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An examination of location-based pay,
contribution/performance-related pay and
comparability of police officers' pay

A research paper for the Police Federation of England and
Wales

from

Incomes Data Services (IDS)

August 2011

This report has been prepared by Incomes Data Services (IDS) on behalf of the Police Federation of England and Wales.

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Introduction

IDS was asked by the Police Federation of England and Wales to prepare a paper examining location-based pay, performance or contribution-based progression arrangements and comparability of police pay, as identified in the call for evidence for Part 2 of the Independent Review of Police Officers' and Staff Remuneration and Conditions.

The report is based on evidence of employer practice as monitored by IDS. The examples and illustrations provided in this report draw on existing knowledge and information held within the IDS archive of research and company files. The discussion on comparability of police officers' pay is informed by our job evaluation and pay benchmarking experience.

The report is aimed at informing the Police Federation on the approaches adopted and the issues involved in establishing location-based pay, pay progression arrangements based on factors other than length of service, and using job evaluation as the basis for undertaking market pay comparisons.

Part 1 of this report examines the use of location-based pay in both the public and private sectors, including the key factors and considerations for such schemes. Part 2 provides details on how progression operates where based on contribution or performance, or any measure other than service. Part 3 of the report includes discussion on the principals of job evaluation and whether it is feasible to compare police roles through job evaluation or a similar process.

Overview

The following summarises the evidence and discussions featured in this report:

- The evidence presented in this report shows that there are a range of approaches when it comes to location-based pay and pay progression arrangements, ranging from simple to complex mechanisms
- In terms of location-based pay, there are few examples of complex localism, and most structures are relatively simple. Traditional approaches with additions for London and the South East still dominate. However, in certain sectors, such as retail and retail banking, 'zonal' approaches are common. These systems tend to mirror the London weighting systems, with the highest premiums being paid at London locations, and zones outside London paying lower premiums
- But these are a long way from complex localised pay, tending to be based on four or five zones, far fewer than the number of Government Office Regions, of which there are 10 in England
- On contribution or performance-related pay, IDS research shows evidence of a shift away from progression systems based on a single criterion towards those based on a number of criteria, combining service with performance or performance with skills for example
- In the private sector, systems based purely on individual performance have been adapted to include other measures, such as competencies, in an effort to overcome some of the shortcomings of performance-only systems
- In the public sector, progression has typically been based on length of service. However, here as well there has been some evidence of a shift towards including competency, skills or contribution measures in addition to service
- The report also identifies a range of factors, issues and risks for consideration when designing and operating both location-based pay structures and contribution or performance-based pay systems. Such systems require careful consideration in the designing stages and also significant resources in terms of operational management
- On comparability of police pay, while there are no direct comparators for police officers in the broader employment market, it is feasible to compare pay with other broadly comparable jobs on the basis of common skills and job weight
- A formal and analytical job evaluation scheme would be the most robust way of being able to identify possible comparators and there are a range of possible approaches in terms of which system to use – each with advantages and disadvantages.

1. Location-based pay

In this section of the report we examine the use of location-based pay in both the public and private sectors, including how these arrangements are structured and considerations in respect of location-based pay systems.

1.1. Purpose and extent of location-based pay

The purpose of using location-based pay systems is to increase flexibility, providing nationwide employers with a systematic approach to addressing recruitment and retention issues at a local level. Cost control is often a factor. Decisions to move towards location-based pay can also be linked to the structure of pay bargaining and organisational structure.

IDS monitoring of the practice of location-based pay systems shows that in the private sector, such systems usually become more popular when there are cost-of-living and recruitment and retention pressures, and a need to pay extra in high-pressure areas.

In the public sector, the idea of location-based pay is usually introduced by policy makers arguing that national pay rates must mean that employees in some locations are over-paid, while employers seek to hold down pay in areas of higher unemployment. These arguments tend to be cyclical and are based on the (false) assumption that all private sector pay varies by location and therefore public sector pay should too.

Location pay is not as widespread as might be thought. The majority of multi-site private-sector employers operate national pay scales, plus London/South East additions. In retail and banking, many organisations operate zonal pay systems as a means of addressing recruitment and retention pressures in London and the South East and other high-cost areas of the country, rather than to differentiate pay by region. These approaches typically encompass four or five pay zones, progressing upwards from a national or provincial scale – far fewer than the number of Government Office Regions, of which there are 10 in England.

When looking at the use of location-based pay in both the private and public sectors, it is possible to group the evidence in three broad categories: those that use national pay scales with London/South East additions, those that use zonal pay structures, and those that use structures which allow for more local variation.

1.2. National pay scales with London/South East additions

The most common approach to location-based pay is to operate a national pay scale with some form of premium for London and the surrounding area, whether through free-standing allowances, or higher London pay scales. Location-based pay started out as a means to compensate for cost pressures on employees, and to restore purchasing power in higher-cost areas. As such, London weighting systems were introduced to reflect the added costs of living and working in the capital, with the level of allowances defined by concentric circles out from Charing Cross. London weighting systems are still widely used, both in the private and public sectors, though payments have held steady.

Many large private sector employers with a national reach operate national pay scales, plus London/South East additions. Examples here include organisations such as BT, which has the same pay structure for all 60,000 employees regardless of location. except for London. The inner London allowance at BT is currently £3,186 a year and the outer London allowance (four to 18 miles from Charing Cross) is £1,543 a year.

BT London allowances at 1 January 2011

Location	Details	£pa
Outer London	4 to 18 miles from Charing Cross*	1,543
Inner London	0 to 4 miles from Charing Cross	3,186

*Including Bromley, Byfleet, Cheshunt, Chigwell, Dartford, Leatherhead, Reigate, Romford, St Albans, Staines, Uxbridge, Watford, Welwyn Garden City.

London allowances are also used by some retailers, such as Waterstones and Peacocks. Waterstones operates with three allowances: Central London (£2,900pa), Inner M25 (£1,700pa) and Outer M25 (£1,000pa). Peacocks also uses a system of London weighting for its 7,000 retail staff, which applies to areas inside the M25. Stores in inner London attract an additional payment of £3,000 a year and stores in outer London attract an extra £2,000 a year.

In the public sector, using a national pay structure with additional payments to compensate for additional cost pressures in London (and in some cases the South East) is also the most common approach. This is the case in the police service, the fire service, the NHS and most of the civil service (in the civil service, often there are also separate London pay scales).

London allowances in the public sector in 2010

Employer	£pa
Crown Prosecution Service*	3,000 (London); 1,000 (Hertfordshire)
Department of Health	3,500 (inner); 1,750 (outer)
Fire Brigades	5,021
Home Office**	3,020 (inner); 1,710 (intermediate); 1,240 (outer)
NHS	2,162 (non-resident staff); 602 (resident staff)

*Recruitment and retention allowance. **Pay rates in London are also higher than national rates, a difference of six milestones on average at the minimum.

In schools, there are separate pay scales for London and the 'fringe' around the capital, and there have been changes to these in recent years to reflect recruitment and retention difficulties in London and the South East. The School Teachers Review Body (STRB) has been concerned that the high cost of housing in London has meant that experienced teachers on the upper pay spine are leaving teaching or London and has raised inner London salaries to give a premium of around £8,000 a year over the national rate.

School classroom teachers pay spine at 1 September 2010

	Band D, £pa	Band C, £pa	Band B, £pa	Band A, £pa
	National	Fringe	Outer London	Inner London
Main pay spine				
M1	21,588	22,626	25,117	27,000
M2	23,295	24,331	26,674	28,408
M3	25,168	26,203	28,325	29,889
M4	27,104	28,146	30,080	31,446
M5	29,240	30,278	32,630	33,865
M6	31,552	32,588	35,116	36,387
Upper pay spine				
U1	34,181	35,218	37,599	41,497
U2	35,447	36,483	38,991	43,536
U3	36,756	37,795	40,433	45,000

The inner London pay spine covers staff teaching at schools in inner London and some outer London boroughs. It covers Barking and Dagenham, Brent, Camden, Ealing, Greenwich, Hackney, Hammersmith and Fulham, Haringey, Islington, Kensington, Lambeth, Lewisham, Merton, Newham, Southwark, Tower Hamlets, Wandsworth and Westminster.

The outer London spine covers schools in Barnet, Bexley, Bromley, Croydon, Enfield, Harrow, Havering, Hillingdon, Hounslow, Kingston-upon-Thames, Redbridge, Richmond-upon-Thames, Sutton and Waltham Forest. The fringe area refers to Bracknell, Slough, Windsor and Maidenhead in Berkshire, South Buckinghamshire and Chiltern, as well as Basildon, Brentwood, Epping Forest, Harlow and Thurrock and the districts of Broxbourne, Dacorum, East Hertfordshire, Hertsmere, St. Albans, Watford, Welwyn Garden City and Hatfield.

Since the recent establishment of Academy schools, official policy has been to permit (and encourage) them to vary pay away from the terms and conditions set by STRB. While this opportunity has been given, there have been few moves in this direction. Indeed, several of the multi-Academy chains such as ARK Academies, EACT Academies, Oasis Academies, ULT Academies and Harris Federation Academies have signed recognition agreements with teaching unions the NUT and NASUWT and have agreed to pay STRB rates of pay.

In the prison service, 'locality' payments were introduced in 2001 to replace the previous system of London weighting and London allowances, as there were recruitment and retention difficulties on the fringes surrounding London. The new system had a much broader coverage than London allowances, taking into account factors such as housing costs, unemployment and staff turnover, but in essence the allowances are still paid at establishments in London and the South East, plus some locations in the M4 corridor and a small number of other hot spots. The number of zones has been progressively increased from three to four in 2003, and then to six in 2006.

Prison Service (E&W) location allowances at 1 April 2011

Establishment/site	£pa
Birmingham, Bristol, Littlehey, Long Lartin, Onley	250
Winchester, Lewes	1,100
Aylesbury, Bedford, Bullingdon, Bullwood Hall, Chelmsford, Grendon, Croydon headquarters, Reading, Woodhill, South Central Area Office (Aylesbury)	2,600
Belmarsh, Bronzehead, Coldingley, Downview, High Down, Send, South Central Area Office (Woking)	3,100
Feltham, Huntercombe, Prison Service HQ (Westminster), Latchmere House, The Mount	4,000
Brixton, Holloway, Pentonville, Wandsworth, Wormwood Scrubs	4,250

1.3. Zonal pay

Zonal pay systems are the most structured approach to addressing local employment issues. In terms of levels of payments, these systems tend to mirror the London weighting systems, with the highest premiums being paid in London, and zones outside of London paying lower premiums. They most commonly have four to five zones in total, with one or two zones covering locations in London and the South East. Locations are categorised into one of the zones and these pay systems offer employers the possibility of upgrading individual stores to higher 'hot spot' zones in case of recruitment and retention problems. The zones reflect groups of locations with similar labour market conditions, rather than geographical boundaries.

Trade unions are often concerned about the introduction of market measures and the possibility that pay could be lowered in areas with fewer recruitment and retention issues. In practice, however, zonal pay systems do not depart significantly from the traditional approach to location-based pay, in that they are used predominantly to pay extra in locations where the company feels it is 'behind the market'.

