Paying the Piper

People and Pay Management in Local Government

AUDIT COMMISSION
The Audit Commission

... promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.
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Preface

In 1992 the Audit Commission consulted appointed auditors on future topics for studies. The most requested topic concerned the pay and performance of non-manual staff. The Commission agreed to undertake a study and in April 1993 consulted widely on a specification for People, Pay and Performance in Local Government. The study covers paybill and performance management issues. It addresses three key questions which councillors, like other employers, ask concerning staff:

- Do we employ the right number and type of staff?
- Do we pay them the right amount?
- How do we get the best from them?

This report, Paying the Piper, deals with paybill and addresses the first two questions. A companion report, Calling the Tune, covers performance management, addressing the third question (Ref. 1). An associated management handbook (Ref. 2) expands on the reports, and a members' leaflet summarises the key findings. Local audits will take place in 1995.

Research includes data on staffing and pay levels for nearly 300 local authorities. This was supported by field visits to around 70 local authorities to examine people, pay and performance management in more detail. Details of the research programme are contained in the companion management handbook.

This study was carried out by a team from the Local Government Studies Directorate, consisting of Michael Port, Ian Mackinder and Jonathan Star, under the direction of Jon Vaughan Jones. Others involved in the study include Clive Hall, providing technical computing services to the team, Alan Fowler, a personnel consultant and formerly Chief Personnel Officer of Hampshire County Council, and Dr Clive Fletcher, Professor of Occupational Psychology, Goldsmith's College. Some elements of research were carried out on behalf of the Commission by Hay Management Consultants. Technical advice was provided to the team by Charles Nolda and Gordon Thomson from the Local Government Management Board (LGMB), by Dr Stephen Bevan (Institute of Manpower Studies) and Dr Ian Kessler (Templeton College, Oxford). An advisory group comprising practitioners nominated by the local authority associations, the LGMB and the Confederation of British Industry (CBI) met regularly. A parallel advisory group comprising trade union representatives contributed on a similar basis. Further comments and advice were received from over 30 individuals and organisations with a professional interest in the field.

The Commission is grateful to all who helped; however, responsibility for the findings and recommendations lies with the Commission.
This report deals with the 700,000 non-manual staff in local government, who cost £10 billion to employ in 1993-94.

Partly as a result of new obligations, the non-manual paybill went up twice as fast as pay rates between 1987 and 1993, because the number of senior staff rose by 60 per cent and total non-manual staff numbers went up by 90,000.

Such growth cannot continue. Real expenditure is planned to fall and the government has announced a paybill freeze. Better paybill management will be needed if services are to be protected.

1 Managing People and Pay: The Context
1. Local government in England and Wales employs 2.5 million full- and part-time staff; there are almost two million full-time equivalents (FTEs). Of these, 700,000 FTEs were non-manual employees at 31 March 1994. These staff undertake ‘white-collar’ administrative and professional functions, ‘office-based’ services, such as benefit and council tax administration, and a wide range of direct services to the public, for example, as residential care workers, highways engineers, classroom assistants and housing wardens (Exhibit 1). In 1993-94 the total cost of employing these staff (the paybill), was about £10 billion (excluding employers’ superannuation and National Insurance contributions). Different authorities employ different numbers and types of staff, and pay them different amounts, to carry out similar functions. This report examines the bases on which non-manual staff are employed.

2. Traditionally, non-manual staff were employed in fairly secure circumstances on terms which were set by national pay arrangements. But external changes are affecting the way these staff work. Compulsory competitive tendering (CCT) for services provided by manual employees has led to pressure to reduce central support services and costs. Local management of schools (LMS) is removing some functions from direct authority control. Schools now decide whether or not to purchase support services from the council. Voluntary market testing and outsourcing are increasing and CCT will begin for central service departments in 1995. Although councils will remain major employers of non-manual staff for the foreseeable future, these developments are leading to a more competitive and fragmented environment within each local authority. But the arrangements for the employment and pay of staff have not always kept in step with the changing character of local government.

Exhibit 1

Local authority non-manual staff numbers 1994

These staff are involved in a wide range of direct services and administrative functions.

These employees are those covered by national pay agreements for administrative, professional, technical and clerical (APT & C) staff and for staff covered by the Joint Negotiating Committees (JNC) for chief executives and chief officers. Teachers, police and fire staff are excluded. The figure includes employees in analogous positions in authorities which have withdrawn from the national agreements.

Source: LGMB Joint Staffing Watch 1994
A strategic issue for members

3. Adjusting the employment and career prospects of staff to meet rapidly changing external expectations is not easy. The management of people numbers and pay is problematic in all types of organisation, whether private or public. There is nothing unique about the conflicting policy objectives in local government; but its mechanisms and its history are unique, and elected members carry the final responsibility.

4. Their task is getting harder. Many factors are outside or only partly under their local control, in particular: external inflation, capping limits, national pay settlements, including those for teachers where decisions are made elsewhere, and legislation on service standards, such as the duty to deliver the national curriculum or to provide demand-led services to individuals in special education or community care for the elderly. Also, increasing fragmentation into semi-autonomous service delivery units such as schools and direct service organisations (DSOs) is making it more difficult for members to control what happens within the local authority. Members often find it difficult to balance the cost-effective management of staff with the control of expenditure and the provision of services to the public (Exhibit 2). And, in many areas, reorganisation dominates consideration of the future.

5. In reconciling these pressures, members and officers must balance their obligations as employers with those as service providers and as guardians of...
public money. But officers also have legitimate interests in their own employment terms and conditions. Consequently, councillors frequently become involved in the details of pay and staffing management although they are not well equipped to do so. Instead, members need to exercise strategic leadership by setting a rational framework for managing staff, while stepping back from detailed decisions (Ref. 3).

6. In addition to their responsibility for overseeing pay policies, one area where members must exercise a direct involvement is setting the pay and conditions of the chief executive and normally of other chief officers. In some authorities members are vague about the pay of senior staff; this is not proper accountability. Members need to develop a policy for setting top salaries. This should incorporate good practice from other sectors, such as assigning a group of councillors to consider top-level remuneration, and publishing in annual reports the number of people who are paid within particular salary ranges.

7. Central to the difficulty of managing people and pay is the lack of good management information to guide decisions. Although most of an authority’s income is spent on people, many authorities in the Commission’s survey did not provide information on the number of people employed by category and department, or the number in each salary band, or total paybill figures (Exhibit 3). In some cases, information was unavailable at both the departmental and the authority level. Even where data exists it is often not turned into management information. Without the ability to monitor the council’s employment situation, members are ill-equipped to oversee a rational framework.

Exhibit 3

Missing data

Many authorities did not provide information.

Source: Audit Commission.
8. In many authorities officers need to reconsider their role. There has traditionally been little concept of paybill management as a role mainly for line managers. Instead there has been separation between managing pay, seen as an issue for personnel departments who interpret and apply national agreements, and managing people numbers, set in a context of affordability as part of the budget process, now constrained by standard spending assessments (SSAs). Many authorities have operated as though the national frameworks which set funding levels and agree pay awards give them no freedom of action. But this is not the case.

Working within the national funding framework

9. To establish more appropriate arrangements, councils need to step back from the seductive detail of received practices and review the major influences on their behaviour. Normally, members set a budget within which officers decide how many staff to employ and how much to pay them; but authorities reach these decisions within a national framework. An authority’s overall funding level is defined by its SSA. A capping limit, based on the authority’s past spending and its SSA, sets a spending ceiling. SSAs are designed to reflect the amount local authorities need to spend to provide a standard level of service consistent with the Secretary of State’s view of affordability. They are not intended to reward or penalise the differences between authorities in levels of efficiency or to match local political choice of service levels.

10. The extent to which SSAs reflect past or present differences in need, efficiency or local choice is a matter of controversy. As most revenue expenditure is on staff, the number of staff an authority employs reflects the level of funding as defined by its SSA. For example, more than 80 per cent of the difference between London boroughs in the number of staff they employ per 1,000 population can be explained by the difference in their SSA per head (Exhibit 4). Except for services funded through the housing revenue account (HRA), which are not subject to capping, SSAs and capping limits set a framework for local authority budgets. But this framework does not help local authorities make decisions within services on the balance between paybill and other spending, or between numbers, staffing mix and pay levels within the paybill. To do this, councils need to develop local policies; they should not simply allow changes in funding to determine staffing arrangements.

