

**To: Chief Executives and HR Directors in England, Wales and N Ireland  
(additional copies Finance Director)  
Members of the National Employers' Organisation  
Regional Directors**

25 November 2011

Dear Colleague,

**LOCALISM ACT:  
PAY POLICY STATEMENTS GUIDANCE FOR  
LOCAL AUTHORITY CHIEF EXECUTIVES**

Section 38 (1) of the Localism Act 2011 requires English and Welsh local authorities to produce a pay policy statement for 2012/13 and for each financial year thereafter. The implications of this for the process of agreeing remuneration for Chief Executives and other senior officers are considerable. There are also profound consequences for the approach taken to pay and rewards across the whole workforce.

The JNC for Chief Executives has produced the **attached** guidance to assist councils in developing their local policies.

We are issuing the guidance with immediate effect because of the timing of the requirements over the next few months. However, we recognise both that the Government may issue additional guidance of its own and that this is also an area of developing and emerging practice. For this reason, the JNC may well issue supplementary or expanded advice in due course, which would amplify key points though not alter the original intent.

In the meantime, both the LGA and ALACE as parties to the JNC stand ready to provide advice and support to councils. Please contact:

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# **LOCALISM ACT: PAY POLICY STATEMENTS GUIDANCE FROM THE JNC FOR LOCAL AUTHORITY CHIEF EXECUTIVES**

## **Introduction**

1. Section 38 (1) of the Localism Act 2011 requires English and Welsh local authorities to produce a pay policy statement for 2012/13 and for each financial year after that. The Bill as initially drafted referred solely to chief officers (a term which includes both statutory and non-statutory chief officers, and their deputies); but amendments reflecting concerns over low pay and also drawing on Will Hutton's 2011 Review of Fair Pay in the Public Sector introduced requirements to compare the policies on remunerating chief officers and other employees, and to set out policy on the lowest paid. The Act does not apply to local authority schools.
2. The Act as finally passed requires the pay policy statement to range over disparate aspects of remuneration policy. For this reason, and also in the interests of clarity and transparency, the Joint Negotiating Committee (JNC) strongly recommends local authorities to use the opportunity to set out their overall rewards strategy for the whole workforce, and not to limit themselves to matters specifically required by the Act and statutory guidance. Detailed guidance on producing a wider rewards strategy is set out in the Appendix to this guidance.
3. In more detail, the matters that must be included in the statutory pay policy statement are as follows:
  - a local authority's policy on the level and elements of remuneration for each chief officer
  - a local authority's policy on the remuneration of its lowest-paid employees (together with its definition of "lowest-paid employees" and its reasons for adopting that definition)
  - a local authority's policy on the relationship between the remuneration of its chief officers and other officers
  - a local authority's policy on other specific aspects of chief officers' remuneration: remuneration on recruitment, increases and additions to remuneration, use of performance-related pay and bonuses, termination payments, and transparency.
4. The Act defines remuneration widely, to include not just pay but also charges, fees, allowances, benefits in kind, increases in/enhancements of pension entitlements, and termination payments.
5. As for process, the pay policy statement:
  - must be approved formally by the council meeting itself
  - must be approved by the end of March each year, starting with 2012
  - can be amended in-year

- must be published on the authority's website (and in any other way the authority chooses)
  - must be complied with when the authority sets the terms and conditions for a chief officer.
6. The Act also requires an authority to have regard to any statutory guidance on the subject issued or approved by the Secretary of State or Welsh Ministers. Statutory recommendations have been issued on pay multiples (within a wider code of recommended practice) on data transparency<sup>1</sup>), and a broader set of statutory guidance on the publication of pay policy statements<sup>2</sup>. Both are reflected in this JNC guidance. The statutory guidance helpfully emphasises that each local authority has the autonomy to take its own decisions on pay and pay policies.

