Paying the Piper...

...Calling the Tune

People, Pay and Performance in Local Government
The Audit Commission

... promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.
Paying the Piper... Calling the Tune

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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?

In January 1995, the Commission published two national reports: *Paying the Piper*, dealing with paybill and addressing the first two questions; and *Calling the Tune*, covering performance management, and addressing the third question. A members' leaflet summarised the key findings. Local audits will take place throughout 1995.

The national reports are not designed to cover every issue in detail. In order to expand on the points made in them, and to assist the many local government officers involved in seeking to improve management of people, pay and performance, the Commission is publishing this accompanying Management Handbook. The handbook provides more detailed guidance on good practice and a wide range of data collected during the course of the study. The people, pay and performance study has been one of the largest undertaken by the Commission. The study’s findings and data returns have been drawn from a wide range of published sources and original research. The Local Government Management Board's (LGMB’s) surveys have provided staffing data from over 300 local authorities. The Commission carried out original research into all aspects of people, pay and performance in 35 councils, returning to 12 councils to investigate the good practice described in the case studies contained in this handbook. A further 17 authorities allowed employees to participate in a staff attitude survey. There were more than 2250 responses to the survey, representing 65 per cent of the 3500 staff who received questionnaires. The results of the survey are also in the handbook.

Finally, the Commission engaged the services of Hay Management Consultants to investigate pay levels in 38 authorities, looking at over 100 job types, covering thousands of individual staff. Much of this research is also presented in the handbook. Much of the information and many of the techniques used in the research phase of this study will be available to councils during the audit.

The 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.

Technical advice was provided to the team by Charles Nolda and Gordon Thomson from the 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.
Section 1: Introduction
Introduction

What is the management handbook?

♦ How should councils use the handbook?
♦ What is the structure of the handbook?

This section of the handbook is aimed at:

• all users
1.1 In 1993/94 local government employed about 700,000 full-time equivalent (fte) non-manual staff at a total cost of around £10 billion (excluding national insurance contributions). The management of people, the pay they receive and the performance standards they achieve are not only a major concern of front-line managers; they are issues of strategic importance to the council as a whole.

1.2 The Commission’s study, *Paying the Piper... Calling the Tune*, helps councils to address these issues through:
- two national reports
- the audit
- the management handbook

1.3 The national reports and audit are aimed primarily at members, the executive management team and the head of personnel. They will help the council by:
- identifying key issues;
- posing questions about the council’s practices;
- introducing the key elements of good practice;
- defining actions necessary to improve management.

1.4 *Paying the Piper* draws attention to the financial constraints affecting local government. The report shows that some councils have difficulties in managing people and pay well (Exhibit 1.1). Better paybill management will be needed if services are to be protected.

1.5 *Calling the Tune* takes a wider view of the challenges facing local government. It shows that councils need not only to manage resources better but also to respond to pressures for change and improve the way in which they manage the performance of individual staff while continuing to maintain the traditional virtues of control and accountability (Exhibit 1.2).
Some councils have difficulties in managing people and pay well...

A wider view of the challenges facing local government...

1.6 The audit reinforces the messages contained in the national reports. The first (overview) phase of the audit reviews the council's existing management practices and assesses the council's staffing levels compared with other local authorities. Auditors will address issues and pose questions similar to those raised in the national reports. The second part of the audit involves councils
choosing from a menu of 'tools' and 'modules' designed to address particular issues in more detail. Many of these are referred to in the management handbook.

...the management handbook

1.7 The management handbook expands on the recommendations contained in the national reports. It provides more detailed advice to councils on measures to improve management of people, pay and performance. The management handbook is primarily aimed at managers of departments and units and personnel professionals. Chief officers and members will find it useful for developing overall policy. But it is a guide not a prescriptive blueprint. Councils and individual managers should use it as a framework for developing their own solutions.

1.8 Many of the sections and techniques contained in the handbook closely parallel the structure of the audit. The management handbook should assist councils in working more effectively with auditors and provide guidance in those areas not covered by the audit.

1.9 To support this objective, the management handbook includes much of the data, information and analysis carried out during the study and used during the audit process. Authorities are encouraged to use this as a starting point for developing their own information base.

...using the handbook

1.10 Different users of the handbook will have different requirements; to get the most from the handbook, users should:

♦ familiarise themselves with the overall strategy and their specific responsibilities by referring to Section 2 of the handbook;
♦ refer to the relevant sections in the main body of the handbook.

1.11 There are three ways for users to find their way around the handbook:

♦ by following the questioning framework and structure map contained in Exhibit 1.3 (Section 1, Chapter 2);
♦ by following the summary of actions contained in Box 1.A (Section 1, Chapter 2);
♦ by referring to Box 2.E in Section 2, Chapter 2, which provides detailed references for each process recommended within the overall strategy.

1.12 To make the handbook easier to use and accessible to the increasingly large numbers of managers that must play a part in developing and implementing policies, a loose-leaf format has been adopted. This should enable users to distribute more easily different sections throughout the council and to insert documentation of their own to reinforce and ultimately replace the guidance provided here. Councils should aim to use the handbook as the foundation for developing their own, widely distributed, guide to good management, promoted centrally and adapted to fit local circumstances.
The management handbook is structured around three key questions:

- How does the council know what number and type of staff to employ?
- How does the council know if it is paying the right amount?
- How can the council get the best out of the staff that it employs?

The management handbook addresses these questions in three main sections: Section 3 considers people management; Section 4 considers pay management; and Section 5 considers performance management. But, although different techniques exist for managing people, pay and performance, for councils to achieve the best results an integrated approach is required. Consequently, Section 2 considers the overall strategy and the separate responsibilities of members, chief officers and managers.

This questioning framework is continued throughout the handbook. After a short introduction, Sections 3, 4 and 5 are each divided into two parts. For example, to answer the question 'How does the council know if it is paying the right amount?', the council needs to know:

- how to set pay levels in the first place ('How does the council review existing pay levels and determine the rate for the job?', Part 1 of Section 4);
- how to manage pay on an ongoing basis ('What is the council's pay system and how is it managed?', Part 2 of Section 4).

Each part of Sections 3, 4 and 5 of the handbook considers a clear area of policy and the processes necessary to deliver this policy. Parts are divided into chapters: the first chapter reviews policy issues in more detail; the following chapters consider the processes necessary to deliver the policy; the final chapter summarises the whole approach. For example, to answer the policy question 'How does the council review existing pay levels and determine the rate for the job?', there are six chapters: the first chapter asks 'What is the council's pay policy?'; the following four chapters consider
1.17 Similarly, the questioning framework is continued within each chapter, for example, when considering 'How does the council track external pay comparability?', the chapter asks six specific questions such as: 'What sources of information does the council use for market tracking?' and 'Does the council review pay for junior staff?'. At the end of each chapter there is a box summarising the relevant actions described in the chapter.

1.18 Exhibit 1.3 (opposite) shows the structure and questions for the whole handbook. The relevant elements of this exhibit are repeated at the beginning of each section to provide a reminder to the reader and to enable different sections of the report to be distributed to different audiences. Box 1.A (overleaf) lists the actions addressed in each chapter of the handbook.
Exhibit 1.3
Structure of the handbook

The structure and questions for the whole handbook...

Source: Audit Commission
### Box 1.A
Actions for improving the management of people, pay and performance

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| 2       | 1    | 1       | • Develop a performance-led policy for managing people, pay and performance  
          • Review the processes necessary to support this strategy |
| 2       | 2    | 1       | • Define the separate responsibilities of members, chief officers, central service departments and managers  
          • Develop a tight-loose balance to maintain control |
| 3       | 1    | 1       | • Develop a benchmarking policy  
          • Access relevant information sources  
          • Involve front-line managers to build ownership  
          • Link benchmarking to performance management |
| 3       | 1    | 2       | • Access and compare information on staffing levels  
          • Develop workload indicators  
          • Compare inputs and outputs  
          • Take care when interpreting benchmarks  
          • Identify opportunities for improved productivity |
| 3       | 3    | 1       | • Senior managers to review overall performance  
          • Front-line managers to review good practice in other organisations |
| 3       | 2    | 1       | • Review existing staffing practices  
          • Develop policies for changing staff structures |
| 3       | 2    | 2       | • Flatten the management structures  
          • Implement support processes for flatter structures  
          • Match staff and skills more closely with workload  
          • Develop flexible working arrangements for individual staff |
| 3       | 2    | 3       | • Review where functions may be suitable for outsourcing  
          • Define in-house and outsourced activities |
| 4       | 1    | 1       | • Review the existing pay policy  
          • Develop a pay policy that addresses the key issues and reflects wider constraints |
| 4       | 1    | 2       | • Review the evidence of pay drift  
          • Develop a job-sizing system  
          • Review the impact of pay policies on pay ranges  
          • Identify how far internal pay consistency needs to be improved |
| 4       | 1    | 3       | • Develop information sources for tracking the pay market  
          • Take account of local factors when assessing pay comparability  
          • Review the pay of junior posts  
          • Review the pay of senior posts |
| 4       | 1    | 4       | • Develop measures of workforce stability  
          • Monitor workforce stability and its impact on services  
          • Adjust pay policy to reflect changes in workforce stability  
          • Consider other non-pay measures to secure workforce stability |
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| 4       | 1    | 5       | • Calculate the cost implications of changes to pay in advance of implementation  
|         |      |         | • Plan implementation to balance increased costs with savings  
|         |      |         | • Link communication with staff regarding pay to the council's wider communications programme |
| 4       | 2    | 1       | • Review existing policy on pay systems |
| 4       | 2    | 2       | • Consider the choice between pay grades and rate-for-the-job pay systems  
|         |      |         | • Identify to which staff groups each system should apply  
|         |      |         | • Consider changes to the existing grade structure |
| 4       | 2    | 3       | • Establish procedures to manage pay drift  
|         |      |         | • Consider ways of linking pay progression with staff performance  
|         |      |         | • Review the use and implementation of existing performance-related pay schemes |
| 4       | 2    | 4       | • Develop policies for controlling pay management  
|         |      |         | • Set up processes to support the policy |
| 5       | 1    | 1       | • Develop a performance management policy which addresses specification, communication and evaluation of objectives  
|         |      |         | • Link performance management with people, pay and personnel management |
| 5       | 1    | 2       | • Develop a code of good practice for developing objectives and business planning  
|         |      |         | • Define objectives and appropriate funding for each service area |
| 5       | 1    | 3       | • Develop a communication strategy  
|         |      |         | • Implement the communication strategy |
| 5       | 1    | 4       | • Establish performance review procedures  
|         |      |         | • Develop performance indicators for each service area  
|         |      |         | • Develop a code of good practice for personal appraisal  
|         |      |         | • Extend personal appraisal to all staff |
| 5       | 2    | 1       | • Develop an implementation strategy for performance management |
| 5       | 2    | 2       | • Ensure that the implementation strategy addresses: making it real; making it happen; and making it work |
| 5       | 2    | 3       | • When setting up performance management, get maximum value and allow sufficient time  
|         |      |         | • Keep systems simple and eliminate duplication  
|         |      |         | • Plan the progress of implementation throughout the council |
| 5       | 2    | 4       | • Review the strengths and weaknesses of existing systems by using a range of measures  
|         |      |         | • Set up periodic monitoring of progress |
People, Pay and Performance

How does the council manage people, pay and performance?

♦ What strategy should the council adopt?
♦ What is the right balance between central and devolved management of people, pay and performance?
Exhibit 2.1
Structure of the handbook

The structure and questions of Section 2 of the handbook...
2.1 Managers and personnel professionals will be keen to review the detailed policies and processes necessary for managing people, pay and performance. These are considered in Sections 3 to 5 of the handbook. But, to get the best results, these policies must be pursued together - an integrated approach. Although individual managers may only be responsible for implementing parts of the overall strategy, it is important that they are aware of how their responsibilities relate to those of others in the council. Members and chief officers should know how much of the strategy should be managed centrally and how much should be devolved further down the organisation. Personnel professionals, divisional heads and front-line managers will need to respond to directives from members and chief officers. This section of the handbook considers:

♦ in Chapter 1 the overall strategy councils should adopt;
♦ in Chapter 2 the separate but related responsibilities of members, the executive management team, central service departments, divisional heads and front-line managers for delivering the strategy.

2.2 Exhibit 2.1 summarises the structure and questions of Section 2 of the handbook. Box 2.A summarises the actions for improving the management of people, pay and performance.

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| 1       | • Develop a performance-led policy for managing people, pay and performance  
         | • Review the processes necessary to support this strategy |
|         | 2       | • Define the separate responsibilities of members, chief officers, central service departments and managers  
         | • Develop a tight-loose balance to maintain control |
Section 2
Chapter 1

The Strategy

What strategy should the council adopt?

♦ Does the council pursue a traditional budget-driven approach to managing people, pay and performance?
♦ Has the council considered a performance-driven approach to managing people, pay and performance?
♦ Has the council considered the processes necessary to underpin this strategy?

...the traditional approach

2.3 Traditionally authorities have relied on a budget-driven approach to managing people, pay and performance. Box 2.B describes this approach in detail. Actions reflect past experience; change occurs only on an incremental basis. The system itself becomes a major barrier to change. Where radical change does occur, it is often in response to a funding crisis rather than a genuine desire to improve practices. Some councils have moved a long way; many members, chief officers, managers and staff in local government do not have an aversion to change. But there are few that would not recognise the continuing existence of this approach in some form.

Box 2.B
Traditional practice

People management

Many councils have adopted a budget-driven approach to people management. A high proportion of recurring expenditure is linked to the number of people employed - the staff establishment. Consequently, internal debates over changes to funding or services tend to become bogged down in negotiations between the finance and other departments over staff numbers. This description may now seem dated in many councils. But elements of it remain. There are several undesirable consequences:

♦ Members and chief officers, when they get involved in these debates, are forced into negotiations around individual posts rather than broader issues of services and total expenditure. Consequently, change tends to be small-scale and incremental.
♦ Because decisions are based on the existing staff establishment, there is no independent way of judging whether productivity is good, bad or indifferent. This constrains the ability of members and chief officers either to press for improved value for money or to make significant changes to services.

(continued overleaf)
Similarly, managers have little incentive to look for improvements in staff productivity if they believe that this will result in reductions to funding. In individual departments, similar rigidities may exist:

- Often departments are organised into extended vertical hierarchies, reinforced by the pay-grading structure with many tiers between chief officers and front-line staff.
- Frequently, there is rigid demarcation between professional, technical and administrative staff and inflexibility in the working practices of all staff.

Practices of this kind have several disadvantages:

- Complex and rigid organisation of staff tends to fragment responsibility. Service objectives can become submerged by the interests of each part of the department and strategic direction can be lost.
- These structures tend to be inflexible and unresponsive both to top-down directives and to bottom-up signals regarding service provision.
- Communicating information and messages through such organisations is difficult, reliant on detailed instruction (and hence time-consuming), expensive and vulnerable to manipulation.
- The linkage between workload and staff skills can be lost, reducing efficiency and effectiveness.
- Top-heavy management structures, combined with the poor matching of staff to the workload, are an expensive misdirection of resources.

Staff may not be available when demand for services is highest.

Pay management

The level of the annual pay award is determined nationally, while councils locally decide the grading of individual staff. There is wide variation between authorities in this second element of pay determination.

Most councils have difficulties in managing pay and tend to separate pay decisions from those on people. Staff costs increase by an across-the-board rate each year, plus the impact of annual pay increments. Before any further changes are considered, these costs must be funded - and if they cannot be, incremental staff cuts or vacancy freezes are imposed. Practices of this kind have several implications:

- Concern about the impact of pay inflation on expenditure has made councillors unwilling to devolve pay decisions to front-line managers. In some cases, members intervene directly, authorising individual pay decisions, or rely on the central personnel department to 'police' pay determination. But this central control has not prevented drift in pay rates. It has also created a lack of responsiveness to recruitment and retention difficulties.
- The reliance on the national framework has led to a lack of detailed policies and procedures to manage pay at the local level, contributing to the problems above.
- This approach to pay management limits the freedom of front-line managers. Consequently, managers are less able to make trade-offs between paying more or employing fewer or different types of staff.
Section 2
Chapter 1 The Strategy

Performance management

There are many tasks associated with managing performance. Councillors need to make policy regarding service delivery and expenditure and see that it is carried out. Managers and staff must understand their responsibilities and have the right skills to perform effectively. More generally, councils must get the best out of the staff they employ and ensure that staff are well motivated and committed to the objectives of the council.

Councils claim to decide policy in committee and council meetings. However, central management of pay and the close linkage of staff establishments with funding have caused policy to be driven too often by finance rather than by need or outcome. In many cases, policy development is little more than a metaphor for the annual budget cycle. The result is to obscure, indeed to frustrate, attempts to improve performance:

- The aims and objectives of the council tend to be expressed in terms of inputs - how many staff, how much money spent - rather than outputs and outcomes, such as how many people benefit from a service and in what ways. There is therefore a 'language barrier' between the way in which members perceive the needs of their community and the way in which policies are articulated.

- The existing staff establishment and funding pattern is a mountain not easily moved. Without a better way of linking policy to action, possible changes are either ignored or simply fitted into existing practices. Moreover, councillors, whilst receiving feedback from their constituents on the standard of individual aspects of services, have few structured methods for assessing the impact of policies - except, to complete the circularity, in terms of the inputs used.

- Similarly, officers lack a clear focus on what they are trying to achieve with the services they control. This, combined with the previously described rigidities of people and pay management, means that officers are tempted to concentrate on maintaining the existing pattern and standards of service - and resist change.

Just as attempts to improve the overall performance of the council can be easily frustrated, so too can those of individual employees. Working within rigid staff establishments, reinforced by the pay-grading system and in the absence of any definition of performance focused on outcomes, they can become inward-looking, perpetuating existing practices. This has three effects:

- Members lack the information, technical knowledge or confidence to challenge existing practices and performance levels. They also become uninterested in internal management arrangements, perceiving this to be the responsibility of chief officers.

- But, by not challenging existing performance by staff, chief officers reinforce the problems of rigidity, in particular the tendency for staff establishments to become fixed.

- Officers have little incentive to encourage change, limited ability to instigate change and an understandable reluctance to pursue changes that might undermine their own position; in this situation it is not surprising that officers make little effort to promote change.
2.4 To break out of this pattern requires a management approach which is driven by performance rather than finance. Although the total level of funding available will always be the final constraint on service development, the council’s aims and objectives should lead the budgeting process, not become its prisoner. Control should be exercised over spending limits and the achievement of policy objectives, not over the details of how resources are deployed. People and pay management should be integrated and decisions made as close as possible to the point of service delivery in order to improve flexibility and responsiveness. And the relationship between central and devolved management must be clearly defined.

2.5 Developing a performance-led approach requires three main elements:

♦ the policy framework
♦ paybill management
♦ performance management

Box 2.C describes each of these elements in more detail.

---

**The policy framework**

The institution of a strategic framework which permits the long-term planning of services and expenditure at corporate and departmental levels. This process must have several characteristics if it is not to repeat traditional experience:

♦ The direct linkage of service and funding decisions with existing staff establishments – and the organisation structure – must be broken.

♦ This will require service objectives to be expressed in terms of outputs and outcomes (quantified wherever possible), not inputs.

♦ Inputs should be expressed mainly in cash terms. Expenditure patterns, including paybill, should be confirmed by external comparison and not merely by historic precedent.

♦ Consequently the strategic framework should clarify the service and expenditure objectives of the council as a whole and of each department and hence the responsibilities of service heads.

♦ But the strategic framework should not specify the details of people and pay management required to meet objectives.

**Paybill management**

The integrated management of people and pay, carried out close to the front-line, maximises flexibility and responsiveness in the use of resources. This process will require certain characteristics if control, efficiency and effectiveness are to be retained:

♦ If managers are to have the incentive to act responsibly, they must be given freedom over the details of operational management but be held to account through expenditure and service targets.

♦ Chief officers – and members – must therefore resist the temptation to intervene in the details of management decisions or to load too many external restrictions on managers.
Managers will need high quality management information and procedures and the skills and training necessary to assume these responsibilities. They will also need clear guidance on the limits to their freedom and on those areas where corporate standards must be maintained.

Some situations will require common, corporate standards and more detailed intervention. Corporate standards are required for elements of financial reporting and legal obligations including employment law. Similarly, in managing pay councils will be concerned about the need to maintain internal equity and grading structures. These standards and controls must be clearly defined otherwise effective delegation of responsibility will be lost.

Managers must deploy resources to maximise performance not simply to maintain existing practices. The separate management of staff establishments and pay must be ended. Managers should consider the entire paybill as their resource base: matching the skills of their staff to workload; modifying organisation structures accordingly; managing pay in order to attract, recruit and retain the staff they need rather than according to rigid pay norms.

To test the validity and improve the efficiency of people and pay management decisions, managers should use external comparison and benchmarking of staff productivity, pay levels and good practice in processes and operations. This will enable managers gradually to adapt existing practices in a challenging but realistic manner.

Performance management

Performance management requires procedures, involving both staff and citizens, for setting objectives and performance standards for each activity. To ensure the objectives are understood and appropriate, communication and evaluation must occur at the level of the council, departments and individual members of staff. Control and accountability should be maintained without relying on extensive bureaucracies or corporate level intervention in the details of service management. These processes should have several characteristics:

- When setting aims and objectives, councils must overcome the tendency for services and standards to be expressed in terms of inputs. This will require a comprehensive range of specific, measurable and meaningful performance indicators at each level of the council.

- The council cannot rely only on corporate-level policy-making to develop aims and objectives. All managers and staff should be involved in discussions on the policies that affect their particular services - not least because staff are frequently valuable sources of information and of the ideas necessary for service improvement. Similarly, policies must be communicated to staff to ensure understanding and a sense of ownership.

- If aims, objectives and service standards are to become the means of judging performance, councils will require procedures for the formal assessment of performance of the organisation and individual staff members. If this process is not treated with the same seriousness and thoroughness as, for example, maintaining financial controls and checks, then there will be little incentive for managers to take risks with innovations and change, and no way for chief officers and members to determine the success of policies.
Box 2.C (continued)

Processes such as the **planning** or **re-structuring** of services, capital investment in equipment and **information systems** and the **training** and development of staff must reflect aims and objectives and respond directly to any deficiencies revealed through performance assessment. If this does not happen, the momentum and hence incentive to improve performance will be lost and scarce resources may be directed away from priority areas.