Zonal pay arrangements were developed as a result of tightening labour markets in the South East and down the M4 corridor. Employers, particularly in the retail and banking sectors, began to introduce hybrids of London and Roseland (rest of South East) allowances, while others introduced 'hot spot' allowances in addition to the London/South East allowances.

In the private sector, zonal pay systems are commonly used by retailers and retail banking organisations. For example, the pay structure at Tesco covering around 250,000 store staff has five zonal location bands, with location payments expressed as hourly supplements for retail staff and annual supplements for section managers. The pay bands for managers are determined by additional factors such as store turnover, therefore some managers can be placed in different bands to staff based at the same store.

Tesco location-based pay bands for retail staff at 3 July 2011

Band	Locations	£ph
Band 1	Rest of country	6.65*
Band 2	Larger towns outside the South East (exc. new stores)	+0.03
Band 3	Home counties	+0.45
Band 4	M25 areas outside of London postcodes	+0.68
Band 5	N, NW, W, SW, SE, E, WC and EC postcodes	+1.01

*Entry rate.

Clarks operates a zonal pay system that covers around 8,000 sales team members (pay for team leaders, assistant managers and store managers is based on a salary range). All 470 UK stores are allocated to one of seven pay zones (A to G), based on market conditions, and allocation to one of the zones attracts a premium expressed as an hourly supplement. Stores are also graded based on numerous internal factors to determine the salary ranges for managers.

Clarks zonal pay structure for sales assistants at 1 April 2011

Zone	Examples of store locations	£ph*
A	Andover, Braintree, Burton-on-Trent, Middlesbrough, Preston, Stafford	6.22
B	Aberdeen, Bedford, Exeter, Ipswich, Leeds, Salisbury	+0.00
C	Bath, Bristol Longwell Green, Chelmsford, Finchley	+0.06
D	Birmingham Bullring, Brighton, Bristol Cribbs, Cheltenham, St Albans	+0.08
E	Bluewater, Didcot, Peckham, Reading, Seven Sisters	+0.19
F	Douglas (Isle of Man), Heathrow, London Marble Arch, Stansted	+0.87
G	St. Helier (Jersey)	+1.10

*Sales assistants aged 18+.

Marks & Spencer's 60,000 retail employees are covered by a single pay structure with additional hourly payments depending on the store location. Locations are categorised into one of the zones and the system allows for flexibility to move locations between zones. In this way, zones reflect groups of locations with similar labour market conditions, rather than geographical boundaries. The additions vary from an extra £1.55 an hour on Oxford Street, to zero in provincial locations.

Marks & Spencer location payments for qualified customer assistants at 1 October 2010

Location	£ph
Provincial	6.69
Key provincial 'hot spot, north and central England	+0.28
Outer London	+0.46
Other inner London and key 'hot spots' in the south	+0.74
Inner London	+1.00
Oxford Street	+1.55

Banks with a large number of branches throughout the country often operate zonal pay systems, examples include the Royal Bank of Scotland (RBS), Barclays, Nationwide Building Society and Friends Provident. Pay for clerical staff at RBS is divided into five zonal pay bands: from Band 5, covering inner London, to Band 1, a 'national' rate for workplaces outside of London, large cities and hot spot locations. Other staff, including managerial grades, are covered by a simplified version of the structure with only three bands, covering inner London, outer London and the rest of the UK.

Clerical staff were previously paid in line with the three-band pay model in place for managerial grades, but when the two additional bands were added in 2007, regional allowances were incorporated into basic pay for the purposes of calculating pension plans, retirement savings, non-pensionable benefits, profit share, overtime rates, performance bonuses, sick pay and maternity pay. Changes to, or within, the five-band model are governed centrally, with reference to factors including labour market movement, turnover, attrition, and external competition.

Royal Bank of Scotland pay zones

Band	Locations
1	National e.g. Cardiff, Sheffield
2	Large cities e.g. Birmingham, Edinburgh, Glasgow, Leeds, Manchester
3	Financial services 'hot spots' or towns which previously attracted a large town allowance or South East allowance e.g. Brighton, Bristol, Oxford, Southend
4	Outer London
5	Inner London

In the public sector, IDS monitoring shows two examples of civil service departments that use zonal pay systems: the Ministry of Justice (MoJ) and the Department for Work and Pensions (DWP). In both cases, these arrangements have been introduced relatively recently. The structure at the MoJ was introduced in 2007, as part of a four-year deal. The new structure was originally based on five zones: 'inner London'; 'outer London and South East hot spots'; 'hot spots', 'national plus' and 'national'. However, as part of the initial agreement, existing employees in locations covered by the 'national' band were in fact on the same scale as those in the 'national plus' band, and the new 'national' band would only apply to new employees. In 2010 it was agreed that the protected terms would apply to all staff, effectively removing the national band and reducing the number of bands to four.

Ministry of Justice pay structure at 1 August 2010

Location-based range		Pay band, £pa					
		F	E	D	C	B	A
		AA	AO	EO	HEO	SEO	6 & 7
National	Min	13,620	15,443	17,513	21,096	29,634	42,034
	Max	15,218	17,957	21,636	27,818	38,690	60,649
National plus	Min	13,894	15,935	18,496	22,951	29,634	42,034
	Max	15,524	18,529	23,224	29,879	38,690	60,649
Hot spots	Min	14,320	16,813	20,367	25,392	29,634	42,034
	Max	16,000	19,550	24,727	31,939	38,690	60,649
Outer London & SE hot spots	Min	15,797	17,978	22,138	27,346	33,294	46,238
	Max	17,650	20,905	26,000	34,515	42,873	64,832
Inner London	Min	16,737	19,135	24,007	29,495	35,188	50,534
	Max	18,700	22,250	28,000	36,061	44,964	67,969

Examples of locations in each zone at the Ministry of Justice (2007)

Zone	Examples of locations
National	Ayr, Carlisle, Dewsbury, Huddersfield, Inverness, King's Lynn, Stoke, Wrexham, York
National plus	Aylesbury, Banbury, Bournemouth, Chester, Coventry, Hastings, Leeds, Norwich, Newcastle, Sheffield, Stratford-upon-Avon
Hot spots	Aldershot, Birkenhead, Birmingham, Bristol, Chelmsford, Crawley, Edinburgh, Glasgow, High Wycombe, Hyde, Lewes, Liverpool, Manchester, Winchester, Worthing
Outer London & SE hot spots	Bracknell, Epsom, Dartford, Dorking, Guildford, Maidenhead, Reading, Slough, St Albans, Watford, Woking
Inner London	Entire GLA area

The revised MoJ structure is similar to the structure in place at the DWP, though the second zone at the MoJ includes both 'outer London' and 'SE hot spots'. At the DWP, in addition to the inner and outer London and national pay scales, there is a separate 'specified location pay zone', meaning that there are four zones in total. The DWP structure was introduced in 2002 in order to provide some flexibility for locations with high staff turnover rates, significant recruitment and retention difficulties and/or recognised poor levels of performance. At the DWP there are also separate pay scales for specialist roles.

Department for Work & Pensions pay structure at 1 July 2010

		A	B	C	D	E	F	G
		AA	AO	EO	HEO	SEO	7	6
National	Min	14,000	15,615	20,780	24,660	30,480	43,200	53,360
	Max	14,820	18,245	24,230	29,800	36,500	53,480	65,440
Specified location pay zone	Min	15,990	17,625	22,270	26,550	32,610	45,900	56,450
	Max	16,660	20,335	26,480	31,870	38,790	56,500	69,270
Outer London	Min	16,530	18,165	22,570	27,070	33,110	46,450	56,970
	Max	17,160	20,845	26,950	32,350	39,250	56,980	69,750
Inner London	Min	17,650	19,505	23,940	28,250	34,390	47,550	58,250
	Max	18,310	21,530	28,130	33,530	40,440	58,070	70,720

1.4. More local variation

There are also some examples of reward practice in both the private and public sectors which allow for more variation in pay at local level. For example, in the private sector, there are some pay systems with a non-structured approach to location-based pay, such as broad banding. For example, in finance, the recession of the early 1990s led to the freezing of the majority of London allowances. Thereafter, employers became more careful about building what many of them considered to be top-heavy allowances into their pay systems. Finance firms increasingly moved to broad banding and started using salary adjustments in addition to London allowances. Some are now effectively paying higher premia by adjusting basic pay for employees working in the capital, as well as in hot spots. However, there is little evidence on how widespread the variations are in practice between locations.

National Australia Group broad band pay structure at 1 January 2010

Group	Minimum £pa	Maximum £pa
A	£12,000	£27,779
B	£13,241	£43,800
C	£18,866	£93,404

In manufacturing, there is often multi-site bargaining and different structures apply at different sites. For these, there is often a small number of sites (often in different regions), and these organisations are not comparable with employers with a national reach and a large number of sites. The reasons for the variation at a local level can be historical, e.g. due to acquisitions and conservation of previous terms and conditions.

An example of this type of approach is BMW, which operates with local bargaining at its Oxford, Swindon and Hams Hall sites. However, there is little variation in the basic rates between the sites: in 2010 the salary for an engine assembler at the Hams Hall site was £23,271, while the salary for a track assembler at the Swindon site was £23,023 and at the Oxford site it was £23,828. GE Aviation and United Biscuits are other examples where pay levels are determined through plant-level bargaining.

Among organisations with a broader geographical reach, previous IDS research on location-based pay has shown that the Body Shop sets a basic rate, on top of which 'indexing' for each store is paid, where applicable. Each store's index rates take into account a number of labour market considerations such as local employment and unemployment rates. At 1 April 2008, the basic (national rate) for sales advisers was set at £6.25 an hour, and after indexing the average rate for sales advisers in the company was £7.10 an hour. John Lewis also operates a comparatively complex localised pay structure, under which each of the 28 stores conducts local pay research and sets pay ranges in line with the local market.

There are some parts of the public sector where there are mechanisms in place to allow for local flexibility. The key examples here include local government, universities and police staff, all of which have a nationally negotiated pay spine with grades determined locally. For example, in local government, individual councils make local decisions about the level at which they match their pay scales against the spine. Similarly, in universities the Framework Agreement sets the national pay spine but grading is determined locally on the basis of job evaluation.

It is worth noting that in both local government and universities, where there is scope for more local variation in pay, each local operation is an employer in their own right, so not strictly comparable with organisations such as the NHS or civil service departments.

There have been previous attempts to introduce location-based pay more widely in the public sector. For example, trust-level bargaining was introduced in the NHS in the 1990s. The first NHS trusts were set up in 1991, and these were able to employ new staff on locally-determined pay and conditions. However, existing employees had the right to retain national terms and conditions as set by the Whitley Council. By 1995, very few trusts had introduced comprehensive local pay structures which differed from Whitley.

The Review Body for Nurses, Midwives, Health Visitors and Professions Allied to Medicine accepted the employers' view that the April 1995 pay award should follow a two-tier

approach: a small national across-the-board rise with locally negotiated top-ups (known as the X+Y formula). The review body recommendation was for a 1% national increase, and additional local increases which in the majority of cases would lead to a total increase of between 1.5 and 3% (including the 1% national increase). This was the first year that the review body had recommended a generalised move to local pay.