### **Discretionary scope of statement**

7. The Act specifically mentions that the pay policy statement may also set out the authority's policies relating to the other terms and conditions for chief officers. In the interests of clarity, authorities are recommended to use the statement to make explicit whether the JNC conditions of service for chief executives and chief officers are incorporated in those officers' employment contracts. If the JNC conditions of service are included only in part, it would be good practice for the pay policy statement to state clearly what alternative terms and conditions apply.
8. In addition, the JNC recommends that authorities specify any additional arrangements that may not amount to formal terms and conditions, but which relate to a chief officer's employment and which are a charge on the public purse. It would make sense for a local authority to take the initiative in volunteering the monetary value of such arrangements, to reduce the risk of ill-informed calculations by others.
9. Previous legislation already requires a local authority to publish statements relating to remuneration. Regulation 7 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 requires an authority to formulate, review, and publish its policy on making discretionary payments on early termination of employment. In addition, regulation 66 of the Local Government Pension Scheme (Administration) Regulations 2008 requires an authority to publish its policy on increasing an employee's total pension scheme membership and on awarding additional pension.
10. The JNC recommends that authorities combine all three policy statements into one, in the interests of clarity and simplicity.

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<sup>1</sup> <http://www.communities.gov.uk/documents/localgovernment/pdf/1997468.pdf>

<sup>2</sup> <http://www.communities.gov.uk/publications/localgovernment/draftguidancelocalpay>

## General approach to remuneration levels

11. In the context of managing scarce public resources, remuneration at all levels needs to be adequate to secure and retain high-quality employees dedicated to the service of the public, but at the same time needs to avoid being unnecessarily generous or otherwise excessive (and seen as such). Each local authority will have its own way of balancing those factors, with legitimately differing emphases reflecting differing circumstances. For instance, an authority facing particular challenges (in the locality it governs, or with internal governance) may choose to adopt remuneration levels above the average in order to attract and retain employees of the desired calibre. By contrast, an authority which is already an employer of choice may see no need to do so and may therefore adopt less generous remuneration levels.
12. The JNC recommends that an authority's chosen approach, and the reasons for it, are made explicit in the statutory pay policy statement, along with how the approach is to be implemented (e.g. through adopting national salary levels or frameworks, or by local negotiation, or by using a different pay index). It would also be good practice to refer to supporting evidence (such as on relevant labour market and comparative remuneration data).
13. A local authority's general approach to remuneration levels may differ from one group of employees to another, reflecting factors such as differing degrees of difficulty in attracting and retaining high-quality employees. It would be good practice to make these differences clear, together with the reasons for them. Indeed, it is a legal requirement that the statement explicitly sets out a local authority's policies on the remuneration of one particular group of employees (the lowest paid), and also how the remuneration of another group of employees (chief officers) relates to the remuneration of officers who are not chief officers.
14. One way of measuring pay relationships is to use a pay multiple. Will Hutton's 2011 Review of Fair Pay in the Public Sector supported the idea of publishing the ratio of the pay of an organisation's top earner to that of its median earner, and tracking it over time. The government has recommended the adoption of such a multiple in its code of recommended practice on data transparency, and has gone further in its statutory guidance on pay policy statements by favouring the adoption of actual numerical targets for the multiple. The JNC recommends that the calculation of the pay multiple should be based on all taxable earnings for the given year, including base salary, variable pay, bonuses, allowances, and the cash value of any benefits-in-kind.
15. Authorities would be well advised to ensure that the pay policy statement allows the retention of sufficient flexibility to cope with a variety of circumstances (foreseeable or not), such as by authorising the use of market supplements or other such mechanisms for individual categories of posts, individual posts, or even individual employees.
16. Public understanding of the roles of local authority employees is not well developed, especially in the case of senior officers. Authorities might therefore consider it helpful to use the statutory pay policy statement to provide (or

signpost) information on the degree of responsibility exercised by chief officers in return for their remuneration – as recommended by the LGA in its separate guidance on transparency<sup>3</sup>.