Most measures necessary for improving performance and the use of resources require councils to **devolve** responsibility as closely as possible to the point of service delivery. The measures described above will enable members and chief officers to maintain effective **control** without the need for detailed involvement in day-to-day management issues.

### ...processes to support the strategy

2.6 This strategy will only work if it is supported by a range of **management processes** and techniques. This handbook will review each of these in detail. Box 2.D summarises the key processes that underpin the strategy.

**Box 2.D**

**The key processes that underpin the strategy**

- **External communication**: External consultation with stakeholders; surveys of citizen and user opinion; liaison with outside bodies and expert opinion
- **Internal communication**: Top-down and bottom-up communication with managers and staff
- **Benchmarking**: External comparison of productivity, service quality and good practice
- **Aims and objectives**: Output- and outcome-focused definition of the objectives of service provision
- **Expenditure targets**: Total recurring expenditure cash limits for each service area/department
- **Business planning**: Service-driven financial management; short- and long-term plans; financial management information and trading accounts

---

The policy framework

- **External communication**: External consultation with stakeholders; surveys of citizen and user opinion; liaison with outside bodies and expert opinion
- **Internal communication**: Top-down and bottom-up communication with managers and staff
- **Benchmarking**: External comparison of productivity, service quality and good practice
- **Aims and objectives**: Output- and outcome-focused definition of the objectives of service provision
- **Expenditure targets**: Total recurring expenditure cash limits for each service area/department
- **Business planning**: Service-driven financial management; short- and long-term plans; financial management information and trading accounts
### Paybill management

- **Benchmarking and business planning:** See above
- **Organisational design:** The arrangement of departments, functional units and management structures
- **Skill mix/flexibility:** The detailed alignment of staff with workload; flexible working practices
- **Pay determination:** Corporate level pay policy; monitoring and procedures necessary to support pay determination, for example, job sizing and market tracking
- **Chief officers’ pay:** Pay determination for top management
- **Pay systems:** Pay and grade systems; maintaining control

### Performance Management

- **Service standards and targets:** Largely quantitative output, outcome and input targets related to specific aims and objectives
- **Performance review:** A formal process for monitoring the council's performance against aims, objectives and targets
- **Personal aims and objectives:** Aims and objectives for individual managers and staff
- **Personal appraisal:** A process for monitoring individuals’ performance against aims, objectives and targets; identification of training and development needs
- **Internal communication:** See above

### SUMMARY OF ACTIONS

- Develop a performance-led policy for managing people, pay and performance
- Review the processes necessary to support this strategy
Central versus Devolved Management

What is the right balance between central and devolved management of people, pay and performance?

♦ What are the responsibilities of members, chief officers, central service departments and managers?
♦ How does the council balance tight with loose control?

...different responsibilities

27 Many of the measures described in this handbook depend for their success on giving more responsibility to front-line managers, but it is only members and the executive management team who have the power to bring about a strategic change to the way in which local authorities are managed. Councillors and chief officers need to be involved in developing management arrangements within their authorities - but without intervening in the detailed implementation of processes and procedures. Successful management of people, pay and performance requires a partnership between the centre and the front-line.

28 To implement the strategy, members and the executive management team should challenge traditional practices and, where necessary, replace them with new processes. Members should receive reports on progress from chief officers (at the level of the council and each committee) who must coordinate overall implementation. But much of the detailed work will be the responsibility of divisional heads and managers, supported by the personnel, finance, IT and legal departments. Box 2.E describes the separate but related responsibilities of each group in the council; it also indicates which sections of the handbook are relevant for each set of actions.
Box 2.E
Implementing the strategy – the responsibilities of each group in the council

<table>
<thead>
<tr>
<th>Key process</th>
<th>Responsibilities</th>
<th>Using the management handbook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected members and the executive management team</td>
<td>• Develop a council-wide strategy, e.g.</td>
<td>• Communication policy is considered in Section 5. External communication is reviewed in detail in Part 1, Chapters.</td>
</tr>
<tr>
<td></td>
<td>• public consultation</td>
<td>• See notes under ‘Internal communication’</td>
</tr>
<tr>
<td></td>
<td>• public relations/local newspaper</td>
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<tr>
<td></td>
<td>• community governance</td>
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<tr>
<td></td>
<td>• Administer the council’s strategy</td>
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<tr>
<td></td>
<td>• Liaise/integrate with service policies</td>
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<tr>
<td>Central services departments (especially personnel)</td>
<td>• Develop service-specific programmes, e.g.</td>
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<tr>
<td></td>
<td>• surveys of customer opinions</td>
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<td></td>
<td>• monitoring of complaints/suggestions</td>
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<td></td>
<td>• liaison/cooperation with related organisations</td>
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<tr>
<td></td>
<td>• Liaise/integrate with council-wide policies</td>
<td></td>
</tr>
<tr>
<td>Divisional heads and front-line managers</td>
<td>• Establish top-down communication programme linked to aims and objectives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Incorporate bottom-up communication when developing aims and objectives</td>
<td></td>
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<tr>
<td></td>
<td>• Facilitate top-down and bottom-up communication</td>
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<tr>
<td></td>
<td>• newsletters and publications</td>
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<tr>
<td></td>
<td>• meetings and seminars</td>
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<tr>
<td></td>
<td>• training/information</td>
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<tr>
<td></td>
<td>• monitor staff attitudes</td>
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<tr>
<td></td>
<td>• monitor service level programmes</td>
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<tr>
<td></td>
<td>• Support top-down communication, e.g.</td>
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</tr>
<tr>
<td></td>
<td>• team briefings</td>
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<tr>
<td></td>
<td>• personal appraisal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• participation in training</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Develop bottom-up communication, e.g.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• quality circles/team meetings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• personal appraisal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Liaise/integrate with council-wide policies</td>
<td></td>
</tr>
</tbody>
</table>

The policy framework

External communication

- Develop a council-wide strategy, e.g.
  - public consultation
  - public relations/local newspaper
  - community governance
- Administer the council’s strategy
  - Liaise/integrate with service policies

Internal communication

- Establish top-down communication programme linked to aims and objectives
- Incorporate bottom-up communication when developing aims and objectives
- Facilitate top-down and bottom-up communication
  - newsletters and publications
  - meetings and seminars
  - training/information
  - monitor staff attitudes
  - monitor service level programmes
- Support top-down communication, e.g.
  - team briefings
  - personal appraisal
  - participation in training
- Develop bottom-up communication, e.g.
  - quality circles/team meetings
  - personal appraisal

Practitioners should refer to Part 1, Chapters 1 and 2 which show how communication fits into the wider policy of managing performance.

Practitioners should also refer to Part 2, which considers implementation and the critical role communication plays in ensuring the proper involvement of front-line staff. Chapter 2 considers the overall approach; Chapter 4 shows the impact of communication on staff attitudes and identifies several monitoring tools practitioners may wish to use.
### Key process: Benchmarking

<table>
<thead>
<tr>
<th>Elected members and the executive management team</th>
<th>Central services departments (especially personnel)</th>
<th>Divisional heads and front-line managers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmarking</strong></td>
<td><strong>Technical support</strong></td>
<td><strong>Develop service-specific productivity indicators.</strong></td>
</tr>
<tr>
<td>• Develop simple resource and productivity indicators for the whole council and main departments</td>
<td>• Use these to: – develop an overview of departmental performance – identify areas for improvement</td>
<td>• Benchmarking is considered in Section 3, Part 1.</td>
</tr>
<tr>
<td>• Use these to guide decisions on: – funding levels – need for review of activities and operations</td>
<td>• Identify the mission and values of the council</td>
<td>• Chapter 1 describes the overall approach, Chapter 2 shows how to develop benchmarks.</td>
</tr>
<tr>
<td></td>
<td>• Identify the main aims and more specific objectives of the council</td>
<td>• Benchmarking information gathered by the Commission is contained in annexes at the end of Section 3.</td>
</tr>
<tr>
<td></td>
<td>• Reflect service objectives in those of the council</td>
<td>• Practitioners should also refer to ‘Benchmarking and business planning’ under ‘Paybill management’. This will show how benchmarks can be used to review performance and lead on to changes in staffing structures.</td>
</tr>
</tbody>
</table>

### Key process: Aims and objectives

<table>
<thead>
<tr>
<th>Elected members and the executive management team</th>
<th>Central services departments (especially personnel)</th>
<th>Divisional heads and front-line managers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aims and objectives</strong></td>
<td><strong>Administer council-wide policies</strong></td>
<td><strong>Develop service aims and objectives at the level of: – the department – the functional unit</strong></td>
</tr>
<tr>
<td>• Identify the mission and values of the council</td>
<td>• Integrate council and service aims and objectives</td>
<td>• Integrate these with council-wide policies</td>
</tr>
<tr>
<td>• Identify the main aims and more specific objectives of the council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Reflect service objectives in those of the council</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>See ‘Business planning’</strong></td>
</tr>
</tbody>
</table>

### Key process: Expenditure targets

<table>
<thead>
<tr>
<th>Elected members and the executive management team</th>
<th>Central services departments (especially personnel)</th>
<th>Divisional heads and front-line managers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditure targets</strong></td>
<td><strong>Technical support</strong></td>
<td><strong>Within departmental spending totals, set expenditure targets for each functional unit</strong></td>
</tr>
<tr>
<td>• Set expenditure targets for each main service area</td>
<td>• Monitor expenditure targets</td>
<td>• See ‘Business planning’</td>
</tr>
<tr>
<td>• Establish budget responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Do not specify staffing arrangements</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Establish devolved budgetary responsibility</strong></td>
</tr>
</tbody>
</table>
### Business planning

<table>
<thead>
<tr>
<th>Key process</th>
<th>Elected members and the executive management team</th>
<th>Central services departments (especially personnel)</th>
<th>Divisional heads and front-line managers</th>
<th>Using the management handbook</th>
</tr>
</thead>
</table>
| **Business planning** | • Develop a corporate plan identifying:  
  – expenditure targets  
  – service objectives  
  • Ensure that corporate plan integrates with service plans | • Technical support  
  • Support/develop appropriate financial/management information systems and accounting procedures | • Develop service plans at the departmental and unit level, identifying:  
  – expenditure targets  
  – service objectives  
  • Establish appropriate management systems to support the plans | • Section 5, Part 1, Chapter 2 details good practice and provides checklists of approaches and features.  
  • Part 1, Chapter 1 shows how business planning fits into the wider policy of managing performance.  
  • Practitioners should also refer to Section 5, Part 2 which considers implementation. Chapter 2 considers the overall approach, Chapter 3 reviews ways of containing the burden on managers and Chapter 4 considers the impact of business planning on front-line staff, including methods of monitoring the effectiveness of policies.  
  • Effective business planning is necessary to support changes to staffing structures. Practitioners should also refer to Section 3, Part 2 which considers these issues. |

(continued overleaf)
### Paybill management

<table>
<thead>
<tr>
<th>Key process</th>
<th>Responsibilities</th>
<th>Using the management handbook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Elected members and the executive management team</strong></td>
<td>• As above, plus • Instigate major internal review, where appropriate, of:   - activities   - operations • Do not become involved in details of the review</td>
<td>• As above, plus • Section 3, Part 1, Chapter 3 shows how the benchmarks described in Chapters 2 and 3 can be used and developed to provide an overview of departments’ performance and more detailed information on processes. • Practitioners should refer to Section 3, Part 2 to see how this information relates to review of and changes to staffing structures. • Benchmarking can also support overall management of performance. Practitioners should refer to Section 5, Part 1, Chapter 1.</td>
</tr>
<tr>
<td><strong>Central services departments (especially personnel)</strong></td>
<td>• As above, plus • Internal audit, where appropriate</td>
<td>• As above, plus • Review good practice in other councils/organisations • Maintain continuous internal review of:   - activities   - operations</td>
</tr>
<tr>
<td><strong>Divisional heads and front-line managers</strong></td>
<td>• As above, plus</td>
<td>• As above, plus</td>
</tr>
</tbody>
</table>

#### Paybill management

**Benchmarking and business planning**

- As above, plus
- Instigate major internal review, where appropriate, of:
  - activities
  - operations
- Do not become involved in details of the review

**Organisational design**

- Determine top management structure:
  - departments
  - levels of management
- Technical support
- Monitor arrangements
- On the basis of internal review, determine the management structure - seek to reduce the number of management tiers
- Organisational design and skill mix/flexibility are considered in Section 3, Part 2.
<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>Using the management handbook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Skill mix/flexibility</strong></td>
<td><strong>Elected members and the executive management team</strong></td>
</tr>
<tr>
<td>• Develop policies that encourage and support the flexible deployment of staff, e.g. contract arrangements equal opportunities</td>
<td>• Technical and legal support</td>
</tr>
<tr>
<td><strong>Central services departments (especially personnel)</strong></td>
<td>• On the basis of internal review, determine the detailed staffing structure: match staff to workload match skills to workload develop skills to match workload Use flexible staffing arrangements wherever practical</td>
</tr>
<tr>
<td><strong>Divisional heads and front-line managers</strong></td>
<td>• Section 3, Part 2, Chapter 1 considers the overall approach. Chapter 2 reviews various ways of changing staffing structures and improving the flexibility of the workforce. This chapter, linked to the sections on benchmarking and performance management, will help practitioners to turn objectives and targets into real changes to operations.</td>
</tr>
<tr>
<td>Practitioners should therefore refer back to Section 3, Part 1 and also Section 5.</td>
<td>• Practitioners should also consider the relationship between pay and people management and refer to Section 3, Part 2 and Section 5, Part 1, Chapter 1.</td>
</tr>
<tr>
<td><strong>Pay determination</strong></td>
<td><strong>Elected members and the executive management team</strong></td>
</tr>
<tr>
<td>• Develop council-wide pay policy features of policy management arrangements</td>
<td>• Support council-wide policy review pay levels for consistency and comparability review workforce stability management arrangements monitoring of pay and systems</td>
</tr>
<tr>
<td>• Develop long-term strategy to change pay levels, where necessary</td>
<td>• Support pay management at the departmental level information/advice application of management systems control</td>
</tr>
<tr>
<td><strong>Central services departments (especially personnel)</strong></td>
<td>• Set pay within the framework of the council-wide policy Liaise with personnel department to influence policy development and maximise flexibility</td>
</tr>
<tr>
<td><strong>Divisional heads and front-line managers</strong></td>
<td>• Section 4, Part 1 considers pay determination - policy issues are considered in Chapter 1.</td>
</tr>
<tr>
<td>• The remainder of Part 1 considers the use of job sizing and market tracking for reviewing the consistency and comparability of pay levels and ways of measuring workforce stability. These measures are supported by a job-matching tool which is described in annexes at the end of Section 4.</td>
<td>• These chapters also describe the management arrangements necessary for improving pay determination.</td>
</tr>
<tr>
<td>• Practitioners should also refer below to 'Pay systems' to see how pay determination links to broader issues of pay progression and control.</td>
<td>• Practitioners should also refer below to 'Pay systems' to see how pay determination links to broader issues of pay progression and control.</td>
</tr>
<tr>
<td>• Practitioners should also consider the relationship between pay and people management and refer to Section 3, Part 2 and Section 5, Part 1, Chapter 1.</td>
<td>(continued overleaf)</td>
</tr>
</tbody>
</table>
Box 2.6 (continued)

<table>
<thead>
<tr>
<th>Key process</th>
<th>Responsibilities</th>
<th>Using the management handbook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chief officers’ pay</strong></td>
<td>• Develop clear policies that are:</td>
<td>• Section 4, Part 1, Chapter 3 and the accompanying annex will provide councils with an approach and comparative information for reviewing chief officers’ pay.</td>
</tr>
<tr>
<td></td>
<td>- led by elected members</td>
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<td></td>
<td>- based upon external comparison</td>
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<tr>
<td></td>
<td>- transparent</td>
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</tr>
<tr>
<td></td>
<td>• Determine chief officers’ pay</td>
<td></td>
</tr>
<tr>
<td><strong>Paysystems</strong></td>
<td>• Determine the council’s pay system(s)</td>
<td>• Following on from pay determination, Section 4, Part 2 considers pay systems, progression and control. This part of the handbook will help practitioners considering changes to their existing pay systems - it reviews the options available and considers their strengths and weaknesses.</td>
</tr>
<tr>
<td></td>
<td>- grades vs rate for the job</td>
<td></td>
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<td></td>
<td>- pay progression</td>
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<tr>
<td></td>
<td>- central vs devolved management</td>
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</tr>
<tr>
<td></td>
<td>• Technical support and advice on systems and pay management</td>
<td>• Part 2 is aimed at personnel professionals and considers pay systems, for example, the rate for the job vs grades and determining grade sizes (Chapter 2), controlling grade drift and performance-related pay systems.</td>
</tr>
<tr>
<td></td>
<td>- Construction of new systems, where appropriate</td>
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<td></td>
<td>- Monitoring of systems</td>
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</tr>
<tr>
<td></td>
<td>• Manage pay progression within the council-wide framework</td>
<td>• Chapter 4, which should be read both by personnel professionals and managers, considers the balance between central and devolved management of pay.</td>
</tr>
<tr>
<td></td>
<td>- Liaise with personnel department to influence policy development and maximise flexibility</td>
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</tr>
</tbody>
</table>
## Performance management

<table>
<thead>
<tr>
<th>Key process</th>
<th>Elected members and the executive management team</th>
<th>Central services departments (especially personnel)</th>
<th>Divisional heads and front-line managers</th>
<th>Using the management handbook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Service standards and targets</strong></td>
<td>• Set measurable targets to support council-wide aims and objectives</td>
<td>• Administration of council-wide policy</td>
<td>• Establish measurable targets to support detailed service aims and objectives</td>
<td>Many of these issues are linked to the setting of aims and objectives and business planning – see above.</td>
</tr>
<tr>
<td><strong>Performance review</strong></td>
<td>• Review performance against targets for the whole council and individual departments</td>
<td>• Administration of council-wide policy</td>
<td>• Review performance against targets for each function and the whole department</td>
<td>• Review performance against objectives</td>
</tr>
<tr>
<td></td>
<td>• Evaluate performance against objectives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identify actions to improve overall performance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Set new targets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Personal aims and objectives</strong></td>
<td>• Set objectives and targets for chief officers linked to their departmental objectives and targets</td>
<td>• Monitor compliance with policy</td>
<td>• Set objectives and targets for all staff linked to their specific responsibilities in delivering departmental and unit objectives and targets</td>
<td></td>
</tr>
<tr>
<td><strong>Personal appraisal</strong></td>
<td>• Review individual performance of chief officers against objectives</td>
<td>• Monitor compliance with policy</td>
<td>• Review individual performance of all staff against objectives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identify training and development needs</td>
<td>• Coordinate training and development initiatives</td>
<td>• Identify training and development needs</td>
<td></td>
</tr>
<tr>
<td><strong>Internal communication</strong></td>
<td>• As above</td>
<td>• As above</td>
<td>• As above</td>
<td>• As above</td>
</tr>
</tbody>
</table>

Many of these issues are linked to the setting of aims and objectives and business planning – see above.

Section 5, Part 1, Chapter 4 details good practice and provides checklists of approaches and features.

Practitioners should refer to Chapters 1 and 2, which show how evaluation fits into the wider policy of managing performance.

Practitioners should also refer to Section 5, Part 2 which considers implementation.

As for ‘Performance review’
...a tight-loose balance

To make the partnership between centre and front-line work, councils must clarify the boundaries between them (Box 2.F). Many authorities face problems in deciding how far to devolve responsibility and how to maintain corporate controls which are effective but do not undermine front-line managers' room for manoeuvre. Managers of direct service organisations (DSOs) often argue that, in a competitive environment, heavy-handed central control is harmful and unnecessary. But councils retain a wide range of financial, legal and regulatory obligations. A 'tight-loose' balance is required, combining control with flexibility. Centrally, the council will want to ensure tight control over some factors, for example, financial and service targets and standards and the maintenance of management systems, but loose control over operational factors such as people management and individual performance management.

SUMMARY OF ACTIONS

 Define the separate responsibilities of members, chief officers, central service departments and managers

 Develop a tight-loose balance to maintain control
### Box 2.19
**Clarifying the boundaries between central and devolved management**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clarify the role and responsibilities of each group in the council</strong></td>
<td>• Members&lt;br&gt;• Management board&lt;br&gt;• Divisional heads&lt;br&gt;• Front-line managers</td>
</tr>
<tr>
<td><strong>Establish a framework for determining financial and service targets and standards at each level of the council</strong></td>
<td>• Business planning/budgets&lt;br&gt;• Specification of aims and objectives&lt;br&gt;• Performance indicators (PIs)</td>
</tr>
<tr>
<td><strong>Establish an organisational framework that reflects objectives</strong></td>
<td>• Committee structure&lt;br&gt;• Departmental structure&lt;br&gt;• Client/contractor structure</td>
</tr>
</tbody>
</table>
| **Establish systems for the regulation of internal management**       | • Corporate monitoring of performance<br>• Cash limits/virement control<br>• Transactions between departments  
  – trading accounts<br>– service level agreements (SLAs)<br>– contracts |
| **Clarify operational issues that must retain corporate standards**   | • Financial reporting<br>• Legal obligations  
  – public accountability<br>– probity<br>– data protection<br>• Personnel issues  
  – equal opportunities<br>– employment rights |
| **Clarify where management systems need to be centrally maintained and monitored** | • Job evaluation/sizing<br>• Grade structures<br>• Performance assessment<br>• Corporate PIs<br>• Corporate databases  
  – personnel<br>– estates and asset registers |
| **Clarify where there may be a desire to maintain council-wide policies** | • Public/external relations<br>• Internal communication<br>• Provision of central services<br>• Inter-service cooperation |
| **Clarify operational issues that normally should be devolved to the front-line** | • People management<br>• Detailed pay management<br>• Detailed pay progression<br>• Identification/application of PIs<br>• Individual performance management |
Section 3: People Management
Section 3

People Management

How does the council know what number and type of people to employ?

♦ How does the council know by how much it can improve staff productivity?
♦ How does the council organise the staff that it employs?

