

DERBYSHIRE COUNTY COUNCIL

CABINET

30 JULY 2013

Joint Report of the Acting Chief Executive and the Director of HR

INTRODUCTION OF MARKET SUPPLEMENT PAYMENTS

(Council Services)

1. Purpose of Report

To seek Cabinet approval for the introduction of Market Supplement payments and the implementation of the proposed Market Supplement Procedure.

2. Information and Analysis

The Council has previously identified the need for a process to enable the formal consideration of the payment of market supplement rates. This was intended to address anticipated difficulties in recruiting to specialist roles in exceptionally competitive markets following the implementation of job evaluation.

A report was therefore commissioned from Tribal GWT Consulting in February 2004 and although the implementation of job evaluation did not ultimately take place until 2010, the report contains detailed analysis and recommendations which remain valid. A copy of the executive summary of the report is attached at **Appendix 1**.

The Tribal report emphasises that supplements will not be appropriate in all cases and that there are a number of other measures, recruitment, improving working environment etc that should also be considered. It recommends that market supplements should only be used when it can be demonstrated that there are recruitment and retention issues that specifically relate to pay and that they are specifically due to Council pay rates being low in relation to comparable jobs elsewhere. The report includes recommendations about the elements needed to build a transparent and robust process for assessing and approving market supplements. In April 2004, Cabinet considered the recommendations within the Tribal Report and approved a proposed framework for assessing applications for market supplements.

All market supplement rates that were being paid within the Council were removed with effect from 1 April 2010 as a result of the implementation of single status and job evaluation. The potential re-introduction of market supplements for posts with significant recruitment and retention difficulties has therefore been raised again.

A more detailed Market Supplement Procedure has now been developed and Counsel's advice has been sought on the continuing relevance of the 2004 Tribal report and also the implications of introducing supplements in the current climate.

The proposed procedure has been revised to take account of Counsel's advice. The application for the payment of a market supplement will need to be instigated by the relevant Chief Officer and must include detailed evidence to demonstrate why a supplement is the most appropriate solution. Each application will be considered at the Corporate Management Team before submission to Cabinet for approval by the Chief Executive. A copy of the proposed procedure is attached at **Appendix 2**.

Two applications for the payment of market supplements have been submitted for consideration by Cabinet in the confidential part of this meeting.

3. Financial Considerations

Each application for the payment of a market supplement will be required to include details of the amount to be paid and also how this amount has been determined. The cost of the supplements will be met from departmental salary budgets.

4. Human Resources Considerations

Market supplements will only be used in exceptional circumstances and when it can be demonstrated that the recruitment/retention difficulties are genuinely related to salary and when all other alternatives have been considered. The procedure that has been developed has been designed to provide a robust and consistent approach to considering each application. Consultation with trades unions and employees will be undertaken through the CJC.

5. Legal and Human Rights Considerations

Counsel's advice has been sought as detailed above.

6. Equality of Opportunity Considerations

Consideration will have to be given to the gender balance of the employee group to which the supplements will potentially apply in order to assess any equal pay implications.

7. Other Considerations

In preparing this report, the relevance of the following factors has been considered: prevention of crime and disorder; health; environmental; property and transport considerations.

8. Background Papers

Cabinet Report – HR Strategy – single status pay and grading – the application of market supplements in supporting recruitment and retention strategies - 27 April 2004.

9. Key Decision

No

10. Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? No

11. OFFICERS' RECOMMENDATIONS

That Cabinet approves:

- I. The introduction of Market Supplement payments
- II. The implementation of the proposed Market Supplement Procedure.

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ACTING CHIEF EXECUTIVE

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DIRECTOR OF HR

Tribal GWT Consulting

For

Derbyshire County Council

MARKET SUPPLEMENTS AND RELATED PAY AND GRADING ISSUES

February 2004

EXECUTIVE SUMMARY

1. The County Council's current use of market supplements is minimal, retention rates are good in some areas, and some departments have realised that, in any case, a pay supplement is not always the best way of attracting applicants or keeping employees – using different recruitment channels, offering good development and career opportunities, and emphasising the benefits of working for a Council located in an attractive area with relatively low housing costs all have a role to play in attracting staff.
2. The County's excellent CPA rating, and high ratings for individual services should also help it to attract staff.
3. Nonetheless there are a number of geographical and market factors which suggest that recruitment and retention problems could increase. In addition, the use of job evaluation will reduce some of the current flexibility around salary levels, so that there is a need for the County to have some scheme to offer pay supplements to posts which are at a market premium in the future.
4. Very occasionally, an adjustment to terms and conditions (e.g. offering additional leave) might prove a more effective way of attracting applications in a tight recruitment market, rather than offering additional pay.
5. Given the following:
 - the payment of such supplements, whilst lawful, is inevitably a distortion of the core pay and grading structure, which seeks to pay employees according to their relative responsibilities within the organisation;
 - widespread use of market supplements could add substantially to the Council's current paybill; and

- the salary level may not always be at the root of recruitment and retention problems, and issues like image, and the nature of jobs, may also deter current and prospective employees;

market supplements will only be appropriate when it can be shown that there are retention problems that are specifically due to pay levels, *and* if there are difficulties in attracting new employees to replace those who are leaving, *and* that this is specifically due to Derbyshire pay rates being low in relation to those for comparable jobs elsewhere.