17. Some authorities may even wish to use the findings of the 2011 Hutton Review, commissioned by the current government, to set senior remuneration levels in a wider context. That review suggested that “the public overestimates how much public sector executives are paid”, and that “chief executive officers of companies with a turnover of between £101 million and £300 million earn more than twice their public sector counterparts”. The review also found that “the sharp increase in executive pay over the last decade, and the wider trend of growing income inequality, has been largely a private sector phenomenon”, and that pay multiples were much wider in the private than public sector.

### **Responsibility for decisions on remuneration**

18. Local authorities differ in the detail of where responsibility lies for decisions on remuneration. The pay policy statement could therefore be an appropriate document in which to set out the respective roles (in relation to remuneration) of the council meeting, committees (such as a remuneration committee or personnel committee, where they exist), and officers. Remuneration decisions are, of course, not an executive function.
19. The JNC has previously emphasised that “it is essential for good governance that local authorities can demonstrate that decisions on pay and reward packages for chief executives and chief officers have been made in an open and accountable way”; that “more than lip service must be paid to the notion of providing a verified and accountable process for recommending the levels of top salaries”; and that it is good practice to use a remuneration committee. Indeed, it has produced separate guidance on remuneration committees (in the National Salary Framework and Conditions of Service Handbook, clause 10 and appendix 4).
20. Where a local authority has a remuneration committee, it would also be good practice for that committee to consider a draft of the pay policy statement for recommendation to the council meeting.

### **Pay and performance**

21. Local authorities will generally wish to make clear that high levels of performance are expected of their employees. It may be that the Hutton Review’s proposal for “earn back” (ie withholding a specified proportion of existing pay if performance is unsatisfactory) alongside performance-related additional pay will in due course be taken up by some authorities. In the meantime, however, the nearest equivalent of that (in authorities that adopt incremental progression rather than spot salaries) is a policy of awarding more than one increment in acknowledgement of exceptional performance, and of actively withholding annual increments if individual performance has

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<sup>3</sup> <http://lqtransparency.readandcomment.com/organisational-and-contextual-information/>

been unsatisfactory. Whatever the stance of an authority towards performance-related pay or bonuses, it should be set out in the pay policy statement. Bonuses must, of course, be used only in ways that are compatible with equal pay legislation.

### **Remuneration levels**

22. As well as being required to set out certain of its policies on pay, a local authority is required to use the pay policy statement to set out its policies on paying charges, fees (such as for local returning officer or joint authority duties), allowances, and benefits in kind. In addition to the policy on transparency in relation to the remuneration of chief officers required by the Act, it would be good practice also to signpost information on the actual remuneration paid to them in the previous financial year (publication of which is recommended in the statutory code of recommended practice on data transparency). Where pay scales as opposed to point salaries apply, it would be helpful to make clear what factors are taken into account in deciding on what point of a scale a recruit is appointed, and by whom the decision is made.
23. Although not required by the Act or statutory guidance, it would be good practice in providing a complete picture if the pay policy statement showed the percentage rate at which the employer's pension contributions had been set for the year in question.
24. Completeness also requires that policies on the use of any honoraria and ex gratia payments are covered in the pay policy statement.
25. The Act requires each local authority to define its "lowest-paid employee", in conjunction with setting out its policy on low pay. The simplest and most easily understood definition might be those employees on the lowest pay point in use by the authority.