This section of the handbook is aimed at:

• divisional heads and front-line managers - describing in detail the processes necessary for improving people management
• chief officers – indicating the overall policy framework required
• members – who may wish to improve their understanding of some of the technical aspects of people management
Between 1987 and 1993 the number of non-manual staff employed by local government increased by 90,000 or 15 per cent; growth was concentrated in managerial and professional posts (Exhibit 3.1). The number of staff paid more than £18,000 (at 1993 prices excluding London weighting) went up by around 45,000 or 59 per cent. Some of this represented pay drift among existing staff (considered in Section 4 of the handbook), but there was also a significant change in the staff mix during this period.

**Exhibit 3.1**

**Trends in local government staffing levels**

Between 1987 and 1993 the number of non-manual staff employed by local government increased by 90,000 or 15 per cent...

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

The increase in staff numbers was concentrated in managerial and professional posts ...

Source: LGMB Joint Staffing Watch and APT&C surveys; Audit Commission
3.2 Traditionally, councils have made incremental adjustments to the existing staff establishment - normally in response to budget changes. This fails to identify opportunities for improvements in staff productivity. And it tends to discourage managers from reviewing performance in their own departments. But many councils are changing the way in which they organise their staff.

3.3 How does the council know what number and type of people to employ? This is a fundamental question that councils must ask themselves - to answer it, they need to address two main issues:

♦ How does the council know by how much it can improve staff productivity?
♦ How does the council organise the staff that it employs?

This section of the management handbook addresses these issues. Exhibit 3.2 provides a guide to the structure of the people management section and some of the questions that councils need to answer. Box 3.A (overleaf) summarises the main actions required to improve people management.

3.4 Part 1 considers external benchmarking. Chapter 1 considers the value of external comparison of performance to inform staffing decisions by councils. Benchmarking of resourcing and productivity is explored in more detail in Chapter 2. Chapter 3 considers how these performance indicators can be used by senior management to gain an overview of possible improvements and describes how benchmarking of processes can help front-line managers to achieve these improvements. Finally, Chapter 4 summarises how all of these measures can be used together to improve productivity.

3.5 External benchmarking will help councils to target resources and may provide examples of better practice. But, with or without such information, councils must respond to many changes and consequently need a systematic approach to reviewing staffing structures.

3.6 Part 2 considers staffing structures. After reviewing traditional practice, Chapter 1 identifies four main elements of policy necessary for changing staffing structures. Described in Chapter 2, these range from the overall organisation of a department through to the work practices of individual employees. Also, Chapter 3 considers situations where councils may prefer to outsource functions. Finally, Chapter 4 summarises how these measures can be used together to improve council performance.

3.7 Many changes to staffing structures depend on the processes and functions within particular departments. The measures described here may therefore lead on to, or be a part of, the detailed re-engineering of processes. The highly specific nature of this puts it beyond the scope of this study, although previous Commission studies into individual services do provide more detailed guidance.
The structure of the people management section and some of the questions that councils need to answer...
<table>
<thead>
<tr>
<th>Part</th>
<th>Chapter</th>
<th>Action</th>
</tr>
</thead>
</table>
| 1    | 1       | - Develop a benchmarking policy  
|      |         | - Access relevant information sources  
|      |         | - Involve front-line managers to build ownership  
|      |         | - Link benchmarking to performance management  
| 1    | 2       | - Access and compare information on staffing levels  
|      |         | - Develop workload indicators  
|      |         | - Compare inputs and outputs  
|      |         | - Take care when interpreting benchmarks  
|      |         | - Identify opportunities for improved productivity  
| 1    | 3       | - Senior managers to review overall performance  
|      |         | - Front-line managers to review good practice in other organisations  
| 2    | 1       | - Review existing staffing practices  
|      |         | - Develop policies for changing staff structures  
| 2    | 2       | - Flatten the management structures  
|      |         | - Implement support processes for flatter structures  
|      |         | - Match staff and skills more closely with workload  
|      |         | - Develop flexible working arrangements for individual staff  
| 2    | 3       | - Review where functions may be suitable for outsourcing  
|      |         | - Define in-house and outsourced activities  

*Box 3.A*

The main actions required to improve people management
Section 3:

Part 1: People Management

External Benchmarking
External Benchmarking

How does the council know by how much it can improve staff productivity?

♦ Does the council use external comparison to target improvements in productivity?
♦ What information does the council collect to develop benchmarks?
♦ How does the council use benchmarking to change practices?
... developing a policy

3.8 A common complaint of members and senior officers is that they do not know what level of productivity to target and how far it can be improved before services are compromised. Without this information, decisions are often based upon historic precedent or decibel planning, where the loudest voice wins the most money. To achieve more with less, councils 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. This may be with local authorities, other public sector organisations or companies in the private sector. It is particularly relevant as councils respond to compulsory competitive tendering in central service departments.

3.9 Benchmarking focuses not only on where and by how much to improve, but also on how to do it:

♦ By giving comparative performance measures, it increases awareness and 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 good practice for authorities to adapt to their own circumstances.

3.10 Councils should develop benchmarking at four separate levels:

♦ Resource benchmarking: Simple input measures (e.g. numbers of staff employed) which identify differences in the level of resources used to deliver services. These data are not able to distinguish between
differences in productivity, but they do give an indication of where to look for problems.

♦ **Productivity benchmarking:** More detailed input/output measures, related to individual services (e.g. number of staff employed per dwelling is one productivity indicator for the housing department). These data cannot distinguish between efficiency and effectiveness, but, because they relate resources to outputs and are service-specific, they provide a better indication of problem areas and a guide to the standards councils should be trying to achieve. Many Audit Commission benchmarks fall into this category.

♦ **Overview benchmarking:** Individual resource and productivity benchmarks rarely provide a complete picture of a council’s overall performance. Overview benchmarking considers a range of indicators (e.g. staff employed, proportion of senior staff and pay levels) to suggest the general policies required to improve performance, rather than the specific steps necessary to change the way services are delivered. It is a tool for senior managers seeking to identify priorities for further action.

♦ **Process benchmarking:** Detailed information on the structure and operations of particular functions supported by information on inputs and the volume and quality of service outputs. At this level managers should be able to identify differences in practice and learn from the experience. Process benchmarking is a tool for front-line managers seeking ways to change existing practices.

...access to information

3.11 Nearly all local authorities use benchmarking to some extent, even if it is not acknowledged as such. Sometimes this takes the form of comparison with nationally available statistics including Audit Commission Profiles and studies. Sometimes it involves regular comparison with neighbouring authorities. More recently, the Citizen’s Charter has resulted in the regular comparison of councils’ performance against a wide range of consumer-focused indicators - a form of benchmarking, but more closely related to performance review (considered in Section 5 of the handbook).

3.12 To carry out benchmarking, councils will require comparative information; a variety of sources are available (Box 3.B, overleaf). The quality and detail of the information required depends on the level of benchmarking being undertaken. Some information is readily available through published sources; some requires councils to search out and share information with other authorities; some may be so detailed and sensitive that it will only be made available on a confidential basis between two or more individual organisations. To support benchmarking, councils should identify and access appropriate information sources.
Sometimes benchmarking is criticised either for failing to compare like with like or for choosing an incorrect or incomplete indicator of performance. Although there is some truth in these criticisms, they are not compelling. Benchmarking must be used with care: front-line managers, who well understand this, are often keener on these measures than chief officers. Ownership is important in overcoming resistance. Externally imposed benchmarks often provoke a defensive attitude; people try to justify the current position or to claim that comparisons are invalid. Where staff help to develop benchmarks, they are more willing to focus on improvement. Also, 'tailor-made' benchmarks are often better targeted and therefore more useful.

In most authorities benchmarking is better developed within departments and at the front-line. Many individual managers have taken the initiative to develop benchmarks, normally with a group of similar or neighbouring councils, to help assess internal efficiency. Some have gone further and tried, through consultation with colleagues in other authorities, to understand differences in practice and apply locally the lessons of other managers’ achievements.

Benchmarking can identify where savings are available; but only front-line managers have the detailed knowledge required to restructure operations and achieve the savings. In order to ensure a continuing drive for savings, and to give front-line managers a genuine incentive to improve performance, some of the savings realised should be re-invested in the

<table>
<thead>
<tr>
<th>Box 3.B</th>
</tr>
</thead>
<tbody>
<tr>
<td>To carry out benchmarking, councils will require comparative information; a variety of sources are available</td>
</tr>
<tr>
<td>- Citizen’s Charter Performance Indicators</td>
</tr>
<tr>
<td>- Audit Commission Profiles</td>
</tr>
<tr>
<td>- Audit Commission Quality Exchange</td>
</tr>
<tr>
<td>- Audit Commission studies</td>
</tr>
<tr>
<td>- Chartered Institute of Public Finance and Accountancy (CIPFA) statistical service</td>
</tr>
<tr>
<td>- LGMB Joint Staffing Watch and Administrative Professional Technical and Clerical (APT&amp;C) surveys</td>
</tr>
<tr>
<td>- LGMB Special studies</td>
</tr>
<tr>
<td>- Provincial Councils</td>
</tr>
<tr>
<td>- Professional bodies (e.g. Society of County Treasurers)</td>
</tr>
<tr>
<td>- Academic and research institutes (e.g. Institute of Employment Studies; Institute of Local Government Studies [INLOGOV] at Birmingham University)</td>
</tr>
<tr>
<td>- Formal exchange with neighbouring authorities (e.g. councils in the Greater Manchester area collaborate on a regular basis)</td>
</tr>
<tr>
<td>- Informal exchange with other authorities</td>
</tr>
<tr>
<td>- Exchange with other public and private sector organisations</td>
</tr>
</tbody>
</table>

... developing ownership
department. Councils should ensure the active involvement of managers when developing benchmarks.

3.16 Benchmarking can also be closely linked with 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, there is widespread enthusiasm and experience on the part of front-line managers in the development and use of performance review (considered in Section 5 of the handbook).

SUMMARY OF ACTIONS

- Develop a benchmarking policy
- Access relevant information sources
- Involve front-line managers to build ownership
- Link benchmarking to performance management
3.17 Ideally, councils should be able to monitor variations between councils on the total paybill. But paybill data at the level of the whole council is not widely available. And it combines the effects of differences in people numbers, staff mix and pay levels. This complexity can make interpretation of paybill variations difficult to explain without information on its component parts.

3.18 Councils are likely to find it easier to consider these factors separately. A good starting point is to review differences between authorities in staffing levels. There are a variety of published sources which provide these data (Box 3.C). Resource benchmarking is not able to distinguish between differences in productivity, but it does give an indication of what overall problems might exist. It can be carried out at the level of the whole authority and for individual services.
3.19 Exhibit 3.3 shows councils’ staffing levels for the whole authority. Annex 1 at the end of this section of the handbook provides staffing levels for a range of service departments; the proportion of senior officers is not, however, available at the departmental level.

3.20 Resource benchmarking never provides a complete answer, but councils should use these comparisons to raise questions about their use of resources and possible areas for improvement:

♦ Is the council employing more people than other councils?
♦ Is the council employing more senior staff than other councils?
♦ What factors might be influencing the council’s staffing levels?

Box 3.C
There are a variety of published sources which provide benchmark data

- Authority population (Office of Population Censuses and Surveys [OPCS] estimates)
- The number of non-manual full-time equivalent staff employed (LGMB Joint Staffing Watch)
- The proportion of non-manual staff who are on or above SO grade (or equivalent) (LGMB APT&C survey)

Note: When using these data sources, councils need to take into account the following:

- Not all authorities complete data returns to the LGMB; sample sizes are smallest in London and the APT&C survey sample is smaller than the Staffing Watch.
- When interpreting their data, councils should recognise that different services are provided by each authority type.
- Service level data may be less consistent because of differences in reporting by some councils and local variations in staff classification between departments.
- Resident population may be an incomplete indicator of authority ‘size’ in areas where there are large daily or seasonal influxes of population.
- Nevertheless, this is the best and most comprehensive data available. It is important that councils continue to provide accurate data returns to the LGMB; apart from providing a valuable resource to all local authorities, they also support the national pay bargaining process.
If staffing levels are high, does this reflect high service standards or low staff productivity?

If staffing levels are low, does this reflect externalisation of service provision, poor service standards or high productivity?

How much growth has been due to central government initiatives (e.g. the introduction of community charge)?

Has there been any significant reclassification of staff from the manual to the non-manual group?

What has been the reason for any remaining growth in staff numbers?
Note: Median, lower and upper quartile positions are shown in Box 3.M in Annex 1 at the end of this section of the handbook.

Source: LGMB Joint Staffing Watch and APT&C surveys; Audit Commission

Does a high proportion of senior staff reflect a top-heavy management structure or high productivity and hence lower numbers of junior staff?

Has the proportion of senior staff been influenced by externalisation of services (and the associated front-line staff)?

How much growth has been due to pay drift and how much represents new posts?

How much growth has been due to central government initiatives (e.g. the introduction of community charge)?

What has been the reason for any remaining growth in senior staff members?
3.21 Resource benchmarking for the whole authority provides an overview of comparative use of resources. This can be extended to individual departments, but, even in this case, the view of each service will be limited. This is because there is no measure of workload (council population is an imprecise measure of workload) and no indication of service quality or outcomes. Consequently, councils should also develop more robust productivity benchmarks to assess their comparative performance.

...developing workload indicators

3.22 Productivity benchmarking requires councils to relate staffing levels and where possible total expenditure with measures of service workload - which will, of course, vary by service and function. The workload measures used will depend on the level of detail required. For example, when comparing performance of the whole finance function, total net revenue expenditure (plus the gross Housing Revenue Account) is a reasonable overall measure of workload. However, each individual service within the finance function is best measured against a specific workload indicator (Box 3.D). The council should develop workload indicators for each service. This will require investment of managers’ time and in the IT systems necessary to support the process. Managers will also need to use judgement when compiling these data.

...comparing inputs and outputs

3.23 Once councils have information on staffing levels and the related workload, they will be able to develop their own productivity benchmarks. Box 3.E illustrates an example of the information that authorities may be able to gather and use for benchmarking - in this case in the housing benefit function.

<table>
<thead>
<tr>
<th>Service</th>
<th>Workload indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>Number of employees on payroll</td>
</tr>
<tr>
<td>Superannuation</td>
<td>Number of scheme members (current, inactive and deferred)</td>
</tr>
<tr>
<td>Creditor payments</td>
<td>Number of invoices processed annually</td>
</tr>
<tr>
<td>Debtors</td>
<td>Number of invoices raised annually</td>
</tr>
<tr>
<td>Council tax</td>
<td>Number of council tax bills</td>
</tr>
<tr>
<td>Housing benefit (HB)</td>
<td>Number of weighted HB recipients*</td>
</tr>
</tbody>
</table>

* Defined as 1 x council tenants claiming HB + 2.5 x private tenants claiming HB
An example of the information that authorities may be able to gather and use for benchmarking

A group of 17 similar district councils from the east of England share information about their housing benefit on a regular basis...

<table>
<thead>
<tr>
<th>Authority contact point</th>
<th>Administration set-up</th>
<th>Fraud arrangements</th>
<th>Full-time staff and changes</th>
<th>Caseload</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council: X</td>
<td>Chief benefits officer&lt;br&gt;Senior benefits officer&lt;br&gt;3 Assistant benefits officers&lt;br&gt;13 Clerical officers&lt;br&gt;Also deal with concessionary fares, TV licence scheme and covering for cashiers</td>
<td>1 temporary staff member taken on for 3-month period. Will review matter then in light of findings during that time</td>
<td>18&lt;br&gt;to be reviewed at 1.4.94</td>
<td>L 2,603&lt;br&gt;P 2,164&lt;br&gt;C 3,342&lt;br&gt;T 8,109&lt;br&gt;WT 22,737</td>
</tr>
<tr>
<td>Contact: A&lt;br&gt;Phone: O1...</td>
<td>1 Principal officer&lt;br&gt;1 Senior benefits officer&lt;br&gt;1 Recovery officer&lt;br&gt;2 Recovery assistants&lt;br&gt;2 Team leaders&lt;br&gt;14 Benefits assessment staff&lt;br&gt;1 Customer relations officer&lt;br&gt;3 Clerical assistants</td>
<td>1 Officer in post. Proposing to double this later this year</td>
<td>25&lt;br&gt;</td>
<td>L 4,401&lt;br&gt;P 1,921&lt;br&gt;C 2,781&lt;br&gt;T 9,103&lt;br&gt;WT 22,994</td>
</tr>
<tr>
<td>Council: Y&lt;br&gt;Contact: B&lt;br&gt;Phone: O1...</td>
<td>1 Chief benefits officer&lt;br&gt;Senior benefits officer&lt;br&gt;2 Team leaders&lt;br&gt;6 Clerks/assessors&lt;br&gt;2 Clerical support/reception&lt;br&gt;1 Temporary clerk (filing)</td>
<td>Chief/senior benefits officer and internal audit staff to deal with fraud</td>
<td>12&lt;br&gt;</td>
<td>L 5,674&lt;br&gt;P 1,206&lt;br&gt;C 1,838&lt;br&gt;T 8,718&lt;br&gt;WT 18,963</td>
</tr>
</tbody>
</table>

Key: L - LA tenants; P - private tenants; C - council tax only; T - arithmetic total; WT - weighted total

This information is sufficiently detailed to identify major differences in productivity:

- details of staffing structure by grade and function;
- workload measures (including a method of adjusting for differences in the workload mix to provide a comparable indicator between authorities).

Authorities wishing to identify differences in process and practices are provided with a contact name and details of forthcoming staff changes.

Information of this kind can be used to identify differences in productivity, as shown in the example below:

![Graph showing staff numbers per 1,000 (weighted) caseload](Source: Audit Commission)
...taking care

3.24 When using these input/output ratios, councils should recognise:

- output indicators measure only service volume; they are indicators of **efficiency**, not effectiveness;
- no output indicator can completely represent all of the activities in a department; they provide a **partial indicator of efficiency**;
- different councils might count or collect data in different ways; there can be **inconsistencies in the available data**;
- for all of these reasons **managerial judgement** is necessary in interpreting these benchmarks.

...identifying productivity improvements

3.25 In previous studies, the Commission has used productivity benchmarking to reveal variations in the *apparent efficiency* of authorities and to provide a basis for more probing questions about **operational practices**. Councils should develop this approach to comparative performance:

- If unit costs are high, this may be the result of:
  - high quality service;
  - carrying out unnecessary tasks;
  - inefficient practices.
- Authorities with high unit costs should:
  - consider whether they are providing a service that exceeds user requirements;
  - compare their procedures with those of other authorities to see if efficiency gains can be achieved.
- If unit costs are low, this may be the result of:
  - poor quality service;
  - failure to account for the full cost of the service (e.g. some services may be externalised; some relevant staff may be working in other departments).
  - efficient practices
- Authorities with low unit costs should:
  - regularly assess the views of users to confirm service standards;
  - compare standards with other authorities;
  - confirm that all costs are being accounted for and adjust benchmarks accordingly.

3.26 During this study the Commission developed productivity indicators in finance, housing and library departments. Exhibit 3.4 gives one example for the payroll department. Annex 2 at the end of this section of the handbook makes more of this information available to authorities.
Exhibit 3.4
Productivity benchmarks

Example: the payroll function

Note: This activity should cover the checking and payment of wages, salaries, pensions and member allowances, including packing and dispatch. The workload indicator is the number of employees on the payroll (regardless of whether they are paid weekly, monthly etc.). An alternative measure is the number of payments per year; this may be a fairer reflection of workload but can provide perverse incentives to retain weekly payment. (Benchmarks based on this alternative workload measure are available through the associated audit.) Councils should note that shire districts can rarely achieve the economies of scale available to counties, London boroughs and metropolitan districts. Those authorities with relatively small workloads and high unit costs should consider externalising this service. The median, upper and lower quartile positions are contained in Box 3.N in Annex 2 at the end of this section of the handbook.

Source: Audit Commission
Resource and productivity benchmarks can help councils to ask questions about their performance and find ways to improve productivity and service quality. Service managers will need to consider a range of indicators in order to identify the main areas requiring attention. Front-line managers should analyse the numbers to find solutions to more specific problems. Benchmarking should therefore be developed in two ways:

♦ to provide an overview of the main issues;
♦ to reveal details of processes and good practice.

SUMMARY OF ACTIONS

Access and compare information on staffing levels

Develop workload indicators

Compare inputs and outputs

Take care when interpreting benchmarks

Identify opportunities for improved productivity
3.28 Although senior officers may not always be aware of the detailed measures required to change practices, they do need to be able to form a view about how far front-line managers can reasonably improve performance. On their own, individual performance indicators rarely provide a reliable impression of a council's or department's overall performance. It is always possible for managers to 'explain away' potentially unwelcome news by emphasising the deficiencies of a particular benchmark. But, taken together, a range of different indicators can be more reliable. For example, if a council's costs are in the highest or lowest quartile of all authorities in more than half of a range of benchmarks, it is reasonable to assume that its overall position is either well above or well below average.

3.29 By comparing different benchmarks, senior officers can develop a more complete picture of their performance so that they can ask suitable questions - 'Where do we stand, and what is the balance between positive and negative implications?' (Exhibit 3.5, overleaf). This is especially true for those authorities that also have information on their comparative pay position (considered in Section 4 on pay management):

- Does high pay or a rich skill mix lead to higher productivity and work standards and consequently improved efficiency and effectiveness?
- Does low pay or a low skill mix reduce productivity and standards, damaging efficiency and effectiveness?
- Is there a simple relationship between staff numbers and service volume or are productivity differences more important?

3.30 By asking questions such as these, senior managers can begin to assess whether they need to change their organisation structure or improve the efficiency and flexibility of their workforce. These issues will be addressed in Part 2 of this section of the handbook.
Exhibit 3.5

Overview benchmarking

By comparing different benchmarks, senior officers can develop a more complete picture of their performance ...

...reviewing good practice

3.31 Resource and productivity benchmarks and overall review of performance provide a guide to differences between authorities, but less information on the quality and effectiveness of services or on why and how some organisations are better than others. Some quality and effectiveness benchmarks are available, for example through the Commission’s Quality Exchange and the Citizen’s Charter initiative. But to identify good practice, councils require detailed information about service providers and almost invariably discussion with other practitioners (Box 3.F).

3.32 Detailed analysis of processes can only be done by experienced front-line managers. With busy daily schedules, it is rarely easy for managers to find time for exercises of this type. But it is important that time is found. Productivity benchmarking can help councils identify examples of good practice in other local authorities. Professional organisations and local government Provincial Councils can also be good starting points. Heads of department should ensure that they and their managers systematically review good practice in other organisations.