Working with national pay agreements

11. In managing pay, most local authorities are influenced by national pay agreements. These set a broad framework by setting a pay value for each of 49 points on a spinal column, which encompasses grades traditionally known as scales 1 to 6 (scale posts), senior officer (SO) grades and principal officer (PO) grades. For more senior staff, salaries are set in relation to local authority type and population in the joint negotiating committees (JNC) for chief executives and chief officers (Box A). The national agreements specify annual pay awards but allow authorities flexibility in setting grades and salary levels for their own staff. Therefore, within national agreements there is scope for local authorities to pay different amounts for similar jobs (Exhibit 5, overleaf) and they typically do.
Differences in SSA per head can explain most of the variation in staff employed.

Most local government non-manual staff are subject to the National Joint Council (NJC) scales for administrative, professional, technical and clerical (APT&C) staff. The scales are negotiated nationally each year (current settlement date July) between the employers, serviced by the LGMB, and the unions. The national agreement sets a salary for each of 49 spinal points, together with London weighting and fringe area allowances:

- Scale posts 1-6 = Spine points 3-28 (between £6,315 and £15,624)
- Senior officer (SO) posts = Spine points 29-34 (between £16,248 and £18,894)
- Principal officer (PO) posts = Spine points 33-49 (between £18,369 and £27,501)

The salaries quoted are at July 1994 levels. They exclude London weighting. Points 1 and 2 have been deleted from the spinal column from July 1994. The minimum salary for staff aged over 18 is £7,158; for staff aged over 21 the minimum is £8,013.

The national agreements allow but do not define provision for officers (other than chief officers and deputies) to be paid above spine point 49. Many authorities have extended the upper limit of the PO scale by defining their own local scale points. Others pay assistant chief officers a set percentage of their chief officer’s pay.

Chief executives’ and chief officers’ salaries are determined by joint negotiating committee (JNC) agreements. A series of salary ranges is stipulated in the agreements negotiated each year with a settlement date of 1st July (as of July 1994, the maximum for chief executives in London boroughs and metropolitan districts was £88,287). The range applicable to any chief executive or chief officer depends upon the authority’s enhanced population, based on the Office of Population Censuses and Surveys (OPCS) estimate, plus allowances for seasonal and daily fluctuations, and for any projected increase. (These ranges differ between counties, shire districts and metropolitan districts.)

Once the population and corresponding salary range is determined, authorities may pay within this range taking account of factors such as duties and responsibilities of officers. Authorities are advised to adopt a five-point scale (consisting of four annual increments); the maximum of the appropriate range is not to be exceeded.
National agreements contribute to good pay management; they do not replace it. They provide a framework which can restrain pay leap-frogging and thus help prevent pay inflation in skill shortage areas from extending to the whole workforce. It would be difficult and expensive to duplicate the national collective bargaining process at a more local level. Nationally-provided information, advice and technical support on pay and employment is valuable locally. But local authorities do not always take full advantage of the national machinery. In some cases the support and information services need to be more accessible. Members should ensure that they get the best out of the national arrangements by putting a higher priority on making them work well. Leaders and chief executives should take as close an interest in this machinery, which local government controls, as they do in the annual financial discussions, where central government makes the decisions.

But agreements which are relevant to more than 500 different authorities will never match the complete needs of each individual council. This is not always appreciated. Some authorities regard adherence to national agreements as a pay policy in itself; it is not. The national agreements cannot take account of differences in local and regional pay markets. They are not intended to provide a sufficiently refined or consistent basis for deciding the rate for the job and pay progression. Some features of the national agreements make good local management harder to achieve. They provide a constraint on the ability to introduce change. The national structures were designed in an age when the labour market was dominated by full-time permanent jobs for men in stable industries and services. They are less appropriate when the labour market is turbulent, with the growth of part-time or fixed-term jobs and with employers who themselves face an unstable outlook. For example, some

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Exhibit 5

**National agreements do not eliminate pay variability**

There is scope for local authorities to pay different amounts for similar jobs.

Source: Audit Commission.

‘Some authorities regard adherence to national agreements as a pay policy in itself; it is not.’

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provisions in the 'Purple Book', which defines conditions of employment, are anachronistic and unduly rigid.

14. In response to these changes the structure of the national system has changed and is changing. For example, abandoning the distinction between manual and non-manual staff will bring new challenges. National bargaining has value as one element in the framework within which local decisions are taken. But national agreements cannot cope with every local situation. There must be more local flexibility if national agreements are to survive. And good local management is essential to set rational pay policies in individual authorities.

15. Some authorities have opted out of national agreements, enabling them to respond more quickly to changes in the pay market and to control locally all aspects of their remuneration policy. But this is costly in the short term. Many other authorities no longer apply all the provisions of the national agreements even though they remain formally within the system. Opting out of national agreements does not guarantee that authorities will manage pay in a structured and rational manner. Whether in or out, what is important is that each local authority has appropriate mechanisms in place to discharge its responsibility to manage its own pay levels.

Previous increases in paybill

16. That councils should step back from immediate details and review overall patterns and influences is evidenced by some overall statistics. Although between 1987 and 1993 the total paybill in local government increased by 60 per cent, the paybill for non-manual staff went up by 85 per cent (Exhibit 6, overleaf). Growth was greatest in county councils and shire district councils and lowest in the London boroughs. This growth resulted from:

- nationally-negotiated pay awards and incremental pay progression;
- pay increases beyond national settlements (for example, through grade changes, market supplements and performance-related pay (PRP));
- an increase in the proportion of senior staff;
- a reclassification of some staff from manual to non-manual;
- an increase in total staff numbers.

These factors are considered below.

17. National pay awards between July 1987 and July 1993 led to an increase in pay rates for non-manual staff of 46 per cent. But average earnings (which reflect both pay levels and the grade mix of staff) grew by around 60 per cent as a result of an increase in the number of professional and managerial staff and higher pay awards in some authorities. The numbers of staff paid more than £18,000 a year (in 1993 prices excluding London weighting) went up by around 45,000. Those staff on PO grades or higher increased by about 60 per cent, from 11 per cent to 15 per cent of the total, while the number in more junior posts grew by 12 per cent, but fell as a proportion of the total. Consequently, the balance between senior and junior staff has changed. Some of this shift happened because local authorities had to find ways of paying
existing staff more. In the late 1980s they found it hard to recruit and retain professional staff as pay rose more quickly outside local government, especially in London and the South-east. But some of the increase represents new senior posts (Exhibit 6).

18. This growth in senior posts contributed to an overall increase in the number of non-manual staff of 90,000, or 15 per cent, at a time when the number of local government manual workers fell by 150,000, or 25 per cent, and teachers fell by 50,000, or 10 per cent (Exhibit 6). The reduction in manual workers resulted from CCT; some jobs passed to external contractors and others disappeared so that council bids could be competitive. Teacher numbers fell in response to falling school rolls, and the movement of grant maintained school staffs out of local government.

19. About half the increase in non-manual staff has been the direct result of central government initiatives such as the introduction of community charge and increased numbers of school-based non-teaching staff. These arise from the introduction of local management of schools and the growth in numbers of classroom assistants to support the integration in ordinary schools of children with special needs. Introducing the client-contractor split in response to CCT may also have contributed, particularly in senior posts. Additionally, in some services employees such as residential care workers or leisure centre attendants were reclassified from manual to non-manual.

Authorities also pursued their own policies, increasing services in a wide range of areas, in particular social services, housing and recreation. Different services experienced different outcomes (Exhibit 7, overleaf).

20. There are very few services in local government which cannot justify more staff. The demands on services seem almost infinite. So it is not argued that this growth in staff is not needed. The issue is whether the change in numbers and grades of staff conforms to the planned priorities of councils or whether it
Exhibit 6
Trends in the local government paybill: non-manual staff

The paybill went up nearly twice as quickly as pay rates between 1987 and 1993...

Note: Average earnings reflect both pay inflation and a change in the proportion of higher paid jobs

...because of employing a higher proportion of more senior staff...

...and because of more non-manual staff in total.

Note: Figures for teachers are adjusted to exclude the impact of the transfer of those in further education.

Source: LGM B Joint Staffing Watch survey; APT & C survey; Audit Commission analysis.
Future reductions in resources

21. Under the Government's current policies, this growth in the local government paybill cannot continue. The growth of the non-manual paybill coincided with an increase in resources available to local government; indeed, it could not have occurred without it. Between 1986-87 and 1992-93 local government spending in England went up by 61 per cent in cash terms, or more than 13 per cent in real terms after inflation\(^1\). Since 1992-93, the resource outlook for local government has become much less favourable (Box B). Between 1994-95 and 1997-98 the Government's spending plans require local government spending to fall in real terms by more than three per cent, or by more than six per cent if community care funding is excluded\(^2\).

22. Following its 1.5 per cent pay policy in 1993, the Government has adopted a policy of freezing public sector paybills in future years. Any pay increases must be offset by efficiency savings or other economies. The Government expects a real-terms reduction in running costs of more than 10 per cent – for the non-manual paybill this represents over £1 billion. Capping applies to all authorities; the option of increasing local taxes no longer exists.