### **Severance payments**

26. As stated in paragraph 9, local authorities are already required by other legislation to adopt, review, and publish their policies on making discretionary payments on termination of employment; so the Act's requirements in this area constitute nothing new. However, as already suggested, it would be helpful if the three policy statements were combined. The areas within which discretion exists and on which a policy needs by law to be adopted and published are as follows:
  - redundancy payments under regulation 5 of the Local Government (Early Termination of Employment)(Discretionary Compensation) (England and Wales) Regulations 2006 – specifically, whether payments will normally be based on actual weekly pay
  - severance payments under regulation 6 of the same legislation
  - additional membership for pension purposes under regulation 12 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007

- additional pension under regulation 13 of the same legislation.
27. In the case of the first two areas of discretion, the authority must be satisfied that the policy is workable, affordable, and reasonable, having regard to the foreseeable costs. In the case of all four areas of discretion, the authority must have regard to whether a particular policy could lead to a serious loss of confidence in the public service.
28. Although not required by legislation, it would be good practice to set out the authority's policies on the following related lawful areas of discretion as well:
- flexible retirement under regulation 18 of the same legislation
  - immediate payment of pension under regulation 30 of the same legislation
  - payment of pension without reduction, on compassionate grounds, under the same regulation
  - outplacement, counselling, or similar.
28. Whereas paragraphs 26-28 address the remuneration of officers on leaving the employment of a local authority, the statutory guidance also addresses the remuneration of chief officers who have returned to a local authority. Specifically, the guidance states that pay policy statements should set out policies on the reward of chief officers who fit into one of the following categories:
- were previously employed by the same authority, left with a severance or redundancy payment, and have come back as a chief officer
  - were previously employed by the same authority, and have come back as a chief officer under a contract for services
  - are in receipt of a Local Government Pension Scheme or Firefighter pension (whether their previous service was with the same authority or not).
29. In all cases, local authorities will wish to ensure that sufficient flexibility is retained to allow for responding to unforeseen circumstances without having recourse to revising the pay policy statement between annual reviews.

### Developing Your Approach to Pay and Reward

As described, the Localism Act requires local authorities to be explicit about certain aspects of pay and reward, particularly for senior managers. For many councils pay policy has been developed incrementally usually in response to specific recruitment issues or skills shortages and is therefore rarely held in one document. From our research

The Act requires councils to prepare an annual pay policy statement from the financial year 2012-2013. This statement must contain the policy for the remuneration of the council's chief officers on appointment, subsequent progression and any use of bonus or performance-related pay. The Act also requires councils to define 'lowest- paid employees' and to explain its rationale for that definition. In addition the approach to the payment of chief officers on their ceasing to hold office under or to be employed by the authority must be defined.

What is required is therefore quite detailed and necessitates careful explanation. Although not specifically required as part of the Act the Joint Negotiating Committee for Chief Executives recommends that councils take this opportunity to review their overall approach to reward for all staff, in order to ensure that the approach is transparent, coherent and relevant to current and future needs. The Local Government Association (LGA) has issued a more general recommendation of this sort in its November 2011 document **Strengthening the strategic approach to pay and rewards in local government (link)**. This may simply involve bringing together current practice, reviewing it in the light of anticipated structural or functional changes and ensuring that it is fit for purpose. Each council will then need to decide whether it wishes to communicate a simple pay policy statement in the defined format with the minimum content allowed by the legislation or a more detailed account of its approach to pay and reward. In either case the process of reviewing and confirming or changing pay or reward strategy is an important one.

This document summarises the issues we believe that councils should consider when developing their overall approach to pay and reward whilst also meeting the legislation. For simplicity the term reward has been generally used. It may be helpful for councils to read this joint guidance in conjunction with the **resource guide**<sup>4</sup> on reviewing reward strategies available from the LGA in order to take fully informed decisions.

#### Why Have a Reward Strategy?

The primary aim of a Reward Strategy is to attract, retain and motivate staff so that the organisation can perform at its best.

Extensive research shows that individuals are attracted, retained and engaged by a range of both financial and non-financial rewards so a coherent link between reward and the overall approach to people management and to attraction will deliver the

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<sup>4</sup> <http://www.lge.gov.uk/lge/core/page.do?pagelId=14533406>

best outcome. A Reward Strategy should be based on the current and future needs of the organisation, rather than on historical expectations or trends so a close relationship with workforce planning and development strategies is also important. This also means that the strategy and policies needs to be reviewed regularly and developed as expectations and circumstances change. For example, a commissioning council will require a quite different approach from a council which has retained its role as a major deliverer of services.

