

Committee: Council

Date: 15 November 2023

Agenda item:

Wards: All

Subject: Revision of senior pay structure and organisational pay and grading structure review

Lead officer: Polly Cziok, Executive Director of Innovation and Change

Lead member: Councillor Billy Christie, Cabinet Member for Finance and Corporate Services

Recommendations:

- (A) That Full Council approves the following recommendations from the Appointments Committee:
- (I) The first tranche of the wider organisational pay and grading review, namely proposed revisions to the senior pay structure and salary levels for Tier 1 (Executive Director), Tier 2 (present Assistant Director) and Tier 3 (Head of Service) posts, to take effect from 1 April 2024, in so far as it relates to those roles where the revised salary range exceeds £100k per annum.
 - (II) To delegate authority to the relevant Executive Directors to recruit to vacant senior roles given that at least some element of the salary range for each of these roles is expected to exceed £100k per annum.

1. Purpose of report and executive summary

- 1.1 The Appointments Committee met on 19 October to consider the issues outlined in this paper. They agreed the recommendations outlined in the section above for approval by full Council. The full paper considered by the Appointments Committee is included for information as Appendix A.
- 1.2 The recommendations relate to revisions to senior salaries, as a first step in an organisation wide pay review, with a view to enabling LB Merton to compete more effectively in the recruitment market, and to recruit permanent staff into roles currently filled by interim managers
- 1.3 Merton Council has for some years had an increasing reliance on agency and interim workers to fill a wide range of positions across the organisation. This reliance has increased in recent years, and this combined with pay inflation across all sectors, has led to a doubling of Merton's agency spend since 2019. The spend in this financial year is set to be more than £24m. There are a number of driving factors behind this; local government as a whole is operating in a highly challenging recruitment market, especially in London where there is competition between the 32 boroughs for the same staff; Merton has not actively promoted itself as an employer, either locally or within the London market; there are a number of areas in which we work where there are skills shortages; our permanent recruitment processes can be slow and difficult to navigate; a high level of organisational change and ongoing financial uncertainty has created some instability, and reluctance to permanently recruit. Alongside those issues, a fundamental problem facing Merton is that in many cases, its pay bands are below those in other local authorities, making recruitment extremely difficult. For hard to recruit roles market supplements are sometimes used, which add to the basic pay for the post. Whilst increasing the overall pay offer such allowances can be problematic for the employee since, as they are not consolidated into the salary, banks don't recognise

them for loan or mortgage purposes – thus reducing the effectiveness of them as recruitment and retention tools.

- 1.4 At a senior level, where interim day rates are often very high, this can have a severe financial impact, leading to long term overspends, as well as potential instability in the leadership of services. Having a high number of interims in leadership roles, also restricts our ability to drive through the change needed to build a stable and sustainable workforce through the organisation.
- 1.5 The Council needs to conduct a pay review right across the organisation in order to ensure that staff are being paid in line with other local authorities. This will be vital to successful permanent recruitment, to driving down agency spend, and to the long-term sustainability of the organisation. A pay review of the whole organisation is likely to take 12-18 months and has commenced through early discussions with trade union colleagues, and a pay benchmarking exercise. The next stage is to agree the scope and timetable for that work at CMT and with trade unions. Similar reviews have been done at other Councils, for example Sutton introduced a new grade structure and pay ranges in 2016, following benchmarking with other authorities.

Senior pay bands

- 1.6 The first stage of the pay review, which is presented in this paper, proposes new pay scales for Executive Directors, Assistant Directors, and Heads of Service. This will allow us to recruit permanently into Assistant Director and Head of Service roles and to consolidate market factor pay into basic salaries, leading to an estimated cost avoidance of more than £200,000 per annum. As well as allowing the Council to end its most expensive interim arrangements, this will create stability throughout the leadership of the organisation and ensure that change can be driven throughout the organisation. For Executive Directors the proposal is just to consolidate existing market pay into base pay, and not to increase the total pay level which was approved last year through Appointments Committee and full Council.
- 1.7 Merton currently has 15 posts at 2nd tier (Assistant Director level) and 3rd tier (Head of Service level) filled by interim managers. We also have 14 permanent staff working at those levels where salaries are being supplemented by market factor pay, totalling £127k per annum.
- 1.8 Last year, in June 2022, the Appointments Committee agreed the creation of 6 new Executive Director roles and agreed their salaries, including an element of market pay, following a pay benchmarking exercise. These were created with the expectation that the market factor pay would be consolidated into salaries as part of the overall pay review. This review achieves that without increasing overall pay for Executive Directors.