For many authorities this new environment has already begun to have an effect. Between 31 March 1993 and 31 March 1994 non-manual staff numbers fell by 14,000 or two per cent.

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\(^1\) This figure is provided by the Department of the Environment. It covers a definition of expenditure which is comparable to Total Standard Spending and has been adjusted for changes such as the removal of polytechnics from local government.

\(^2\) Source: Department of the Environment News Release 670, 29 November 1994, supplemented by further information from the Department.
The need for better paybill management

23. The extent of the growth in the non-manual paybill since 1987 will surprise many in local government who have become convinced of ever tightening restrictions. In reality, resources available to local government have increased, often to reflect extra duties, even if that has not always been the perception of members and service providers. For the next few years resources and spending are likely to fall. And councils must meet the further challenge of the breakdown of integrated structures in the new competitive and more fragmented environment. Councils will need to control their paybill through effective management of people numbers, mix and pay (Exhibit 8, overleaf). If they fail, many will have difficulties in balancing resources with service commitments.

Box B
The Government intends to freeze public sector running costs including paybills

In 1993 the Government decided to freeze running costs in the public sector, including paybills, until 1996-97.

In 1994, the policy was confirmed. It covers total running costs including prices as well as pay and continues until the end of the planning period in 1997-98:

"Improvements in the efficiency of delivering services is a policy that must apply throughout the public sector... As last year, we have maintained the policy that the pressure from pay and price increases should be met by greater efficiency or other economies...the plans in this Budget are for central government running costs not to rise in cash terms over the four-year period from 1993-94 to 1997-98 taken as a whole. That represents a real-terms reduction in those running costs of more than 10 per cent....it is only right that local government should follow central government and take a similarly tough approach to containing its costs."

Exhibit 8
Challenges for councils

Councils will need to control their paybill through effective management.

Inadequate traditional management structures in a fragmented and competitive environment

Real resource cuts

Councils control their paybill by asking key questions
Are we employing the right number of people?
Are we paying them the right amount?

Source: Audit Commission.
### Questions for Councils

1. How many non-manual staff did we employ on 31 March 1994?

2. How did our staff numbers in 1994 compare with 1993 and 1987?

3. How many of our staff were on PO grades or above in 1994 compared with 1993 and 1987?

4. How did our staffing by department in 1994 compare with 1993 and 1987?

5. Do we have a policy for setting and reporting on top salaries?
Councils’ recent experience varies.

Between 1987 and 1993, change in staff numbers in councils ranged from a 25 per cent fall to a rise of over 60 per cent.

Productivity varies sharply, as does the use of senior staff.

Authorities in the same geographical area pay different salaries for similar jobs, and within one authority there can be a difference of over 100 per cent for jobs of a similar size.

2 Managing People and Pay: Recent Experience
Managing people

24. To avoid cuts in services over the next few years, councils will need to freeze their paybill and improve productivity; this will require effective local management of people numbers, staff mix and pay. Local authorities’ recent experience in managing people varies sharply:

- **Staff numbers**: Within the overall picture, there is wide variation between authorities in the growth of staff numbers (Exhibit 9). Some external pressures - such as CCT legislation - have affected all councils. Other pressures, such as capping or SSA changes, vary between councils. Councils have differed in their responses to external pressures and in developing their policies and services.

- **Staff productivity**: Authorities vary in the number and mix of staff used to deliver similar services (Exhibit 10, overleaf). This has been a common observation in previous studies by the Audit Commission and others. Although partly explained by factors like choice of service quality or the extent of contracting out, there are also substantial differences between councils in staff productivity.

- **Matching staff to workload**: Variations in staff numbers and mix reflect the difficulties that some councils have in matching staff with particular skills to workload. Most authorities do not use comparative information on performance to identify benchmarks that would help them review staffing levels.

- **Organisation structure**: There is variation between authorities in the number of senior staff used to deliver similar services (Exhibit 10). This is partly explained by the need in some areas to pay higher salaries to retain staff - especially in London. But some councils are more dependent than others on expensive senior staff and have top-heavy management structures (Exhibit 18).

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**Exhibit 9**

*Change in non-manual staff numbers by authority 1987 - 1993*

There is wide variation between authorities in the growth of staff numbers.

**Percentage change in staff per 1,000 population 1987-93**

Exhibit 10
Variations in local government staff productivity

Authorities vary in the number and mix and productivity of staff in finance...

...housing...

...and libraries.

Note: Weighted issues is the sum of books issued + 1.5 x the number of other media issues (tapes etc.) + 2 x the number of requests and reservations handled.

Source: Audit Commission analysis.

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25. Many local authority staff believe that other councils pay better than their employer and that pay levels for equivalent jobs in the private sector are markedly better. To inform the manner in which councillors should respond to such pressures, Hay Management Consultants were commissioned to study pay levels for jobs of similar size (in terms of skills and responsibilities) across 38 authorities in England and Wales. The exercise confirmed that there are sharp variations in pay levels between and within local authorities and between local government and elsewhere, but this does not mean that local government is generally underpaid.

26. Average local government pay comparability against the market varies between different levels of staff (Exhibit 11, overleaf). In broad terms, local authorities pay near the market median for junior jobs (scale posts). They fall behind the market for middle and senior jobs (SO and PO grades), dipping to eight per cent below the median, and narrow the gap to about four per cent below the median for chief officer and related posts. The market is defined here by Hay Management Consultants’ national survey of employees. Although this survey contains data from jobs throughout the UK, it probably comprises a higher proportion of posts from the South-east than an entirely random sample would give. By its nature it also concentrates on the larger employers. Pay is higher than the national average in the South-east and in large employers. For these reasons, the sample may overstate average pay levels in the market and the average comparability of local government pay nationally may be slightly better for most staff groups.

27. Although pay comparability varies widely for different staff groups and also between authorities, councils are not currently experiencing major recruitment and retention difficulties. It is right for councils to manage pay differently in response to local circumstances. Such flexibility will result in variation. It is a matter for local decision if councils wish to target their pay in relation to the market. But they must be confident that they are using flexibility effectively. Councils need:

◆ to know where they have chosen to position themselves in relation to the market and why; and
◆ to have systems which ensure that what they have decided gets done.
28. Within these trends several features concerning external comparability and internal consistency are important:

- **Tracking the local pay market:** National averages cannot fully reflect local and regional variations in pay. Authorities often respond to local pay markets in the way they fix grades locally. Some authorities might aim to employ fewer staff and pay them more. Unfortunately they often end up with as many, but more expensive, staff. Others pay more than other local employers for similar jobs. This is especially true for junior staff outside London and the South-east. A few authorities have policies on ‘low pay’. However, when working with capped budgets, if such authorities pay higher salaries than is necessary, they restrict the number of staff they can employ and the level of service they can provide. Conversely, some London authorities have needed to upgrade pay to retain staff. The confused way in which some councils have managed their most junior staff has led to a large variation between councils in the proportion of staff employed on scales 1 and 2, the lowest pay grades (Exhibit 12). More use of these grades would help some authorities match local pay rates for junior staff.
Recruiting and retaining staff: Some authorities struggled with recruitment and retention difficulties as pay in the wider market rose quickly in the late 1980s. Many used consultants to help them position their pay levels. Consequently, salary levels for middle and senior staff in these authorities have increased (Exhibit 13), often to a position at or above the market median.

Pay for chief officers: Many chief officers receive salaries above the ranges recommended in the JNC agreements. This is particularly true of chief executives and finance directors (Exhibit 14, overleaf). Some of these higher salaries may reflect the use of fixed-term contracts. But some salaries which were increased during the heated recruitment market of the late 1980s now look generous in current market conditions.

Exhibit 12
Proportion of staff on scale posts who are paid on scales 1 and 2

There is a large variation between councils in the proportion of staff employed on scales 1 and 2.


Exhibit 13
Pay levels of authorities with and without management consultancy assistance

Senior salaries have risen in authorities which have used consultants.

Average annual salary (£000)

- Junior posts
- Middle & senior posts
- Chief officers

Source: Hay Management Consultants, Audit Commission analysis.
There is variation of up to 50 per cent in the pay rates of similar staff groups. This is true even of authorities which are geographically close, which operate in similar labour markets, and which used consultants to help them design their pay structures (Exhibit 15).

**Internal consistency**

- Relating pay to job size: There can be differences of over 100 per cent within an authority in the salary paid for jobs of a similar size. These differentials can arise in authorities which claim to apply national...
agreements without modification; they exceed those that would normally arise from market variations in pay (Exhibit 16).