What motivates an employee changes over time too - as their career develops, their personal circumstances alter, etc, so a model which is responsive to such changes will improve staff engagement and result in more effective deployment of resources.

A transparent reward strategy will be a valuable communication tool to existing and potential staff about how their contribution is recognised and rewarded. It helps explain what behaviours, values, and performance the organisation requires and how success will recognised. Similarly it will allow councils to demonstrate their organisational philosophy and approach to their local communities so setting individual decisions in the context of a wider approach.

The Hutton Fair Pay Report refers to an expectation that organisations delivering public services should disclose in precise numbers the full remuneration of all executives, alongside an explanation of the responsibilities of each role and of how the executives' pay reflects individual performance. It is also worth noting that an increasing number of private sector companies have realised that their report on pay and reward is one of the widest read company documents and so is a good place to explain the details of goals and challenges facing the organisation – to both staff and others.

### **Creating an Integrated Approach**

An integrated approach provides a clear pathway linking the needs of the organisation and its staff with the reward policies and practices of the organisation, and thereby creating the opportunity to communicate and explain those practices both internally and externally. An organisation which understands and can describe the links between the key components below can make consistent and relevant judgements about reward and can communicate those to all interested parties.

**Organisation Strategy** – Mission, purpose; business goals; priorities, key measures of success.



**Organisational Culture and People Requirements** - how people contribute, which values and culture are important, what capability and competence will be rewarded



**People Management Strategy** – translating organisational goals into people management principles and practice, identifying the goals and priorities which will contribute to success.



**Reward Strategy** – philosophy, goals, standards and measures, implementation and practice. The core principles of what the organisation values, recognises and rewards and how it is connected to organisational values, talent management, staff engagement and deployment, budget, internal fairness and equity, etc



**Reward Policies** – specific policies and practices which relate to the organisation, service or staff group. A framework to guide pay practice in the different parts of the organisation should be included setting out clarity on accountability and ownership, defining what successful performance looks like and who is responsible for making pay decisions, etc. For example what is designed and decided corporately and what can be managed locally.

### **Shaping Your Reward Strategy**

A Reward Strategy will contain a number of key elements:

- Reward philosophy
- Pay design
- Pay structures
- Pay rates
- Other pay elements
- Other benefits

### **Reward Philosophy**

The philosophy and priorities underpinning the reward strategy will be dependent on the specific needs of the organisation. Factors which might be included are:

- Delivering organisation priorities
- Reinforce organisational values
- Recruiting and retaining staff
- Motivating and developing staff
- Rewarding high performers
- Promoting staff flexibility - mobility and development
- Managing pay costs
- Ensuring internal fairness and equity
- Retaining flexibility to meet future needs

Specifics which will need to be considered include:

- The ways in which reward arrangements are aligned to organisational requirements
- The relationship between paying for individual competence and paying for delivering job requirements
- The balance between a pay policy driven by internal equity and one by external competitiveness
- The preferred market position used to set pay levels

- How pay policy and processes are managed eg which aspects of your approach are uniform, organisation-wide systems and which support local interpretation to reflect difference
- Considering whether your approach to reward is harmonised or varies between staff groups and/or by grade
- Defining your grade structure – for example narrow bands and tight costs control; broad bands with development and flexibility

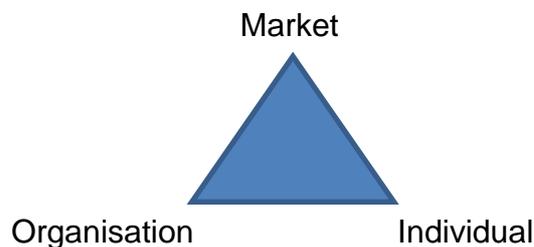
A gap analysis assessing current practice against the desired approach will help assess priority areas. An example is attached as Annex 1

## Pay Design

Your approach to pay design will depend on which factors fit your pay strategy and organisational philosophy. Below are two examples. It is important to note that each component may be weighted differently but the rationale for this should be made clear.

