to pay and rewards that is fit for purpose in the 21st Century, reflecting changes in society and the workplace;
- elected members have a key role to play in developing and achieving employer strategy because they provide democratic accountability;
- decisions on pay and rewards should be made as close to the individual employee as possible;
- the national element of the local government pay system should focus on enabling and leveraging improvements to systems at the local level;
- the employer strategy must be developed and owned by local government with LGE as its key national agent;
- decisions over pay and rewards should promote equality of opportunity for women and all other groups identified as suffering discrimination;
- decisions over pay and rewards should always be guided by affordability;
- local government is committed to collective bargaining for issues that need to be dealt with by formal negotiation and agreement;
- local government aspires to be a progressive employer of choice, where it is a direct employer;
- the employment strategy should aim to help increase productivity and performance in local government;
- the employment strategy is about more than just HR management - it must embrace financial, legal, service management and other requirements as part of the wide role of councils as employers;
- central government has strong views on how local government should develop and has control of legislation and finance, so these views are important.

21. The strategy needs to set out an agreed sense of the nature and scope of a national pay framework for local government. The need for a national pay framework is not pre-ordained but in general it is seen as useful in order to:

- drive change in an agreed direction;
- advocate the local government Employer interest;
- ensure that national economic requirements are taken into account in pay increases;
- provide minimum standards, reference points and benchmarks;
- develop closer working relationships with other major employers.

short-term objectives

22. Short-term objectives should serve both to set the groundwork for further radical change in the future and to provide some quick, tangible wins for councils. They should help to ensure that local pay structures continue to develop in ways that make them more effective and modify the Green Book in advance of wider changes. These might include:

- examining the range of nationally prescribed conditions such as those in part two of the current Green Book to see if they can be recast.
 - there has been a broad long-term ambition to make most conditions of service a matter for local determination but this has faltered because of the suspicion that the agenda is to remove premium payments etc.
 - at a national level, we should set out clear principles and safeguards to enable local change.
 - negotiations on removing part three of the Green Book should continue.
 - it may also be the case that some elements of national prescription need to remain.
- developing an enhanced and agreed flow of data on key information such as the pay bill, basic and total salary changes, incremental drift, workforce number changes etc.
 - the generation of better data will help councils to manage their own pay bill more effectively and will aid national discussion on how pay issues fit into wider budgetary discussions aligned with CSR periods.
- strengthening the intelligence available on pay structures to allow for benchmarking of Job Evaluation outcomes and grading structures and taking steps to promote this sort of benchmarking across the public sector
- developing jointly agreed examples of pay progression systems.

medium-term objectives

23. Any long-term objectives agreed for the strategy need to be supported by clearly achievable medium-term objectives. For example, if we want to move towards harmonising terms and conditions to make them more portable across the public sector, they need to be recast in more generic language to allow read-across within and between sectors. A useful approach would be to **draw up new agreements using a total rewards framework**.
24. Development of Total Rewards is a long-standing element of the Pay and Workforce Strategy. Total Rewards focuses on understanding and facilitating the reward priorities of individual employees and on ensuring that the value of all aspects of the employment package is understood and appreciated in reward terms. This would better enable us to articulate the financial value and quality of working life benefits of all aspects of the employment package, including pay, pensions and conditions, rather than negotiating over elements in isolation. This approach should help with recruitment and retention and should help drive productivity. It should also enable a shift away from the traditional focus on pay rises as the sole definition of reward. The key point is that Total Reward employers are able to engage with individual employees to help them choose a reward package that suits their circumstances.
25. Because a true Total Rewards approach shifts much of the focus to the relationship between individual members of staff and their employers, another key aim should be to **address the appropriate balance between national provision and local managerial discretion in the pay framework**. The direction of travel is very much towards maximum local discretion but the approach should not be a dogmatic one. Discussion of the national-local balance should be an early requirement of the strategy.
26. As discussed, one of the key developments for councils is the requirement to develop new partnerships for service delivery. Although councils will always have key groups of direct employees, they will need to ensure that shared and indirect groups of employees are working as effectively as possible. The implications for pay frameworks need to be worked through and understood. **The strategy should set a clear requirement to develop national agreements that facilitate partnerships. This would include having much more portable and flexible terms and conditions.**
27. With regard to base pay increases and the traditional annual pay-round, the interests of stakeholders suggest that officers involved in negotiations should be charged with agreeing **affordable multi-year deals aligned with the CSR budgetary periods, taking due account of public sector pay policy**. The factors involved in such deals should be set out for members in a report, which members can use to provide negotiators with clear parameters for agreement.
28. There is considerable sensitivity over the best way to take account of public sector pay policy, as articulated by the Treasury in a sector which is independent of Central Government as far as pay setting is concerned but dependent on Central Government for its budgetary envelope. However, this is a matter that will be taken into account by individual councils in setting their budgets and assessing what they can afford in pay increases. LGE will continue to take its negotiating mandate from consultation with councils and this can be used to guide the approach taken.
29. The cost of dealing with equal pay has prevented many councils from developing pay systems that reward staff contribution and seek to drive productivity. National negotiations should include the goal of finding agreed **ways to help authorities move forward in introducing new types of pay progression system that provide good incentives for the best performing staff**.