2. Details

- 2.1 Pay benchmarking was conducted against the London Council's Chief Officer pay survey, which for most authorities covers roles down to third tier level (two tiers below Executive Director). The data was weighted to place emphasis on benchmarking against Outer London authorities.
- 2.2 Benchmarking established that Merton's pay levels are adrift from the market, particularly below Executive Director level – Executive Director's pay was benchmarked and set in the last year ahead of the round of Executive Director appointments, and this is reflected in the current market supplement arrangements.
- 2.3 The proposed senior pay structure sees an increase in Executive Director's basic salary but not an overall increase in pay for that grade beyond that approved by appointments committee

and full Council last year. The increase will take out the current separate market pay element, consolidating all Executive Director pay into basic salary but with no overall increase in pay. For some lower senior grades, in particular Assistant Directors, there is a proposed increase in pay evidenced by benchmarking data.

- 2.4 Reducing the reliance on market pay for senior posts and hard to recruit roles can act as a recruitment and retention incentive, as for mortgage and loan purposes banks look at market pay as temporary unguaranteed income, and individuals are anxious that market pay could be removed.
- 2.5 Below Executive Director, pay levels are adrift from the market and there are a number of expensive interim agency staff covering permanent posts. By realigning pay our ability to recruit and retain permanent staff should improve, reducing reliance on expensive agency staff which on average cost 20% more than their permanent equivalents.
- 2.6 The tables below set out the results of pay benchmarking and the proposals for revisions to grade structures and salary levels.

This model:

- Applies greater weighting to Outer London benchmarks
- Caps any increase for Executive Directors so that it buys out their market pay but no more. The current maximum for Executive Directors shown in Table 1 reflects basic salary following the 1/4/2023 national pay award for Chief Officers. The current maximum including market pay is £154,539 i.e. the same as the new proposed maximum basic pay in Table 2.
- Preserves the current maximum for grade MG3 (the upper grade of the 3rd tier in the model) which otherwise would have reduced based on benchmarking.

The largest actual increases would be for the current Assistant Director level grades of MG4 and MG5.

Table 1 Benchmarking

Merton Grade	Benchmark Median Min	Benchmark Median Max	Current Merton Min	Current Merton Max
Exec Director	£134,690	£163,224	£116,046	£134,181
MG5	£101,262	£116,319	£103,728	£108,300
MG4			£96,144	£100,239
MG3	£78,960	£91,440	£89,109	£92,943
MG1 & MG2			£71,973	£84,564

Table 2 Proposed revised scales

Merton Grade	Notional 5-point scale based on Median (Median)					Increase over current Min	Increase over current max
Exec Director	£134,690	£139,652	£144,615	£149,577	£154,539	16.07%	15.17%
MG5	£108,790	£110,672	£112,554	£114,437	£116,319	4.88%	7.40%
MG4	£101,262	£103,144	£105,026	£106,908	£108,790	5.32%	8.53%
MG3	£85,200	£87,136	£89,072	£91,007	£92,943	-4.39%	0.00%
MG1 & MG2	£78,960	£80,520	£82,080	£83,640	£85,200	9.71%	0.75%

- 2.6 The tables above show both the benchmarking and the proposed new pay scales. The benchmarking is difficult to compare with some of the Merton management grades as where other Councils only have one grade, Merton has split this into two or three grades. So, for example Merton grades MG3, MG4, and MG5 are a single grade elsewhere. The same applies to MG1 and MG2, where this is a single grade elsewhere.
- 2.7 The proposed pay table has been designed by taking the benchmarking and modelling this against our current grades to place Merton in a better place against the market and consolidate market premia. The incremental progression has been designed to give each grade five well-spaced incremental points. We have also taken the benchmarked salary range and divided it to create two levels of Assistant Director salary in the form of the MG4 and MG5 grades as with present arrangement. We will use the HAY job evaluation scheme to assess the grades.