At the local level, when trusts began to make pay offers they were mainly for the higher level of 3%, but many had conditions attached, including the acceptance of trust terms (i.e. those who retained Whitley conditions would not get a local increase). Talks broke down and the NHS Director of Human Resources urged trusts to withdraw the conditions, specifying that it was not acceptable for trusts to make the local increases subject to acceptance of trust contracts. In the period 1993 to 1997, trusts had the opportunity to vary pay but few did. IDS research shows that most trusts ended up paying the same annual increase.

As a consequence of the failure of local pay bargaining, an agreement was reached in 1998 bringing in 'local pay in a national framework', known as Agenda for Change. Agenda for Change was introduced steadily between 2000 and 2005 – partly as a way to provide an equality-proofed pay and grading structure that would cover all locations in England and Wales – and developments in recent years regarding the NHS mean that pay has become more centralised, with more staff covered by the central NHS Pay Review Body.

1.5. Market supplements

In addition to the different approaches set out previously, market supplements are used in both the private and public sectors as a means of responding to market pressures, without having a formalised location-based pay structure. Examples in the private sector include Wilkinson which operates labour market top-up payments. The payments (worth 25 and 50 pence an hour) are applied to basic rates to ease recruitment and retention pressures in specified locations where there is a tight labour market, such as inner and outer London and the Thames Corridor.

In the public sector, IDS research shows that a number of councils use market supplements to improve recruitment and/or retention problems. The roles that most commonly attract market supplements are those in construction and housing (building surveyors, and in particular more senior roles such as senior and principal building surveyors; and quantity surveyors); environmental and development control, such as environmental health officers, building control officers, planning and senior planning officers; and roles in social services. The sums paid as market supplements vary depending on the council and type of role: IDS

research shows that these can range from £1,037 paid to senior building surveyors at Corby Borough Council to £20,000 paid to some heads of service roles at Leicester City Council.

There are, however, some concerns around the use of market supplements, related specifically to equal pay implications. Employers need to ensure that any market supplements can be objectively justified via means of up-to-date robust market data that can demonstrate a genuine requirement for the supplement.

1.6. Considerations in respect of location-based pay systems

There is a range of factors which inform location-based pay systems. The traditional approach to location-based pay, with higher premiums in and around the capital, was initially put in place to reflect higher cost of living in London and the South East. However, the foundations of zonal pay schemes are now more blurred, mixing both elements of cost compensation and wider labour market pressures. While cost of living is still often an important factor, the local labour market also plays a role.

Location-based pay structures are generally based on data from a range of internal and external sources, which HR professionals use to assess the situation at each location. This can involve monitoring the cost of living and labour market of the local area, as well as information on recruitment and retention issues. Some employers include a measure of the local level of unemployment in their considerations, but there are also many other variables considered, such as response rates to advertised jobs, with data collected from a range of sources such as exit interviews, internal HR systems and local job advertisements.

At Clarks, for example, decisions on the premiums and the allocation of stores to particular zones are made using pay data from other retailers and salary surveys. Stores are benchmarked against competitors in the particular location, and the company looks at the whole pay and benefits package when assessing where they sit compared with the market. The company also looks at local cost of living, the retail prices index and internal staff turnover.

There is a range of other considerations, such as the type of payments, the level of differentials between locations, boundaries and which roles are to be covered. Each of these need sufficient consideration when designing a pay system that varies pay by location.

i. Basic pay or allowances?

There are two main options for varying pay at a local level: either by setting different basic pay levels for different locations, or by setting allowances for particular locations. However, in some cases in both the private and public sectors, a London allowance is paid in addition to a higher basic salary for London. Local allowances can be easier to manage and provide for more flexibility in that employers can 'un-do' differentials between locations. However, where a location-based pay is based on differences in base pay, this can prove more difficult. However, there is still some flexibility for employers to move locations from one zone to another. Another consideration is whether location payments are pensionable as IDS research shows that this is not always the case.

ii. Differentials

Another important part of operating location-based pay systems is to establish differentials between locations that are significant enough to help solve local recruitment and retention issues, without creating excessive internal imbalances. IDS research has found that differentials (outside London) in location-based pay systems are often not significant in cash terms.

Attempting to put a precise figure on a London 'premium' is complicated by the variety of approaches that have been adopted by employers. While many organisations continue to pay freestanding annual location allowances, others have introduced regional pay structures. Some combine a number of different approaches – operating separate London pay scales and paying location supplements to some or all staff. The true scale of the London premium is further obscured by companies using the inherent flexibilities of salary ranges to adjust pay for staff in high-cost areas.

In addition to this, the process for allocating particular locations to zones varies. This is no longer based on a strict system of distances from the centre of London. In most cases, the decision is made on the basis of a range of factors, and recruitment and retention issues are often more important than geography. That said, the highest rates continue to be paid to employees working in central and inner London.

The latest IDS HR Study on London allowances found that the median supplement in zone 1, which equates broadly to central/inner London, is £3,300 a year compared to £750 a year in zone 4 (the fringe, the South East and some other locations – typically large towns or cities). This research also found some differences in payment levels by sector (focusing on finance, retail and the public sector), with the highest payments typically in financial services.

Median location payments 2010

Zone	Zone description	£pa
4	Fringe/south west/large towns	750
3	Outer London/fringe	1,377
2	Intermediate/outer London	1,924
1	Central/inner London	3,300

Source: IDS HR Study 930 'London allowances'.

Outside London, IDS analysis of pay levels in 'hot spot' zones in retail shows a narrow range of pay rates that apply in similar locations. Among the examples in the table below, most organisations pay within a relatively narrow range of between £6 and £6.50 an hour.

Examples of retail 'hot spot' locations and pay rates for sales assistants, 2010

Organisation	Zone and examples of locations	£ph
Argos	Zone C: Camberley, Harrogate, Welwyn Garden City, Romford, Leighton Buzzard	6.23
Boots	Zone 2: Birmingham, Sutton Coldfield, Bath, Bournemouth, Cardiff, Stoke-on-Trent, Portsmouth, Northampton, Bury St Edmunds, Henley, Peterborough, Basingstoke, Bristol, Leamington Spa, Milton Keynes, Shrewsbury, Swansea, Telford, Harrogate, Edinburgh, Aberdeen, Sidcup, New Malden, Purley, Ashford, Folkestone, Maidstone, Canterbury, Aldershot, Eastbourne, Brighton	6.70
Comet	Level 1: Ashford, Bath	6.18
Early Learning Centre	Province 2: Aberdeen, Leeds, Newcastle	6.12
Homebase	Zone 2: Bradford, Bath, Solihull, Birmingham Selly Oak, Warrington, Dartford, Belfast	5.98
	Zone 3: Romford, Edinburgh Blackhall, Aylesbury, Reading, Godalming, Farnham, Nottingham Arnold	5.98
House of Fraser	Zone D: Swindon, Norwich, Nottingham, Metro Centre, Meadowhall, Manchester, Leicester, Jenners Loch Lomond Shores, Edinburgh, Glasgow, Jenners Glasgow Airport, Cheltenham, Cardiff, Bournemouth, Birmingham	7.00
	Zone C: Milton Keynes, Maidstone, Lakeside, Leeds, Jenners Edinburgh, Guildford, Epsom, Camberley, Bath, Bluewater, Bristol, Edinburgh	7.35

Examples of retail 'hot spot' locations and pay rates for sales assistants, 2010 cont'd

Makro	Special provincial allowance: Bristol, Edinburgh, Glasgow, Rayleigh (Essex)	6.47
Mothercare	Zone 4: Edinburgh, Stevenage, Swindon, Canterbury	6.23
Next Retail	Zone 2 (larger cities and small South East towns): Aberdeen, Belfast, Birmingham, Cardiff, Edinburgh, Glasgow, Leeds, Manchester, Sheffield, York	6.34

Another way to gauge the importance of the location premium is to look at internal differentials, i.e. what the premium is worth as a proportion of the national rate. This analysis shows that, outside the London zones, the premiums paid in many of the additional zones are relatively minor. Among the examples provided before, the hot spot premium ranges from 0.3% above the basic national rate, to 14% above, with the most common being around 4%. Where there is a fixed premium expressed in pence per hour that applies to all employees at a particular location, this is worth more for employees on the lower hourly rates than to those on the higher rates.

The retailer Clarks has told IDS that, while the main impetus for using a zonal pay system and conducting regular reviews is to remain competitive against the market, the company also uses the reviews to check they are not 'cannibalising against their own stores' that are near those with a higher premium. The company thinks that the main challenge is to get all the parameters right, and it has recently reviewed the boundaries for its London zones. It also reviews internal relativities by making sure that there is a reasonable percentage gap between each zone.

iii. Roles and locations to be covered

There are also considerations in respect of which roles location-based pay arrangements should cover. In the private sector, it tends to be the largest (and lowest-paid) groups of staff that are covered by zonal pay systems. This is where there is a significant volume of employees in the same role, and employers can take a 'blanket' approach by giving all staff in the same role and location the same premium.

The number of sites and types of jobs at particular locations can also influence who is covered by the zonal pay system. For example, retailers might use a zonal pay approach to cover their many stores, but not their warehouses and distribution sites if there is a small number of these. Similarly, some banks use zonal pay systems for their retail branches, but

not for their call centre locations, since any given organisation tends to have a much smaller number of these.

Even where a retailer has a large number of distribution sites, the approach to pay is less obviously centralised and the evidence that IDS has collected suggests that zonal pay is not used for distribution staff. However, the degree of differentiation varies and even in these instances pay levels tend to follow the general pattern of concentric circles radiating out from the capital. In the public sector, the zonal structure at the Ministry of Justice does not apply to the highest grades.

The issue of which roles can, or should, be covered by more localised pay arrangements could explain why they are not widely used in the public sector. It could be argued that the police service (like the fire service) is one single occupational group, and a complex system of location-based pay might not be suitable.

In respect of which locations are covered, IDS has analysed which locations are defined as 'hot spots' by retailers that use zonal pay systems. Even though the zones do not cover exactly the same locations, they typically cover larger cities and small South East towns, as well as locations with high concentrations of retailers (such as shopping centres and retail parks). Among locations outside the South East, there are certain patterns among those that are classed as hot spots. For example, Edinburgh, Bath, Cardiff, Birmingham, Manchester and Liverpool are classed as hot spots by a large number of retailers.

The allocation of different locations to a single 'hot spot' zone is usually based on them reflecting a common set of characteristics, such as a large number of local competitors, a particular level of unemployment, and a certain level of local pay rates. For retailers, this often affects not only high-street locations, but also shopping centres on the outskirts of a city. In the latter case, employers might need to add a premium to attract people who would otherwise prefer a similar job in the centre of town, as getting to the store would incur extra travel costs etc.

IDS research has shown that the overall trend in the private sector has been towards making schemes less complex, with the number of zones being reduced in some cases. In retail, some of this is linked to the introduction and annual upratings of the National Minimum Wage (NMW). For example, in 2005 Clarks merged the two lowest zones (A and B) into one zone (A). In April 2007 (taking into account local labour market conditions), a supplement was restored to band B but because further adjustments needed to be made to the lowest

rates in October 2007, following the uplift in the NMW, the differential between zones A and B was wiped out and they have remained at the same rates since. The company is now considering merging zones A and B again.

iv. Risks in respect of location-based pay

There are certain risks involved with the operation of location-based pay systems. The potential benefits of cost control have to be weighed against the cost and resources required to manage such a system, with regular reviews of internal and external relativities, as well as supervision of how decisions are implemented at a local level.