6. A robust and transparent scheme for market supplements must therefore be developed and must be applied consistently across the whole of the Council. This, and employment law considerations, will require any scheme to be monitored centrally by the Personnel Division, with departments making application to the Division for a pay supplement to be paid in accordance with the proposed scheme.
7. A proposed scheme is set out in paragraphs 20 to 31, with detailed requirements designed to ensure that:
 - supplements are paid only when they are warranted in terms of clear evidence of both retention and recruitment problems,
 - supplements are paid only when they are justifiable in terms of significantly higher pay or packages being offered for the same type of posts in the relevant employment market,
 - supplements are paid only when they are likely to prove effective in attracting employees to Derbyshire;
 - the likely impact within the County Council has been properly assessed and taken into account;
 - there are arrangements to review periodically the continued justification for paying the supplement.
8. Market supplements should not be up-rated in line with cost-of-living increases to core salaries.
9. Bearing in mind that the robust scheme will mean that market supplements are not appropriate in many instances and that supplements may not be the best way of solving problems which are acknowledged to be nation-wide, alternative strategies which can be used for hard-to-fill jobs need to be pursued vigorously. These are set out in Section 3 of this report, and include:
 - further work to emphasise the benefits of living in Derbyshire and working to provide excellent services to the community with Derbyshire County Council;
 - an improved relocation scheme;
 - possible collaboration with other public sector employers in Derbyshire on recruitment;

- a local graduate recruitment scheme, designed to complement existing graduate recruitment mechanisms
 - better career and individual development frameworks for employees
 - improving the working environment;
 - facilitating new ways of working which are designed to make jobs with the County more attractive than those elsewhere;
 - targeting hitherto untapped parts of the workforce in recruitment, and allowing individual departments more freedom to pursue imaginative recruitment initiatives;
 - better succession planning; and
 - developing local loyalty incentives.
10. There will be a need to review of all pay supplements in existence at the time the forthcoming JE-based grading review is completed and a new pay and grading structure is implemented, with the withdrawal of any supplements for posts where the new pay level, post-review, is in line with the market, whereas it had previously been substantially below it.
11. However, it needs to be recognised that it is almost certain that some supplements will continue to be required, even after the implementation of the new structure. The market adjustment procedure in this report is therefore intended to continue to operate, along the same lines, after the forthcoming grading review.

MARKET SUPPLEMENT PROCEDURE

Derbyshire County Council implemented the HAY job evaluation and grading scheme in April 2010. This scheme is used to measure jobs and to determine the level of basic pay that applies to each role in an objective and equitable way.

It is recognised that there may be very exceptional circumstances when there are significant difficulties in recruiting to and/or retaining employees in specialist roles. Where these difficulties result in a demonstrable inability to meet an essential service need, consideration may be given to the application of a market supplement payment in addition to the evaluated rate of pay for the job.

Roles and Responsibilities

Chief Officers are responsible for:

- Demonstrating the need for the application of a new market supplement
- Participating in the review of existing market supplements
- Identifying funding for the payment of market supplements
- Submitting applications for new market supplements for initial consideration by the Corporate Management Team

The Director of Human Resources is responsible for:

- Advising the Corporate Management Team on the proposed market supplement
- Ensuring the review of existing market supplements
- Revising contract of employment documentation
- Providing relevant market pay data to inform the consideration of applications for market supplements

The Director of Legal Services is responsible for:

- Providing advice on the legal implications of the applications e.g. equal pay considerations.

The Chief Executive is responsible for:-

- Submitting the report to Cabinet and recommending the payment of market supplements.

Key Principles

Market supplements will only be paid where a case for payment is fully justified with supporting evidence that it is the level of salary that is creating the recruitment and retention difficulties and that there is no other reasonable way to achieve the organisational objective. Applications will therefore only be considered via the process outlined in this procedure.

Market supplements will be pensionable and payable for a fixed period up to a maximum of 2 years. A review of the payment will take place prior to the end of the fixed period and employees will be notified of any proposed changes, including the withdrawal of the payment at least 1 month before the change will take place. There is no appeal against the change to or the withdrawal of a market supplement.

In the period of the market rate, the relevant Strategic Director/Director and the Director of HR will review the need for the payment of the market rate and are responsible for taking actions to mitigate the need for market rates.

Market supplements will be paid to each postholder, pro rata for part time employees, undertaking the specified job. Supplements will not attract pay award increases or be affected by incremental progression. Contracts of employment will reflect the terms and conditions relating to the temporary payment of the market supplement detailed above.