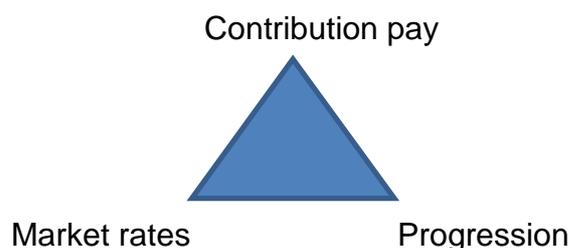
In example one below the key components are:

- organisational consistency eg Job Evaluation
- market rates
- individual performance



In example two the key components are:

- Performance or contribution pay based on delivering objectives – possibly linked to values and competencies (these could be individual, corporate or a mixture)
- Market rates
- Progression criteria – usually based on longer term development in a role. This factor can be segmented to give a grade entry point, a development band, a competent level and a `growth in role` level.



## Pay Structures

The pay structure provides the framework for valuing jobs and understanding how they relate to each other within the organisation and to the external labour market. A wide range of approaches are available and specialist expertise may be needed to ensure that the proposed approach fits the culture and context of the organisation, the systems in place, etc

The Localism Act takes a comprehensive approach to chief officer terms and conditions and in particular to remuneration which it defines as including salary or other contractual payments for services, bonuses, charges, fees or allowances and benefits in kind. It takes a present and future-focused approach which includes any planned salary progression and locally determined increases in or enhancement of pension, plus any amounts payable on the chief officer ceasing to hold office under or be employed by the authority. These requirements will need to be considered when determining pay structures and specific pay elements.

Approaches can include:

**Individual pay rates, ranges and spot salaries** – these are regularly used for senior jobs where the employee is recruited for their expert knowledge or where their role is defined by the delivery of collective performance goals.

**Narrow pay bands based on 3 or 4 incremental points** – designed primarily to recognise development in a role over time based on the accumulation of experience and knowledge. These are linked to:

**Incremental progression** - based on length of service (as above) or more proactively on:

- Achieving annual performance targets
- Development progression against a defined framework
- Being awarded additional responsibility

**Broad bands** – not frequently used in the public sector although some councils have applied them to senior manager posts. These are a more flexible approach to job sizing which allows variable placement and progression within the band based on assessment and achievement

**Job families** - which link job types and career progression and can be connected to specific competencies

**Performance related** – also known as contribution pay - which is based on the achievement of specific goals. Payments may be consolidated into base pay, although more frequently they are not and this is therefore known as variable pay. The balance between fixed and variable for each role will depend on your reward policy.

The `earn back option` referred to in the Hutton Fair Pay document proposes 80% fixed and 20% variable.

## Pay Rates

Nationally and locally determined pay rates are set using a number of factors - their use and relativity should be described. For example:

- Ability to pay
- Inflation levels
- Movement in market rates
- The `going rate` of other pay awards
- Index linking
- Recruitment and retention issues

The definition of pay as required by the Act is considered later.

## Other Pay Elements

In addition to the standard pay structures described above there are other pay elements which can form an important part of your overall approach. These include:

**Recognition payments** – including honoraria, acting up payments, etc

**Market premiums** – targeted on certain roles in competitive salary markets

**Location allowances** – designed to recognise geographical differences in pay

It is important to define the factors which determine when and how these (and other aspects) are used. In a time of organisational change and job reductions it may not seem necessary to think about skills shortages and market premium but things can change quickly particularly for those roles where external competition is greatest or where there are national skills shortages. Your workforce strategy should include an assessment of your developing needs, potential market changes, skills development opportunities, etc

## Special Fees and Arrangements

Special fees may be paid for certain additional duties and responsibilities eg acting as a returning officer, holding a formal position with a joint authority or across partnerships, etc. Where these exist the policies on paying such fees, allowances, and benefits must be clearly stated.