In addition, there are issues related to the boundaries of the zones and potential 'cliff effects' (i.e. large differences between nearby towns and cities). This could lead to internal as well as external poaching, which could drive up pay. Distances between locations could have an impact on degree of risk for 'cliff-effects', since this could have an effect on whether staff are willing/able to move between locations. When using zonal pay systems, employers also have to think about how they will manage moving stores between zones. This means that regular reviews of the internal relativities are an important part of the management of location-based pay arrangements.

In the case of the prison service, for example, the Prison Service Pay Review Body (PSPRB) has for a number of years expressed concerns about the operation of the locality pay scheme. In 2006, the review body commented that: 'first, the primary rationale for Locality Pay is to respond to recruitment and retention difficulties at establishment level yet we found instances where establishments had been allocated to a particular rate of Locality Pay because of their proximity to other establishments on that rate. While there may be particular circumstances to justify these cases, they weaken the recruitment and retention basis for the scheme. Second, the allocation to a particular rate of Locality Pay did not in all cases directly reflect the degree of recruitment and retention difficulties. At the extreme some establishments excluded from the scheme appeared, on the evidence, to be experiencing problems as severe as some of those within it [...]. We are concerned that the extension of the scheme to selected establishments outside London and the South East could have a knock-on effect for other establishments operating in the same labour markets'.

The review body also added: 'We recognise the particular difficulty in recruiting and retaining staff in London and the South East and the need to offer a competitive package. We found the evidence for extending the scheme beyond London and the South East less compelling

and consider that the PSA will have to manage the scheme carefully to avoid coming under pressure to continue this expansion year on year. We are conscious also that there is no mechanism for dealing with Locality Pay when recruitment and retention improves’.

Zonal pay systems could also be seen as unfair since they may lead to built-in pay differences, and introduce equal pay concerns unless they are properly managed and the system is transparent. Market supplements, often used by employers as a non-structured approach to location-based pay, also carry equal pay implications if not objectively justified.

The evidence on the use of location-based pay, and the issues drawn from these, point towards the potential pitfalls of introducing such a system for the police service. Location-based pay arrangements, if not designed and managed carefully, could lead to forces losing officers to neighbouring higher-paid forces. This has already happened in the police service. When the combined London allowances for the Metropolitan Police were increased significantly a decade or so ago, neighbouring forces swiftly started losing officers to the Met. The result was that the Government was forced to introduce an additional ‘South East allowance’ covering forces in the Home Counties.

1.7. Flexibility and level of central control

In terms of flexibility, some location-based pay schemes are more flexible than others. For example, those using London and/or South East allowances are fairly rigid and it is not assumed that the allowance can be removed or reduced easily (though such payments can be held steady relative to basic pay, and vary as to whether they are pensionable). However, zonal pay systems offer more flexibility. Organisations using zonal pay systems can move stores between zones to take account of local recruitment and retention pressures. There is also the opportunity to re-zone particular locations in the schemes in place at the DWP and the MoJ, in case of changing labour market or recruitment and retention circumstances.

However, in IDS’s experience, the general approach employers take towards location-based pay is to wait for long-term patterns to emerge before adapting pay structures. This partly explains why, even though unemployment rates increased in most parts of the country during the recession, very few employers have adjusted their zones or premiums as a result.

Instead, IDS has monitored a number of retailers that have simplified arrangements by reducing the number of zonal/location pay bands. This has been an issue for employers affected by the NMW, which over time has caught up with the national/provincial rates at

many retailers. Here the minimum wage pushes up pay in the lowest-paying band, effectively reducing (or removing) differentials between zones.

An important aspect of any pay system is the level at which decisions are made. In pay systems using London and/or South East allowances, these are most commonly negotiated and set centrally. IDS research also shows that there is still a large measure of central control in the operation of pay systems that allow for a degree of local variation. There are very few cases where location-based pay schemes have led to a system of devolution of all decision-making to the local level. Even in local government and universities, the uprating of the spine is done at national level.

In most large retailers and banks that use zonal pay structures, final decisions about the locations covered by a zone and the value of zonal differentials are made centrally, and often negotiated with trade unions or staff associations. In many cases, the process by which decisions on pay differentiation are made starts with a case raised by the store manager to a regional manager, based on outcomes of recruitment rounds and general monitoring for their store. The central HR function will then look at individual business cases in the round, comparing internal data with surveys, ensuring that proposals keep to costs, that there is consistency and equal pay, and that internal relativities are maintained.

For example, at Clarks, the assessment process is conducted once a year, during the preparation for the annual pay review. Typically, around 20 to 30 of the 460 stores are reviewed each year. Proposed changes are based on market benchmarking, staff turnover and feedback from the regional manager, and decisions are made by HR and regional managers, although the retail director has the final approval. Proposals are costed and presented to the retail director for authorisation.

2. Contribution/performance-based pay

In this section of the report we provide evidence of current pay practice in the public and private sectors, looking specifically at arrangements where progression is based on contribution or performance, or any measure other than service. We also touch on issues around the use of contribution or performance-related pay, looking at public sector experiences in particular.

2.1. Pay progression

When it comes to determining how employees progress through the pay structure, there is a range of distinct approaches. In broad terms, the differing types of progression arrangement can be described as 'pure', where progression is based on one criterion, or 'hybrid', which combines several elements of pure types of progression.

There are a number of pure types of progression, such as those based solely on service, performance, skills or competencies. In contrast, hybrid approaches combine a range of factors in an attempt to overcome some of the issues relating to systems based on single criteria, for example length of service. There are a whole range of approaches evident but three broad types stand out as the most common. These are pay systems that combine length of service with performance measures, those that mix performance with market measures, and those that combine performance with either skills or competencies.

While pure types of progression are still found, such as length of service arrangements in many parts of the public sector including the police force, in practice there is evidence of a shift away from progression systems based purely on service or individual performance. Much of the impetus underlying the move to hybrid types of progression is connected to companies' desire to bring paybills under control. In the private sector, this is sometimes because companies often do not have the budgets necessary to provide meaningful merit-based progression, but also because considerations around equity and transparency have become more important.

The type of progression arrangements in use at organisations varies depending on the type of work involved and the sector in which an organisation operates. In private services, the trend has more recently been towards hybrid systems, which include individual performance as a factor in progression, but also involve other criteria. These approaches typically give employers more flexibility in terms of managing progression costs. Whereas in manufacturing, progression tends to be based on a mix of service, skills and performance.

In the public sector, progression has typically been based on length of service. However, here as well there has been some evidence of a shift towards including performance, skills acquisition or contribution measures in addition to service, with the concept of ‘bars’ or ‘gateways’ which employees must pass through in order to progress.

Advantages	Disadvantages
Service	
<ul style="list-style-type: none"> Highly transparent, with clear career paths for staff, usually based on experience 	<ul style="list-style-type: none"> Can be a source of discrimination if scales are long, as women tend to have breaks in service
Performance	
<ul style="list-style-type: none"> Can improve staff motivation and retention 	<ul style="list-style-type: none"> Associated with low transparency; can demotivate, especially in periods of low inflation
Competency	
<ul style="list-style-type: none"> Often more acceptable to staff and unions than merit-based approaches 	<ul style="list-style-type: none"> Complex link to pay not straightforward
Skills	
<ul style="list-style-type: none"> Pay differentiated more objectively, on basis of skills or experience 	<ul style="list-style-type: none"> Need to ensure skills are being used in the job; updates necessary as work processes change
Market	
<ul style="list-style-type: none"> Can assist with retention, especially in tight labour markets 	<ul style="list-style-type: none"> If market static, no progression, which may demotivate; issues around transparency, and data availability
Service plus performance	
<ul style="list-style-type: none"> Provides ability to influence employees’ behaviour 	<ul style="list-style-type: none"> Most suited to senior management roles; needs to fit with company culture
Performance plus market	
<ul style="list-style-type: none"> Flexibility to withhold or accelerate increments 	<ul style="list-style-type: none"> Stronger links to performance constrained by budgets
Performance plus skills or competency	
<ul style="list-style-type: none"> Said to speed progression to target rates, with added openness about ways pay is managed 	<ul style="list-style-type: none"> Staff dislike lack of progression above market rates; not always as transparent as claimed

i. Individual performance-based progression

Performance-related progression or merit pay – defined as performance-based payments that are consolidated into base pay – has been common among private-sector employers for the last 20 years or so and performance appraisals have become a well established feature of the reward calendar.

While there has been something of a shift away from progression based solely on performance, there are still many examples in practice. For example, at McDonald's both the percentage pay increase and bonus received by employees are determined by the performance review process and individual pay rises are determined by an employee's performance rating. In the 2010 review employees rated as a 'significant performer' received increases of 2.5%. Employees rated as 'exceptional performers' received increases of 4% and those rated within the 'some improvement required' or 'unacceptable performance' categories did not receive any increase.

In the public sector, progression at the Department of Business, Innovation and Skills (BIS) is linked to performance ratings. Here the number of steps an employee moves up the incremental scale is determined by his or her performance rating. In the August 2010 review, staff rated as 'highly successful' or 'successful' progressed by two steps and those rated as 'improvement needed' progressed by one step.

ii. Skills-based pay

Progression based on the acquisition and application of skills – skills-based pay – is mainly used for manual workers and is less common for white-collar staff. Growing out of more traditional apprenticeship and training schemes, modern skills-based approaches are often aimed at equipping manual workers with the additional skills needed to operate or maintain high-tech equipment or processes, and rewarding them accordingly. The approach here is normally modular, with extra pay for completing each skills module in a sequence of four or five modules.

Most of the examples of skills-based pay relate to manufacturing and some systems combine a measurement of individual performance with skills, especially in parts of high-spec manufacturing. For example, at Innospec Specialty Chemicals based in Ellesmere Port industrial staff progress by a means of skills enhancement programmes.

One example of skills-based pay for white-collar workers is at Virgin Trains where station staff are employed on a salary spine, with points attributed for a series of variables including

skills acquired, level of responsibility, job role, location, first-aid training, deputising and announcing. This scale ranges from points 6 to 81, equivalent to £15,377 to £38,010 a year, at 1 April 2011.

iii. Market pay

Market-related pay takes the practice of linking salary levels to what other organisations pay for similar jobs a step further. Pure market-related pay would be a system in which salary levels are set wholly in relation to some form of market measure, such as median or upper quartile salaries. Internal salaries are compared job by job against the market periodically, for example every six or 12 months, and updated only if the external market has moved. This approach relies on the availability of reliable market data to provide a robust measure.

Examples of pure market-related pay are few and far between, with the practice likely to be more common at smaller workplaces where salary reviews are conducted on an ad-hoc basis or where organisations operate in a highly niche market, such as IT consultancy. IDS has monitored one example where pay is linked solely to the market, at Allstate Northern Ireland. Here, pay for call centre staff is subject to an annual salary alignment exercise.

In practice, progression with reference to the market is most often associated with broad bands or job family pay structures and progression through the bands is also likely to be linked to performance or some other measure. In finance, market measures have been combined with performance-based schemes, in order to create hybrid systems that limit progression above market or 'target' levels.

iv. Competency-related pay

Competency-based pay is linked to dimensions of behaviour that an employee must display in order to capably perform in their role. Examples might include analytical thinking, or communications skills. Some schemes mix behavioural elements with more objective measures of skill level. There are few examples of progression based solely on competency, as more often it is combined with service or performance to form a hybrid approach. This is probably due to the complexities of operating such a scheme. Examples of organisations that operate competency-based progression from IDS research include Muir Group Housing Association and Plymouth City Council, both of whom manage progression for call centre staff via competency-based increments.