3.33 Benchmarking good practice may lead individual departments into a thorough review of their own operations. There are certain standard checks that managers should carry out regarding staffing structures - these are considered in Part 2 of this section of the handbook. But many of these
Box 3.F

To identify good practice, councils require detailed information and discussion with other practitioners.

**Example: Solihull Borough Council**

**Issue:** In the late 1980s, Solihull's payroll department was operating with information systems and working practices that had remained largely unchanged for twenty years. Service to clients was sometimes slow and overtime levels were high. Systems needed to be updated; particularly to improve the handling of payroll arrears.

**Practice:** Between 1989 and 1991 a new 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 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.

**Result:** The efficiency and effectiveness of payroll has improved:

- Introduction of the new IT system reduced overtime by around 80 per cent and improved the speed of service.
- Software changes reduced run times for some tasks by up to 90 per cent, contributing to lower IT costs.
- Changing the staff structure reduced staff costs by around five per cent and improved service quality through greater specialisation and customer responsiveness.

changes will themselves depend on the detailed processes unique to each function. 'Process re-engineering' – to use a currently fashionable piece of jargon – may be necessary. Steps of this kind, because of their specific nature, are beyond the scope of this study.

**SUMMARY OF ACTIONS**

- Senior managers to review overall performance
- Front-line managers to review good practice in other organisations

3.21
3.34 External benchmarking employs a variety of techniques to improve the performance of council services. There are three steps in this process:

♦ **Targeting performance standards**: Using comparative data on the level of inputs and input/output ratios to determine the relative efficiency of the council compared to its neighbours or other organisations. Using this information to identify problems and to develop targets for the use of resources.

♦ **Assessing validity**: Using managerial judgement combined with detailed review of good practice in other councils and organisations to test the validity of these targets.

♦ **Deciding changes in service structure**: Using managerial judgement combined with detailed review of good practice in other councils and organisations to change existing staffing structures and/or to reconfigure operational processes in order to improve performance.

3.35 Exhibit 3.6 summarises this process. Further details regarding changes to staffing structures are considered in Part 2 of this section of the handbook.
External benchmarking employs a variety of techniques to improve the performance of council services...

**Exhibit 3.6**

**External benchmarking: summary**

External benchmarking employs a variety of techniques to improve the performance of council services...
Section 3: People Management

Part 2: Staffing Structures
Section 3 – Part 2

Chapter 4  Staffing Structures

Staffing Structures

How does the council organise the staff that it employs?

♦ What policies and practices does the council adopt for organising staff?
♦ How does the council review and change its staffing structures?
♦ Does the council do all work in-house?
Traditionally, council staff structures have suffered from rigidity:
♦ Departments are often organised into extended vertical hierarchies that are reinforced by the pay-grading structure, with many tiers of 'management' between chief officers and front-line staff.
♦ Frequently, there is rigid demarcation between professional, technical and administrative staff and inflexibility in the working practices of staff.

Such rigidity has several disadvantages:
♦ Responsibility for services is fragmented and service objectives can be submerged by the interests of each part of the department and strategic direction is lost.
♦ Similarly, these structures tend to be inflexible and unresponsive both to top-down directives and bottom-up signals regarding service provision.
♦ Communicating information and messages is difficult, reliant on detailed instruction (and hence time-consuming), expensive and vulnerable to manipulation.
♦ The linkage between workload and staff skills can be lost, reducing efficiency and effectiveness.
♦ The top-heavy nature of these structures, combined with the poor matching of staff to the work being undertaken, wastes resources.
♦ Staff may not be available when demand for services is highest.

Councils should consider whether their own staffing arrangements suffer from any of these disadvantages.
Many of the measures required to improve staff productivity are specific to the service or function concerned. This handbook does not prescribe particular staffing structures; instead it identifies the common issues that all departments should consider:

- organisation design
- matching staff to workload
- workforce flexibility
- outsourcing of specific functions

In practice, each of these represents one stage in the overall process of reviewing staffing levels and improving productivity. Organisation design mainly considers senior management; matching staff to workload applies to all staff; workforce flexibility considers contract arrangements for the individual employee; and outsourcing questions whether or not an authority should continue to perform all tasks in-house. Councils should adopt a systematic approach to reviewing each of these in every service area.

**SUMMARY OF ACTIONS**

- Review existing staffing practices
- Develop policies for changing staff structures
... flattening management structures

Traditionally, organisation structures were determined through consideration of *spans of control*. A *general* assumption was that managers should have no more than *seven* subordinates reporting to them. Another prime influence was the *pay-grading structure*: a chief officer might have a deputy, to whom might report some principal officers, to whom might report some senior officers, etc. Traditional organisation structures have many management tiers - but there is movement towards simpler structures (Exhibit 3.7). Councils should review numbers of management tiers in each service area.
Exhibit 3.7
Management tiers

Traditional organisation structures have many management tiers – but there is movement towards simpler structures ...

Note: Management tiers are defined in terms of reporting relationships between staff, not by pay grade or job title. For example, all chief officers (including the chief executive) are first tier; all reports to chief officers (irrespective of grades) are second tier, etc. The objective is therefore to measure the number of layers between the top of the organisation and front-line staff.

Source: Audit Commission
3.41 Modern thinking is that responsibilities should be devolved and organisation structures should be more flexible to reflect business objectives (Box 3.G). Flatter structures increase responsiveness to customer needs and encourage innovation; they can also reduce overhead costs (Exhibit 3.8). Also, the impact of IT has enabled senior managers to monitor front-line performance far more effectively, without the need for so many intermediate tiers of managers. Thus, spans of control in excess of seven are now quite commonplace. Reducing the number of management tiers is commonly referred to as delayering. Authorities should review whether the organisation structure is appropriate for current needs.

<table>
<thead>
<tr>
<th>Box 3.G</th>
<th>Flatter structures – responsibilities should be devolved and organisation structures be more flexible to reflect business objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accountability:</strong></td>
<td>The local manager is fully responsible for the service. Decisions are made on the spot. There is no buck-passing or fudging of responsibility.</td>
</tr>
<tr>
<td><strong>Ownership:</strong></td>
<td>The success of the service is down to the staff who provide it. The staff have a say in how the service is provided. Initiative is encouraged.</td>
</tr>
<tr>
<td><strong>Customer focus:</strong></td>
<td>It is the people on the ground who know what the customers want. Devolution means a service tailored to the customers’ needs.</td>
</tr>
<tr>
<td><strong>Responsiveness:</strong></td>
<td>Problems can be dealt with as they arise. They do not need to be referred up to head office. Customer response is instant.</td>
</tr>
<tr>
<td><strong>Efficiency:</strong></td>
<td>Devolution saves money. It cuts out wasteful bureaucracy and simplifies complex processes by breaking them down into manageable chunks.</td>
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</tbody>
</table>
Delayering, if it is to be successfully implemented, will require:

- a clear commitment to flatter structures and the devolution of responsibilities to the front-line. This may be in the form of a targeted number of management tiers (four or five); but, however expressed, without strong top-down pressure to reform structures, the tendency will be to maintain the status quo (Box 3.H, overleaf);
- a process of reviewing, eliminating or re-assigning management responsibilities. Councils need to identify whether existing activities and operations are desirable and at which level they should be managed;
- implementation of the processes and support necessary to underpin the devolution of responsibility to the front-line, including:
  - management information
  - staff training
  - control mechanisms

Flatter structures increase responsiveness to customer needs and encourage innovation; they can also reduce overhead costs ...
### Box 3.H
**Delayeringur: without strong top-down pressure to reform structures the tendency will be to maintain the status quo**

| **Example: Wycombe District Council** |
| **Issue:** | Wycombe District Council has a programme of organisational delayering to create flatter departmental structures and to *widen spans* of managerial control and accountability. Delayering is one of the council’s responses to the challenges presented by compulsory competitive tendering and impending local government reorganisation. |
| **Practice:** | Whilst the council has enthusiastically embraced the principles of performance management (it was the fourth local authority to be awarded Investor in People status), supporting organisational structures have remained largely traditional. They have been characterised by quite extensive departmental hierarchies, with perhaps five or six layers of management separating chief officers from direct service providers. The council now regards ‘tall’, pyramidal structures as barriers to efficiency and effectiveness and contrary to its performance management culture. Officials have identified a number of unwelcome consequences arising from multi-layers of management. These include a bureaucratic decision-making process which stifles innovation and impairs organisational responsiveness. With extensive hierarchies also come limited spans of management control. Officials feel that many jobs overlap with others in a different tier, thus blurring lines of responsibility and accountability. |
| **Result:** | Wycombe is now committed to reducing the number of layers wherever possible. At the start of 1994, each department was asked to begin reviewing its structure; departments are expected to have completed any reorganisation within two years of starting their review. Officials will be using a proprietary job evaluation system to help them identify role/responsibility overlaps and to determine scope for deleting posts and/or combining jobs. The council expects delayering opportunities in departments which have five or more layers. Guidelines recommend that such departments try to reduce their number of layers to *four* by adopting the following model: |
|  | ♦ **Chief officer:** to provide strategic management and policy direction |
|  | ♦ **Head of service:** to coordinate overall service provision |
|  | ♦ **Unit manager:** to manage the operational delivery of specific services |
|  | ♦ **Front-line staff:** to deliver services directly to the public |
|  | This four-layered model is regarded by the council as the optimum means for widening spans of control, increasing empowerment, improving cost-effectiveness and raising standards of service delivery. |
|  | Wycombe has gradually extended this approach throughout departments, rather than embarking on a rapid restructuring of the whole council. The reduction in staffing achieved by such measures has helped the council to contain *paybill inflation* to less than one per cent per year for the past three years. |
...supporting flatter structures

3.43 Failure to provide the right management information, staff training and control mechanisms can undermine effective delayering exercises. If this occurs, there is a risk that accountability will be lost and quality and efficiency standards may suffer. Flatter structures imply a greater devolution of responsibility to line managers and front-line staff. 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 safely devolve; and so they cannot reap the benefits of devolution and delayering. But in many cases this represents a reluctance on behalf of senior managers to relinquish their traditional responsibilities. Councils should ensure that the necessary steps are taken to support moving to a flatter structure.

3.44 Flatter structures also imply different ways of working. Specific projects or tasks will often require a team to be assembled from across professional and unit boundaries. Teams may also need to be constructed without a normal hierarchy (the team leader will not necessarily be of senior rank to all other members of the team). Such forms of ‘matrix’ working, or the creation of ‘slice’ groups, will have the additional advantage of providing career development for individuals, within a structure that is likely to offer fewer opportunities for promotion. Councils that have flatter structures need to be imaginative in finding ways of supporting career development and managing the pay progression of staff. This is especially true where delayering is associated with a smaller number of wider pay grades (see Section 4 on pay management).

3.45 Increasingly, councils are moving towards a team-based approach. Instead of workload being fragmented between different tiers of management and parts of the department, all staff involved in delivering a particular service work together as a team. This may involve wide variations in the skills and responsibilities of different team members. This approach tends to improve service quality by increasing the focus on the end product and user. It can also reduce costs by eliminating overlaps in responsibility. The cost savings achieved by Authority A (Exhibit 3.8, above), owe as much to organising front-line staff in teams as to flattening the management structure. Councils should investigate team-based working where it is appropriate.

...matching staff to workload

3.46 Flattening the organisation structure is only the first step in improving overall staff productivity and effectiveness. The same processes of review should be applied to all employees, in order to align staff and the skills they possess more closely with workload (Box 3.1, overleaf). Managers should review the following factors and change staffing patterns accordingly:

♦ Are staff involved in tasks that do not directly benefit front-line services? Can any of these tasks be eliminated or performed on a more cost-effective basis?
Box 3.1

Review should be applied to all employees, in order to align staff and the skills they possess more closely with workload.

<table>
<thead>
<tr>
<th>Example: Crewe and Nantwich Borough Council</th>
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<tbody>
<tr>
<td><strong>Issue:</strong> When preparing its budget for 1993/94, Crewe and Nantwich Borough council faced considerable financial pressures, including the threat of ‘capping’ by central government. To help ease these pressures, the council initiated a retirement/redundancy programme towards the end of 1992. The council’s objective was to cut its pay budget by £800,000, the equivalent of sixty or seventy posts.</td>
</tr>
<tr>
<td><strong>Practice:</strong> To achieve its overall target, the council requested directors and divisional heads to identify areas of work where staff reductions would have the least effect on direct service provision. The greatest reductions occurred in central and departmental support services.</td>
</tr>
<tr>
<td><strong>Result:</strong> The council achieved a reduction of sixty-five posts, representing 13 per cent of total establishment. These were not confined to specific grades of staff; those affected included a director, divisional heads and principal officers, as well as clerical staff. The staff departures resulted in a reduction in the council's General Fund for 1993/94 of £782,000, more or less in line with members’ and officers’ original target. Despite the significant reductions in establishment, research conducted by the council suggests that standards of service have not deteriorated and that, overall, council tax payers remain satisfied with the council’s performance. Apart from the financial savings which accrued, the deletion of senior posts from the establishment allowed the council to devolve more responsibility and accountability to operationally-based staff. The council feels the associated growth in staff empowerment has strengthened its customer care strategy and improved both organisational and individual effectiveness.</td>
</tr>
</tbody>
</table>

- Are staff performing tasks that make full use of their skills and training or are they engaged in work that could be done by less skilled/senior employees? Can any of these tasks be transferred to other, more cost-effective, staff?
- Are senior staff making detailed management decisions, reliant on the advice of front-line staff, which could better be made by those staff in the first place? Can these responsibilities be devolved to the front-line?
- Are there overlaps of responsibility or duplication of work between different staff? Can work be reassigned to prevent duplication?
3.47 In order to address these issues, review needs to be widely based and not confined to incremental changes at the margins of a unit's activities:

- consideration of the **aims** and **objectives** of the service being provided at the level of the **unit** and **individual** employees (see Section 5 on performance management);
- clear identification of the **activities** and **tasks** required to deliver service objectives;
- **elimination** of overlaps in staff responsibility and of unnecessary functions;

---

**Box 3.J**

Review works best where it is linked with performance management

**Example: North Tyneside Metropolitan District Council**

**Issue:** In 1992/93 the council faced an overspend on its SSA. The council embarked on a restructuring programme designed to improve internal management arrangements and identify a £17m or 12.5 per cent budget reduction for the year 1993/94.

**Practice:** The restructuring programme included the following elements:

- a review of management arrangements in **other** local authorities
- **detailed review** of each service area's staffing, budget, activities and workload
- using this information to rationalise and combine departments and to reduce the number of **top managers**

**Result:** The council has moved from the traditional concept of **service departments** to **functional departments** providing a range of related services (for example, child care now incorporates services formerly provided by the Education and Social Services Departments). They have merged 209 separate service areas into 16 functional groups, leading to significant savings:

- ten per cent fewer council posts
- sixty per cent fewer chief and deputy chief officer posts
- outturn for 1993-94 below the capping limit

**Observation:** Reviewing activities enabled the council to make savings quickly. But not all of the staff reductions have been achieved without an impact on services.

Top management considers that if **performance management** systems* had been in place, or there had been more time to change staff structures, it would have been possible to make the staff reductions with less impact on services.

The new structure has improved corporate working across functions but inexperience in service review, the speed of the process and the lack of a performance management system has meant that some further adjustment of current staff numbers and skill mix will be necessary. This is now a priority for the council.

* See Section 5 of the handbook.
Management Handbook

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♦ zero-based budgeting of the newly specified service;
♦ the use of benchmarking to confirm that staffing levels and processes conform with good practice in other councils.

Review works best where it is linked with performance management (Box 3.J, above, and Exhibit 3.9 - also refer to Section 5 of the handbook).

...considering pay

3.48 Whether changing the organisation structure or rationalising wider staffing arrangements, managers should also take into account the pay implications of these decisions. Using some form of job-evaluation system to assess pay may be beneficial - Wycombe District Council has adopted this approach (Box 3.H, above). Further details of pay management are considered in Section 4 of the handbook.

Exhibit 3.9
The impact on staff numbers of performance management and review of activities and operations

Review works best where it is linked with performance management ...

Source: LGMB Joint Staffing Watch survey; Audit Commission
In addition to the overall deployment of staff within a department, managers should also consider the individual employment contracts and working patterns of staff. This, too, will have pay implications. A flexible approach to working-time arrangements and to employee resourcing gives an authority two advantages:

- it helps the authority to match staffing levels to a fluctuating workload;
- it enables the authority to attract or retain employees who are unavailable for a conventional work pattern.

The most common situations in which an authority should consider flexible resourcing are:

- when the workload is variable (e.g. seasonal, on particular days of the week or even random);
- when a service needs to be provided outside normal working hours;
- when cover is required for staff absences.

In these situations the likely repercussions of not having flexible staffing are either excessive overtime (normally at premium rates of pay) or excess staffing levels when the workload is least. Another likely outcome of an inflexible staffing regime is that a service is not provided at a time when it is most convenient to the public (e.g. libraries are not open on Saturdays or are closed at short notice because of staff shortages, or the telephone follow-up of council tax arrears is undertaken only when most residents are at work). A good management principle is for an organisation to staff for the troughs in workload and to use flexible staffing to cover the peaks. This may include using temporary staff; but temporary staff contracts can sometimes be expensive and managers must also consider the implications for service quality – balance is necessary.

There are many types of flexible staffing arrangement that an authority may adopt. These include:

- part-time with fixed or variable hours
- plain-time weekend or evening shifts
- zero hours contracts
- annual hours or seasonably variable hours
- term-time only employment
- fixed-term contracts or contracts for performance
- standby, supply or other temporary employment
- home-based working
3.52 Some of the best examples of flexible staffing are to be found in libraries. The need to provide cost-effective services through a network of branches outside normal working hours has forced libraries to investigate many different staffing measures (Exhibit 3.10). The best match staffing levels to peaks in demand for services. For example, the use of volunteers and single staffing of small branch libraries is common in many counties - but is less developed in city authorities, not least because of the safety implications for a largely female workforce. These measures can extend services in situations where they would otherwise not be available. But the use of volunteers certainly cannot replace the majority of staff for the provision of most services.

Exhibit 3.10
Use of volunteers and single staffing in libraries

The need to provide cost-effective services through a network of branches outside normal working hours has forced many libraries to investigate different staffing measures...

Source: Audit Commission
3.53 **Fixed-term contracts** may also be appropriate where the duration of a job requirement is unknown. Particularly in the run up to local government reorganisation it is sensible for senior posts (which may disappear on reorganisation) to be for a fixed term only. An increasing number of authorities are appointing their chief officers on fixed-term contracts as a matter of routine. This makes it easier to terminate the contract if officers fail to perform. The argument for fixed-term contracts for chief officers, as opposed to other staff, is that it is difficult to carry a chief officer who does not meet expectations and it is more difficult to move them 'sideways', as might happen at lower levels of seniority. However, a fixed-term contract can lead to a lack of long-term focus. Also, in some authorities renewal is automatic and the fixed-term basis merely provides an opportunity for paying a salary supplement.

3.54 There are a variety of flexible working arrangements that an authority may use to improve the accessibility of its jobs to more potential employees. Many authorities allow flexi-time working and consider part-time employment, but there are other flexible arrangements available:

- **job sharing**
- **term-time working**
- **voluntary reduced work time**
- **career breaks/sabbaticals**
- **homeworking/teleworking**

Authorities need to take the initiative if such schemes are to become established. They need to find out what people want, develop policies, communicate them (including selling them to managers), publicise them during the recruitment process and, finally, monitor and review their success.

Box 3.K
Methods of flexible working

- **Part-time employment for a fixed five-day schedule**: Some jobs require daily attendance but may have less than 37 hours weekly work content. There are savings to be made even by ‘long’ part-time contracts of, say, 25 to 30 hours per week.

- **Part-time employment of full or part daily hours for only some days each week**: Some work routines peak on certain days and have slack periods on others. Part-time employment for between one and four days a week may then be advantageous.

- **Part-time employment with variable weekly hours**: If work volumes fluctuate between weeks, part-time contracts may be used which require an average of a set number of hours to be worked weekly over each period (say, one or three months), with actual hours fluctuating to meet work requirements.

- **Plain-time weekend or evening shifts**: Some work may require regular attendance at evenings or weekends. The employment of part-time employees to work standard shifts at plain-time rates is less costly than paying full-time staff shift premium or overtime.

- **Zero-hours contracts**: If the definition of precise attendance or working time is not important, the employment contract may specify an obligation for the employee to complete a set task or volume of work each week or month, for a set payment. The employee is free to decide when to work and for how long provided the specified work is completed by the deadlines. The advantage for the authority is that unit labour costs can be precisely controlled and payment made only for work completed. This option is particularly relevant to home-based employees.

- **Annual hours contracts**: For work involving seasonal variations, shift working, attendance at evenings or weekends, call-out work or other variable requirements, the use of annual hours contracts can achieve significant reductions in premium-rated overtime and other additional payments. Employees contract to work a total number of hours annually and are paid a standard wage at plain-time rates.

- **Seasonally variable contracts**: This is a simple variant of annual hours. For work with predictable seasonal fluctuation (e.g. grounds maintenance) a short working week applies in the winter and a long week in the summer - to average the standard 37 or 39 over the whole year. Overtime and slack time are thereby largely eliminated.

- **Term-time only employment**: School-related work may slacken during term times. Some employees may therefore be employed only during school terms.

- **Fixed-term contracts**: The employee is contracted to work for a specified period. Expiry of the contract provides an opportunity to review whether the job or the employee is still required. There are important legal criteria to be met if the benefits of these contracts are to be achieved.

- **Contracts for performance**: Employees are contracted to work only until a specified task or project has been completed or until specified circumstances occur (e.g. a new computer system becomes operational). The dates of termination of the contract need not be known, provided the project or circumstances can be clearly defined within the contract. This is a more flexible arrangement than the conventional fixed-term contract. Avoid incentive to drag out a project.
SUMMARY OF ACTIONS

Flatten the management structures

Implement support processes for flatter structures

Match staff and skills more closely with workload

Develop flexible working arrangements for individual staff
Outsourcing

Does the council do all work in-house?

♦ Has the council considered situations where outsourcing of work may have advantages?
♦ Does the council outsource functions where appropriate?

...reasons for outsourcing

3.56 It may not always be appropriate for councils to carry out all tasks themselves. Although contracting out services can raise issues of quality and accountability, all authorities should consider the outsourcing of a task if either of the following apply:

♦ if there are clear economies of scale by undertaking a larger workload than is available within the authority; or
♦ if the work is so specialised that the authority cannot provide enough work to occupy an in-house person or team on a permanent basis.