total rewards is defined by the Cabinet Office as follows:

The Total Reward approach draws together all the financial and non-financial investment an employer makes in its workforce. It emphasises all aspects of reward as an integrated and coherent whole, from pay and benefits through flexible working to learning and development and the quality and challenge of the work itself. The aim is to maximise alignment between investment and employee preferences by managing resources in an holistic way - and articulating the benefits on offer - to achieve improved recruitment, retention and performance without substantially increasing costs.

30. A key question that must be asked at some stage is about the concept of **incorporating discussions on pensions** into wider pay and reward negotiations and how this might operate if it was considered. Obviously the statutory scheme involves the Government in stakeholder discussions before they make regulatory changes. However, if councils are to develop the potential of the pension scheme as a key reward mechanism, discussions may need to be handled in a different way

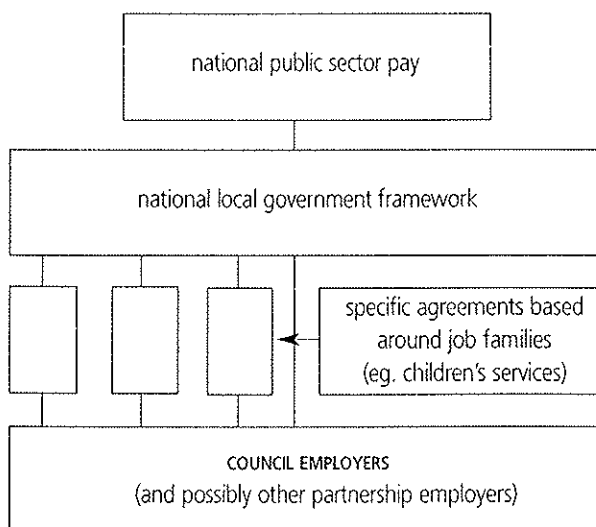
longer-term goals

31. There is a major long-term trend towards different part of the public sector working much more closely together. The development of new public service partnerships might suggest a long-term objective of developing a **national public sector rewards framework with local frameworks beneath it**, promoting some useful harmonisation, flexibility and inter-connectedness. In the strategy, members might set an immediate task for officers **to begin exploring options for this sort of development with other employers' organisations**. This would be with a view to encouraging such developments locally.

32. To progress towards this wider public sector goal, **LGE should examine how the current national agreements could be brought closer together and possibly unified**. It makes sense to simplify the current set of agreements to promote inter-connections. This is not the same as reforming the negotiating groups, which is partly a matter of administrative efficiency. Setting such a general objective would not pre-suppose a specific conclusion. In fact, there are some arguments, which present a challenge to homogeneous agreements and could suggest breaking up the single status group.