Managing pay progression: Most local government salaries are not single points; they are a series of pay points selected from a national spine. Pay scales, through which progression is normally by annual increments, can vary from three pay points to 'linked' grades of ten or more points. As a result, variations in pay reflect differences in the way in which councils manage pay progression. Many authorities have difficulties both in reflecting external market conditions and in maintaining internal consistency of pay policies.

Variations are not of themselves a problem but, as councils seek to review how they manage pay in an increasingly competitive and fragmented environment, they need to know where they are starting from. However, many authorities found it difficult to demonstrate a consistent and coherent approach to managing pay. The mechanisms they use were often designed in a different era, and are unsuited to grappling with the more unstable labour market which has developed. In some cases pay variations may be arising in uncontrolled ways. So, elected members need to monitor their local situation and ensure that they are being neither unnecessarily generous nor unfairly and inexplicably inequitable.

Identifying problems

Local authorities spend most of their money on staff, but, like other large organisations, many have difficulties in managing people and pay well (Exhibit 17, overleaf). Problems can arise from:

- inadequate management information;
- the separation of pay management from control of staff numbers, making it impossible to achieve integrated management of the paybill;
31. To maximise value for money councils need to tackle these problems where they exist. The fragmented environment requires new approaches to the management of people and pay. With funding set to decline in real terms in the next few years, improvements are essential now if services are to be protected, let alone improved. Councils will need to achieve more with less. The following chapters discuss how councils might tackle the problems identified here.
### Questions for Councils

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<thead>
<tr>
<th></th>
<th>Question</th>
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<tbody>
<tr>
<td>6</td>
<td>How does our staff growth compare with other councils?</td>
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<tr>
<td>7</td>
<td>What proportion of our staff on scale posts are on scales 1 or 2?</td>
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<tr>
<td>8</td>
<td>How many of our chief officers are paid above the range in national agreements?</td>
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To improve productivity, councils should:

- target areas of improvement through copying the best. Benchmarking helps councils to compare themselves with other councils which may do a similar job with fewer or less senior staff;

- cut top-heavy management. One authority which removed tiers and introduced team working has a salary cost per council tax bill issued which is less than 50 per cent of the cost in a similar authority which has a traditional hierarchical structure;

- match staff to workload more flexibly, enabling councils to match their peak of service delivery to the times of greatest public demand.

3 Solving the Problems: Local Management of People
Staffing costs represent over 60 per cent of local authority spending. Cuts in spending normally lead to cuts in staffing. When cutting expenditure, some councils are selective; others impose incremental budget cuts across the board regardless of service need. Senior HQ staff often escape unscathed while the council freezes vacancies or cuts the number of front-line staff. Although costs are reduced, there is no automatic improvement in productivity. Service levels and quality may be undermined. Members and senior officers often complain that they do not know what level of productivity to target and how far it can be improved without damaging services. Without this information, decisions are often based upon historic precedent or decibel planning, where the loudest voice wins the most money.

There is a better way. To improve productivity, councils must get the best from the people they employ. Staff commitment is essential. To win it, councils need to involve, motivate and empower staff at all levels, and to ensure that they understand how their work contributes to the council’s objectives. Techniques are described below for improving productivity. They will work best where councils have built a framework for achieving staff commitment. The use of these techniques requires an investment of time and resources. Training is needed. Many authorities claim to be caught in a vicious circle: they do not have the resources to invest in training and information systems; therefore they cannot improve their management of people by devolving responsibility or removing tiers of management. But sometimes this merely reflects the reluctance by senior managers to relinquish control.

To achieve more with less, authorities must set targets for staff performance and productivity that are challenging but realistic. One way of doing this is to use benchmarking, comparing procedures and performance levels between organisations or within them. Two thirds of the Times top 1000 companies in the United Kingdom claim to use benchmarking (Ref. 6). Benchmarking focuses on where, by how much and how to improve:

- By giving comparative performance measures such as the number of housing staff per 1,000 dwellings, it increases awareness, identifies opportunities for improvement and provides realistic efficiency targets for authorities to pursue.
- By identifying the processes and procedures of the best performing organisations, it provides guidance on best practice for authorities to adapt to their own circumstances.

Both elements are important. Comparative statistics can indicate where problems may exist. But they are of limited value in isolation. Detailed examination by front-line managers, often in discussion with colleagues in other authorities, is necessary to identify how to solve the problems (Box C, overleaf).
Criticisms of benchmarking include failing to compare like with like, choosing an incorrect or incomplete indicator of performance, or risking competitiveness where commercial confidentiality is at stake. Such criticisms are not compelling and, where public service is the top priority, there is no excuse for failing to provide benchmarking data, even on an anonymised basis, as often happens in the private sector.

Benchmarking must be used with care; front-line managers, who well understand this, are often keener on these measures than chief officers. Benchmarks imposed externally can provoke a defensive attitude; people try to justify the current position or to claim that comparisons are invalid. So, ownership is important in overcoming resistance:

- where staff help to develop benchmarks, they are more willing to focus on improvement; and

**Box C**

**Benchmarking can identify where savings are available, but only front-line managers have the detailed knowledge required to restructure operations and achieve the savings**

<table>
<thead>
<tr>
<th>Example: Solihull Borough Council</th>
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<tbody>
<tr>
<td><strong>Issue:</strong> In the late 1980s, Solihull’s payroll division was operating with information systems and working practices that had remained largely unchanged for twenty years. The division could not deal with back-dated pay awards without significant manual intervention, resulting in high levels of overtime. The systems needed to be updated, particularly to improve the handling of payroll arrears.</td>
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<tr>
<td><strong>Action:</strong> Between 1989 and 1991 a new information technology (IT) system was introduced; this included automated calculation of arrears. But the council remained concerned that its payroll costs were high compared with other councils. To test this, Solihull helped to form a ‘Payroll Comparison Group’ consisting of seven neighbouring authorities. The group developed a common set of performance indicators and detailed notes on processes. These confirmed that Solihull’s IT and staffing costs were higher than some initial costings by other councils; and so they examined these areas in more detail. Analysing the running time of different tasks within the IT system showed that some tasks were taking longer to complete than expected. Software changes were necessary. Initially the department liaised closely with the software supplier; subsequently managers have modified the system to meet their specific needs. The department organised its staff into a smaller number of larger teams, devolving some responsibilities to the team leaders. Each team concentrates on particular users, but continues to provide cover for other teams.</td>
</tr>
<tr>
<td><strong>Result:</strong> ◆ Introduction of the new IT system reduced overtime by around 80% and improved the speed of service. ◆ Software changes reduced run times for some tasks by up to 90%, contributing to lower IT costs. ◆ Changing the staff structure reduced staff costs by around 5% and improved service quality through greater specialisation and customer responsiveness.</td>
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Paying the Piper  
People and Pay Management in Local Government
37. Benchmarking can identify where savings are available but only front-line managers have the detailed knowledge required to restructure operations and achieve the savings. To give front-line managers a genuine incentive to improve performance, some of the savings realised should be reinvested in the department. Good performers should review their comparators on the basis that 'to become the best you must compete with the best'. When an organisation has achieved upper quartile performance, it should compare itself with the upper decile or the best outside local government, so that it keeps its focus on improvement. But used defensively, to justify performance, benchmarking will not contribute to improvement.

38. Benchmarking can also be closely linked to the setting of objectives and performance review. By tracking performance indicators over time, councils are able to target continuous improvement in both efficiency and effectiveness. As with benchmarking, front-line managers are often willing and able to develop and use performance indicators. Inadequate management information systems and a failure to achieve the right relationship between direct service providers and central departments frustrate these efforts in some councils (Ref. 7). Members should ask for:

- regular reporting of performance indicators (PIs) for each service
- comparisons against other authorities and their own authority's previous performance.

Where statutory indicators are considered inappropriate for regular internal reporting, members should insist on alternative indicators being justified and reported.

39. Councils now employ many more senior officers than in the mid-1980s. This is an expensive resource. Moreover, extensive management structures make good internal communication and responsiveness more difficult to achieve. Traditionally, departments were organised on a hierarchical basis so that instructions could be passed down the organisation from members and chief officers. The grading structure reinforced the hierarchy; a chief officer would have a deputy, then several assistant directors, then a tier of principal officers etc. In some places structures with many tiers of management are being replaced by flatter structures – this change is often called delayering.