In some cases (although strictly a hybrid approach), an element of competency has been added to service-based progression schemes, with the concept of 'bars' through which staff

must move in order to obtain higher increments, such as in the NHS. The Agenda for Change pay structure in the NHS entails a progression system with two competency-based 'gateways' in each band, one near the bottom of each grade and one near the top. The expectation is that while most staff would pass through the lower gateway, the higher one is designed to be comparatively narrower, or more difficult to pass through, thereby limiting progression to the highest increment(s) in each band.

The Knowledge for Skills Framework (KSF) was designed to provide an outline of the knowledge and skills necessary for each post and annual reviews for all staff so that they could compare their skills to the outline. This was intended to form the basis of personal development plans to help staff plug any gaps in their knowledge and to help them in their career progression. Further discussion on the success of KSF is provided further on in this report.

v. Service plus performance

Increasingly, traditional approaches linked to service have been adapted and now combine length of service with performance or some other measure. This approach has been growing in importance in the civil service: where progression was once based solely on length of service it is now linked in part to performance too. Examples include arrangements at the Crown Prosecution Service, where movement through the pay bands is linked to service and individual performance. Staff progress to the next point of the pay band on the anniversary of their start or promotion date as long as their performance has been appraised as 'satisfactory'.

In the private sector, both Ford and Kodak provide examples of this approach. At Ford progression for its main white-collar group is based on service up to the midpoint of the salary scale. Thereafter, progression from the scale midpoint – known as the incremental maximum – to the scale maximum is based on assessments of individual performance. At Kodak clerical, administrative, secretarial and technical staff, progress through each grade by service-related increments, subject to a minimum performance standard.

Ford Motor Company staff pay structure at 1 November 2010

Clerical, technical and engineering staff		Minimum £pa	Incremental maximum £pa	Scale maximum £pa
1	Mail clerk	19,633	21,247	22,860
2	Telephonist	20,838	22,676	24,514
3	Secretary C	21,764	24,389	27,017
4	Administrative clerk, secretary B	23,641	27,018	30,395
5	Parts control analyst	26,021	30,523	35,026
6	Manufacturing engineer B	31,018	36,496	41,975
7	Manufacturing engineer A	35,651	42,593	49,533
8	Senior engineer	39,241	47,572	55,901
Foremen				
90	Multi-role foreman	33,891	39,988	46,084
92	Area foreman	36,330	42,426	48,522
93, 94	Skilled foreman, senior foreman	38,768	46,084	53,394

vi. Performance plus market

Another common hybrid approach combines individual performance with market measures. These systems feature mainly in financial services where there is a strong preference for approaches that link pay levels to the 'market' for comparable jobs, however this is measured, with a limit on further consolidated rises once the 'market rate' is judged to have been reached.

Key examples in illustrating approaches that combine individual performance with market measures include arrangements at the Royal Bank of Scotland (RBS) and Santander. At RBS individual pay awards (which include progression payments) are based on an employee's performance rating and their position in the grade relative to the market.

Royal Bank of Scotland pay awards matrix at 1 April 2011

Position in grade relative to market	Performance rating				
	1	2	3	4	5
<87.5%	0	0	3.0%	7.0%	11.0%
87.5 to 93.9%	0	0	2.25%	6.0%	10.0%
94 to 99.9%	0	0	1.75%	5.0%	9.0%
100 to 104.9%	0	0	1.0%	3.0%	7.0%
105 to 109.9%	0	0	0.50%	2.0%	4.0%
110 to 114.9%	0	0	0.25%	1.0%	2.5%
115 to 119.9%	0	0	0.25%	0.5%	1.5%
120% +	0	0	0.25%	0.25%	0.5%

At Santander merit awards received by staff depend on individual performance and an employee's position on the salary range. In 2011 increases varied from 1% to 5% (see matrix). In addition, salary range minima and maxima were uplifted by 2.5% before individual awards were paid.

Santander pay awards matrix at 1 March 2011

Position in salary range as % of grade median	Performance rating				
	IP	CP	SP	OP	EP
80 to 89.9%	0	2.0%	4.0%	4.5%	5.0%
90 to 96.9%	0	1.85%	3.6%	4.0%	4.5%
97 to 102.9%	0	1.55%	3.1%	3.5%	3.9%
103 to 109.9%	0	0	2.3%	2.5%	2.8%
110 to 119.9%	0	0	1.5%	1.7%	1.9%

While this approach is popular in financial services, IDS has also monitored examples in other sectors. For example, the pay structure at charitable housing association Southern Housing Group is based on three job families. Each job family is divided into four levels with the salary ranges increasing in line with the complexity and responsibility of the job. An individual's progression through the salary range is based on an assessment of their performance throughout the year plus their position in their pay range. Staff who are currently paid lower in their new pay range are accelerated towards the market reference point of the range (depending on their performance appraisal ratings) as this point reflects the market for the job. Once staff are paid at or above the market, their scope for pay progression slows down. To ensure that those who are paid at or below the market receive

higher pay increases than those who are already paid at or above the market, a pay matrix has been developed.

Pay progression at Southern Housing Group (example)

Performance appraisal rating	Position of salary in the range compared to market		
	Low	Median	High
4 – exceptional performance	9.5%	7.5%	4.5%
3 – very good performance	6.5%	5.0%	3.5%
2 – meets performance	4.5%	3.5%	2.5%
1 – improvement needed	0	0	0

In the public sector, the Ministry of Justice also operates a pay structure that is defined by target rates. Pay bands A to D are based on broad ranges, divided into three zones: 'development' between the minimum and the target minimum, 'target' between the target minimum and the target maximum, and 'upper' between the target maximum and the maximum. The 'target zone' is linked to market rates and recruitment and retention pressures. Progression is based on an individual's performance rating and their position in the pay range.

Ministry of Justice progression matrix for bands A to D at 1 April 2011

Position in pay band	Improvement required	Effective	Outstanding
Development	0 to 2.0%	5.0%	6.0%
Target	0	3.0%	4.0%
Upper	0	1.5 to 1.9%*	2.5 to 2.9%*

*The upper 'effective' and 'outstanding' markings are linked to the revalorisation of the target maximum for the relevant pay band and range.

vii. Performance plus skills or competency

Another hybrid approach is one that combines performance with competency or skills acquisition, providing employers with the flexibility to accelerate or withhold progression on the basis of performance but also skills acquisition. This approach is common among call centres. For example, at Loop Customer Management progression through the pay scale for call centre agents is based on skills development, competence, contribution and displaying and demonstrating required behaviours. Rises are every three months and most employees reach the top of the scale within two years. There are 16 increments between entry level and scale maximum, with increments typically worth between £250 and £500. Progression for

more senior staff is based on individual performance and competency-linked increments. Staff are eligible for progression rises approximately every six months.

There are also examples in parts of manufacturing. For example, manual workers at Hitachi Automotive Systems Europe in Bolton are able to progress within pay bands through the acquisition of new skills, increased competency and positive individual performance. Most commonly manual workers' pay increases as they progress through the company education system.

viii. Contribution-based progression

Contribution pay is a relatively new concept and one definition sees it as performance plus competency, i.e. measuring employees' achievement against both objectives and competencies. In the public sector, the concept of 'contribution' is receiving an airing for senior staff, in the new pay system for the universities, for example. There are also early initiatives underway in local government.

In universities, the Framework Agreement¹ contains three incremental 'contribution' pay points at the top of each grade in the academic model career path. The Joint Negotiating Committee for Higher Education Staff (JNCHES) provided guidance to identify the criteria and draw up procedures for contribution pay progression and states that 'the purpose of contribution-related pay is to reward individuals whose contribution, on a sustained basis, exceeds that normally expected in their role in terms of high levels of outcomes and of competence'. So far, plans for the introduction of this sort of approach mainly involve senior roles (academics), and while there are institutions that plan to extend the approach to other staff, these plans are mostly at a very early stage.

Furthermore, some local authorities in England are experimenting with a contribution-based approach whereby the award of an annual increment is dependent upon an employee's achievement of both performance targets and competency objectives. This sort of approach is aimed at overcoming the deficiencies associated with performance- and competency-based pay on their own. In particular, the addition of competencies provides an opportunity to link the acquisition of these to career development. It can be seen as fairer than 'traditional' performance-related pay because it tries to reflect what employees actually do in their jobs, rather than relying simply on management assessments of how well employees have achieved their objectives. It also provides management with the ability to influence employees' behaviour.

¹ The Framework Agreement for the Modernisation of Pay Structures in Higher Education 2004.

Such schemes can be difficult to design, involving as they do both an assessment of how objectives are achieved, and the application of competencies or skills. Existing schemes appear to reproduce some of the methods associated with 'traditional' performance-related pay, such as scoring of individual employees in respect of how well they have met their objectives, and the use of 'matrices' to determine individual pay rises. As such, the criticism that these approaches are aimed at paybill control (rather than employee development and motivation) seems difficult to overcome.

2.2. Key issues in respect of contribution or performance-related pay

There are a number of key issues related to how contribution/performance-related progression operates in practice. There is also a wealth of academic research into performance-related pay, most of which generally presents a negative picture. S. Perkins and G. White – Professors of HR Management – point out in their recent 'Employee Reward' that most of the research into performance-related pay in the UK has been critical, with the linking of appraisal outcomes to pay one of the major issues.

There is the question of whether the type of scheme being considered is appropriate to the type of work carried out by police officers and staff. Research by Randle (1997) into the use of performance-related pay in a pharmaceuticals research environment questioned the appropriateness of such schemes for 'knowledge workers'. The use of pay for performance regarded was in this context as one of the 'most consistently disliked management practices'.

Thompson and Milsome, in research carried out for the CIPD in 2001, underline the point about suitability: 'Even the most committed supporters of individual performance-related pay acknowledge that it is phenomenally difficult to manage well... Certainly it is not appropriate for all organisations.'

The HR literature, on the other hand, attempts to present a more favourable account, but this is because much of it reflects employers' priorities rather than objectively assessing the advantages and pitfalls of such approaches.

i. Forms of measurement

The question of how contribution or performance might be measured is a vital one. How this is to be assessed will also have to be carefully considered in order to avoid some of the pitfalls of traditional performance-related systems. In the case of police, avoiding crude measures of contribution or performance will be essential if a system is to be seen as fostering development and growth in the job, rather than controlling staff and driving or

'policing' performance. It must also go hand in hand with proper management of employees' contribution.

When it comes to measuring performance in the police service, Tom Winsor seems to indicate a number of options for the level at which this might be measured: 'personal, team, and force-wide objectively determined achievements'. However it is difficult to see how force-wide objectives could be used to inform individual progression. The 'team' level presents similar difficulties; and how should 'team' be defined, if this level is to be used?

ii. 'Inflation in drag'

Academic studies have highlighted a number of shortcomings with performance-based pay. One of the central problems is that although pay increases are supposed to be differentiated by performance, in most cases the pot for pay increases is set by the budget available. This budget tends to be in line with that for across-the-board increases elsewhere and determined by the same factors – including inflation and affordability – and so the bulk of employees end up receiving the same award.