...using outsourcing

3.57 Councils should consider outsourcing where a larger workload allows investment in IT or other machinery resulting in higher productivity, or where it might help to smooth out peaks and troughs to enable better use of staff and equipment. Outsourcing may also be appropriate for some specialist professional tasks such as aspects of legal and architectural work, staff training and specialist areas of management consultancy. Compulsory competitive tendering (CCT) will require authorities to expose many such activities to competition, but there is no need for authorities to wait. Some councils adopt a core and periphery approach; they determine which functions are core to their business and retain them in-house, then outsource those that are peripheral (Box 3.L).

SUMMARY OF ACTIONS

Review where functions may be suitable for outsourcing

Define in-house and outsourced activities
Box 3.1
Outsourcing of services

Example: Personnel services – New Forest District Council

**Issue:** To use a combination of in-house and external sources to provide personnel services in order to maximise efficiency and effectiveness.

**Practice:** The personnel unit's resourcing policy is to employ sufficient staff to handle a basic level of service activity, with an emphasis on work which requires a close working knowledge of the authority. A wide variety of personnel activities above this basic level are bought in from a pool of 'associates' – mainly small specialist consultancies. A database is maintained of about 100 potential providers, with around 20 used each year. Outsourced services include some training, assistance with senior staff recruitment, one-off projects (e.g. advice on preparation for CCT), safety and occupational health.

The personnel unit has budgetary provision for buying-in those services which meet corporate needs or are of authority-wide application (e.g. management training). Elected members have been satisfied that outsourcing is less costly and makes better use of skilled, specialist resources than employing more staff within the personnel unit. In addition, the personnel unit acts as client-agent in advising service directorates of relevant external providers for those personnel services the unit itself cannot provide, and in drawing up the necessary specifications. Directorates pay for these services from their own budgets and have a large degree of autonomy in deciding whether and how to use the outsourced services.

Three main principles govern decisions about the use of external providers. They are used when:

♦ the service cannot be provided by appropriately skilled in-house staff – either on a skill basis or because the requirement would need resources beyond the basic level available

♦ the service to be bought-in is capable of being clearly specified and priced (normally on a fixed fee basis - not on day rates)

♦ the provider has the necessary skills, has evidence of meeting high quality criteria and is compatible in style and culture with that of the authority

It is also policy to make clear decisions whether or not to provide a service in-house before considering the use of external providers. Consequently, buying-in services may not be subject to detailed CCT regulations as there is no competition between the in-house unit and external providers. External providers are seen as a valuable additional and very flexible resource - not as competitors with the in-house unit.

**Result:** Around 21 per cent of centrally funded personnel services are outsourced.

It is estimated that if other directorates' expenditure on externally provided personnel services were included, this proportion would increase to around 30 per cent.
Changing the staffing structure requires a variety of techniques that will improve the productivity and effectiveness of staff. There are three stages in this process:

♦ **Targeting improvements:** Using review of service objectives (including performance management) and internal processes combined with comparative information from benchmarking to determine a range of efficiency improvements.

♦ **Developing solutions:** Taking account of the impact on pay levels, staffing structures can be changed through delayering, matching staff and skills to workload, flexible staffing and outsourcing of functions.

♦ **Implementing new structures:** Ensuring that the necessary support measures of management information, training, control and communication are in place. This will require a commitment to performance management processes.

**Exhibit 3.11** summarises this process. Benchmarking is considered in more detail in Part 1 of this section of the handbook; performance management techniques are considered in Section 5.
Changing the staffing structure requires a variety of techniques that will improve the productivity and effectiveness of staff...
Section 3: People Management

Annexes
## Section 3 – Annexes

### People Management

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<th>Description</th>
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<td>1. Departmental resource benchmarks</td>
</tr>
<tr>
<td></td>
<td>2. Productivity benchmarks: Finance, Housing and Libraries</td>
</tr>
</tbody>
</table>

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3.60 Exhibits 3.12 to 3.21 show resource benchmarks and Box 3.M summarises the median, lower and upper quartile positions for a range of departments:

- Education
- Social Services
- Libraries
- Recreation
- Environmental Health
- Housing
- Planning
- Finance
- Engineering
- Architecture

3.61 Councils should identify their own position compared to other authorities and consider the following questions for each department:

- If staffing levels are high, does this reflect high service standards or low staff productivity?
- If staffing levels are low, does this reflect externalisation of service provision, poor service standards or high productivity?
- How much growth has been due to central government initiatives?
- Has there been any significant reclassification of staff from the manual to the non-manual groups?
- What have been the reasons for any remaining growth in staff numbers?

3.62 Resource benchmarks are based on figures for March 1993. In the subsequent year, local government reduced total non-manual staffing by around two per cent. This change in staffing levels varies by department. When identifying their own positions, individual councils should take into account recent changes, but recognise that their position relative to other councils will only be different if these changes have substantially exceeded the national trend.
Exhibit 3.12
Resource benchmarks

Department: Education (non-teachers)

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.13
Resource benchmarks

Department: Social Services

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.14
Resource benchmarks

Department: Libraries

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.15
Resource benchmarks

Department: Recreation

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.16
Resource benchmarks

Department: Environmental Health

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.17
Resource benchmarks

Department: Housing

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.18
Resource benchmarks

Department: Planning

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.19
Resource benchmarks

Department: Finance

Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibit 3.20
Resource benchmarks

Department: Engineering

Source: LGMB Joint Staffing Watch survey; Audit Commission

Note: Engineering and Architecture returns are to be combined in future LGMB surveys because of differences between councils in allocation of staff to each group. This reduces the reliability of historic data sets.
Exhibit 3.21
Resource benchmarks

Department: Architecture

Source: LGMB Joint Staffing Watch survey; Audit Commission

Note: Engineering and Architecture returns are to be combined in future LGMB surveys because of differences between councils in allocation of staff to each group. This reduces the reliability of historic data sets.
Box 3.4
Departmental resource benchmarks

The median, upper and lower quartiles

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<th>SOs or above</th>
<th>% change</th>
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Exhibit 3.12 Education

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Exhibit 3.13 Social services

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Source: LGMB Joint Staffing Watch survey; Audit Commission
Exhibits 3.22 to 3.33 provide productivity benchmarks based on data collected in Autumn 1993 within the finance, housing and libraries functions. Box 3.N summarises the median, lower and upper quartile positions. Councils should compare themselves against the benchmark data and consider the following:

♦ If unit costs are high, this may be the result of:
  – high quality services;
  – carrying out unnecessary tasks;
  – inefficient practices.

♦ Authorities with high unit costs should:
  – consider whether they are providing a service that exceeds user requirements;
  – compare their procedures with those of other authorities to see if efficiency gains can be achieved.

♦ If unit costs are low, this may be the result of:
  – poor quality services;
  – failure to account for the full cost of the service (e.g. some services may be externalised; some relevant staff may be working in other departments).
  – efficient practices

♦ Authorities with low unit costs should:
  – regularly assess the views of users to confirm service standards;
  – compare standards with other authorities;
  – confirm that all costs are being accounted for and adjust benchmarks accordingly.

Councils should refer back to the above questions when assessing their performance in each of the areas that follow.
Productivity benchmarks have been calculated for six functions for which fairly simple workload indicators can be defined:

- payroll (see Exhibit 3.4)
- superannuation
- creditor payments
- debtors
- collection of taxes
- housing benefit

These benchmarks are based only on staff costs and staff numbers. More detailed benchmarks, based on total costs, are available through the audits *Collecting Local Taxes* and *Developing Competitive Financial Support Services*. Accountancy, audit and other finance functions do not have such convenient workload indicators and are benchmarked only in terms of their proportion of the total finance function.

Users of the benchmarks should note that all staff involved in the activity should be included, whether they are part of the finance department or are located elsewhere in the authority and whether they are permanent or temporary members of staff. Staff costs are based on those in 1993/94 and include salaries and associated on-costs (e.g. employers' national insurance and superannuation contributions).
Example: the superannuation function

Note: This activity covers the administration of the superannuation affairs of the authority (and all admitted bodies). This will include the calculation of contributions and payments and the maintenance of records for all scheme members. It does not include fund management or the payment of pensions (see payroll).

The workload indicator is the number of scheme members. This includes current pensioners, active contributors and deferred contributors.

The amount of work undertaken by superannuation sections can vary. For example, enquiries from contributors in admitted bodies will often be filtered out at the local level. Also, where redundancies or early retirements are being pursued, the workload of the superannuation section can increase significantly.

Source: Audit Commission
Exhibit 3.23
Productivity benchmarks

Example: the creditor payments function

Note: This activity involves the sorting and checking of the arithmetical accuracy and non-duplicated nature of invoices, together with batching or direct input of data, packing and dispatch of creditor items. The workload measure is the annual number of invoices processed. The above exhibits show a wide variation in apparent efficiency. There is some evidence of economies of scale, but not to the extent displayed within payroll. Differences in apparent efficiency may reflect the level of invoice checking that is carried out - this data cannot show whether more extensive checking leads to savings in invalid payments.

Source: Audit Commission
Exhibit 3.24
Productivity benchmarks

Example: the sundry debtors function

Note: This activity involves the collection and deposit of fees and charges, including the cost of cashiers involved with collection. It includes debt collection prior to the point at which debts are referred for legal advice or proceedings. It does not include council tax, national non-domestic rates (NNDR) and housing rents. The workload measure is the annual number of invoices raised. The above exhibits show a wide variation in apparent efficiency. Variation in unit costs between different authority types may reflect the different types of debt that are processed. More detailed analysis (not shown) did not reveal a strong link between average cost and either the number of invoices raised or the ratio of reminders to invoices raised.

Source: Audit Commission
Productivity benchmarks

Example: the collection of taxes function

Note: This includes all work associated with the collection of council tax and NNDR, but excluding council tax benefit (CTB) and residual work in collecting community charge. Cashiers should be included in the calculation of staff costs and numbers. The workload indicator is the total number of bills issued, including daily bills, for council tax and NNDR together.

An authority’s relative performance can be affected by its ratio of NNDR bills to council tax bills (typically, the former costs twice as much to collect as the latter). More detailed benchmark data is available for council tax and NNDR separately in Collecting Local Taxes - A Management Handbook (HMSO, 1995). An analysis of unit costs against workload appears to show some diseconomies of scale. However, this probably reflects that larger authorities are likely to be more urban, with greater social deprivation and greater difficulties of collection.

Source: Audit Commission
Exhibit 3.26
Productivity benchmarks

Example: the housing benefit and council tax benefit function

Note: This activity covers the administration of housing benefit (HB) for private tenants and council tenants and the administration of CTB. The workload measure is based only on the numbers receiving HB. The definition is based on the DSS administration cost formula:

\[
\frac{\text{Number of council tenants in receipt of HB}}{25 \times \text{Number of private tenants/owners in receipt of HB}}
\]

Separate analysis (not shown) does not reveal any relationship between the average cost and the number of recipients.

Source: Audit Commission
Exhibit 3.27
Productivity benchmarks

Example: other finance functions

Note: Other finance functions include accountancy, internal audit and other activities normally carried out within a finance department. They should be expressed as a proportion of the total resources of the department. Where other functions have been externalised or devolved to other departments, this will increase the proportion of finance department resources devoted to accountancy, audit, etc. Councils should note that a high or low figure in respect of any of these functions is not necessarily good or bad. Nevertheless, the questions at the start of this Annex are pertinent wherever the authority is an outlier.

Source: Audit Commission
Productivity benchmarks have been calculated for those staff who are charged to the Housing Revenue Account (HRA). Benchmark data is provided separately for the following functions:

- client-side repairs and maintenance
- rent collection and arrears
- allocations and lettings
- estate supervision
- other HRA

These benchmarks are based only on staff costs and staff numbers. Furthermore, the contractor side of repairs and maintenance should be excluded, as should all wardens and caretakers. Staff costs are those in 1993/94 and include salaries and associated on-costs (e.g. employer's national insurance and superannuation contributions).

The main workload indicator used in all the benchmarks that follow is the number of dwelling units. In practice, unit costs will be influenced by other factors including the nature and condition of the housing stock. Authorities that have decentralised services to neighbourhoods or estates are likely to experience increased costs as a result of a deliberate policy to improve accessibility.
3.70

Note: This includes the client-side of all programmed maintenance, jobbing repairs, refurbishment of void properties and adaptations. There can be many causes of variation apart from efficiency. The size of the capital programme, the condition of the stock and the amount of revenue maintenance are all relevant. The Audit Commission report Improving Council House Maintenance (1986 – photocopy available from the Audit Commission) provides more detail.

Source: Audit Commission
Note: The staffing cost and numbers involved in rent collection and arrears are expressed as the unit cost per dwelling. Unit costs will be partly affected by the nature of the housing stock, social conditions, and the ratio of accounts to dwellings. The types of collection costs against the proportion of accounts in arrears (not shown) suggest that low collection costs could lead to a higher level of arrears.

Source: Audit Commission
Exhibit 3.30
Productivity benchmarks

Example: the allocations and lettings function

Note: The staffing cost and numbers involved in the allocation and letting of properties are expressed in terms of the total number of dwellings. The second exhibit indicates that the ratio of new allocations (including allocations to housing association proportions) to total council dwellings may not have a significant impact on cost.

Source: Audit Commission
Example: the estate supervision function (excluding wardens)

Note: The cost or numbers of wardens and caretakers are excluded. The number of staff involved in estate supervision will depend on the make-up of the housing stock. In general, authorities with multi-occupied blocks and communal areas will require a greater level of supervision than those with a predominance of self-contained dwellings.

Source: Audit Commission
Note: The exhibits above indicate the proportion of staffing costs charged to the HRA; that is, not allocated to one of the four areas above. Authorities whose costs are high in comparison with the above data should review the activities included. They should also re-examine the other HRA benchmarks to ensure that all costs have been properly allocated to repairs, rent collection, allocations and estate supervision.

Source: Audit Commission
3.70 An overall productivity benchmark has been calculated for libraries departments. This relates the total costs in 1993/94 (excluding any archives service) to the number of ‘weighted’ issues.

Note: The annual number of weighted issues is calculated as:
\[
\text{Number of books issued} + 1.5 \times \text{Number of other media (tapes, videos etc.)} + 2 \times \text{Number of requests/reservations}
\]

With the exception of London boroughs and one metropolitan district, the total unit costs are remarkably similar between authorities. Some library authorities deal with a relatively high number of enquiries compared to the number of books issued. If this is the case, then the cost per weighted issue is likely to give an unreliable reflection of efficiency. Councils should repeat the above analysis to compare the performance of individual libraries within their authority.

Source: Audit Commission
**Box 3.N\**

**Productivity benchmarks**

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<th>Exhibit 3.26 Housing benefit and council tax benefit</th>
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### Exhibit 3.28 Client-side repairs and maintenance

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### Exhibit 3.30 Allocation and lettings

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### Exhibit 3.32 Other housing functions

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### Exhibit 3.33 Libraries

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Source: Audit Commission
Pay Management

How does the council know if it is paying the right amount?

♦ How does the council review existing pay levels and determine the rate for the job?
♦ What is the council's pay system and how is it managed?

This section of the handbook is aimed at:

- personnel professionals - describing, in detail, the processes necessary for improving pay management
- chief officers, divisional heads and managers - indicating the overall policy framework required
- members - who may wish to improve their understanding of some of the technical aspects of pay management
41 Between 1987 and 1993 the paybill for non-manual staff in local government increased by 85 per cent. Total staff numbers increased during this period, particularly for senior posts; but it is pay inflation, whether through annual pay awards, annual increments or pay drift, that has been the largest contributor to the growth in paybill (Exhibit 4.1), even though growth in average earnings has been similar to that in the wider economy. There has been considerable variation between authorities.

42 For the foreseeable future, funding for local government will fall in real terms. Staff numbers are more likely to decline than to increase. But pay inflation in the wider labour market will continue and local government will be under pressure to match the market if it is to avoid recruitment and retention difficulties. Pay inflation will therefore continue to exert pressure on the paybill - pay management is a matter of strategic importance to all local authorities.

43 How does the council know if it is paying the right amount? This is the fundamental question that councils must ask themselves - to answer it, they need to address two main issues:

♦ How does the council review existing pay levels and determine the rate for the job?
♦ What is the council’s pay system and how is it managed?

This section of the handbook addresses these issues. Exhibit 4.2 provides a guide to the section structure and some of the questions councils need to answer. Box 4.A summarises the actions required to improve pay management.

---

**Exhibit 4.1**
*Trends in the non-manual paybill 1987-93*

It is pay inflation, whether through annual pay awards, annual increments or pay drift, that has been the largest contributor to the growth in paybill ...

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

*Source: LGMB Joint Staffing Watch and APT&C surveys; Audit Commission*
### Box 4.A

The actions required to improve pay management

<table>
<thead>
<tr>
<th>Part</th>
<th>Chapter</th>
<th>Action</th>
</tr>
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</table>
| 1    | 2       | Review the existing pay policy  
|      |         | Develop a pay policy that addresses the key issues and reflects wider constraints |
| 1    | 2       | Review the evidence of pay drift  
|      |         | Develop a job-sizing system  
|      |         | Review the impact of pay policies on pay ranges  
|      |         | Identify how far internal pay consistency needs to be improved |
| 1    | 3       | Develop information sources for tracking the pay market  
|      |         | Take account of local factors when assessing pay comparability  
|      |         | Review the pay of junior posts  
|      |         | Review the pay of senior posts |
| 1    | 4       | Develop measures of workforce stability  
|      |         | Monitor workforce stability and its impact on services  
|      |         | Adjust pay policy to reflect changes in workforce stability  
|      |         | Consider other non-pay measures to secure workforce stability |
| 1    | 5       | Calculate the cost implications of changes to pay in advance of implementation  
|      |         | Plan implementation to balance increased costs with savings  
|      |         | Link communication with staff regarding pay to the council’s wider communications programme |
| 2    | 1       | Review existing policy on pay systems |
| 2    | 2       | Consider the choice between pay grades and rate-for-the-job pay systems  
|      |         | Identify to which staff groups each system should apply  
|      |         | Consider changes to the existing grade structure |
| 2    | 3       | Establish procedures to manage grade drift  
|      |         | Consider ways of linking pay progression with staff performance  
|      |         | Review the use and implementation of existing performance-related pay schemes |
| 2    | 4       | Develop policies for controlling pay management  
|      |         | Set up processes to support the policy |

There are many techniques that councils can use to help them make rational pay decisions. Most councils rely on some form of internal referencing to set the rate of pay of their staff. Councils therefore need pay policies that enable them both to review existing pay levels – to ensure that
The structure of the pay management section and some of the questions that councils need to answer...
they are providing a reliable guide to future pay decisions - and to determine the rate for the job on an ongoing basis.

4.5 Part 1 considers pay review and pay determination. Chapter 1 considers overall policy. Since pay review and the setting of pay levels use the same techniques, these are individually described in Chapters 2, 3 and 4. Chapter 5 considers how to manage the affordability of pay reviews and communication with staff. Chapter 6 summarises these techniques and shows how, applied together, they can be used to review pay levels and to determine the rate for the job.

4.6 Although these techniques can be applied for each individual member of staff, this would be time-consuming and expensive. Councils use pay and grade systems to simplify the process. Once placed within a particular grade, the pay of staff may continue to increase (beyond general pay awards) as they gain in experience and responsibility. Consequently, councils need to manage the pay progression of staff. To achieve the greatest degree of flexibility and responsiveness, councils would devolve all pay decisions to individual front-line managers. However, devolution, if pursued to this extent, raises concerns over the competence of managers to make such decisions and the need to maintain some degree of central control.

4.7 Part 2 considers pay systems, pay progression and control. Chapter 1 reviews policy issues. Chapter 2 describes technical features of pay systems. Chapter 3 considers ways of controlling pay drift and the use of performance-related pay (PRP). And Chapter 4 assesses the balance between central and devolved management of pay. Finally, Chapter 5 summarises the options available to councils when choosing pay systems, managing pay progression and maintaining control.

4.8 Pay management is not a precise science. There are many different techniques and approaches available. And, although certain basic principles should be applied, there is no categorically right or wrong solution. Local government is gradually embracing more flexible and responsive pay policies. But these policies are often still in the early stages of development. Some of the earlier reforms, begun in the mid and late 1980s, were implemented against a background of rapid pay inflation and sometimes severe recruitment and retention difficulties. Not all of these reforms were introduced with complete care and forethought - emergency measures tend not to be.

4.9 The Commission has found no examples of councils with trouble-free pay management systems - although the techniques described are being applied to a greater or lesser extent in many authorities. Neither has the Commission found an individual authority which is adopting all of the measures described. Therefore, in compiling the following recommendations, the Commission has used examples from and analysis of 70 local authorities, combined with advice from local government practitioners, academics and management consultancies with widespread practical experience of local government and also trade unionists and officers of the LGMB.
Section 4: Pay Management

Pay Review and Pay Determination
Pay Review and Pay Determination

How does the council review existing pay levels and determine the rate for the job?

♦ What is the council’s pay policy?
♦ How does the council ensure that it pays similar amounts for similar jobs?
♦ How does the council track external pay comparability?
♦ How does the council link pay decisions with recruitment and retention patterns?
♦ How does the council manage the implementation of pay reviews?
### Pay Policy

**What is the council’s pay policy?**

- Has the council considered the problems associated with pay management?
- What factors are considered in the council's pay policy?
- Has the council considered wider constraints on pay policy?

---

#### ...some problems to address

4.10 Within the bounds of negotiated agreements, councils are responsible for setting the pay and conditions of the staff they employ:

- when filling existing vacancies in response to ‘normal’ turnover of staff;
- when filling new posts, for example, in a new or expanded service or in a restructured service;
- when responding to specific pressures for higher pay, for example, when recruitment and retention difficulties for particular staff groups lead to skill shortages or when staff seek improved pay comparability;
- when responding to general pressures for higher pay, for example, after a period of externally imposed pay restraint or in a period when national awards fail to keep pace with pay inflation, in both cases resulting in across-the-board recruitment and retention difficulties;
- when responding to specific pressures to contain pay, for example, where there is external competition for the provision of services or when withdrawing pay supplements awarded during previous periods of rapid pay inflation;
- when responding to general pressures to contain pay, for example, during a period of financial constraint.