40. Flatter management structures give front-line staff more executive ability to respond to customer needs. They also help to improve internal communication and encourage innovation. Improvements in information technology and the communication of management targets through objectives reduce the need for intermediary tiers of management. Such delayering can reduce staff costs (Exhibit 18, overleaf). But, to be effective, line managers and front-line staff must be trained to carry out their new responsibilities. Often, this does not happen. Making the best use of staff and achieving more with less requires flatter management structures backed up by the training and other processes required to make them work.
Flatter structures are not enough by themselves. The economies achieved by ‘A’ (Exhibit 18) do not result only from a delayered structure. ‘A’ gains additional benefits by getting staff to work in teams. Leading authorities are seeking to align staff and their skills more closely with workload. For example, they:

- use skilled technicians for routine work, allowing fully qualified professionals to concentrate on complex tasks;
- transfer clerical and administrative work from senior staff to junior staff, enriching job content and improving productivity; and
- eliminate functions and posts that do not directly benefit services (Box D).

Exhibit 18
Salary cost per council tax bill issued

Delaying can reduce staff costs.

Index of salary cost per bill issued

<table>
<thead>
<tr>
<th>Authority A</th>
<th>Authority X</th>
</tr>
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<tbody>
<tr>
<td>7 staff</td>
<td>8 staff</td>
</tr>
<tr>
<td></td>
<td>4 staff</td>
</tr>
<tr>
<td></td>
<td>2 staff</td>
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<tr>
<td></td>
<td>2 staff</td>
</tr>
<tr>
<td>8 staff</td>
<td>8 staff</td>
</tr>
<tr>
<td></td>
<td>3 staff + 2 temps</td>
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</tbody>
</table>

100 222
Flat structure/team working Traditional hierarchy

Source: Audit Commission.
Productivity improvement among front-line staff normally involves detailed changes to work practices. These are beyond the scope of this report. Audit Commission reports on specific services offer more detail. But there are more general issues that members must consider. Some activities may remain uncompetitive however flexible the staff become. For example:

- there may be economies of scale by undertaking a larger workload than is available within the authority, e.g. mainframe computing;
- work may be so specialised that the authority cannot make full use of permanent in-house staff, e.g. architectural services.

CCT will expose many functions to competition, but some councils can achieve immediate benefits by outsourcing such activities, where appropriate.

For most in-house work councils should encourage a flexible approach to the hours worked, by whom and when. A good management principle is for an organisation to staff for the troughs in workload and to use temporary staff to cover the peaks. Flexible staffing reduces expensive overtime or may prevent staffing levels being too high when workload is low. Flexible staffing measures can also attract or retain employees who are unavailable for a conventional work pattern. These measures are useful when the workload is variable (for example, seasonal, on particular days of the week or even random), when a service needs to be provided outside normal working hours, or when cover is required for staff absences. Inflexible staffing can mean that a service is not...

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**Box D**

**Councils are eliminating functions and posts that do not directly benefit services**

**Example: Crewe and Nantwich Borough Council**

**Issue:** Due to funding constraint, the Council needed to reduce the pay budget by around £800,000, the equivalent of sixty to seventy posts, while continuing to maintain service standards.

**Action:** To reduce employee numbers, the Council sought volunteers for early retirement, redundancy or redeployment and requested all directors and divisional heads to identify areas where redundancies would have the least effect on direct service provision. There was a net reduction of sixty-five posts, representing 13 per cent of total establishment, with no compulsory redundancies. All grades were affected, including a director, divisional heads and principal officers as well as clerical staff.

**Result:** The result was a budget reduction of £782,000, close to the original target. Apart from the financial savings, the deletion of senior posts allowed the Council to turn a problem into an opportunity by devolving more responsibility and accountability to operational staff. This has strengthened its customer care strategy and improved both organisational and individual effectiveness. Despite the cuts in staff, research conducted by the Council suggests that standards of service have not deteriorated; overall, the public remains satisfied with the Council’s performance.

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**Workforce flexibility to improve productivity**

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provided at a time most convenient to the public (e.g., some libraries do not open on Saturdays or close at short notice because of staff shortages; or some authorities follow up council tax arrears by telephone only at times when most residents are at work).

44. In seeking flexibility it is necessary to maintain service quality and staff morale. Changes should be made in consultation with staff rather than by diktat from above. Many employees no longer wish to work a standard full-time week. Growth in part-time working and in the proportion of women in the workforce adds urgency. Some authorities are using flexibility but many are still locked into the idea of a fixed full-time establishment. There are many alternative types of flexible staffing arrangement that an authority may adopt.
<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
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<tbody>
<tr>
<td>9</td>
<td>What regular comparisons of productivity do we make between our council and other employers?</td>
</tr>
<tr>
<td>10</td>
<td>Where have we reduced tiers of management in the last five years?</td>
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<tr>
<td>11</td>
<td>What have we done to transfer tasks from senior to more junior staff in the last five years?</td>
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<tr>
<td>12</td>
<td>What have we done to match staffing to the times when services are most in demand?</td>
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<tr>
<td>13</td>
<td>What have we done to attract employees who cannot work conventional hours?</td>
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To improve the management of pay, councils should:

- use job sizing to control internal pay variations. Councils without job sizing can end up by paying too much or too little for key jobs;
- track the market to recruit and retain staff without paying too much;
- in consultation with staff, control pay progression so that increments cease to be automatic in wide grades.

4 Solving the Problems: Local Management of Pay
45. The first task of local pay management is to determine the rate for the job. Clear guidelines must exist, especially if authorities respond to the new fragmented environment of contracts and competitive business units by devolving responsibility for pay decisions; without help, line managers may not possess the expertise to comply with all their legal obligations, for example, those pertaining to equal pay regulations.

46. Systematic job sizing (measuring the skills and range of responsibility involved in the job), rather than general reference to job descriptions and pay grades, is central to good pay management. Many authorities use formal ‘job evaluation’ methods to underpin this process. The subject of job evaluation can draw sighs or worse from many staff and elected members because of the painstaking processes and rigid outcomes which are often involved. Formal job evaluation systems can become complex, bureaucratic, prone to manipulation if not properly managed, and expensive to implement. But some form of job sizing is inevitable and, if a structured method is not used, job sizing by subjective methods can lead authorities into breaches of equal pay regulations and accusations of favouritism. Moreover, job evaluation can significantly reduce the degree of pay variation for jobs of similar size (Exhibit 19, overleaf). In particular, job evaluation is useful when an authority is changing its organisation structure (Box E, overleaf).

47. Job sizing does not define salaries. It ranks jobs by size and suggests how they may be grouped for pay purposes. Applying monetary values to these pay groups is a matter of policy, supported by market data. The fewer the pay groups or scales, the less complex the job sizing system needs to be. The simpler the organisational structure, the fewer scales are needed to distinguish between levels of responsibility.

48. Job sizing and salary reviews must, however, be treated with care. They lead to the identification of winners and losers. Losers are usually ‘protected’ and their salaries held constant. But there will be immediate pressure to increase the salaries of winners. So, in the short term costs may rise, especially if reviews are carried out for a whole organisation. Also, job sizing systems may not take full account of variations in market rates for different occupational groups. Authorities may become uncompetitive in skill shortage areas and pay above market rates for other staff groups.

49. If applied rigidly, ‘paying the rate for the job’ can encourage inflexible work practices and demarcation. One response to this, finding favour in some parts of the private sector, is to decide job size by measuring the skills required by the post-holder rather than by assessing the tasks to be performed or the skills held. This is often referred to as a ‘competences’ approach. This approach is still evolving, but if it is to work well then pay must be based on competences which are relevant to the job; otherwise setting pay could become separated from the job to be done, and staff might build up skills and hence pay – for example, by attending training courses – without reference to the actual work being performed.
Example: Wycombe District Council

**Issue:** Wycombe District Council is seeking to move to a flatter organisational structure. The authority needs measures to support managers implementing this change in structure.

**Action:** Wycombe already uses a proprietary job evaluation scheme as part of its pay policy. Managers are using this to identify overlaps in the roles and responsibilities of staff. This information is being used to determine the scope for deleting posts and combining jobs, and for redefining levels of management.

**Result:** The Council is now half way through this programme. Departments, which traditionally had five or six tiers of management, are being reduced to four tiers. The use of job evaluation has also enabled the Council to regrade the pay levels of affected staff on a consistent basis.

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**Exhibit 19**

**Pay variation for jobs of a similar size**

Systematic job sizing can reduce pay variation for jobs of a similar size.

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**Note:**

- **Council 1** uses national agreements but used consultants to size its top jobs and then applied the same principles throughout the organisation.
- **Council 2** uses national agreements and has not carried out its own systematic job sizing programme.

*Source: Hay Management Consultants, Audit Commission analysis*
Aligning pay levels with the market

Local government pay has been slow to respond to changes in the market (Exhibit 20). After the full implementation of the 1980 arbitration award in April 1981, earnings fell in comparison with the market for most of the 1980s. By the late 1980s, many authorities, especially in London and the South-east, had to make expensive local responses to recruit and retain key staff, often introducing market supplements or PRP. Some withdrew from national agreements. Others upgraded many jobs. But such authorities have responded slowly to the recession of the early 1990s, leaving some of their staff paid generously in comparison with the market.