These points are summarised in an article in the (American) Compensation and Benefits Review (November 1996 issue) which quoted a reward manager as saying: 'merit pay has never been truly performance-based, except in the cases of those individuals who are performance outliers – the highest and lowest performers. This is because most jobs don't have a direct economic impact on a business, don't create results that are easy to measure, or don't consist of solo or independent work that makes it easy to measure individual accomplishment. [As a result] merit pay has become just a cost-of-living increase in drag.'

iii. Forced distributions

'Forced distributions' or guidelines to managers on how to distribute merit pots tend to reinforce the criticism that merit awards are merely inflation in drag since large numbers (and frequently a majority) of staff receive the same basic increase. The issue here is that because paybill control is paramount, such schemes fail in their stated aim of motivating or developing employees.

For instance, at RBS in 2008, 58% of employees received increases in line with or above the paybill increase of 3.75%, with the remainder receiving increases below this level. And this is in the case of a scheme where increases are further differentiated by position in range/relation to market (or 'target' rate). In instances where there is no such differentiation with reference to the market, the trend towards outcomes which look a lot like 'inflation in

drag' is even more pronounced. And budgets have tightened at many organisations, including in finance, since 2008.

iv. Unintended consequences

Linking performance assessments to pay might have unintended consequences, depending on what measures are used, and possible social repercussions in the respect of police. In addition, an individualised approach to pay and performance could provide 'perverse incentives', which could be inimical to teamwork. This seems an important consideration in the light of the importance of team-working to the police service.

And applying these might also result in perverse incentives, whereby officers could compete with each other to meet/exceed targets, with the result that team working could be undermined. Studies of the introduction of performance-related pay for teachers highlighted this as a fear on the part of heads, though in the event virtually all eligible staff moved onto the upper pay scale which meant that this was not realised.

v. Transparency, fairness and equality

Transparency is an important consideration, in respect of providing a clear career path, but also in respect of team working – where people know where they and their immediate colleagues are in pay terms, then they are arguably less likely to work in ways that 'get one over' each other. Fairness is also key. If pay is differentiated within ranks/roles then this can cause perceptions of unfairness which can in turn be demotivating.

Long service-based progression systems are also an issue as they have been shown to discriminate against women. As a result there is a distinct trend towards shorter scales. The recent IDS HR Study on progression, conducted in autumn 2010 and based on responses from some 91 organisations, found 'a tendency towards shorter scales among employers with incremental pay structures, with progression to the top of the scale taking five years or less in 85% of cases (and never longer than ten years).' And among organisations with salary ranges, 'the five-year mark often represents the shortest timeframe over which standard performers usually reach the progression maximum.'

Furthermore, the Equality and Human Rights Commission (EHRC), in its report on pay discrimination in the finance sector², found evidence of gender bias in the distribution of performance-related pay and bonuses, with a gender gap of 80% for performance-related

² Financial Services Enquiry: Sex discrimination and gender pay gap report of the Equality and Human Rights Commission', 2009.

pay (based on the 42 cases providing complete data under this study). In terms of how this might have arisen, women reported adverse impacts from taking maternity leave, including less favourable performance assessments. Lack of transparency around performance criteria was a factor here.

In the event of some form of contribution-based pay being introduced for the police, this points to the need for equality-proofing of the scheme, transparency of criteria and regular monitoring of outcomes, to ensure discrimination is not taking place.

vi. Ceilings on progression

While most systems contain some sort of ceiling on progression within grades (even in structures without formal maximums, pay movements – outside of general, cost-of-living increases – come to a stop at some point) and limits are variously defined. However in market-based systems, the ‘market rate’ is often the target for progression, with limited movement above this level. The preference for approaches that link pay levels to the ‘market’ for comparable jobs has proved controversial and unions have been concerned at the number of staff deemed to be ‘above market’ receiving zero awards or non-consolidated pay rises.

Bonuses are increasingly commonplace as a way of motivating staff at or above the maximum (however this is defined). Bonuses are regarded as useful because they are by definition variable, and both non-consolidated and (usually) non-pensionable, thereby ensuring year-on-year paybill costs are kept under control.

2.3. Lessons from the public sector

Perhaps the key piece of research conducted in this area is John Makinson’s report ‘Incentives for change: Rewarding performance in national government networks’, published in 2000. Makinson was damning about the performance management systems in the civil service and the operation of performance-related pay. His report begins with the sentence: ‘This report begins with two simple assumptions: the first is that performance incentives can improve productivity within the public sector; the second is that most incentive arrangements in place today are ineffective and discredited.’

The review found that performance-related progression in the civil service was ‘seen as divisive and unfair’ and far from motivating staff, it was regarded as demotivating. A particular problem was that the focus on individual performance objectives led to ‘individuals not working to support their team or help other colleagues’. Makinson argued that: ‘A central

weakness of the present performance pay system is the subjectivity of performance assessment, which gives rise to accusations of favouritism, and the inadequacy of existing performance management systems when they try to identify objectively the achievement of an individual. This is hardly surprising. Almost all individuals in the national office networks of the four agencies work as integrated team members and their individual contribution is difficult to distinguish from that of the team as a whole.'

Makinson said that long pay bands should be shortened and suggested moving towards a system with a target/market rate for the job which someone might reach in five to six steps. He recommended that performance should be measured against operational targets rather than being based on appraisals, that team performance should be rewarded by bonuses rather than consolidated amounts and that the performance element of pay should shift from salary progression to non-consolidated bonuses.

As a result, early experiments in performance-related progression in the civil service were ended in favour of rewarding performance through bonuses. However, in recent years changes in government policy have led to attempts, in some cases, to link progression once more to performance or competencies.

Elsewhere in the public sector, the Knowledge for Skills Framework (KSF) in the NHS does not, so far, appear to have been a great success and it is estimated that over half of NHS employees have moved up their pay bands without recourse to the KSF development scheme. Take-up of the KSF has been slow because it is perceived by staff, managers and HR administrators to be overly bureaucratic and time-consuming. This was the verdict of a report by the National Audit Office published at the beginning of 2009³ which led to the commissioning of the Institute of Employment Studies to undertake a review of the KSF. A revamped and simplified system has now been introduced.

2.4. 'At risk' remuneration

Winsor's proposals around 'at risk' remuneration are highly unusual. IDS has never come across any system that reduces basic pay for poor performance. In many ways, taking basic pay off staff below executive level on a retrospective basis would be an unprecedented move. We have never come across this approach in any other sector of the economy, where poor performance may result in no pay rise, but never routinely in a pay cut (except in those rare instances where staff are demoted). Consistent under-performers may be subjected to measures to improve their performance, but this is a different matter.

³ 'NHS Pay Modernisation in England: Agenda for Change', January 2009.

The proposal for a percentage of basic pay to be 'at risk' is similar to that made by Will Hutton for senior executives, where executives have to earn back a proportion of their basic salary each year through meeting pre-agreed objectives. While 'earn-back' arrangements for executives are very unusual, they are not unknown as several local authorities, including Westminster City Council, defer part of their top executives' basic salary which is only paid if performance conditions are met at the end of the year. However applying this approach to public servants earning in excess of £100,000 a year (and who might be expected to have greater disposable income after basic living costs are met from their salary) is one thing but applying it to officers for whom a greater proportion of pay goes on the basics of life is quite another. Also the issues in respect of executives – who are expected to drive overall organisational performance – and 'ordinary' staff, few of whom can affect overall organisational performance in anything like the same way, are quite different.

There are possible legal difficulties with such an approach, which Winsor appears to recognise when he asks, 'How could 'at risk' pay be implemented given a judgment on performance in any given year would be made retrospectively?' From a legal viewpoint there may also be other considerations. In ordinary employment law circumstances, the introduction of such an uncommon pay structure would be problematic almost to the point of impracticality.

Performance-related pay systems like that under consideration here have been introduced in the private sector, but only in limited circumstances in specific sectors – for example, 'bonus/malus' schemes for highly-paid executives, or making full salary for sales staff dependent on meeting targets. An employer seeking to introduce such a system would ordinarily need to do so by varying contracts of employment. Ideally, such variations are achieved through negotiation with the workforce followed by agreement but, given the likely opposition to a potentially punitive scheme, consent would not be readily given. The employer is then faced with a choice of imposing the changes unilaterally, risking claims for breach of contract and/or constructive dismissal, or dismissing and re-engaging the workforce to force the terms through, risking unfair dismissal claims.

However, police officers are not in ordinary employment law circumstances. Police officers are office-holders, not employees, and so are not considered to have 'contracts of employment' in the legal sense of the term. As a result, none of the usual contractual considerations that hinder changes to terms and conditions apply. Pay is determined by the Secretary of State under Part 4 of the Police Regulations 2003 SI 2003/527 and these

changes – for all that they are unheard of in public sector contracts – are within the Government’s power to make.

This does not mean, though, that the pay system would be free from legal scrutiny. In particular, any questions of discrimination and inequality arising under the scheme could be pursued under the Equality Act 2010, which applies to police officers as it does to other employees. The most likely way in which the scheme may be discriminatory is if it takes account of performance indicators that work to the disadvantage of groups sharing a protected characteristic. For example, where credit is given for flexibility or the ability to work night shifts, those with caring responsibilities (predominantly women) may lose out. Similarly, if performance depends on showing evidence of arrests, crowd control etc., those confined to the office by disability may be adversely affected.

Furthermore, in any system where performance and pay are so intrinsically linked, any subconscious discriminatory or stereotypical attitudes among those operating the system risk feeding into pay. The system would need to be very carefully monitored to see if any particular ethnic group, or any other group linked by a protected characteristic (sex, age, disability etc.), is disproportionately represented among those losing their ‘at risk’ pay.

3. Comparability of police pay

In this section of the report we discuss the role of job evaluation to underpin pay comparisons. This includes a discussion of whether it is feasible to compare police roles through job evaluation or a similar process. We also provide some views on the best comparator roles for police officers in the wider public and private sectors, and on the limitations of using official earnings data for pay comparisons.

3.1. Principals of job evaluation

Job evaluation is a well-established process for determining the relative weight or value of jobs. The results of job evaluation can be related to the use of external pay surveys to inform decisions on rates of pay, or within an organisation for the purposes of agreeing an internal hierarchy, as a foundation for developing a grading scheme/pay structure. Job evaluation is also recognised as a requirement for undertaking equal pay comparisons.

There is no standardised approach to job evaluation because of the different range of needs and drivers in organisations that influence the decision on which type of approach to use. These range from informal approaches in smaller organisations with no formal scheme to semi-formal approaches such as paired comparisons, job classification or job ranking which are known as non-analytical schemes. The latter tend to be simpler, cheaper and more flexible to operate, but do not meet the requirements of equal pay legislation. However, they are often used for pay benchmarking purposes usually by comparing jobs against levels of responsibility described in job capsules.

More formal approaches to job evaluation, where a number of criteria or factors have been developed against which all jobs in an organisation are compared, are known as analytical. Analytical job evaluation is based on a process of breaking down whole jobs into a number of defined factors such as knowledge and skills, decision-making and thinking requirements that are assumed to be present at one level or another in all the jobs to be evaluated.