3. Financial, resource and property implications

- 3.1 Realigning pay to the market medians will facilitate recruitment and retention of staff and reduce expenditure above budget on agency workers. There is therefore going to be a cost avoidance achieved by implementing the new senior pay scales and filling the posts with permanent staff, despite substantive grades increasing. The cost avoidance upon implementation of the new pay scale is estimated to be c.a. £209k/annum. This will increase or reduce over time as and when staff move on to the various increment points of the new scale and is reliant upon all posts being filled with permanent staff as opposed to agency.
- 3.2 Whilst there will be a significant cost avoidance by offering salaries at a level which enables the organisation to recruit permanent staff and become less reliant upon agency spend, there will be an increased salary budget requirement as shown in the table below to bring the current salary budgets in line with the new proposed rates. A growth bid to address the budget requirement for future years is being submitted as part of the MTFs process. The costing model assumes annual incremental progression (with smaller steps) rather than the current bi-annual progression and it should be noted that the estimated figures quoted in this report are based on the new proposed pay rates upon existing roles, though these may be subject to change in line with structure reviews.

3.3

£'000				
Current Spend	7,691			
Current Budget	7,223			
Under new pay proposals				
	Spend	Cost avoidance	Increased budget requirement - compared to current budget	Increased budget requirement - annual increase (Growth bid requirement)
On implementation	7,482	-209	260	260
After 1st increment	7,528	-163	305	45
After 2nd increment	7,570	-121	348	43

After 3rd increment	7,608	-83	386	38
After 4th increment	7,638	-53	415	30

4. Legal and statutory implications

- 4.1 The Localism Act 2011 requires the Council to prepare a Pay Policy Statement for each financial year. It must be approved by a resolution of the Council before it comes into force, it must be prepared and approved before 31 March and it must be published in such manner as the Council thinks fit (which must include publication on the website). The most recent Pay Policy was approved by Full Council on 1 March 2023.
- 4.2 Section 40 of the Act includes provision for the Secretary of State to issue guidance on the content and application of pay policy statements. Councils must have regard to this guidance in the exercise of their functions under the pay policy.
- 4.3 Initial Guidance under section 40 was published in February 2012 and this was supplemented by further Guidance in February 2013. Best Value Guidance on Special Severance Payments has also been published in May 2022 under section 26 of the Local Government Act 1999. The Guidance is statutory guidance, and although it is not law, the Council will need to demonstrate good reasons for departing from it. Failure to do so is likely to result in successful legal challenge. The Guidance advises that Full Council should be given the opportunity to vote before salaries or severance payments of £100,000 or more are agreed.
- 4.4 Section 41 of the Localism Act 2011 says that in making a decision which relates to the remuneration of or other terms and conditions applying to a chief officer, the Council must comply with its pay policy statement for the financial year, The recommendations in this report comply with the pay policy statement approved by Full Council on 1 March 2023.
- 4.5 The references in the report to Full Council agreeing the salary are where there are posts with a remuneration package of £100,000 or over in relation to a specific appointment.

5. Human rights, equalities and community cohesion implications

- 5.1 The contents of this report are designed to ensure that the Council's processes are human rights and equalities compliant, in particular in relation to compliance with the Public Sector Equality Duty. Grading of posts is based on the principles of equal value as determined by use of objective job evaluation schemes.

4 Risk management and health and safety implications

- 4.1 The main risk when redesigning pay and grading schemes is Equal Pay is in relation to gender. 31 staff in the cost modelling are female, 29 are male. Female staff would see a 5.3% increase in pay and male staff 3.4%. A check has also been made on ethnicity, only 8 of those in the modelling are Black, Asian or Multi-Ethnic but they would see a 4.9% increase compared to 4.8% for White staff. The Council's equality impact assessment template has been completed and the conclusion is that the level of increase for individuals will be a product of current grade and spine point, and the extent to which market pay is being "bought out" and not related to a protected characteristic. Grades are determined using the Hay job evaluation scheme which gives a level of assurance against equal pay claims based on jobs of equal value.

5 Appendices – the following documents are to be published with this report and form part of the report

Appendix A - Paper to Appointments Committee, 19th October 2023

6 Contacts

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7 Useful links

7.1 Merton Council's Web site: <http://www.merton.gov.uk>

7.2 Readers should note the terms of the legal information (disclaimer) regarding information on Merton Council's and third party linked websites.

7.3 <http://www.merton.gov.uk/legal.htm>

7.4 This disclaimer also applies to any links provided here.

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