Local authorities cannot avoid responding promptly to wider pay pressures, especially when CCT forces many of their own staff to face competition for their jobs. Authorities need the ability to respond to slumps as well as booms to track the market up and down, even if they wish to moderate some of the wider fluctuations (Exhibit 21).
Pay determination must take account of relevant market conditions, which may be assessed locally, regionally or nationally depending on the jobs involved. For lower paid jobs the market is normally more local; the highest paid jobs often relate to a national market. Systematic processes are needed for tracking external pay levels. Market tracking must be used with care. Reviewing salary offers in the local press and ‘ringing around’ neighbouring authorities are not enough by themselves. The best authorities also review pay surveys and information from job applications and exit surveys. Authorities must also take account of local circumstances. North Norfolk District Council observed that the regional salary review recommended by a management consultancy reflected the high salaries paid in Cambridge which was too far away to be a major factor locally, but failed to reflect the influence on pay rates of the Norwich Union Insurance Group, a few miles away.

Market tracking only measures external market conditions. Local authorities have to decide where in the market to position themselves and how to balance pay and non-pay benefits. Authorities vary in how they compare with their local or regional pay market (Exhibit 22). They must also give weight to their own recruitment and retention experience. For example, some councils in the late 1980s found it difficult to recruit some staff groups but had few difficulties with others. Authorities which do not give due regard both to pay comparability and their own recruitment and retention experience can pay too little to retain key staff or can pay more than is necessary - several councils commented that some of their staff had gained so much from salary reviews that they couldn't afford to leave the authority.

Inadequate market tracking can also lead to pay leap-frogging. This contributed to pay pressures in the late 1980s. Particularly, it is a problem for ‘small markets’ – for example chief officers in a limited geographical area. Members must guard against this by ensuring that the council keeps in touch with the market.
with neighbouring authorities so that salary increases are based on real market tracking through actual recruitment rather than notional salaries, supported only by consultants’ advice (Box F). Similar difficulties could re-emerge with local government reorganisation or if pay inflation resumes. Market tracking can mean paying less as well as more. Most authorities use it as a ratchet to increase pay, but not as a tool to decide, and possibly to reduce, starting salaries.

55. Good market tracking, linked to job sizing, enables authorities to respond more effectively to pay pressures without resorting to across-the-board increases in pay which are too small to solve specific problems but have a big impact on the total paybill. If jobs are graded through job sizing, response to market forces can be achieved through the use of:

- market supplements, where the rate for the job is increased by an identified and time-limited supplement to reflect market conditions; such supplements may be withdrawn without consolidation into basic pay when no longer required; and
- individual contracts, where pay may be linked with achievement or the contract run for a fixed period, agreed when individuals are appointed.

Managing pay progression

56. Even where job sizing and market tracking work well, there is a need to decide how much pay individuals should receive and how their pay should change. Few large organisations in the public or private sector manage these decisions entirely at the level of individual employees and their line manager, even where there is maximum devolution to line managers. Consistency and equity within the organisation require some common standards, to provide a framework within which flexibility can operate.

57. Traditionally in local government the basis for decisions on the pay of non-manual employees has been the grading structure, where employees

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Box F

Salary increases should be based on real market tracking through actual recruitment

**Example: County Council in the North of England**

**Issue:** The Council wished to develop a consistent approach to managing pay and avoid excessive pay inflation.

**Action:** The Council has successfully combined job evaluation and market tracking. Since the mid-1980s the Council has used a proprietary scheme to align job size with its grade and salary structure. Pay policy is linked to an annual remuneration survey mainly comprising private sector industrial and service organisations. It is policy to target the lower quartile pay position of this sample. The Council also participates in quarterly meetings with neighbouring authorities to share views and information. This helps the Council to adapt pay policies to local conditions.

**Result:** Although pay comparability with the national market has slipped for some jobs, council pay rates remain competitive in the context of the local labour market and neighbouring local authorities. There have been few recruitment and retention difficulties and the Council has avoided the expense of chasing national pay rates.
receive annual increments until they reach the top of a grade. This should reflect the increasing value which individuals give to the organisation as they gain experience in a job. But this system has disadvantages. Automatic annual increments reward the passage of time and ignore performance. Although the national arrangements allow councils to withhold or improve incremental payments to reflect performance, this flexibility is rarely exercised.

58. Progression beyond the top of a grade requires a positive regrading decision. Unless justified by a change in job size, regradings can have repercussions on other people in the authority who do similar jobs. These repercussions are important in local government, where the culture values fairness rather than competition between colleagues, and where regrading decisions become known to all staff. Over time, regrading of specific posts tends to spread to all posts; poorly controlled pay drift has pushed up the paybill in many councils.

59. Manual workers in local government are normally paid a rate for the job with no incremental progression. This is often supplemented by additional pay for good performance, calculated through a productivity bonus system. This could have relevance to non-manual staff, but making such systems work well is difficult. The bonus can quickly cease to reward good performance and get built in to the level of pay expected for adequate performance. CCT has led to some bonus schemes being radically revised or withdrawn in order to protect the competitive position of the authority’s workforce.

60. In the private sector performance sometimes determines a large proportion of pay, as in many private professional firms of architects or accountants. But, as most people in local government cannot increase the income of their employer through good performance, money is not available to fund large-scale performance payments. This reduces the impact which PRP schemes can have in local government (Box G).

61. In the late 1980s, as pay rose rapidly in the market, many authorities found the traditional grading structure too rigid to enable them to respond to recruitment and retention problems. Some councils extended their grades by adding new incremental points to give more headroom. But such extended grades continue to increase pay levels even where market conditions have changed. Other councils have introduced a smaller number of wider and overlapping grades. This is often linked to delayering. Although this looser framework increases flexibility, it also leads to unchecked pay drift and higher costs unless there are ways to control progression through the grades.

62. The size of pay grades needs to reflect both the learning curve of new staff and the experience and better performance of established staff. One way to do this is to define a grade with a starting salary below the normal ‘rate for the job’, and with further headroom to reward improved performance. In the private sector, such grades may cover a range between 80 per cent and 120 per cent of the normal rate. If the practice applied in local government, the range could be narrower.

63. Automatic increments are incompatible with effective management of extended pay grades which have been widened to include more than five
incremental points, but few authorities have addressed this issue. Changing incremental systems will require local consultation with staff. Councils have been innovative in finding ways of paying staff more, but far less successful in maintaining the controls necessary to operate more flexible schemes in a cost-effective way.

64. The various methods of managing pay progression and the processes of job sizing and market tracking which underpin them all attempt to balance control with flexibility. Fixed pay rates for a limited number of job categories represents the simplest and most easily controlled approach; but it is also the least flexible and may conflict with measures to improve productivity. The appraisal of individual performance and skills can be used to control pay progression. It is a highly flexible technique for people and pay management but it is more difficult to control in a consistent and objective manner:

- the staff appraisal system must be based on criteria which are explicit, understood and accepted; and

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**Box G**

**Performance-related pay**

- There is no single definition of performance-related pay (PRP). Some local authorities responded to the recruitment and retention difficulties of the late 1980s by paying lump-sum bonuses on top of base salary, justifying them by describing them as performance-related. Other authorities introduced PRP as part of a wider attempt to develop a performance culture, linking PRP to personal appraisal and the achievement of specified objectives. An LGMB survey in 1993 indicated that 26 per cent of authorities were operating a PRP scheme. A further five per cent of authorities had previously introduced PRP but had abandoned it in the light of changed market conditions or their disappointment with it.

- PRP can be used to decide incremental payments which are consolidated into base salary, or take the form of unconsolidated one-off bonuses paid once or twice a year on top of base salary. In some cases PRP applies to all non-manual staff but often it is restricted to more senior staff.

- Typically, PRP systems in local government affect no more than five per cent of base salary. There is no clear evidence in the private or public sector that PRP improves staff motivation or performance. Where authorities are applying Total Quality Management, the team-based approach used may not fit with individual PRP. Through their trade unions, staff have often resisted the introduction of PRP schemes.

- However, a performance element is important in controlling pay progression where authorities have introduced extended grades, for example as part of a delayering initiative. And even in the many councils that retain traditional grading structures, the incidence of pay drift shows that authorities need to improve the management of pay progression.

- Each authority must decide for itself whether the potential benefits of a PRP scheme outweigh the disadvantages. In particular, if it wishes to introduce personal appraisal as part of a performance management initiative, it will have to consider whether PRP will help or hinder the operation of personal appraisal.