In considering applications for market rates payments, where appropriate reference will be made to the Tribal GWT report for detailed guidance.

Making an application for the payment of a market supplement

The attached application should be completed and must contain evidence of the following:

- 1. Outline why this post is essential to the Council**
- 2. Consideration of the use of agency workers, contractors, private sector or other providers to undertake the work**

Provide details, including costs, of why any of the above could not be used to deliver this work. This should detail the advantages and disadvantages.

- 3. Consideration has been given to redesigning the job/structure to undertake the work in a different way**

This could include the development of trainee roles or the reallocation of duties.

4.& 5. Turnover rates and evidence from exit interviews

Provide numerical information on the turnover rates, or if a single post, the number of times vacant over a 3 year period. Where relevant, information should include comparison with the Council's average turnover rate. If available evidence from exit questionnaires should be used to demonstrate instances where employees have cited pay as a reason for leaving and the employee is taking up a similar role at a higher rate of pay Turnover should be significantly in excess of that normally experienced and be demonstrably attributable to salary for a supplement to be payable. Individual circumstances will vary but turnover in excess of 20% or the same post falling vacant 3 times within the space of 3 years would be considered to be significantly high.

6. Number and quality of responses to job advertisements

Include evidence of at least one attempt to recruit to the post including timing, where advertised and information on measures used to attract suitable candidates. Examples where a successful candidate has refused an offer of appointment **citing salary as the reason** should also be included.

7. Verification of pay or terms and conditions differential between the Council and the market

This should include reference to commercially available market data, pay databases e.g. Hay and potentially ad hoc surveys in order to research and verify this information. It should include an approximate gender breakdown of the relevant external market where this information is available. If not available, evidence should be provided to demonstrate the efforts taken to obtain such a gender breakdown. There should be a consistent approach to the verification process so that there is transparency and fairness to the outcome. The application must therefore clearly state the nature and origin of the salary data being used for the comparison. There must be clear evidence that this data relates to genuinely comparable posts. This is not only the responsibilities of the post but also location, associated terms and conditions and any other unique considerations that may apply to the market comparator. Further advice should be sought from HR. Particular care needs to be taken where the external market contains a predominant gender bias. Where this appears to be the case legal and HR advice will need to be taken as to whether the external market rate may itself be tainted by discrimination.

8. Amount of market supplement to be paid

Verifying the extent of the variance between the market salary and that of the Council will establish the appropriate level of the supplement. The amount should normally be based on the median pay of the comparators however a supplement should not exceed the level deemed necessary to attract suitable candidates. The application

should include the recommended amount together with evidence to demonstrate how that figure was reached.

9. Likely effectiveness of market supplement

Provide confirmation that consideration has been given that the application of a supplement will not trigger a pay spiral as neighbouring organisations raise pay rates to attract the same small group of suitable candidates. If this is the case, consideration should be given to alternative strategies e.g. partnership working?

10. Analysis of the likely impact of market supplement

This should include evidence to demonstrate that the wider and longer term impacts throughout the Council have been properly assessed and thought through. The number of employees involved and the effect on their salaries, implications for other employees within the structure and in other employee groups and equal pay considerations. Further advice should be sought from Legal Services.

Completed applications for the payment of market supplements should be forwarded to the Director of HR. The application will then be considered by the Corporate Management Team in all cases prior to submission to Cabinet.

Review of market supplement payment

Market supplement rates should be reviewed prior to the end of the fixed term payment period to ensure that employees will receive the minimum 1 months notice of any changes. The outcomes of any review will also be considered by the Corporate Management Team as detailed above.

The review will require the completion of the same documentation as the original application. The outcome of the review will then need to be submitted via the same approval process other than cases where the review indicates that the payment should cease.

APPLICATION FOR THE PAYMENT OF A MARKET SUPPLEMENT

POST TITLE

GRADE **SALARY**

AREA/DIVISION

DEPARTMENT

NEW/REVIEW SUPPLEMENT (DELETE AS APPLICABLE)

Is this application to:

Assist recruitment to a vacant post(s)

To retain existing employees

- 1. Please outline why this post is essential to the Council**
- 2. Please provide evidence that consideration has been given to the use of agency workers, contractors, private sector or other providers to undertake the work. This should include advantages and disadvantages.**

3. **Please provide evidence that consideration has been given to redesigning the job/structure to undertake the work in a different way**
4. **Please provide details of turnover rates**
5. **Please provide evidence from exit interviews**
6. **Please provide information on the number and quality of responses to job advertisements**
7. **Verification of pay or terms and conditions differential between the Council and the market and gender breakdown**
8. **Amount of market supplement to be paid**

9. Likely effectiveness of market supplement

10. Analysis of likely impact of market supplement

Director

Date

Please send completed form to the Director of HR