The jobs are then evaluated, which means each of the characteristics of the job are considered separately by reference to information from a job description or detailed job analysis form (or other documentation, such as organisational structures with details of reporting lines) before coming to a view about its relative value, which is expressed as a total number of points. The scheme may also have defined conventions and guidelines to help increase objectivity and consistency of judgements.

Advantages and disadvantages of formal job evaluation

Advantages

- Factor-based schemes are analytical and encourage credibility through an objective and rational approach.
- In a complex organisation with a range of different jobs such as scientific, administrative and sales posts, formal job evaluation can enable robust comparisons to be made so that pay and grading decisions are able to reflect different levels of responsibility and contribution.
- Formal analytical schemes can be used as a defence in equal pay claims as long as the evaluation process itself has been carried out correctly.
- Access to market data using the scores from a proprietary formal scheme such as Hay, Croner Reward and IDS is usually undertaken with the confidence of like-for-like comparisons.
- Formal job evaluation schemes can help to identify and quantify the actual differences between the values of different jobs in an established hierarchy to assist with the design of training and development initiatives and career planning.
- Job evaluation is recognised as a requirement for equal pay comparisons.

Disadvantages

- The process can be time consuming and take managers and staff away from their core business activities.
- The information about jobs must be up-to-date and in the correct format, otherwise evaluators may make assumptions that do not reflect the reality of the situation.
- Vigilance and rigour must always be applied as subjective decisions can be made by evaluators in order to manipulate the results, or by jobholders to inflate the importance of their job, for example, by claiming full responsibility for certain tasks where they only have part responsibility in practice.
- The results may not be wholly consistent as different evaluators may be used at different stages of the exercise with slightly different standards. Regularity of attendance at evaluation meetings is of crucial importance.

3.2. Formal approaches to job evaluation

In this section, and on-going discussion, we concentrate on the more formal approach to job evaluation in order to distinguish it from less formal approaches that may not be deemed sufficiently robust to achieve the level of precision required for accurate market comparisons.

Analytical job matching uses job evaluation to determine comparable jobs. Jobs are analysed in terms of the identified factors. Analytical job evaluation is time-consuming, labour-intensive and expensive. But it is the most accurate method there is, especially for sizing more senior jobs.

Formal job evaluation can be considered as:

- Judgemental – requiring the exercise of judgement in interpreting detailed information on jobs and comparing one job with another
- Analytical – based on informed judgements, gathering the facts about jobs and sorting the information systematically
- Structured – by working to a framework that encourages evaluators to make consistent reasoned judgements. It is not scientific and cannot be reduced to a formula.

Formal methods of job evaluation tend to exist in many medium- and larger-sized organisations in the public, private and not-for-profit sectors. In the majority of cases, these are based on well-established proprietary or 'off-the-shelf' schemes from pay consultancies. The main providers include: Hay Group, Croner Reward, Towers Watson, IDS, KPMG, Pilat, Mercer, Hewitt Associates, Inbucon, ACAS, PA Consulting and PwC. These are analytical schemes designed to enable all types of jobs to be analysed and the factors and descriptors are usually pre-determined, though in the case of Pilat it offers a scheme called Gauge, whereby an organisation can select the individual factors and the results are much more bespoke.

Proprietary schemes can be attractive to clients because of their tried and tested nature. The methodology, factors and definitions tend to be well-researched and can often be used across a large number of different roles. The results that are produced are typically consistent, and can be compared with those from other organisations' that have undergone a similar process. This can help employers benchmark salary levels, and inform pay and grading decisions when implementing new structures.

Working with consultants can be attractive because they often have access to salary surveys and market pay information. In addition, many offering proprietary job evaluation schemes

also hold pay data for evaluated jobs in other client companies, which enables them to benchmark positions against pay data for comparable jobs or sectors on a like-for-like basis. A proprietary scheme can, therefore, be used to determine internal equity as well as providing a link to the external pay market for comparison purposes. Pay databases will normally include details of: base salaries by specific job; sector (e.g. retail) or discipline (e.g. IT roles); average bonus/incentive earnings; total earnings; hours of work and other benefits including pensions; the range of annual pay increases and an estimate of the future level of pay increases.

The data is presented by job size either using total job evaluation points or by generic level based on a capsule description of a range of typical work levels in an organisation. Some pay databases, such as Croner Reward and IDS, make use of both generic levels and a formal job evaluation scheme to aid benchmarking comparisons. The resulting data is usually presented as a range of market data from the lower quartile through the median to the upper quartile of the specific market, sector or job.

In a minority of cases, a bespoke scheme has been specifically designed for a particular organisation by a job evaluation specialist – of which there are several examples in the public sector. Bespoke job evaluation schemes have been designed and developed for the specific purpose of establishing a job hierarchy within one organisation (or public sector body) relating to a particular range of jobs and the wording of the scheme will reflect the values and activities of the organisation. Off-the-shelf products are not always appropriate, even when some of the factors can be adapted. This is true when an organisation considers itself to be unique compared with other companies. In such cases, the employer may seek to develop a bespoke scheme specifically to meet its requirements. A specially-designed scheme must accurately reflect the different range of jobs under consideration, as well as provide the organisation with control in terms of the factors chosen. Involving staff and line managers in the design phase of a bespoke scheme can help encourage buy-in from the workforce.

Each of these bespoke schemes is different and unique to the organisation as their primary purpose is to systematically assess and define the relative value of widely different roles within a large organisation in order to achieve internal equity – an important part of the public service ethos. This may have some advantages for the police service which has a number of special factors affecting both the content and cultural values of jobs. However, bespoke schemes are also very time consuming and labour intensive in the design and development stages involving the choice of factors, a description of each factor and level, the

extensive testing stage and the choice of scoring mechanism. The process may take between one and two years depending upon the complexity of the scheme.

In terms of using job evaluation results of a bespoke scheme, it should be noted that comparisons can be made across different schemes on the basis of a mapping exercise, which IDS has undertaken for job levels in its scheme against job weights⁴ used in other schemes. However, there are limitations to this exercise as different jobs that fall close to the 'borders' of a job weight in a particular scheme can fall into different levels in another scheme. That is to say that the different job sizes do not map perfectly against one another.

3.3. Current status of job evaluation

A few years ago some HR commentators believed job evaluation to be outmoded and losing its appeal as it was considered to be very bureaucratic, associated with overly hierarchical organisations and not reflective of more flexible ways of working. In practice it has remained a popular and credible HR tool in both the public and private sectors, being used to underpin more flexible organisational initiatives such as job families and especially to help to ensure equal pay for work of equal value. An online survey carried out by XpertHR⁵ in autumn 2010 showed that 73% of the 207 respondents use some form of job evaluation for at least some jobs in their organisation and 58% of those with no job evaluation said they have plans to introduce a job evaluation system.

One of the biggest complaints about job evaluation is the length of time the process can take – especially for large employers with varied roles. For this reason, most large organisations select a representative sample of benchmark roles to evaluate fully. The remaining (majority of) jobs are then matched with these roles and placed on to the new grading structure at the appropriate level. The use of technology at the scoring stage can also help to speed up the exercise. However, some companies have found that such systems can be a little rigid and fail to account for some of the unique, less quantifiable aspects of a role – which may be captured by a manual assessment. Many companies are now using job evaluation to inform the design of flatter job or career family frameworks, rather than more traditional and hierarchical grading structures. These can provide greater scope for lateral, as well as vertical, career progression and offer greater flexibility when it comes to varying the pay for particular groups of staff in line with market rates.

⁴ By job weight we mean the determined size of the role. The IDS job evaluation scheme uses job levels, while Hay uses Hay points and Croner job rank.

⁵ Job Evaluation survey 2011, XpertHR Surveys, November 2010.

In recent years job evaluation has been very visible in the public sector, following the devolution of responsibility for pay and grading to government departments and agencies where there has been a requirement to use job evaluation to underpin new pay arrangements. There has also been a great deal of emphasis on job evaluation and job weight to design pay structures that meet equal pay tests. Job evaluation has also proved vital in enabling the move to new pay structures; examples include the single pay spine in universities and the Agenda for Change pay structure in the NHS. As a result, a number of bespoke schemes have been developed in the last few years for large public sector organisations (see table).

However, in reality these schemes are not always used as widely as possible, since their use is not mandatory. In central government, for example, the most frequently used scheme is JEGS (Job Evaluation and Grading Support) which is a seven-factor scheme developed by Towers Perrin for adoption and general use by government departments and agencies, though in a number of instances well-established proprietary schemes from major consultancies such as Hay and KPMG have also been taken up. There are similar stories elsewhere in the public sector, where the bespoke schemes are not used as often as it was thought they might be. IDS research in the universities sector shows that while some have adopted the specially-designed HERA scheme, others use Hay (particularly members of the Russell Group). There is a similar picture in police forces, where some have used Hay rather than the Police Staff Council Job Evaluation Scheme. The main reason is that HR may wish to give management roles a greater weight than is given in some public sector schemes.

Examples of bespoke job evaluation schemes in the public sector

Employer	Scheme
Armed Forces	Armed Forces Job Evaluation Scheme
Local Government	NJC Single Status Job Evaluation Scheme
NHS	NHS JE scheme under Agenda for Change
Police staff	Police Staff Council Job Evaluation Scheme
Prison Service	Prison Service Job Evaluation Scheme
Probation Service	Probation Service Job Evaluation Scheme (PSJES)
Universities	Higher Education Role Analysis (HERA)

3.4. A factor-based job evaluation scheme

By their very nature proprietary schemes are designed to evaluate a whole range of jobs in any organisation in whatever sector from shop floor operative to the chief executive, usually based on a set range of criteria or factors. The number of proprietary scheme factors,

including any sub-factors, can normally range from four to ten and these typically include knowledge and skills, thinking, freedom to act, interpersonal requirements and other demands such as overall context and inherent work pressures. The IDS scheme, for example, allows for all types of jobs – from manual work to complex management and specialist posts – to be analysed and evaluated against seven factors⁶: knowledge and skills, thinking and creativity, communications, freedom to act, resources, service delivery, and context. In contrast, Hay has three main factors: know how; problem solving; and accountability. Each of these is then divided into further sub-factors. Too few factors may result in an incomplete analysis of a job, whereas too many can be complicated and result in overlaps between the factors, resulting in some potential double counting of similar responsibilities.

The success of an analytical job evaluation scheme largely comes down to choosing the right factors. These determine how jobs are rated and compared, and represent what the employer considers to be at the heart of its business. The choice of factors therefore sends out a clear message to staff about what aspects of jobs the employer considers to be the most valuable and deserving of recognition. Importantly, the factors can form the basis for determining whether or not a scheme can be held to be discriminatory. The type of factors that tend to be used in job evaluation schemes can be divided into four broad categories:

- Inputs – what jobholders are required to contribute
- Processes – how jobs are done
- Accountabilities – whom the jobholder is responsible for
- Impact – the job's overall influence on the organisation.

Each factor contains an overall description and is then subdivided into a number of levels or degrees at which the factor is present in a whole range of jobs, with the scores for each level shown on the factor scale. There is no universal method of allocating points values to each level, as in some cases point scores are arithmetic (e.g. 20, 40, 60, 80 etc) and in others are geometric (e.g. 20, 50, 90, 140 etc). It must be remembered that job evaluation points have no meaning in themselves and therefore cannot be used in absolute terms. Their use is relative to other job scores in the same organisation, or for benchmarking against other external jobs that have been evaluated using the same evaluation methodology.