- Where authorities already operate PRP systems and are considering their removal, they should take into account what message such a decision would send to staff about the authority’s attitude to performance.
• criteria should be based on skills, experience and success in achieving work objectives.

65. Although PRP can improve the management of pay progression, it can also be expensive to implement. To restrict the cost of PRP, a council needs either to control the speed of progression through the grades or to cap the impact on the total paybill in advance; this can jeopardise the credibility of the system with staff. These measures must be seen to be fair and transparent; if not, they can de-motivate staff, undermine performance and contravene equal pay regulations.

66. Many councils lack management information and are ill-equipped to manage the sophisticated systems which job sizing, market tracking and PRP require. PRP may be appropriate where measurable objectives can be designed, but is questionable in other circumstances. There is no single or easy solution, but in many authorities, there is a lack of clear policies and procedures to manage the performance, pay and non-pay benefits of staff. Given the growing pressures on local government, inaction is not an option. Whether a council supports or opposes the various techniques described in this report, it must take decisions on how to set pay for its staff.
### Questions for Councils

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<tbody>
<tr>
<td>14</td>
<td>Do we carry out systematic job sizing?</td>
</tr>
<tr>
<td>15</td>
<td>What is the range of salaries for jobs of similar size?</td>
</tr>
<tr>
<td>16</td>
<td>What are our current staff turnover and vacancy levels?</td>
</tr>
<tr>
<td>17</td>
<td>What do we compare them with?</td>
</tr>
<tr>
<td>18</td>
<td>Do we pay market supplements?</td>
</tr>
<tr>
<td>19</td>
<td>How often do we review them?</td>
</tr>
<tr>
<td>20</td>
<td>Is incremental progression automatic where staff are in wide grades?</td>
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Implementing the solutions requires a tight-loose balance, providing maximum discretion for front-line managers within a framework for control based on clear objectives, cash-limited budgets and performance indicators which are measurable and demanding. The centre should set and monitor corporate standards to ensure compliance with employment law, financial regulations and legal duties and to obtain information on staff numbers, grades and salaries.
Authorities are using a wide range of measures to tackle the problems identified in the management of people and pay (Exhibit 23). Not all the problems exist everywhere but few authorities escape them all. Local solutions are essential. The problems arise because of the strains imposed on local authorities as they change from centralised, hierarchical provider organisations into a set of fragmented business units whose relationships with each other are defined by contracts rather than traditional directive procedures.

Exhibit 23
Problems and solutions
Authorities are using a wide range of measures to tackle the problems.
A tight-loose balance is necessary (Exhibit 24). Flexibility and responsiveness require purchasers and front-line managers to be given discretion over the number, mix and pay levels of the staff they manage. But this should happen only if councils first establish a framework for control; allowing devolution of responsibility within the parameters of clear objectives, cash-limited budgets and performance indicators which are measurable and demanding. Councils should build on their experience of managing internal or external contracts by clearly specifying the outputs and outcomes expected from the resources invested, while allowing front-line managers to decide their own inputs and processes. Members should be responsible for setting the framework within which managers operate and for holding managers to account for their performance.

This tight-loose framework takes time to develop; as councils gain experience they can choose whether and when to ‘tighten the reins’ or allow more freedom. Development of objectives, business planning and performance indicators are well advanced in many councils. Several authorities, including Cambridgeshire, Lewisham, Solihull and Windsor and Maidenhead have introduced a tight-loose framework to manage the numbers and mix of people and their performance. But few, if any, authorities have gone this far for managing the salaries paid to individuals. Pay management is

Exhibit 24
A tight-loose framework

A tight-loose balance is required between flexibility and control.
harder to devolve. Looser grade structures, PRP and market tracking offer greater flexibility in pay management and give managers more responsibility. But this must be balanced with the need to comply with employment law and to maintain the integrity of mechanisms such as job evaluation. Authorities should gain experience of devolving the management of the numbers and mix of staff before contemplating devolution in the setting of individual salaries.

70. The centre should positively support the development of a tight-loose balance. It needs to set a framework of policy and financial control within which devolved management can safely operate. The centre should set and monitor corporate standards to ensure compliance with employment law, financial regulations and legal duties. Information should be returned on staff numbers, grades and salaries. Front-line managers should be able to use central personnel as a resource for expertise and guidance.
Authorities need to achieve more and better services with less money. Using the techniques in this report has helped many councils to achieve savings of five to ten per cent of staff budgets without damaging services. If all councils saved five per cent of paybill, national savings of £500 million would be available.

Central government should refrain from imposing new and radical changes. Councillors must define the framework and ensure that objectives are achieved, addressing the issues set out in this report and in its companion, Calling the Tune.

6 Conclusions
71. Although some authorities have cut services when resources fall, others are doing better. In the next three years local government may face a real-terms reduction in its non-manual paybill of more than ten per cent, so councils will need to save over £1 billion. At the same time councils will wish to pursue programmes and policies to develop services and meet increased demand. Members will be faced with more acute difficulties than they have previously encountered in ‘squaring the circle’. If the level and quality of services to the public is to be protected, authorities need to achieve more – and better – services with less money in real terms. They will need to improve people and pay management.

72. Paybill savings are available from improved productivity and from better management of pay. The two types of savings are interrelated. For example, productivity improvement may well involve using fewer but better paid staff to achieve the same level of output. Productivity improvements can deliver savings more quickly, but require significant management resources to achieve.

73. Savings from better pay management will take more time to achieve. In the short term, better pay management will help councils to cope with the impact of economic recovery on the broader labour market and with the possibility of pay leap-frogging during local government reorganisation, which could become a new engine to increase pay as councils compete for the best officers. There is a risk that some authorities could repeat the experience of the late 1980s: high pay settlements combined with staff retention difficulties. Introducing comprehensive salary reviews and ‘chasing the tail’ of market comparability can simply add to councils’ difficulties. If councils choose to use management consultants, the consultants are likely to add more value in helping to set the framework of pay management than if they are asked to review salaries across the board.

74. The techniques advocated in this report to achieve improvements in paybill management are summarised below:

◆ Better management of pay
- Systematic job sizing to provide a rational framework for setting pay rates.
- Better tracking of regional and local pay markets, leading to greater use of scales 1 and 2 in areas where authorities pay more for junior jobs than the local market.
- Dismantling of supplements to pay and non-pay benefits which were introduced in the late 1980s to track a rapidly rising market.
- Local employer networking to resist leap-frogging, with member involvement in respect of chief officer posts.
- Tighter control of pay progression, particularly where extended grades are introduced in conjunction with delayering.

◆ Improved productivity
- Delayering to reduce tiers of management.
- Increased workforce flexibility to match staff better to workload.

---

1 Good practice in using consultants is set out in Reaching the Peak? Getting Value for Money from Management Consultants, Audit Commission, 1994. (Ref. 9)
- Benchmarking to identify areas in which management should target improvements.
- A tight-loose approach to decentralisation and better targeting of resources, often by discontinuing redundant activities, within the kind of strategic framework to be discussed in the companion report, Calling the Tune.

75. Many departments and whole councils included in this study have used these techniques to make savings of five to ten per cent in their staffing budgets without affecting front-line services; some have done even better. Councils vary in their ability to achieve savings. Those which have adapted to the new fragmented environment and which can demonstrate from benchmarking that they have already improved productivity have less scope for further savings, but are better placed to achieve them. Councils with traditional styles of management have more scope for savings but need to improve their capability in order to achieve them.

76. If all councils achieved an average of five per cent savings in paybill as a result of the techniques set out in this report, then a total of £500 million could be saved. In addition, the Audit Commission has previously identified further substantial savings in specific services which are yet to be implemented. Progress on these past savings as well as on the measures set out in this report will help councils to cope with financial stringency and to achieve more with less.

77. There is also a message for central government; much of the staff growth in local government in recent years has resulted from new legislation and from central government initiatives. Local government is proud of its ability to cope with radical change imposed from the centre, but it often has to employ more people in order to cope. Local government reorganisation is in prospect; in some areas it may prove the most radical change yet. Central government needs to consider how far its aim of achieving a freeze in the public sector paybill is consistent with other policy changes it wishes local government to pursue. Local government will be better able to improve productivity and freeze paybills if central government shows restraint in imposing new and radical changes on to local authorities.

78. There is no one simple solution. The best authorities and departments are changing the way they manage resources. Authorities control quality and ensure accountability not by giving instructions but by specifying objectives and setting a framework within which front-line managers are empowered to take rational decisions. Members must define the framework, and ensure that objectives are achieved. Actions for members (page 54) address the issues discussed in this report and in the companion report, Calling the Tune.