## Other Rewards

As indicated previously the best reward strategies contain both financial and non-financial rewards to reflect the different expectations and priorities of staff. The reasons for adopting these rewards could include:

- Matching market practice
- Providing employee security – eg health insurance
- Retaining employees – eg pension schemes, training support
- Being tax efficient – eg salary sacrifice arrangements
- Providing cost-effective benefits – where the employer arranges purchase of goods by staff at a discount

Rewards with a calculable financial value could include:

- Child care provision or allowances
- Sports facilities benefits
- Health schemes

Non-financial rewards could include:

- Additional career development opportunities
- Secondment, special projects
- Flexible working
- Recognition – employee awards

Personal use of miscellaneous council resources should always be accounted for in case it has a calculable financial value that is relevant here

### **Agency and Other Staff**

The recent high profile given to the use of agency or interim staff in substantive roles suggests that it would be good practice to consider and publish the criteria for making use of the provision as part of your overall approach to people management and resource deployment. It might feature in a pay strategy or in other resourcing documents.

### **Pension Contributions**

Reward strategies frequently refer to employee pension schemes but as the local government scheme is nationally determined it may not be necessary to add specific details.

### **Severance payments**

Local authorities are already required by other legislation to adopt, review, and publish their policies on making discretionary payments on termination of employment. For transparency these could be incorporated into the Reward Strategy and would cover:

- redundancy payments under regulation 5 of the Local Government (Early Termination of Employment)(Discretionary Compensation) (England and Wales) Regulations 2006 – specifically, whether payments will normally be based on actual weekly pay
- severance payments under regulation 6 of the same legislation
- additional membership for pension purposes under regulation 12 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- additional pension under regulation 13 of the same legislation.

In the case of the first two areas of discretion, the council must be satisfied that the policy is workable, affordable, and reasonable, having regard to the foreseeable costs. In the case of all four areas of discretion, the council must have regard to

whether a particular policy could lead to a serious loss of confidence in the public service.

It would be good practice to set out the council's policies on the following related lawful areas of discretion as well:

- flexible retirement under regulation 18 of the same legislation
- immediate payment of pension under regulation 30 of the same legislation
- payment of pension without reduction, on compassionate grounds, under the same regulation
- outplacement, counselling, or similar.

### **Legislative Requirements**

The strategy could also make specific reference to the council's approach to meeting pay-related legislation such as equal pay, national minimum wage, etc.

### **Pay Definition**

Defining a specific pay multiple in the pay policy statement and being transparent about actual pay levels will be necessary to meet the legislative requirements but it is also valuable as a means of measuring the relevance and effectiveness of changing pay policy.

The Act requires each local authority to define its "lowest-paid employee" and to explain the rationale for the definition. The simplest and most easily understood definition would be to use the lowest pay point routinely used by the council for its substantive roles, calculated at full time equivalent. This should not include grades or pay points put aside as trainee or development scales but should relate to the minimum point used for a competent employee taken on a defined role.

The Hutton report takes a slightly different approach suggesting that the key comparison for councils is year-on-year changes within a single organisation. That report's recommendation is that councils should "track, publish and explain their pay multiples over time". The approach allows each local authority to set its own goals and aspirations as part of a pay and reward strategy while allowing employee and public scrutiny of the rationale and providing a mechanism to check that policy and practice remains relevant to need. The LGA feels that this may be a useful element of good practice.