33. **Many large organisations, such as in the retail sector, are beginning to organise their workforces into service-specific groups** and the idea is now beginning to enter the public sector. The idea is that pay structures and agreements focused on particular types of jobs are more responsive to the market and drive productivity by promoting more relevant career paths. Local government cannot simply ignore these arguments and trends. This is being explored through the current review of arrangements for schools-based staff. There will be a challenge in producing the best way forward to combine job-specific flexibility with elements of harmonisation. Different trends in localising and harmonising require a clear response as the employer strategy moves forward.

34. As an example only, a combined vision of beneficial harmonisation with localised determination might look something like this:



35. Once the direction of travel for the sector is agreed and the strategy is set out in detail, work can begin immediately on designing and negotiating elements of all the goals set out. Some ideas may take a while to achieve and negotiations will be challenging, but the outcome should secure the role of councils as influential employers in the new public sector.

36. LGE believes that achievement of an agreed set of short, medium and long-term objectives is likely to be facilitated by a fresh approach to negotiations. Some thoughts about how to ensure that negotiations are handled most effectively are set out in annex a.

annex a – ensuring effective negotiations

- Why reform of the negotiating machinery is needed.
- What principles should guide reform.
- What kind of reform is needed.
- A suggested reform model.

why reform of the negotiating machinery is needed

1. A significant proportion of LGE's time and resources is spent representing employer interests and servicing a range of negotiating bodies. Our responsibility is to maintain and build upon our reputation as national experts with limited resources and a growing number of strategic priorities.
2. The most important focus of reform is to improve the local government pay framework, based on the employer strategy discussed in the main part of this paper. The institutions responsible for the framework should only be reformed if they slow down or prevent change.
3. The current machinery inhibits the ability of employers to address specific issues within large workforces. For example, there has been a great deal of workforce reorganisation over the last few years, such as workforce remodelling in schools. Changes to negotiating structures can be designed to help manage reorganisation. Does it make sense for example that directors of children's services find that they have to deal with staff in at least eight negotiating groups?
4. The current machinery has delivered affordable pay increases because this is a core political issue and political channels can be used effectively to get results. However, many other issues are arguably better seen as HR matters. Strategic decoupling of HR matters from base pay discussions would allow space for the redevelopment of the national agreements in a way that will assist the development of councils as employers.
5. Detailed member involvement in negotiations on a routine basis can mean that political clearance needs to be sought on quite small issues rather than key principles. This slows the process down and can leave negotiators without clear parameters. We need to examine these processes and make them more efficient.

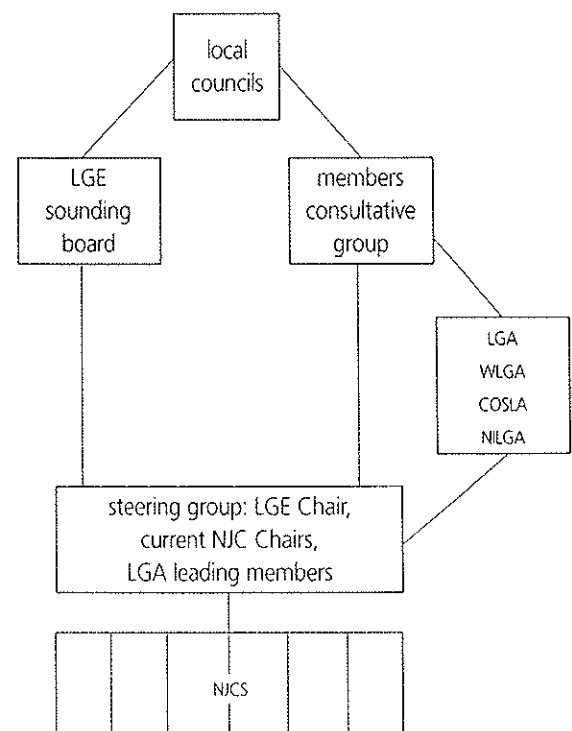
what principles should guide reform?

6. Efforts to reform the negotiating machinery must be based on some key principles, linked to the new employer strategy:
 - the role of elected members in providing political leadership for negotiations is very important because local councils are democratic institutions;
 - there is a firm commitment to collective bargaining and the importance of excellent working relationships with the Trade Unions;
 - reform must be based on achieving as wide a degree of consensus as possible;
 - re-engineered negotiating machinery must be focused on delivering redesigned national agreements.

what kind of reform is needed?