79. This report has concentrated on the actions which are needed: what is required and how it should work (see Actions for Management, page 55). These will help councils answer the two basic questions of how many staff to employ and of how much to pay them. But actions taken in isolation, without an overall framework and proper training, are of limited value and may actually be damaging unless important questions are addressed.
How can the integrity of pay management mechanisms be protected in a devolved environment?

Can job evaluation be protected from modification by individual managers to prevent it from becoming unreliable?

If pay is linked to performance, how can costs be controlled?

These questions are considered in more detail in People, Pay and Performance in Local Government: A Management Handbook. A more strategic question is – how can councils use these techniques to achieve their policy objectives and provide the best service to the people they represent? Calling the Tune, the companion report to Paying the Piper, considers this further, addressing the third basic question of how to get the best from the staff the council employs. It concentrates on how authorities can maintain control and protect service quality in an environment that is becoming ever more fragmented and where resources are declining. Members and officers should use both reports and the management handbook as an aid to urgent action.
## Actions for Members

**Members’ role in improving the management of people, pay and performance through their management of their most senior staff**

1. **Set aims and objectives** for the council and each service, linked to available resources and defining measurable outputs.

2. **Align key resource areas** of human resources, property, finance and information systems to support the objectives.

3. **Specify regular reports** on progress against the aims and objectives.

4. **Set targets for the chief executive and chief officers**, including responsibility for cascading the aims and objectives to all staff.

5. **Decide how to set and report on top salaries**, including working with neighbours to track the pay market.

6. **Adopt action programmes** to help achieve the aims and objectives.

7. **Monitor progress through regular reports on the action programmes**, covering:
   - **communications**, inside and outside the council, including the need for joint discussion and agreement as appropriate;
   - **devolution**, specifying responsibilities at each level;
   - **productivity**, including choice of benchmarks, reports on performance, delayering and workforce flexibility;
   - **rational pay management**, covering job sizing, market-tracking, pay progression, and key indicators of staff satisfaction;
   - **information and training** needs to support the action programmes, including introduction of personal appraisal for all staff.

8. **Step back from detailed decisions on staff numbers, pay grades and individual posts below chief officer level.**

**Note:** This list addresses issues covered both in this report and in the companion report, **Calling the Tune**.
# Actions for Management

## Improving paybill management

1. Develop **integrated** policies: bring people, pay and performance management issues together.

2. Balance the need for **control and flexibility**: identify the appropriate roles and responsibilities of members, senior officers, front-line managers and staff.

3. Be **persistent**: develop long-term policies not short-term reactions to events.

4. Improve **management information** and control processes to monitor and support decision making at each level of the authority.

5. Work with staff to introduce change by **agreement** so far as possible.

Note: Many of these issues will be addressed in more detail in the report **Calling the Tune**

## Improving people management

1. **Improve productivity**
   - Use systematic internal and external **benchmarking** to target productivity improvements.
   - Develop **objective setting** and **performance review** to direct continuous improvement in efficiency and effectiveness.
   - Use these measures constructively to foster improvement; involve staff to build **ownership and commitment**.
   - **Outsource** services when this is more efficient and quality can be maintained or improved.
   - Develop policies that support **workforce flexibility** at the unit level.
   - Do not allow these measures to be obstructed by inadequate information systems or ill-developed **relationships between central and service departments**.
2 Flatten structures and empower staff
- Match staff carefully with workload, maximising the return on the skills they possess and enriching job content.
- Flatten the organisation structure and devolve responsibility to line managers and front-line staff.
- Support devolved management with information systems, training and internal communication measures.

Improving pay management

1 Managing with national agreements
- Encourage the national employers' organisation to continue its efforts to increase local flexibility.
- Better exploit the services and opportunities for flexibility already provided within the national framework.

2 Determining the rate for the job
- Use an objective system which includes job sizing and market tracking to determine staff pay levels.
- Find the right balance between control and flexibility and between evaluating the job and the person.
- Focus market tracking on relevant occupational groups and geographical areas.
- When responding to market pressures, make use of market supplements which are reviewed each year and which can be withdrawn when necessary.
- Do not simply assume that there is just one market; take into account the recruitment and retention position of different staff groups before setting the pay level for new appointments.
- Resist the tendency for pay leap-frogging that tracking the market can generate.
- Be wary of increasing the paybill through pay reviews.
- Control the cost, complexity and maintenance of pay systems.
- Develop appropriate non-monetary rewards such as a menu of choice between pensions, cars and other benefits to support staff retention.
- Adopt explicit policies and procedures for dealing with top salaries.
Managing pay progression

◆ Structure pay grades to improve flexibility and support delayering.
◆ In consultation with staff, move away from automatic payment of increments, particularly where grades have been extended.
◆ Do not allow pay grades to form the basis of management structures.
◆ Develop policies to manage pay progression in a controlled but flexible manner.
◆ Ensure that these policies should reasonably reflect staff development, performance and equality issues.
◆ Ensure that these measures are understood by staff and applied in a consistent, transparent, fair and objective manner.
Glossary

Benchmarking  The process of comparing procedures and performance levels between and within organisations in order to identify where improvement is possible, how it might be achieved, and how much benefit it might deliver.

Competences  Skills required for a job, or possessed by an individual. The competences approach defines jobs by skills required rather than by tasks performed.

Consolidated  A payment (such as a performance-based increment) which becomes part of base salary, so that it continues to be paid without further review and is included in the baseline from which future pay increases are calculated. Unconsolidated payments are those which are not included in the baseline salary.

Delayering  Replacing organisational structures which have many tiers of management with flatter structures which have few tiers.

Flexible staffing  Employing staff with different patterns or variable numbers of hours worked, to help match staff levels to a fluctuating workload and to attract or retain employees who are unavailable for a conventional work pattern.

Job enrichment  Increasing the content and interest of a job by transferring to it work which was previously carried out by more senior staff.

Job evaluation  A formal system to compare the value of jobs against each other by assessing the content of particular jobs against a common set of criteria (e.g. responsibility, skills required etc.), normally defined in a proprietary scheme.

Job matching  A method of job sizing that relies on matching individual jobs to a set of pre-sized job descriptions.

Job sizing  A generic term for formal methods of assessing the content of jobs in comparison with each other. Job evaluation and job matching (see above) are both methods of job sizing.

Leap-frogging  A process where a pay level set by one employer quickly leads on to pay increases awarded by other employers. This ‘knock-on’ effect can lead to rapid pay inflation, especially in labour markets where there is a small pool of available candidates for jobs, such as local authority chief officers.
Management through objectives

Setting management targets through defining what is to be achieved, leaving appropriate discretion for the job holder to determine how to achieve it, rather than by giving instructions on the tasks to be done.

Market supplement

An identified addition to pay for a limited period to reflect market conditions particularly in areas of skill shortage. In best practice authorities these are not consolidated into baseline pay, but are reviewed each year and may be withdrawn when no longer necessary.

Market tracking

Using systematic processes to compare internal and external pay levels. Such processes include information from job applications, exit surveys of staff who leave, monitoring vacancy and turnover rates, published and unpublished pay surveys, and reviewing salary offers in the press.

Outsourcing

Purchasing from an external source services which could be, and in the past probably were, provided by the organisation’s own staff. Most commonly used in areas of specialist skills (e.g. legal advice) or where there are potential economies of scale (e.g. payroll services).

Pay management

Setting a framework within which the council decides how much to pay each member of staff, taking account of job size, market conditions, national agreements and the council’s policy on pay progression.

Pay progression

Pay increases other than national pay awards which may be decided for a person while they are in a job. It includes annual increments and regradings.

Performance management

An approach to management based on combining clear specification, communication and evaluation of aims and objectives at all levels of the authority. Its purpose is to improve the authority’s performance in meeting its objectives by linking its policy objectives more clearly with what staff actually do.

Staffing mix

The proportions of staff in a defined group (based on seniority or professional skills) within the organisation.

Tight-loose balance

A combination of maximum discretion for front-line managers and staff with a framework for control and accountability. Such a framework should be based on clear objectives, cash-limited budgets, performance indicators which are measurable and demanding, and corporate standards in defined areas such as legal obligations and financial regulations.
References


3. We Can't Go On Meeting Like This: The Changing Role of Local Authority Members, Audit Commission Management Paper No. 8, HMSO, 1990.


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District Auditors were first appointed in the 1840s to inspect the accounts of authorities administering the Poor Law. Auditors ensured that safeguards were in place against fraud and corruption and that local rates were being used for the purposes intended. The founding principles remain as relevant today as they were 150 years ago. Public funds need to be used wisely, as well as in accordance with the law. The task of today's auditors is to assess expenditure, not just for probity and regularity, but for value for money as well. The Audit Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its responsibilities were extended to include the National Health Service. For more information on the work of the Commission, please contact:

The Audit Commission
1 Vincent Square
London
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