4.11 Most authorities rely on national agreements to guide pay decisions. These set the rate of pay for each grade but it is for local authorities to decide the grade for each job. Typically jobs are matched by job title, hierarchical rank or simple job description. Some councils use job evaluation systems – at least for more senior posts. But most councils face difficulties with pay management (Box 4.B). Councils are largely aware of these problems. To combat them they rely on managerial judgement.
**Box 4.B**

Most councils face difficulties with pay management

- **Job matching:** Many different types of job are covered by each of the ‘national’ pay grades, which are not formally linked to job size in terms of technical skills and level of responsibility. Precisely matching jobs to grades is difficult.

- **Pay competitiveness:** ‘National’ pay grades do not reflect local or regional variations in the pay market. Councils in different parts of the country use different grades for similar jobs to ensure pay competitiveness, but there is nothing within the national agreements to guide these decisions.

- **Historical bias:** Matching jobs to a pay grade perpetuates the pay history of jobs in that grade. Consequently, pay decisions for new posts may capture previous pay inflation no longer relevant to current market conditions. For example, the introduction of community charge and the overheated labour market of the late 1980s pushed up salaries for some finance jobs to a level that today appears generous. Conversely, increased pay pressures caused, for example, by emerging skill shortages may not yet be reflected in existing pay levels and grades.

- **Pay drift:** Until recently, many managers have been operating in a tight labour market, sometimes with major recruitment and retention difficulties. Understandably, the first concern of the manager is to fill vacant posts. Even with control mechanisms, the result has been for pay levels to drift upwards. Additionally, because councils must be concerned with internal equity and because existing grades continue to act as a reference point for new recruitment, the cumulative effect has been pay drift.

- **Management information:** It is difficult for managers to make reliable pay judgements. Internal references can become blurred by pay drift; changes to services and organisation structure have caused work practices to change, making job matching more difficult and undermining the reliability of ‘old’ job descriptions. The quality of information available to most managers when measuring job characteristics and external pay comparisons is often inadequate.

- **Staff perceptions:** As pay decisions become more complex and the linkage of pay to national grades is blurred, there is an impact on staff perceptions. Traditionally, pay grades have been regarded as recognition of the status and value to the organisation of individual members of staff. Changing grades can confuse staff and cause resentment. Similarly, in a culture strongly founded on notions of equity and familiar with a clear, vertical hierarchy, variations in pay levels that do not conform to previous patterns can result in discontent among staff.

- **Control and accountability:** Finally, as pay decisions increasingly rely on the judgements of individual managers, members and chief officers are quite rightly concerned about how to ensure proper control and accountability. This is becoming a more worrying problem in an environment in which members and chief officers:
  - may lack the detailed information and skills necessary to monitor effectively managers’ decisions;
  - are faced with legal implications such as equal pay legislation and Transfer of Undertakings (Protection of Employment) regulations which may expose the council to financial risk and which, because of their technical nature, front-line managers may not fully understand;
  - must respond to financial constraints on councils which uncontrolled pay decisions could worsen.
...elements of pay policy

4.12 The trend in many councils towards more flexible, responsive and judgmental pay management is to be welcomed. But some authorities are struggling with the problems of moving away from the simpler and more easily managed systems they previously employed. Councils need to develop clear policies which take into account:

- **pay review**, to ensure that existing pay levels are rational and provide a reasonable yardstick for future pay decisions;
- **pay determination**, that is, ongoing measures for determining the rate for the job.

4.13 Whether making pay judgements related to individual jobs or for groups of staff, councils need to maintain a balance between various, sometimes competing, factors:

- **Affordability**: Councils and individual departments have a limited budget available for funding the paybill. A trade-off exists between the generosity of pay settlements and the number of staff that can be employed - this affects the quantity and quality of services. Councils should pay no more than is necessary to recruit and retain the staff they need.

- **External competitiveness**: If pay levels lag too far behind the 'market rate', councils may find it difficult to recruit or retain the staff they need. But this relationship is not simple or straightforward. Pay is only one of many factors that affect staff satisfaction and therefore the likelihood of retaining staff. The pay market itself is not monolithic; councils recruit many different types of staff in local, regional and national labour markets. Sometimes councils pay more than other local employers for some types of staff but simultaneously pay less for other staff groups - so experiencing recruitment and retention difficulties.

- **Internal equity**: Individuals and staff groups should be treated in a fair, defensible and consistent manner. This is of particular importance in the public sector, where the 'culture of equity' is more pronounced than in the private sector. More flexible pay strategies may conflict with this objective. If internal pay variations become too large, and are perceived as inexplicable, councils may generate internal demands for re-establishing pay comparability - or pay differentials - which tend to add to costs. Councils may also, inadvertently, contravene equal pay legislation.

- **Staff recognition and motivation**: Councils need to ensure that individual members of staff consider their contribution is fairly and appropriately rewarded, both from the internal and external viewpoint. How pay policies are communicated to staff and the part that line managers play will influence the satisfaction and motivation obtained from pay and, in consequence, its contribution to the retention of staff.

- **Control and accountability**: Pay decisions have a major impact on paybill; members and chief officers need to be sure that adequate controls exist and that the requirements of equal pay legislation and public
accountability are being met. This is particularly important in a devolved management environment.

...constraints on policy

4.14 Some organisations have no pay policy as such; they pay, on an individual basis, whatever is necessary to attract, recruit and retain staff. This approach may work for some senior staff, where the financial implications of their decisions greatly exceed the salaries that they receive; and in organisations that are dependent on a small number of professional staff, for example, management consultancies and legal practices. Other organisations pay a reduced basic salary, with a large part of the paybill made up of 'self-funding' bonus payments. This may be appropriate for staff able to generate substantial income for the business. Both of these approaches to remuneration reflect the desire, especially in the private sector, to link an individual employee's pay both to the pay market and to financial performance.

4.15 Although linkages of this kind appear attractive, councils have to take into account other factors, many specific to operating in the public sector:

- Councils employ large numbers and many different types of staff, most of whom do not have a direct impact on financial performance. This limits the affordability of paying market premia to attract staff.
- Councils have a limited ability to earn extra revenue. Many of the favourable outcomes in the public sector are not financially-related so bonus payments are often not appropriate.
- Councils operate with pay systems and a culture which emphasises internal equity. Rapidly breaking with this approach is difficult and can create industrial relations and staff motivation problems, damaging service provision.
- As public bodies, councils have a responsibility to maintain internal and external accountability and probity when making pay decisions.

4.16 While there is a need and desire on the part of councils to improve the flexibility and responsiveness of pay management, authorities cannot simply copy some of the more extreme examples of flexible pay strategies that exist in the private sector. Councils need a structured framework which is mainly focused on the basic pay and benefits package. Innovations that relate pay to performance or pay market premia must take into account the constraints of affordability, equity and accountability that apply in a public sector body.
4.17 Few in local government would disagree with this position. And, for many, this has become an excuse for relying on national agreements for determining pay. But, the national agreements are not a pay policy. They provide no mechanism for the detailed review and determination of pay. To do this, councils require **local systems** and **procedures** The remainder of Part 1 of this section of the management handbook considers these mechanisms in more detail.

**SUMMARY OF ACTIONS**

- Review the existing pay policy
- Develop a pay policy that addresses the key issues and reflects wider constraints
Internal Pay Consistency

How does the council ensure that it pays similar amounts for similar jobs?

♦ Is there evidence of pay drift?
♦ How does the council measure job size?
♦ What factors influence the pay range?
♦ What impact does pay policy have on pay ranges?
♦ Does the council review the internal consistency of pay levels?

... evidence of pay drift

4.18 In most cases, when managers need to fill a vacancy they first ask themselves the question 'What would I pay given previous experience?'. Jobs are slotted into the existing pay structure. Determining pay in this manner assumes that the quality of the job match and the prevailing pay levels of the grade to which the match is made are correct - this may not be the case. By reviewing variations in pay for similar jobs within the authority and with the wider market, councils can begin to assess the effectiveness of their own pay management systems.

4.19 Internal referencing of pay can result in pay drift and a breakdown in the linkage between the size of jobs (in terms of technical skills and level of responsibility) and the rate of pay. Within an authority there can be differences of over 100 per cent in pay for jobs of a similar size (Exhibit 4.3, overleaf).
Without some form of external market tracking of pay rates, internal referencing does not provide councils with a way of relating pay with the wider labour market. Authorities in the same geographical area pay different salaries for similar jobs (Exhibit 4.4). Councils may therefore pay more than is necessary, or less than they need, to attract, recruit and retain staff.

Exhibit 4.3
Variation in pay for jobs of similar size within the same authority

Within an authority there can be differences of over 100 per cent in pay for jobs of a similar size ...

Source: Hay Management Consultants; Audit Commission

Exhibit 4.4
Variation in the pay comparability of individual authorities in the same local labour market

Authorities in the same geographical area pay different salaries for similar jobs ...

Source: Hay Management Consultants; Audit Commission
...job sizing

4.21 But internal referencing of pay does have a part to play:

- It is a comparatively quick, easy and inexpensive method for determining pay.
- It is perceived to be internally equitable (although in practice the validity of this is dubious given the poor quality of job matching that often exists).
- Managers are more likely to judge job size effectively with internal jobs whose characteristics they know well, than with external jobs about which they have little information or experience.

4.22 Internal referencing is likely to remain the main method for determining pay for most councils. But, because the various steps are not always carefully thought through and because managers often lack the right techniques to do the job (in terms of information, systems and procedures), pay drift and ongoing recruitment and retention difficulties sometimes result. Whatever the ultimate validity of a manager’s ‘gut feeling’, pay management must be put on a more systematic basis.

4.23 To review pay levels, councils must first be able to compare pay between jobs of similar size (in terms of technical skills and the level of responsibility). Without a reasonably sound basis for job sizing, managers will be unable to judge whether variations in pay are due to the inherent characteristics of the job, which is acceptable, or to differences in pay decisions, which may or may not be acceptable. There are two main types of job sizing:

- job evaluation
- job matching

4.24 The most accurate way of job sizing is to use a formal job evaluation system. Job evaluation identifies a number of job factors which are assigned a scale or value. The intensity of each factor in an individual job is then assessed, giving a total points rating or job size. As an illustration, Exhibit 4.5 (overleaf) describes the job evaluation factors used by the Royal Borough of Windsor and Maidenhead in its scheme for management staff. Different job evaluation systems use different formulae for arriving at the final job size, but the basic principles are the same. A recent report, The Role of Job Evaluation, by the Institute of Manpower Studies, summarises recent research and some of the main trends (Box 4.C, overleaf); it provides information on and case study examples of the structure of job evaluation systems.
### Exhibit 4.5
**Job evaluation systems**

Example: job evaluation factors used for management staff – the Royal Borough of Windsor and Maidenhead

<table>
<thead>
<tr>
<th>Factors</th>
<th>Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 (100 points)</td>
</tr>
<tr>
<td></td>
<td>2 (75 points)</td>
</tr>
<tr>
<td></td>
<td>3 (50 points)</td>
</tr>
<tr>
<td></td>
<td>4 (25 points)</td>
</tr>
<tr>
<td>A. Knowledge &amp; skill</td>
<td></td>
</tr>
<tr>
<td>the sum of knowledge, skills and experience of all kinds required for fully acceptable performance in the job</td>
<td>The job requires total knowledge and understanding of own professional field and a broad knowledge of all council strategies, policies and operations</td>
</tr>
<tr>
<td>B. Breadth &amp; span</td>
<td></td>
</tr>
<tr>
<td>The range and complexity of the services arranged or contributed to by the jobholder</td>
<td>Runs a complex service area with a significant requirement to coordinate different themes, policies and activities</td>
</tr>
<tr>
<td>C. Contacts</td>
<td></td>
</tr>
<tr>
<td>The nature, frequency and purpose of transactions with people</td>
<td>Needs to motivate, influence, negotiate and change behaviour well beyond the confines of the job’s own service team and its immediate customers</td>
</tr>
<tr>
<td>D. Freedom</td>
<td></td>
</tr>
<tr>
<td>The ability and degree of liberty to define new policies, standards and procedures without constraint by management or precedent</td>
<td>Operates within the strategic framework of the council and works closely with directors to adapt and change it</td>
</tr>
<tr>
<td>E. Influence &amp; impact</td>
<td></td>
</tr>
<tr>
<td>The nature and level of the job’s impact on the organisation</td>
<td>Impacts through proposals and initiatives on standards, services and strategies across the organisation</td>
</tr>
<tr>
<td>F. Burden of management responsibility</td>
<td></td>
</tr>
<tr>
<td>The difficulty in managing a function or functions created by volume of resources or an adverse environment</td>
<td>Operates under a high and sustained pressure to achieve against the odds within tight deadlines</td>
</tr>
</tbody>
</table>
There are four main sources for recent data on the incidence of job evaluation. Wyatt, a management consultancy, conducted a survey for the Institute of Personnel Management (IPM) in 1989*, following up an earlier IPM survey in 1976. The Advisory, Conciliation and Arbitration Service (ACAS) conducted a survey of payment systems in 1988. The Workplace Industrial Relations Survey (WIRS) collects some data on job evaluation and the most recent survey was conducted in 1990. Most recently, Industrial Relations Services (IRS) conducted a survey of 164 organisations, three quarters of which operated job evaluation schemes.

- **Job evaluation is in common usage:** According to the Wyatt survey, some 61 per cent of organisations had a formal job evaluation scheme in operation and 11 per cent were about to introduce a scheme. The ACAS survey found just under 40 per cent of establishments had job evaluation, with a higher incidence in manufacturing and services.

- **The use of job evaluation is still increasing:** The 1990 WIRS study shows a rise over the 21 per cent found in both the 1980 and the 1984 surveys. The ACAS survey suggests that the upward trend in the use of job evaluation observable in the 1970s and early 1980s was still continuing (in the late 1980s) but at a slower pace.

- **Early growth was associated with the formalisation of payment structures:** Organisations saw job evaluation as providing a simple logic to their pay structures and a way of reducing disputes about what individual jobs are worth relative to each other.

- **Recent growth appears to have been particularly strong in the public sector:** This may reflect the fact that the WIRS study found a greater incidence of schemes in workplaces where trade unions are recognised. However, it also fits with other more anecdotal evidence from the IRS survey and other sources, which indicates that the introduction of job evaluation is associated with moves to decentralise pay determination and the creation of many more separate pay units in public services.

- **Job evaluation is more prevalent in larger organisations:** The Wyatt survey found that 70 per cent of organisations employing over 1,000 people had a scheme compared with only 55 per cent of those with between 250 and 1,000 employees.

- **Job evaluation is covering a wider range of jobs across an organisation:** The Wyatt survey found that in 31 per cent of cases, all jobs were covered by job evaluation, compared with only ten per cent in a comparable survey conducted in 1979 by the British Institute of Management (BIM). In some cases this was carried out with a unified scheme covering all staff. Other organisations operate a number of schemes with, say, a consultant-based scheme for managers and a simpler, possibly internally developed scheme for other staff and a third for manual workers.

- **Job evaluation is being actively reviewed:** Half of the organisations in the Wyatt survey with job evaluation had introduced it within the previous five years. Two thirds of the schemes examined by IRS had been either introduced or substantially changed in the last five years. Four out of five of the Wyatt respondents predicted that they would change their system over the next five years (either in terms of extending the scope of job evaluation to cover more jobs or to alter its design by changing the factors or weightings).

- **In some cases job evaluation was being abandoned:** There are some suggestions in the surveys and other sources that job evaluation was being abandoned in a few organisations but there is no evidence that this is a wholesale trend.

* The survey is based on achieving a sample of 376 employing organisations, representing a 27 per cent response rate.
Although job evaluation is the most accurate and consistent method of job sizing, it is complex and expensive to apply to all jobs in a council. For more senior and complicated posts, job evaluation is the only reliable approach available. However, for many posts it is possible to use a process of **job matching**. In this case a range of **reference jobs** is established against which the rest can be compared and matched. They may represent specific types of job or be a broader **job family**, covering different functions but similar levels of skill or **competence**. The reference jobs might be defined by job title or job description. A more reliable approach would be to use job evaluation. The workload involved in evaluating a limited number of reference jobs is less than applying job evaluation to all posts. In either case matching the remaining jobs to these references inevitably involves a degree of subjectivity.

Job sizing has been used by a large number of councils, especially by some counties and districts in the South East during the late 1980s. A few, such as Berkshire and Kent County Councils, have applied job evaluation to all staff groups. Many more, like the Royal Borough of Windsor and Maidenhead, have used job evaluation only for senior and managerial posts. Where junior posts are involved, councils often rely on limited job evaluation followed up by job matching. Most job-sizing exercises have been done by or in conjunction with **management consultants**; the LGMB also has its own job evaluation and job-matching systems, which are available to authorities on a consultancy basis. Some London boroughs have used a scheme developed by the Greater London Employers' Association.

No method of job matching or job evaluation is perfect; ultimately, all rely on the judgement of managers, personnel professionals and, when involved, external consultants for the assessment of job size. There is a growing trend in the private sector to 'customise' proprietary schemes to fit local circumstances. If applied too rigidly, job sizing can reinforce **job demarcation** and undermine the flexible management of people described in Section 3 of the handbook. Moreover, it is easy to 'cheat' in order to justify existing pay levels. Councils should be under no illusions about the temptation to do just that! There is no value to be gained by such an exercise. The objective is to use these techniques to make past and future pay decisions more transparent; to help managers make more rational judgements regarding pay; and, consequently, to improve the **internal consistency** of pay levels.
...variations in the pay range

4.28 The application of systematic job sizing (job evaluation and job matching) can reduce pay variation for jobs of a similar size (see Exhibit 4.8 on page 4.21). But there will always be some variation – a pay range. The method of job sizing itself contributes to this, grouping similar but not identical jobs together. And part of the variation is due to the diversity of job types and job markets included in each size category. The more uniform the job types, the less variation should result. But the size of the pay range – expressed as a percentage of the median pay point for each job size – does give an indication of the degree of consistency of pay decisions. More importantly, it allows managers to ask informed questions about why people in jobs of a broadly similar size are paid at different levels.

4.29 When confronted with either an unusually narrow or wide pay range, a manager should ask:

♦ Are there any inherent job characteristics causing the variation?
  For example:
  – Is there a diverse range of job types?
  – Is job matching reflecting this variation?
  – How big an impact on pay should there be?

♦ Are there any specific market conditions causing the variation?
  For example:
  – Are there market pressures to pay more, e.g. skill shortages?
  – Are there market pressures to pay less, e.g. high unemployment?

♦ Are there any specific pay policies causing the variation?
  For example:
  – Are pay supplements available to some staff?
  – Are there equality issues involved?
...the impact of pay policy

4.30 The important issue is whether such variation occurs by accident or by design and whether the impact on affordability and equity is desirable and properly controlled. Different patterns might emerge (note: the definition of narrow, wide and moderate pay ranges is considered in paragraph 4.32):

◆ **A narrow pay range:** This may reflect a 'tight' pay policy. The authority may be using a job evaluation system to limit pay variations (for example, Authority A in Exhibit 4.8a, page 4.21). Similarly, the pay range for junior posts in authorities not seeking to modify national agreements is narrower than that in the wider market (Exhibit 4.6). A tight pay range indicates control and a higher degree of internal equity. But if it prevents pay from following the market, it could lead to 'under' or 'over' payment of staff.

◆ **A wide pay range:** This may also reflect the impact of pay policy. A strongly market-driven pay policy would reinforce pay variations, picking up differences in local, regional and national markets and also those for different job types. But wide variation may also indicate a lack of policy or control. Pay variation might reflect **historic pay drift** or pay **leap-frogging** through, for example, simply following the findings of salary surveys without taking into account the local recruitment and retention position. **'Chasing the market'** has affected chief officers' pay in some authorities, particularly pay for chief executives (Exhibit 4.7). Without proper control, even well structured and consistently applied pay policies can become inflationary. Salary increases should be based on 'real' market tracking through actual recruitment (Box 4.D).

◆ **A moderate pay range:** This is more typical and could represent a well-balanced pay policy exhibiting both control and flexibility in pay determination. But it may represent a happy accident, the result of gradual pay drift away from a previously more prescriptive pay regime. Councils will need to ask themselves which of these scenarios is true and whether, if the latter, continued drift is desirable.

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**Exhibit 4.6**

**The impact of national agreements on pay ranges**

The pay range for junior posts in authorities not seeking to modify national agreements is narrower than in the wider market ...

---

**Source:** Hay Management Consultants; Audit Commission
Section 4 – Part 1
Chapter 2  Internal Pay Consistency

Exhibit 4.7
Chief officers paid above JNC agreements

‘Chasing the market’ has affected chief officers’ pay in some authorities ...

Box 4.D
Salary increases should be based on ‘real’ market tracking through actual recruitment

<table>
<thead>
<tr>
<th>Example: A county council</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue:</strong> One county council wished to develop a consistent approach to managing pay and avoid excessive pay inflation.</td>
</tr>
<tr>
<td><strong>Action:</strong> The county has successfully combined job evaluation and market tracking. Since 1986, 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 exchange information. This helps the council to adapt pay policies to local conditions.</td>
</tr>
<tr>
<td><strong>Result:</strong> 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’.</td>
</tr>
</tbody>
</table>
...reviewing pay consistency

4.31 The Commission investigated pay variations across 120 job types in 38 local authorities using a job-matching system developed by Hay Management Consultants. This method is most robust when applied to posts below PO level – up to around 500 Hay job units. A simplified version of this approach is available for use during the audit associated with this study. Annex 1 at the end of this section describes how to use job matching to review pay consistency.

4.32 Although it is not possible to prescribe an 'ideal' pay range for posts below PO level, authorities should consider the following 'rule of thumb':

♦ **If the pay range is within +/- 10 per cent of the median**, this suggests a tight pay policy. Although councils within this group should still review processes and the reasons for pay variations between job types, it is likely that most pay decisions are subject to reasonable control. Around 30 per cent of councils are within this group (Exhibit 4.8a).

♦ **If the pay range is within +/- 20 per cent of the median**, this may still reflect rational and controlled pay decisions, for example, through reflecting wide diversity in market conditions for different job types. But the variation may also reflect a lack of control. Councils should therefore review why such variations occur and whether the result is desirable. Changes to existing procedures may be necessary. Around 30 per cent of councils are within this group (Exhibit 4.8b).