7. The basic pattern of recommended reform of the negotiating machinery is as follows:
 - move towards a more streamlined bargaining process;
 - optimise the role of members;
 - optimise the role of HR advisers in negotiations;
 - optimise the channels for communication and consultation with councils.

8. a suggested model for reform



9. In this model, which is set out for illustrative purposes only, the key strategic lead from members is delivered by an LGE Chair's Group, sitting above the day to day operation of NJCs. A Members' Consultative Group would add a wider perspective.

10. Optimising the role of members in the negotiating process

It is absolutely vital that members set political parameters for negotiations. The question to be asked is a pragmatic one about how political parameters are best judged and communicated.

11. Optimising the role of HR advisers in negotiations

Getting the structure right implies, as mentioned above, a greater role for advisors who also form the route for immediate consultation with employers. We could consider paying a supplement to advisors to guarantee their attendance and contribution to the work of the machinery. Alternatively, cost considerations might dictate that instead we offer advisors a testimonial describing their role in negotiations, which should be of interest in personal appraisals and career development.

12. Reviewing the smaller negotiating bodies, with possible abolition on the agenda – either by leaving everything to local determination or putting the employees affected into another negotiating body.

13. It would be unfair to argue for getting rid of smaller bodies simply as an end in itself. However, the concept of a general framework agreement discussed in the main paper strongly implies a move to single-table bargaining with specialist elements where necessary.

14. Establishing clear and regular mechanisms for consultation with authorities

A national Sounding Board has been established to advise LGE on its work. This body has the potential to become a key part of the process and provides an opportunity to bring in representatives of other interested groups or employers to enhance discussions when suitable and necessary. We should also make better use of improved communications such as using restricted areas of the website to consult councils.

next steps

15. Once an indicative structure for new negotiating arrangements has been developed and agreed with senior members in the LGA, LGE will prepare a paper setting out a plan for implementation of the new structure as soon as possible. The plan will include necessary constitutional proposals for agreement with the Trade Unions. The aim is to bring elements of the new machinery into operation as soon as possible, in time to have an effect on the 2008 negotiations.

delivering a rewarding future:

an approach to pay and benefits in local government for the 21st Century

questions for consultation

1. Are you satisfied with the **process** for agreeing the new strategy, and **what it should look like** as outlined on page 3?
2. Do you have any views on the **core principles**?
3. In the context of a national agreement, what would be **most useful** to your authority in the **medium to long term**?
 - a) Working towards harmonising pay and conditions of all public sector staff e.g. local government Services, Health, Police etc. to reflect new and future working arrangements for service delivery? **or**
 - b) Maximising support to council's to further determine their own arrangements for pay and conditions at a local level? **or**
 - c) Seeking to retain common national conditions in respect of issues such as maternity and sickness benefits but keeping pay level determination at local employer level?
4. What are your views on the:
 - a) **Short-term objectives** on page 3?
 - b) **Medium-term objectives** on page 4, in particular:
 - the move towards a Total Rewards Framework;
 - multi-year deals aligned with CSR settlements;
 - incorporating pensions in pay and conditions negotiations;
 - whether the Strategy should aim to encourage moves towards pay progression systems that reward contribution.
 - c) **Longer-term goals** on page 5
 - national public sector rewards framework;
 - service specific job families.
5. What would be **most useful** to your authority?
 - a) **continuing to try and unify national agreements**, for example seeking to incorporate craft workers into the green book **or**
 - b) seeking to take some groups out of the single status agreement and set up **new negotiating groups based on service specific job families**?
6. What are your views on the model for reforming the negotiating machinery as outlined in annex a?
7. Are there any major issues that you would like to see dealt with by LGE that we have missed in the discussion paper?

Please use the accompanying response form to give us your views and return to:
mayorstevebullock.workforce@lga.gov.uk
by Friday 29 June 2007.

Mayor Steve Bullock
Chair HR Panel
Local Government Association
Local Government House
Smith Square
London SW1P 3HZ

If you have any questions regarding this document please call 020 7187 7370.