Factors may be weighted to ensure that those an employer regards are most important are given more prominence when calculating an overall score for the role. Weightings tend to be expressed as percentages, which are then used to multiply the basic job evaluation scores for

⁶ The scheme has also been developed to comply with gender equality principles and practices, and has been equality proofed by an equalities expert.

each factor. Some schemes avoid weighting on the grounds that it is arbitrary and subjective and therefore offer a scheme in which all factors are equally important.

3.5. Realigning pay

One of the major concerns for companies undertaking job evaluation is that some roles will be assigned a higher or lower value, placing jobholders in a different place on the pay structure than previously. This is almost inevitable and organisations need to decide how to approach staff whose roles may have moved up or down the ladder. Where job evaluation shows that some roles have been underpaid in relation to comparable jobs, employers are typically keen to keep the wage bill at a manageable level. This often means that a company will move the job to the correct band for its score, but to the minimum point on the scale.

Companies have the option of guaranteeing they will not cut employees' salaries in the event that jobs are found to have been overpaid as a result of job evaluation. Staff can have their roles moved down the grading structure but have their salaries 'red-circled'. This effectively means their pay is frozen at its existing level until their new pay band catches up.

Most organisations are unable to protect overpaid jobholders' salaries indefinitely, and often limit the guarantee to a set period of time – IDS research shows that the typical period for pay protection is three years. The salary protection period allows time for pay bands to catch up with the frozen salaries. However, it should be noted that in some circumstances pay protection can lead to equal pay challenges.

Another way around the issue of downgrading staff is for organisations to resize the jobs of staff facing a pay cut. HR or line managers can work with affected jobholders to look at how to enlarge their roles to avoid reducing their salaries.

3.6. The use of job evaluation to determine police pay comparability

Pay comparisons are usually based on the basis of similar jobs (in respect of weight and activity) in comparable organisations, which could be determined by region, sector or other factors, such as organisation size or turnover. In the case of police officers, there are few direct external comparators. They also have a range of unique characteristics. However it is still possible to undertake robust pay comparisons and it is not uncommon for other roles to have few direct comparators or have particular characteristics which mark them out as different. For these jobs, comparison can be made on the basis of characteristics commonly found at a given level of skill and responsibility within similar disciplines or working

environments. This would involve identifying a range of transferable skills typically found in other occupations.

It is also worth noting that similar pay comparability exercises have been undertaken for other unique public sector roles (in that there are no private-sector counterparts). Examples include 'Pay comparisons between the Armed Forces and the civilian sector' conducted by PriceWaterhouseCoopers in 2009 for the Office of Manpower Economics (OME). The Doctors and Dentists Review Body also has an established list of comparators it uses for benchmarking purposes.

In terms of special characteristics of police officers, it is accepted that jobs in the police force have certain unique features⁷ including: restrictions on their private life; no right to take industrial action; officers have an original jurisdiction under the 'Office of Constable'; they have powers of arrest which are sworn under oath (attestation); and officers receive special treatment in employment law. The job also carries the risk of personal injury or abuse. However many of the above are not relevant to job weight and do not need to be captured by a formal job evaluation exercise as they could be included in the determination of an 'x-factor' for the role (see below).

Given this, it is feasible for police officer roles to be evaluated using a formal and analytical evaluation scheme for the purposes of external pay benchmarking. In regards to undertaking this work, there are three steps required for a successful pay comparability exercise covering federated police officers:

- i. Evaluate the principal roles of constable, sergeant, inspector and chief inspector
- ii. Establish comparable roles in the external market
- iii. Establish a process for setting and reviewing an 'x-factor' pay addition.

i. Evaluate the principal roles of constable, sergeant, inspector and chief inspector

It is possible to evaluate the four main roles on the basis of measureable characteristics. The four jobs could be viewed as part of a defined 'job family' with similar characteristics but being performed at different levels. A job family structure is a type of grading system that divides jobs into coherent groups or clusters on the basis of shared characteristics. Generally, job families either cover functional groups, or reflect broader occupational or work-based similarities between a set of roles. For example, separate families may be created for HR, finance and IT functions, or for broader work-based groups, such as administration, support

⁷ See the Police (Conduct) Regulations 2004 and the Police (Amendment) Regulations 2004 for further details.

services and management. Each individual job family is divided into a number of levels or grades, typically around five or six, reflecting the ranking of jobs on the basis of the knowledge, skills and competencies required. The number of levels within each family often varies, as not all groups will contain jobs spanning the same range of accountabilities. Job evaluation is well suited to identifying and quantifying the differences between job family levels in order to develop a set of scores that can be used for external benchmarking. This can be done in one of three ways:

1. Using an existing proprietary scheme provided by a third party
2. Using the Police Staff Council scheme
3. Developing a bespoke scheme to cover the federated ranks.

The advantage of the first option is that an existing proprietary scheme allows comparisons to be made across a range of jobs to be made more easily. The disadvantage is that the scheme may not measure features of police officer work as directly or with the desired weighting. Alternatively, the advantage of using the Police Staff Council scheme is that it would provide greater transparency across the service, especially concerning issues of equal pay. The disadvantage is similar to that of using an existing scheme provided by a third party. Finally, the advantage of developing a bespoke scheme to cover the federated ranks can be fine-tuned to the demands posed by these particular roles. The main disadvantages are time and cost.

Whichever of these three options is selected, in our view, evaluations would have to be undertaken on the basis of generic role profiles. Smaller organisations may choose to evaluate all of their roles to ensure consistency across the board. While this may provide the greatest defence against any equal pay claim, in larger organisations, such as the police service, evaluating every role often proves impractical. The approach of evaluating jobs on the basis of generic profiles is tried and tested and was adopted in the case of the NHS, for example. In the private sector too, the approach of using role profiles has also been adopted in some cases.

ii. Establish comparable roles in the external market

In terms of comparators, there are, in fact, relatively few direct or full comparator jobs with police service roles in either the public or private sectors. However, this refers not just to police officers but to a range of other roles too, in fact it is an issue affecting many public sector jobs. There is no significant equivalent of predominantly male occupations such as the police force, the fire brigade, the prison service or the armed forces in many parts of the private sector. Nor is there any substantial group outside of the public sector against which

the earnings of predominantly female, and professionally accredited occupations such as teaching, social work or nursing can be compared.

Therefore, a panel of broadly comparable roles would need to be established for each of the four main police officer groups. The comparators would be assessed one by one and, through a process of elimination, the best match/es would be selected. A further consideration for selecting comparators could be to limit this to jobs where professional conduct is regulated by an external body, such as in the case for legal professions.

Initial thoughts on a possible matrix of comparators are outlined below. It should be noted that these suggestions have been provided for illustrative purposes only. These are based on a general understanding of the jobs, skills, size and responsibilities. IDS has not undertaken any job evaluations to assist in this process.

Generic role – Constable

- | <u>Public sector</u> | <u>Private sector</u> |
|--|-------------------------------|
| • British Transport police Constable | • Skilled Technician |
| • Royal Parks Police Constable Firefighter | • Assistant Accountant |
| • Paramedic | • Officer Manager/Team Leader |
| • Royal Military Police Solider | |
| • Prison Officer | |
| • Executive Officer | |
| • Army Sergeant | |
| • RAF Sergeant | |
| • Nurse (newly qualified) | |

Generic role – Sergeant

- | <u>Public sector</u> | <u>Private sector</u> |
|---------------------------------|-------------------------------|
| • Lecturer | • Occupational Health Advisor |
| • Royal Military Police Officer | • Newly-qualified Pharmacist |
| • Nurse | • Engineer |
| • Secondary School Teacher | • Health & Safety Advisor |
| • Higher Executive Officer | |
| • Social Worker | |
| • RAF Warrant Officer | |

Generic role - Inspector

Public sectors

- Social Worker (senior)
- Senior Executive Officer
- Senior Lecturer
- Lieutenant

Private sector

- Housing Manager
- Operations Manager
- Lawyer
- Pharmacist
- Accountant
- Project Manager

Generic role – Chief Inspector

Public sector

- Prison Governor (small prison)

Private sector

- Finance Manager
- Senior Project Manager
- HR Manager

This approach of comparing against a list of broadly comparable jobs has been adopted elsewhere in the public sector, as a remedy for there being no direct comparators. For example, each year the Office of Manpower Economics (OME) undertakes an analysis of pay for appropriate professions on behalf of the Doctors and Dentists Review Body (DDRB). The 39th annual DDRB report states that the specific comparator professions used are: legal, tax and accounting, actuarial and pharmaceutical.

iii. Establish a process for setting and reviewing an 'x-factor' pay addition

The next step would involve establishing an 'x-factor' pay addition, and a mechanism for its review. This addition would be expected to compensate for the special characteristics of the work which set it aside from other civilian work. These characteristics are related to the dangerous aspects of the work and the other unique features of police work not found in other occupations.

The first step would be to establish the components of an 'x-factor'. Looking at the Armed Forces model, the components of the 'x-factor' here are: (a) Job security; (b) Promotion opportunity/early responsibility; (c) adventure; (d) variety; (e) travel; (f) opportunity to learn a trade; (g) leave, turbulence and separation; (h) inability to resign at will; (i) military discipline and codes of conduct; (j) danger; and (k) liability for duty at all times. These same components may or may not be suitable for police officers.

In our view, there are certain features of police work that stand out as suitable for being covered by an 'x-factor' pay addition. These are the element of personal risk and injury, the liability for duty at all times and the level of accountability (in that officers hold the 'Office of Constable').

The next stage would be to devise a mechanism for assessing and reviewing these components. Taking the element of personal risk and injury, for example, this component could be assessed via workplace injury data for police officers versus other parts of the economy. In terms of the level of accountability, there are other professions that are subject to membership body regulation and there could be an investigation as to whether any 'premium' exists built into market salaries for these roles. Data on typical payments for being on call, for example, could be used to assess the level of any pay addition required to offset the fact that police officers are never fully off duty.

3.7. Limitations of using official earnings data for pay comparisons

To our knowledge there has never been a systematic review of police pay based on market comparisons. Previous reviews have been based on official earnings data against broad categories of workers. The main source of data for these comparisons has been the Annual Survey of Hours and Earnings (ASHE) – formerly the New Earnings Survey (NES) – which is produced by the Office for National Statistics.

ASHE provides data on average earnings for a whole series of occupational groups and industries, broken down into a range of sub-sets. It is based on a 1% sample of HMRC pay-as-you-earn (PAYE) records, with approximately 181,000 returns. Analysis is by gender and for full/part-time workers. Further breakdowns include region; occupation; industry; region by occupation; and age group for variables such as gross weekly pay, including and excluding overtime, basic pay, gross annual pay and incentives.

Types of workers are classified by Standard Occupational Classification (SOC) code. However, an ONS occupational classification is not in itself any guarantee that jobs are being compared on a like-for-like basis and often many different types of jobs, being performed at different levels, are included in the same classification. For example, the ONS code for police officers also includes cadet, fingerprint officer, MP (armed forces), detective, sergeant, constable and others (27 in total). ASHE data provides a broad overview of earnings for a particular set of jobs but it cannot be used to benchmark the 'going rate' for a particular job against the 'going rate' for another comparable job.