♦ **If the pay range exceeds +/- 20 per cent of the median**, this suggests a lack of effective pay management. Councils should review and gradually modify existing practices in order to improve pay consistency. These measures should be implemented over an appropriate period in order to avoid short term increases in paybill costs. Around 40 per cent of councils are within this group (Exhibit 4.8c).

4.33 Another way of measuring the degree of pay variation is to calculate the **regression coefficient** $R^2$ of the pay scatter. The $R^2$ for the example authorities is indicated in Exhibit 4.8. Exhibit 4.9, overleaf, shows the range of $R^2$ for the Commission's sample of 38 local authorities. The median $R^2$ for the sample is 0.85; an $R^2$ greater than 0.9 represents a tight pay policy; an $R^2$ less than 0.8 suggests a lack of effective control. Councils should, however, recognise that $R^2$ is not a perfect indicator; it can be strongly influenced by 'outliers' in the data.
Although it is not possible to prescribe an 'ideal' pay range, authorities should consider the following rule of thumb ...

Source: Hay Management Consultants; Audit Commission
Assessing the internal consistency of pay levels is an important first step in improving pay management. It will provide councils with information regarding the internal equity of pay and a framework for asking questions about the processes leading to pay decisions. Authorities should establish pay references for jobs of different size. For most staff they may wish to begin with the simpler process of job matching. If the pay ranges identified by this method are particularly large, it may also be necessary to use job evaluation to improve accuracy and confirm whether these variations are 'real' or the result of the imprecise measurement of job size. But improving internal pay consistency is only the first step; councils must also consider their position in the wider labour market.

**SUMMARY OF ACTIONS**

- Review the evidence of pay drift
- Develop a job-sizing system
- Review the impact of pay policies on pay ranges
- Identify how far internal pay consistency needs to be improved
How does the council track external pay comparability?

♦ What sources of information does the council use for market tracking?
♦ How does the council use information on pay comparability to take account of local factors?
♦ Does the council review pay for junior staff?
♦ Does the council review pay for senior staff?

4.35 Reviewing the internal consistency of pay will provide councils with an indication of whether some realignment of pay levels may be necessary. But councils do not exist in a vacuum; before changing pay, councils must first consider external pay levels and hence the competitiveness of their current pay position.

...information for market tracking

4.36 In order to track the market, councils require information on pay levels (and preferably, but less easily, on non-pay benefits) in other local authorities and other sectors of the economy. The New Earnings Survey (NES) provides data on average earnings. This can be a useful guide to councils; but average earnings data reflect both pay levels and differences in the mix of staff (numbers on each pay grade) within the organisation(s) being measured. There are wide variations between councils and businesses in staff mix; consequently, NES data provide only a partial and potentially misleading indication of differences in pay.

4.37 Most councils have ad hoc arrangements for market tracking, most commonly by reviewing job advertisements in the press and ringing around neighbouring authorities to get an idea of the 'going rate' for a particular job. On their own these measures risk fuelling pay leap-frogging. They certainly do not provide adequate information for a thorough review of pay levels or for efficient ongoing recruitment of staff. Local authorities should use a variety of methods for assessing pay comparability. There are several sources of information that councils can use to track the pay market (Box 4.E, overleaf).
Box 4.E
Sources of information that authorities can use to track the pay market

- Salary data from
  - job advertisements
  - application forms
- Published regional and national salary and conditions surveys
- Exchange of local authority salary data through the regional local government employers' organisations (including job clubs)
- Participation in LGMB national salary and grading surveys
- Participation in salary surveys with other public and private sector employers
- Membership of proprietary salary and evaluation systems operated by management consultancies
- NESurvey

...using information on pay comparability

438 Although information on external pay rates is an essential tool for determining pay and reviewing existing pay levels, councils must use it with care. Any analysis of pay comparability can be very misleading if councils do not compare like with like:

- **Compare jobs of similar size**: Job titles are not necessarily a good guide. Using a recognised system of job evaluation or job matching provides authorities with a common standard for job sizing, making it easier to interpret salary surveys, many of which are compiled on a similar basis.

- **Recognise differences in job type and function**: Some professions pay more for jobs of similar size than others (Exhibit 4.10). Tracking the average position may be appropriate for an overview of pay comparability, but it can be misleading for individual departments.

- **Recognise geographical differences in labour markets**: There are large regional differences in pay levels, which also vary according to job size (Exhibit 4.11). Many pay statistics provide national average figures; councils should adjust these to reflect their own location. But even when measured against their regional markets, authorities show wide variation in pay comparability (Exhibit 4.12, overleaf). For many staff, especially those in junior posts, the relevant labour market is very local. Most pay surveys cannot take account of very local factors; councils must adjust accordingly (Box 4.F, overleaf).
**Exhibit 4.10**

**Functional differences in pay rates for some local government functions**

Some professions pay more for jobs of similar size than others ...

*Note: 200 Hay job units is equivalent to scale 3/4. The percentages shown are the percentage difference from the median for all functions.*

*Source: Hay Management Consultants; Audit Commission*

---

**Exhibit 4.11**

**Regional pay differences: total market**

There are large regional differences in pay levels ...

*Note: Regional and national medians are based on public and private sector employers.*

*Source: Hay Management Consultants; Audit Commission*
Exhibit 4.12
Local government regional pay comparability

Even when measured against their regional markets, authorities show wide variation in pay comparability...

Note: Based on a sample of junior posts of similar size (200 Hay job units, equivalent to scale 3/4 posts). Each authority is compared with the regional pay median for all employers - public and private sector.

Source: Hay Management Consultants; Audit Commission

Box 4.F
Most pay surveys cannot take account of very local factors

♦ Most pay surveys are national or regionally based; and, even when local, the sample sizes can be small or misleading.

♦ Authorities need to take account of this when targeting their own pay levels. This is particularly true for councils outside London and the South East or in rural locations.

♦ Two examples:

- A county council uses salary reviews to monitor its overall pay position. Because of its rural location, local pay levels are generally lower than the national average. The council has therefore maintained pay comparability between the market lower quartile and lower decile positions.

- North Norfolk District Council observed that the regional salary review recommended by a particular management consultancy was heavily influenced by the high salaries paid in the Cambridge area, 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.

...reviewing pay for junior posts

4.39 Local authorities show marked variation in the way in which internal pay levels reflect the regional pay market - both that of local government and the total market of all employers. In the Commission's sample of 38 local authorities the median pay position for jobs up to around 500 job units (broadly equivalent to the most junior PO posts) were compared to the regional pay median for all employers. This showed:

♦ around 25 per cent of councils pay most of their staff above the regional median;

♦ around 20 per cent pay below the regional median;

♦ the remaining 55 per cent pay around the regional median.
Since the median pay position within an authority does not take account of the internal consistency of pay levels, the range of pay variation from the regional median is greater than these figures suggest - councils with poor pay consistency have a greater chance of paying more or less than the 'market rate' for a significant proportion of jobs (Exhibit 4.13). Provided they are able to attract and retain the quality of staff they need, authorities that are paying with reasonable consistency and at or below market rates have economic and effective pay policies (Exhibit 4.13a, overleaf). But, councils paying less consistently and at or above market rates have uneconomic and ineffective pay policies (Exhibit 4.13i, overleaf).

Exhibit 4.13
Pay comparability and pay consistency

Councils with poor pay consistency have a greater chance of paying more or less than the 'market rate'...

Note: Percentages indicate the proportion of authorities within the Commission’s sample in each category.

♦ Pay consistency
  - High: $R^2$ greater than 0.9
  - Moderate: $R^2$ 0.8-0.9
  - Low: $R^2$ less than 0.8

♦ Pay comparability
  - High: large majority of posts paid above regional pay median
  - Moderate: equal spread around regional pay median
  - Low: large majority of posts paid below regional pay median

Examples of individual councils in category A and I are shown in Exhibits 4.13a and 4.13i. Examples for the remaining categories are shown in Annex 2 at the end of this section of the handbook.

Source: Hay Management Consultants; Audit Commission
Exhibit 4.13a.
Pay comparability and pay consistency

Example A: A county

Note: This authority:
- exhibits high pay consistency and low pay comparability;
- uses job sizing and market tracking;
- tracks the local market and its recruitment and retention position;
- targets the national market lower quartile for all employers.

Source: Hay Management Consultants; Audit Commission

Exhibit 4.13i
Pay comparability and pay consistency

Example I: A shire district

Note: This authority:
- has poor pay consistency and high pay comparability;
- often has no clear relationship between pay, job size or job type;
- uses limited formal job sizing and market tracking and tends to make ad hoc adjustments to national pay grades;
- has no explicit policy on pay comparability;
- shows an inconsistency between job type, which suggests limited central control of pay decisions.

Source: Hay Management Consultants; Audit Commission
4.41 Annex 2, at the end of this section of the handbook, provides further examples from the Commission's sample for each of the categories identified in Exhibit 4.13 (above). Councils should recognise that the 'total market' is derived from a large group of employers participating in Hay Management Consultants’ annual pay survey, which is not necessarily fully representative of the economy as a whole. The local government market is based on the Commission's sample of 38 authorities. Analysis of this type can help councils to judge their own pay position and ask questions about their pay policies. But, as previously indicated, the results of all pay surveys should be interpreted with care. Councils should take account of their own local knowledge when using such information.

...reviewing pay for senior posts

4.42 Simple job matching is less reliable for reviewing pay for more senior posts. Consequently, the job-matching tool suggested to councils in this handbook does not extend to posts greater than 500 job units, roughly equivalent to junior PO grades. Beyond this level, within local government, variations in pay and pay comparability for apparently similar posts are even greater than those for more junior posts.

4.43 Councils will need to be more precise when determining pay for principal officers and chief officers. This will require authorities to:

♦ develop clear pay policies;
♦ test external comparability.

4.44 This is particularly important for chief officer posts. Although chief officers represent only one per cent of staff and two and a half per cent of the non-manual paybill, there are broader reasons for establishing clear policies:

♦ Pay for chief officers 'sets the tone' and often provides a lead on pay for the far more numerous PO group.
♦ It is an area where members must become directly involved in setting pay and therefore it is a way of involving them in wider pay policy.
♦ There are probity and public accountability concerns if chief officers are perceived to be setting their own pay – particularly at a time when pay is under pressure for the majority of staff.
When setting pay for individual chief officers, councils need to take account of comparability. The LGMB maintains data on chief officers’ pay. Exhibit 4.14 shows pay levels for chief executives in each authority type and the pay maxima recommended within the JNC national agreements. Annex 3 at the end of this section provides similar information for a group of chief officer posts. It is important that councils are selective and discriminating in their use of such surveys. For example, population is not the only way of reflecting job size and some chief officer posts have combined functions. More detailed information can be made available by the LGMB. Councils should review existing pay levels and pay policy with regard to:

♦ national agreements;
♦ pay comparability within local government;
♦ pay comparability with the wider pay market.

Exhibit 4.14
Chief executives’ pay

When setting pay for individual chief officers, councils need to take account of comparability...

See note in Annex 3 on the calculation of ‘Enhanced population’. The salaries shown are basic pay and will exclude non-consolidated payments such as PRP, electoral fees and non-pay benefits.
A systematic approach to market tracking should enable councils to build up a picture of the competitiveness of their pay position. For each job size and function, authorities ought to have a reasonable understanding of the median pay point and pay range of their own council and departments, of other local authorities and of the wider labour markets in which they operate: national, regional and local. By comparing one with the other, councils will be able to determine the pay comparability of different staff groups.
**SUMMARY OF ACTIONS**

<table>
<thead>
<tr>
<th>Action</th>
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<tbody>
<tr>
<td>Develop information sources for tracking the pay market</td>
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<tr>
<td>Take account of local factors when assessing pay comparability</td>
</tr>
<tr>
<td>Review the pay of junior posts</td>
</tr>
<tr>
<td>Review the pay of senior posts</td>
</tr>
</tbody>
</table>
4.47 Research by the Commission in 38 local authorities shows that, compared to pay levels in a sample of industrial and service organisations, local government pays scale posts around the national average (measured as a median point), dipping to around eight per cent below the average for principal officers and recovering to about four per cent below for chief officers. But this general trend hides wide variations between individual authorities within the sample (Exhibit 4.15, overleaf) largely similar to those in the wider market. But not all of this variation can be justified by regional differences in pay levels. This begs a wider question - does consistent management of pay comparability matter? And what level of comparability should councils target?

4.48 If pay lags too far behind the market, the result may be recruitment and retention difficulties. Conversely, if pay is too high, this is not only expensive, it also discourages the natural turnover of staff which is necessary in any healthy organisation. At the extreme, these assertions are merely common sense. Most members and staff have anecdotal evidence and experience of recruitment difficulties, for example, in the late 1980s, and of individuals or groups of staff who are 'doing so well, they literally cannot afford to move'.
Exhibit 4.15
Local government pay comparability

The general trend hides wide variations between individual authorities ...

Source: Hay Management Consultants; Audit Commission

4.48 In current market conditions staff turnover is generally low – but it varies between councils (Exhibit 4.16). A longer-term view of workforce stability, comparing the length of service of senior staff (Exhibit 4.17), shows that similar differences exist. But there is no clear relationship between staff turnover and pay levels. The underlying level of staff turnover tends to reflect the nature of the labour market – which is local for most staff. Councils should also recognise that pay is not the only factor that influences staff satisfaction and, indirectly, staff retention. Measures to improve the motivation and commitment of staff can be as important as pay policy (refer to Section 5 of the handbook).

Exhibit 4.16
Staff turnover 1993

In current market conditions staff turnover is generally low - but it varies between councils ...

Source: Audit Commission
Length of service of senior staff varies between authorities...

Source: Audit Commission
4.50 The relationship between pay comparability and the recruitment and retention of staff is not fixed and is likely to vary locally. Councils with 'low' pay comparability but experiencing no major or expected staff retention difficulties may not need to increase pay levels. Other councils may find that no amount of 'over' payment will compensate for an unattractive working environment. There is no prescriptive target for pay comparability.

**...measuring workforce stability**

4.51 Large numbers of **unfilled posts** and rapid staff turnover, particularly in key professional posts, damage service standards (Box 4.G). There is a range of **'workforce stability indicators'** that councils should monitor on a regular basis (Box 4.H). For most staff the targets chosen will depend on the 'normal' levels of **labour mobility** in the council's local area. The management information collected should help councils to answer the following questions:

- **Are problems occurring?**
- **Where are problems occurring?**
  - Is it in certain professional groups?
  - Is it in particular functions?
  - Is it universal?
- **Why are problems occurring?**
  - Is it pay-related?
  - Is it due to a lack of career prospects?
  - Is it due to general staff dissatisfaction with management or working conditions?
- **What is the impact on services?**

This requires combining **statistical analysis** with more **qualitative information;** for example, **exit surveys** and **staff attitude surveys** (considered in Section 5 of the handbook).
**Box 4.G**
Large numbers of unfilled posts and rapid turnover of staff, particularly in key professional positions, damage

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Slight</th>
<th>Significant</th>
<th>Severe</th>
<th>Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy level</td>
<td>0–5%</td>
<td>5–10%</td>
<td>10–20%</td>
<td>20% plus</td>
</tr>
<tr>
<td>Turnover</td>
<td>5–15%; static or falling</td>
<td>10–20%; tending to increase</td>
<td>20%–30%; rising fast</td>
<td>30% plus; but may start to fall as staff quality deteriorates</td>
</tr>
<tr>
<td>Recruitment delays</td>
<td>Most jobs can be filled without delay</td>
<td>Some jobs need to be re-advertised</td>
<td>Some jobs vacant six months or more</td>
<td>Many long-term vacancies; some appear unfillable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect</th>
<th>Service deterioration</th>
<th>Management overload</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slight</td>
<td>Services delivered in accordance with plans</td>
<td>Giving strategic direction to department</td>
</tr>
<tr>
<td>Significant</td>
<td>Some delays for customers; service quality below desired standard</td>
<td>Focused on maintenance of existing services</td>
</tr>
<tr>
<td>Severe</td>
<td>Backlogs mounting; facilities closed for part of day or week; numerous complaints</td>
<td>Giving priority to short-term needs over long-term developments</td>
</tr>
<tr>
<td>Critical</td>
<td>Whole services cut; permanent closure of facilities; breach of statutory obligations; litigation</td>
<td>Continually coping with emergencies</td>
</tr>
</tbody>
</table>

*Source: People Management: Retaining and Recruiting Professionals (Management Paper No. 4, Audit Commission, 1989)*

**Box 4.H**
There is a range of 'workforce stability indicators' that councils should monitor:

- Analysis of response rates to job advertisements
- Vacancy levels in 'live' posts
- Applications per advertised vacancy
- Confirmed applicants as proportion of enquiries
- Employee turnover rates, categorised by occupational groups, job level, gender, etc.
- Employee stability rates, similarly categorised
- Analysis of reasons for employees resigning/exit surveys
- Staff attitude surveys
...adjusting pay decisions

4.52 By identifying reasons for poor workforce stability, councils can better target pay decisions:

♦ Identifying whether high pay comparability (above the market median) is an expensive luxury not justified by the recruitment or retention position or alternatively a necessity in a highly competitive labour market.

♦ Identifying whether low pay comparability (below the market lower quartile) is good economy in a subdued or low-cost labour market or alternatively risking recruitment and retention difficulties and a consequent deterioration in service standards.

♦ Identifying which staff groups require adjustments to their pay – and by how much. This avoids relying on relatively small across-the-board measures, normally pay increases, which may have a large impact on the total paybill, but be too small to have a positive impact on the staff groups requiring more substantial adjustments.

♦ Identifying where changes to pay are not likely to have an impact and thereby avoiding the cost and disruption of a pay review, while concentrating on other measures designed to improve staff morale and satisfaction.

4.53 Many councils monitor at least some workforce stability indicators, but the Commission has found no authorities that monitor and evaluate all on a consistent basis or as a predictive tool. Moreover, the decentralisation of the personnel function has, in some cases, led to this process being neglected or abandoned. In one authority this had been the case; more recently the central personnel department has resumed such analysis and made it available to service departments - but many of these have not 'registered' that the information is available and do not know how to use it. Central personnel functions have a responsibility to collect this information and to support departments in its effective use.

SUMMARY OF ACTIONS

Develop measures of workforce stability

Monitor workforce stability and its impact on services

Adjust pay policy to reflect changes in workforce stability

Consider other non-pay measures to secure workforce stability
Changing pay levels, if not properly controlled, almost always increases the paybill in the short term. This is because any pay increases tend to feed through quickly, while potential savings take longer to be realised because pay for existing employees normally cannot be reduced. Councils must therefore treat any review of pay with care. If the changes are relatively small, it may be possible to fund them within the first year. But, if major changes are involved, councils may need to phase pay adjustments over a number of years.

While many authorities have been innovative in devising ways to increase pay, they have been less successful in its control. There is growing pressure to contain the paybill. Equally, the current economic environment is markedly different from that of the late 1980s; in most cases pay inflation and recruitment and retention difficulties are subdued. Local government review presents risks of pay leap-frogging for some staff groups and pay drift through harmonisation of pay levels in merged authorities. But regulations will not prevent councils from being able to reassess pay levels. Similarly, the harmonisation of manual and non-manual groups within the national agreements will require some realignment of pay levels. The next three years therefore present councils with both an opportunity and a threat. If they manage pay determination effectively, they can realign pay levels and control costs; but, if they repeat past experience, the upward pressure on paybill could be considerable.

There is no single, simple solution to ensuring the affordability of pay reviews. Councils need to calculate the full impact on paybill of changes and...
plan the introduction of these changes in such a way that increased costs are balanced, wherever possible, by savings. This will require that:

♦ **paybill targets** or **cash limits** are set – and kept to;
♦ changes to pay are worked out in detail and consequently well targeted;
♦ the **implementation** of changes is similarly detailed and introduced over a financially realistic time span;
♦ **front-line managers** are actively involved in the process.