The recommended definition in this case is that "the pay multiple should be calculated on the basis of all taxable earnings for the given year, including base salary, variable pay, bonuses, allowances and the cash value of any benefits-in-kind". (Hutton Review of Fair Pay 2011)

### **Remuneration Committee**

Having a properly constituted Remuneration Committee with a clearly defined brief will be an important element in helping to ensure that the approach to reward is seen to be objective and transparent. The relevant JNC handbooks already contain

guidance on setting up and operating such committees. The model and role adopted by each council will vary but the following factors should be considered.

## **Role**

In fulfilling this role the remuneration panel will ensure that decisions:

- support the achievement of the council's aims,
- take account of wider public sector pay policy and good practice,
- are proportionate, fair and equitable and support equal pay principles,
- take account of appropriate pay differentials,
- attract, retain and motivate executive directors of the right quality and talent.
- take account of the resources required in transitioning to any revised arrangements

## **Composition**

A Remuneration Committee needs to be a formally constituted committee. Traditionally such committees have included only councillors but as the expectation on the committee increases, councils may want to consider bringing in additional expertise. This may simply involve purchasing data and expert advice or could include setting up a specialist advisory panel to the committee. For senior manager pay the advisory panel could make their recommendations direct to committee or via the chief executive or HR director who then acts as the committee's adviser for example setting the external advice into the context of existing reward policies . Using a panel offers both knowledge and independence.

Such expertise may be available from:

- Commercial organisations where data and advice can be purchased
- Representatives of other local organisations – both public and private sector
- Managers or specialists employed other comparable (but not local ) public sector organisation
- Advisers from national organisations such as LGA, PPMA, SOLACE, ALACE
- Trades unions

## **Role**

The Council will need to:

- Establish the full Terms of Reference, Constitution and Membership of the committee and any advisory panels or specialists
- Define the appointment procedures for all parties
- Agree any remuneration for committee or panel members

Terms of Reference could include the making of recommendations to the Council Meeting on the following matters:

- Setting senior pay levels at appointment, annual review and departure (where a percentage of that year's variable pay could be determined according to the proportion of the objectives so far achieved)
- Moderation of the Chief Executives and /or Chief Officers' objectives. These are an important aspect of determining both levels of accountability and any performance-related pay or bonuses
- Succession planning and talent management down to Heads of Service and contributing to the development of any internal talent and succession strategies for senior posts
- Recording and reporting pay decisions and performance assessments of senior posts to facilitate pay disclosures on the Council's website to ensure full transparency and accountability to the community.

If an Advisory Panel is used their terms of reference could include activity such as:

- Advice on the appropriate pay framework and pay structure for senior managers, including the chief executive.
- Considering commissioned reports on pay levels and making specific recommendations in the light of local or national knowledge
- Providing advice on anomalies or queries raised in scrutiny, by the public, etc

Whether an Advisory Panel is used or not, the focus should be on ensuring a transparent and thorough process of assessment and review which meets the legislation and can be openly communicated to staff and others while protecting the rights of individual staff.

# ANNEX: GAP ANALYSIS:

## Assessing current reward practice against desired characteristics

	1	2	3	4	5	6	
Reward strategy highly aligned with organisational requirements	D		C				No clear alignment between reward and organisational goals
Pay driven on internal equity		C	D				Pay driven by external competitiveness
Reward based on job requirements							Reward based on the person and their competence and behaviours
Harmonised, consistent reward systems for all staff							Reward systems vary for different types/groups of staff
Emphasis on cash rewards							Emphasis on non-cash rewards
Emphasis on cost control eg narrow bands							Focus on flexibility and development eg broad bands
Organisation-wide systems, centrally managed by HR							Locally determined assessment driven by managers
High level of openness and understanding of pay systems	1	2	3	4	5	6	Pay information not well understood by employees

The elements examples of the questions organisations should ask as part of their assessment of the effectiveness of their reward strategy and policies in delivering required outcomes. None are right or wrong. The assessment highlights the areas of difference which will then need to be addressed by further development.

C indicates the current position; D the desired position