Some of the measures that councils should consider are summarised in Box 4.1.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Experience/observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where pay levels must rise, phase pay increases over a number of years, spreading the immediate impact on paybill.</td>
<td>• Some councils that moved to local pay determination in the late 1980s ‘re-profiled’ pay differentials between staff over a number of years - for example, by differentiating the annual pay award.</td>
</tr>
<tr>
<td>Where pay levels need to be reduced, protect existing posts and freeze pay for a period of time until the internal differentials with other staff are reached at a new, lower level.</td>
<td>• Some organisations outside local government periodically modify their job evaluation systems to shift pay patterns gradually.</td>
</tr>
<tr>
<td>Recruit new staff at the adjusted pay levels.</td>
<td>• Many councils have extended pay grades rather than increase base pay. This is economical in the short term but gives scope for future growth of earnings. But this has the disadvantage of prolonging the impact of pay inflation if the new increments are awarded automatically.</td>
</tr>
<tr>
<td>Place pay bars between grades. Pay progression through bars is regarded as promotion and requires formal review.</td>
<td>• This technique is widely used and is often associated with the restructuring of departments. It offers potential during local government reorganisation and the harmonisation of manual and non-manual pay and conditions. The legal, motivational and industrial relations implications must be carefully managed.</td>
</tr>
</tbody>
</table>

Experience/observation

- Some councils that moved to local pay determination in the late 1980s ‘re-profiled’ pay differentials between staff over a number of years - for example, by differentiating the annual pay award.
- Some organisations outside local government periodically modify their job evaluation systems to shift pay patterns gradually.
- Many councils have extended pay grades rather than increase base pay. This is economical in the short term but gives scope for future growth of earnings. But this has the disadvantage of prolonging the impact of pay inflation if the new increments are awarded automatically.
- This technique is widely used and is often associated with the restructuring of departments. It offers potential during local government reorganisation and the harmonisation of manual and non-manual pay and conditions. The legal, motivational and industrial relations implications must be carefully managed.
- This is normal practice but there is considerable variation in the use of lower pay scales (Exhibit 4.18, overleaf), which cannot all be explained by regional differences in pay.
- This is a normal feature of the APT&C grading system, but it has been weakened through the creation of linked or ‘career’ grades. Although potentially this increases flexibility, if pay progression is on the basis of annual increments some way of regulating movement through the grades should be retained.
- But, if pay bars cut in too quickly, they will not represent a realistic or defensible ceiling to pay progression. Grade reviews become virtually ‘automatic’ and grade drift results.
### Measures

<table>
<thead>
<tr>
<th>Measures</th>
<th>Experience/observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use short-term, time-limited contracts which enable councils to fix the</td>
<td>- These are increasingly common, especially for senior posts. They are useful during a period of structural change - for example, the forthcoming reorganisation of local government. But councils should be aware that for the duration of the contract, they are 'locked into the agreement' and that pay premia may be necessary when moving 'existing employees' on to such contracts. This need not be an issue for new recruits.</td>
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<tr>
<td>pay and conditions of staff for a predicted period of time and change</td>
<td></td>
</tr>
<tr>
<td>them at a future date, if required.</td>
<td></td>
</tr>
<tr>
<td>Use market supplements to pay market premia, rather than the regrading</td>
<td>- These were used quite widely during the late 1980s in order to pay market premia to recruit staff in skill shortage areas. They can be combined with short-term contracts.</td>
</tr>
<tr>
<td>of staff. These can be withdrawn at a later date if market conditions</td>
<td></td>
</tr>
<tr>
<td>change. They have the additional advantage of not distorting the</td>
<td>- Councils have been less successful in withdrawing supplements as market conditions have changed.</td>
</tr>
<tr>
<td>underlying pay and grading structure which could influence the pay</td>
<td>- Some councils have used their PRP schemes as a de facto market supplement and subsequently reduced the funding available for PRP payments. While this has the desired impact on paybill, it contradicts the underlying principles of PRP (and performance management) and can send the wrong signals to staff.</td>
</tr>
<tr>
<td>demands of other employees.</td>
<td></td>
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<tr>
<td>Link pay management with people management. This will require the</td>
<td>- This is a growing feature as more responsibility is devolved to front-line managers - especially in direct service organisations.</td>
</tr>
<tr>
<td>detailed involvement of front-line managers. Where it is clear that</td>
<td></td>
</tr>
<tr>
<td>pay increases are necessary, managers should be looking for</td>
<td>- But where devolution has not occurred and budgetary decisions remain strongly tied to managerial bargaining around the existing 'staff establishment', there is little incentive on the part of managers to look for such economies.</td>
</tr>
<tr>
<td>improvements in staff productivity and changes in skill mix in order</td>
<td></td>
</tr>
<tr>
<td>to offset the additional costs of pay awards.</td>
<td></td>
</tr>
<tr>
<td>Plan long-term human resource needs. For example, is there going to</td>
<td>- Systematic human resource planning appears to be in decline. In part this may reflect the decentralisation of the personnel function - front-line managers may not see this as a priority.</td>
</tr>
<tr>
<td>be an increasing dependence on more senior - and more expensive -</td>
<td></td>
</tr>
<tr>
<td>staff? Are there emerging skill shortages that might push up pay</td>
<td>- There are also scale implications. Individual departments may be too small to enable managers easily to identify longer-term trends which may be apparent for the council as a whole.</td>
</tr>
<tr>
<td>rates? What level of staff turnover is likely and will this help</td>
<td></td>
</tr>
<tr>
<td>managers to reduce costs by grading recruits at a lower level or</td>
<td></td>
</tr>
<tr>
<td>increase costs through the need to pay market premia?</td>
<td></td>
</tr>
</tbody>
</table>

A long-term strategy will require making judgements on the likely future trends of overall pay awards and the time it will take for potential savings to be realised. This will require judgements on the level of staff turnover and hence the speed at which the workforce can be regraded at the point of recruitment. Finally, it will require estimates of the impact of incremental movements within grades which, if a large number of staff enter new grades at the lowest increment, will increase in the short term.
Exhibit 4.18
Proportion of staff on scale posts who are paid on scales 1 and 2

There is considerable variation in the use of lower pay scales ...

Source: LGMB APT&C survey 1993; Audit Commission

...the role of communications

4.57 Changes to pay and pay systems can create staff discontent. Councils not only have legal responsibilities to explain and in some cases consult on these changes with staff and staff representatives; they should also recognise that good communications are a central feature of pay strategy (Box 4.J). Communication regarding pay is part of a wider process of ensuring staff understanding of and commitment to the council's aims and objectives. Communication strategies will be considered in Section 5.
Box 4.1
Good communications are a central feature of pay strategy

‘... A fully developed reward system includes nearly all the factors that contribute to the appeal of one organisation over another:

♦ competitive salary/bonus arrangements
♦ benefits
♦ career opportunities
♦ organisation vitality
♦ company image

The primary goal of a remuneration system is to attract, retain and motivate the people required to achieve its goals. While pay and benefits constitute a major part of the reward system, the remuneration elements must be communicated to all levels of employees to ensure that they understand and support the organisation's goals, objectives, policies and practices. When employees feel that they have open communications and access to organisational information which puts their jobs in context, it is likely that increased job satisfaction, pride in the work and support for the business objectives will result. This in turn often leads to improved perceptions of the quality of their working life. The payback for the organisation is that these improvements in employee satisfaction and in perceived quality of their working environment can indeed increase productivity.

The task of communicating with the various segments of the employee population is not a matter of merely circulating information and hoping that employees draw their own correct conclusions. A complex industrial relations environment contributes to a need to carry out whatever communications are considered appropriate through a carefully planned and implemented employee communications programme. The communication flow within any organisation may be categorised as follows:

**Downward**

♦ Management sends a message to employees.

**Upward**

♦ Information travels from lower to higher levels in the chain. This enables employees to discuss their attitudes, concerns, misunderstandings, ideas or suggestions with management.

**Lateral**

♦ Employees on the same level exchange information. Since this often occurs face to face amongst peers and has immediate feedback, it is a very effective method of communicating right or wrong information.

The communications programme must ensure that the employees understand the elements of their reward, and the relationship between pay and their own individual performance. Ultimately, it must be a motivator, leading the individuals to working towards the organisation's own objectives...

---

**SUMMARY OF ACTIONS**

- Calculate the cost implications of changes to pay in advance of implementation
- Plan implementation to balance increased costs with savings
- Link communication with staff regarding pay to the council’s wider communications programme
As a first step, councils need to review existing pay levels. Pay review should consist of three stages (Exhibit 4.19):

♦ **Assess the current pay position** by measuring internal pay consistency and external pay comparability. This will provide information on the internal equity and the external competitiveness of existing pay. Councils can then target the potential need for adjustments to pay.

♦ **Validate the current pay position** by assessing the quality and impact of existing and historic pay policies and the recruitment and retention circumstances of the workforce. This will confirm how much internal pay variation can be justified and the extent to which a change in external pay comparability may be necessary. Councils can then target the actual need for adjustments to pay.

♦ **Adjust the current pay position** within the limits and hence timespan imposed by the affordability of these measures. Manage the impact on staff of the proposed changes.
Given the large differences in the consistency and comparability of pay, the processes used to manage pay and the workforce stability of different staff groups, councils are likely to find themselves confronting a range of different pressures to change pay. It is therefore important that councils:

♦ use the **pay management techniques** available to them to help **target** measures more effectively;

♦ do not rely solely on externally-decided **targets**, but instead reflect the diversity of situations that exist and **tailor policies** accordingly;

♦ ensure that **front-line managers** are closely involved in pay reviews as they are generally best able to make the judgements and trade-offs necessary **for balanced pay decisions**;

♦ provide a management framework that ensures a degree of consistency and control. This will be addressed in more detail in Part 2 of this section of the **handbook**.
Whether in response to a pay review or for the ongoing recruitment of staff, councils should establish systematic procedures for **determining the rate for the job** of individual employees. This should consist of three stages (Exhibit 4.20):

- **Targeting pay**, by using job sizing and job matching, to reference pay levels internally and then by using market tracking and the analysis of workforce stability to reflect market conditions.
- **Assessing its validity** through checking the constraints of affordability, equity and the impact on staff and considering alternatives such as changing elements of people management.
- **Determining the pay package** by considering the detailed pay and conditions to be offered and the way in which this package will be managed in the future. These final elements of pay system design and pay progression will be considered in more detail in Part 2 of this section of the handbook.
Pay determination should consist of three phases...
Section 4: Pay Management

Part 2: Pay Systems, Pay Progression and Control
Chapter 6  Pay Systems, Pay Progression and Control

What is the council's pay system and how is it managed?

♦ What pay systems exist within the council?
♦ What are the pros and cons of different pay systems?
♦ How does the council manage pay progression?
♦ What is the council’s policy on controlling pay management?
What pay systems exist within the council?

- Has the council considered the different factors that influence pay progression?
- Has the council considered the effects of using 'traditional' pay systems?
- Does the council have a clear policy that reflects the different elements of pay systems?

...factors influencing pay progression

4.61 Determining the rate for the job is only the first step in managing pay. Pay levels increase over time. The measures described in Part 1 provide some of the techniques necessary for managing this process. But there are broader issues involved in managing pay progression.

4.62 Pay progression in local government is a result of three factors:

- **The general pay award:** In theory, the underlying level of pay inflation necessary to maintain broad pay comparability. In practice, it is often referred to as the cost-of-living increase.

- **Structural pay progression:** The movement of staff through the pay structure, either through annual pay increments or grade adjustments. Pay progression is determined by rules that apply to groups of staff rather than to individuals.

- **Individual pay progression:** The movement of staff through the pay structure on an individual basis. Traditionally related to career progression, increasingly councils are adopting targeted measures like market supplements and performance-related pay (PRP).

4.63 The general (normally annual) pay award is negotiated nationally for most authorities and is therefore outside their direct control, although they can influence the negotiations. Some councils have withdrawn from national agreements and determine their own awards. In theory, this should give these authorities greater freedom; in practice, the freedom is almost invariably one way - to increase pay. In nearly all cases locally-determined pay awards equal or exceed the national award – which tends to act as the minimum going rate. A few authorities have differentiated the pay award for different staff groups;
but in most cases this has meant paying rather more to the most senior officers. Paying below the national award has occurred in isolated cases, but has not proved to be a sustainable pay policy. Moreover, even in the absence of a nationally negotiated pay award, authorities would still need to follow the market rate. To this extent, councils do not have control over trends in pay movements.

4.64 To affect pay inflation, authorities must develop local policies to manage pay progression. The importance of locally-managed pay progression is increasing. Not only have the national arrangements become more fluid – permitting greater local discretion - but also, in a period of low inflation, the proportional impact on paybill of increments rather than the annual award is increased. Local pay management also enables councils to target pay decisions more effectively and, where necessary, alter the local outcome of the national arrangements.

...traditional pay systems

4.65 Most councils continue to rely on the national structure for the majority of staff: a series of short pay bands with progression within each band based on time in service. For chief and deputy chief officers wider scope exists, but councils are still expected to select a pay range and use virtually automatic annual increments to manage progression.

4.66 This approach has several implications:

♦ Existing grades do not provide much flexibility. Consequently, grade drift has occurred and pay consistency has suffered.
♦ This has undermined the value of grades for the internal referencing of pay, compounding the difficulty of achieving consistency.
♦ Automatic payment of annual increments does not provide a controlled or targeted method of managing pay progression. Grade drift and the creation of linked grades has exposed councils further to this problem.
♦ The result is that many councils have neither effective reference points for determining pay nor control systems to manage the progression of pay.

...developing a policy

4.67 There is no simple or standard approach to establishing pay systems and managing pay progression. Councils will need to develop solutions that fit their own local circumstances. There are several decisions that councils need to take when formulating policy:

♦ Rate for the job vs pay grades: Should each job be dealt with on an individual basis or should jobs be grouped into grades or pay bands for similar treatment?
♦ Grade size and pay range: How 'wide' should grades be (in terms of the job size they cover) and how should councils determine the pay range for individual jobs and grades? What are the implications for managing pay progression?
♦ Managing grade drift: How can councils prevent grade drift?
Performance-related pay: Does PRP offer councils an alternative way of managing pay progression? What options are available and how should PRP systems be managed?

Maintaining control: Who should make pay decisions and how should this be controlled?

Councils need to develop clear policies regarding each of these factors if they are successfully to establish a pay system and manage pay progression. The following chapters consider the options available.

**SUMMARY OF ACTIONS**

- Review existing policy on pay systems
There are two types of locally-determined pay progression: structural and individual. Some form of individually-based pay progression is inevitable, if only for career progression purposes. But is structural pay progression necessary? Should councils pay a fixed rate for each individual job? Or should there be a pay range defined either by the grade, for a group of connected (linked) grades, or even for each individual job?

For most staff, local government relies on a series of pay grades, whether of local design or those contained in the national agreements. But, even if these grades were not formally defined, the methods of job matching used by most councils for determining pay levels leads to clusters of jobs – or put another way, for as long as authorities rely on simple job matching rather than more precise methods of job evaluation, graded pay structures are inevitable. Conversely, with job evaluation systems, the end result is a column of jobs ranked by a points score or pay for points.

Consequently, the pay system can develop in one of three ways:

♦ rate for the job – with a single pay rate and no pay range – based on pay for points;
♦ rate for the job – with pay ranges for each job – based on pay for points;
♦ grades – jobs that are similar can be grouped together into ranges of job size with a pay range to form pay grades – based on simple job matching or pay for points.

Although some councils use pay for points for some staff – usually senior professional and managerial officers where job evaluation, rather than job matching, is used for pay determination – the Commission has found no authorities that have abandoned a grade structure for the majority of staff. This is not surprising; most large and complex organisations rely on pay...
grades, but it is worth identifying some of the implications of using grades for pay management (Box 4.K).

4.73 Rate for the job and graded systems both have strengths and weaknesses:

- **Rate for the job**: This enables the council to manage pay at the level of the individual employee, reduces some of the cultural implications of graded structures and increases the personal and therefore performance and market focus of pay decisions. This is an attractive quality for the manager of a department. It is also particularly relevant to the smaller number of senior posts in the organisation. But, if these processes are not managed with skill, they can result in **inflexible job demarcations** which conflict with the efficient and effective management of staff and staffing structures. Pay for points also depends on sophisticated **job evaluation** and **market tracking** systems and is complex and burdensome to administer. Normally, there is also a need for detailed management of **pay progression**. The lack of simple control mechanisms for pay determination and progression can make the impact of pay decisions on paybill difficult to predict and contain.

- **Graded systems**: Grades are less precise, carry with them sometimes expensive **cultural baggage** and may conflict with efforts to develop greater attention to **performance**. This can be a source of frustration for managers. Changes to grades become **permanent structural features** of the pay system that are difficult to remove, even after they have outlived their usefulness, for example, extending the **headroom** of grades to reflect short-term market pressures. Moreover, processes for managing pay progression are essential in a grade structure – and not always easy to resolve. To work and to be perceived as valid, grades need to maintain their **internal consistency**. There is a tension between the pay relationship with **job size** and **external competitiveness**. But, although there is a need for some kind of foundation in job sizing and market tracking, this is much less complex than the pay for points system and overall control is more easily exercised. If the integrity of the grades is compromised, the result is a loss of control and **grade drift** - but this can be managed.

4.74 In recent years, local government has experimented with different pay systems and mechanisms for managing pay progression. The majority of councils use the national structure, but a large number have begun to **modify grading systems**. Job sizing and job evaluation is an increasingly common feature of pay management, although in no cases that the Commission is aware of has this led on to a full pay-for-points approach. However, a pattern is emerging:

- **Rate for the job** based on pay for points, or something approaching it, is increasingly being used for the most senior posts where the need for greater flexibility combined with the manageable number of posts involved makes it a potentially attractive option. In most cases jobs retain a pay range spread over a number of increments. This approach therefore remains compatible with national agreements.
Box 4.K
The implications of using grades for pay management

- The grouping of jobs into grades abandons some of the precision of job sizing, with different sizes of jobs being located within a single grade. Naturally this effect gets more pronounced the larger the size of the grade. Some jobs may be underpaid and others overpaid – depending on the mechanism for positioning jobs within the pay range of the grade.

- Historically, grade structures were an advantage with large numbers of jobs, as the administration associated with the pay process is more straightforward. However, with the growth of computer systems this is now less of a problem.

- Grades assist in the collective bargaining process, simplifying the negotiations that take place.

- Grades are easy to communicate and understand. The differences between job levels are clearer to staff; but it can be difficult to explain job evaluation scores.

- The use of grades allows a degree of job flexibility; individuals can be moved around the organisation between jobs of similar size without the need for pay reviews. The larger the grade, the greater the potential for flexibility - but also the greater the need to manage pay differentials correctly.

- Grade boundaries create breaks in pay scales which can put pressure on the job evaluation process. Grade boundaries need to be selected with care.

- Grades have a cultural impact on the organisation. Grades are often regarded by staff as an indication of personal value and hence motivation and commitment. Changing grades, though technically sound, may have unfortunate consequences for staff morale. Therefore, grade structures, especially if made up of many small grades, may lead to a loss of flexibility in pay management.

- Similarly, grades create an expectation among staff for incremental pay progression in addition to the annual pay award. This can be difficult to resist. Grade ceilings need to be extended, increasing costs. Abolition of increments leads trade unions to target the top of the grade as the 'rate for the job' with similar consequences for costs. Attempts to replace automatic pay progression within grades with, for instance, PRP progression may be frustrated by an insistence by staff that such payments are theirs by right in accordance with existing agreements.

- Consequently, there will be some grade drift, as jobs get pushed into the next grade.

- The decision on how large to make the grades influences career progression. Small grades mean that there is relatively little difference between one grade and another. There is then a tendency for people to move through the grades on a time-served basis. This is typical in much of local government. Large grade sizes may result in differently sized jobs within a single pay band. If more robust mechanisms do not exist for managing progression through these extended grades, costs will increase, internal equity will be undermined and, in terms of staff perceptions, the validity of promotion decisions will be lost.

- The size of grades has further implications. Pay may increase either due to a change in job size or because of external market pressure. Large pay grades provide greater flexibility which managers may wish to use to reflect differences in the market rate for jobs of different types and functions but of similar size. This is a useful freedom but, if it is taken too far, it will conflict with the underlying relationship between job size and pay rates. Taken to the extreme, this runs the risk of undermining the basis of the grading system, leading to grade drift. Conversely, if grades are too small, managers can only reflect market pressures by upgrading staff to the next grade, irrespective of job size – the result is the same: grade drift.
♦ **Grading systems** remain the norm for the majority of staff where jobs are more uniform and straightforward and the large number of staff involved recommends a simpler approach. But an increasing number of councils are using job evaluation and job matching to validate and maintain the grade structure. Also, many have abandoned the traditional APT&C grades and replaced them with longer, overlapping grades.

♦ Some councils have replaced automatic annual increments and use more sophisticated methods of managing individual pay progression, increasing flexibility within the overall framework.

Councils need to identify which pay system to use for each staff group.

**...grade design**

4.75 Since councils are likely to retain pay grades for the majority of their staff, it is important that these are soundly based. Authorities need to define grades that are flexible enough to be responsive to market conditions and the demands of front-line managers, but robust enough to prevent uncontrolled pay drift.

4.76 The key factor in grade design is defining meaningful and sustainable grade boundaries. Grades must reflect the staff’s perception of job worth; jobs that are generally seen as being of the same size should not be in different grades. If grade boundaries are not ‘realistic’, they may offend staff’s sense of equity, can distort the job evaluation system (by encouraging ‘fixing’ of job size scores to fit the grade) and can create pressure for regrading and hence grade drift.

4.77 When constructing grades, councils need to take account of two dimensions to size, the grade width and the pay range (Exhibit 4.21). There are various views on how grades should be constructed; Hay Management Consultants make the following observations:

♦ **The grade width**: The range of job sizes (not pay) covered by the grade (expressed as a percentage spread from the lower to the upper point). Grades should reflect different levels in the organisation. Hay have found that grade widths are usually between 15 per cent and 40 per cent. A difference of more than 30 per cent would mean that quite different jobs would be in the same grade; a difference of less than 15 per cent would mean that quite similar jobs could be positioned in different grades. The traditional approach, in both the public and private sectors, is to have grade widths of between 17 per cent and 23 per cent, with 18 per cent being the most common. More recently some organisations have experimented with wider grades.

♦ **The pay range**: The difference between the minimum and maximum pay point of jobs covered by the grade. This is expressed as a percentage of the mid or reference point (for example, a pay range of 80 to 120 per cent gives a total spread of 40 per cent between the minimum and maximum pay points). Normally the reference point (and not the top of the pay range) represents the median competitive position in the market for jobs of that size. The pay range should reflect differences in
individual contribution. Typically the lower part of the range is treated as the 'learning curve'; the upper part reflects performance beyond normally acceptable standards. The most commonly used ranges go from 80 to 120 per cent of the mid point salary. But there is no fixed rule. In situations where there is little opportunity to vary individual contributions or where there is a distinct 'rate for the job' then the range may be reduced. Conversely, if pay grades incorporate a wide variety of different job types and functions, pay variations in the market may result in a wider pay range. Councils should take into account a variety of factors when determining pay ranges (Box 4.L, overleaf).

Managing pay progression: The size of grades, particularly the pay range, will influence the way that pay progression is managed. In large grades some kind of performance-based system is necessary to maintain control – automatic increments are inappropriate. In small grades (for example, with pay ranges of less than 15 per cent) it is difficult to differentiate between levels and pay progression is normally on a time-served basis. Equally, if pay ranges are too restrictive there will be a tendency towards grade drift.
Box 4.L
Councils should take into account a variety of factors when determining pay ranges

- The relationship between the **time to learn the job** up to the fully competent level and the time that employees normally spend in the job. If the range is too large employees may not reach the reference point (competence level) of the range.

- If the position in the grade provides recognition of an individual's 'additional' contribution, the pay range beyond competence level must be defined – taking into account the method used for managing progression and the value of additional contribution.

- Pay ranges are often used to reflect pay differences in the market place between functions. Survey data can show typical ranges in other organisations but confusion can arise where pay levels within grades are based on both competence (job size) and competitiveness. If market variations are excessive, councils might consider different grades for different professions or use market supplements outside of the grade payment.

- **Ability to promote** – where promotion prospects are limited for any job, it may be necessary to extend pay ranges in order to retain experienced staff. But there is a limit beyond which individual contribution can no longer justify further increases in pay.

- The structural characteristics of pay ranges need not conform with a set pattern:
  - grade size does not need to be the same for every grade, although large jumps are not recommended;
  - the pay range does not need to be symmetrical around the reference point and does not need to follow a fixed rule. The size of the pay range will depend on the variability of jobs in the grade and the means of controlling pay progression.

*Source: Hay Management Consultants*

4.78 When grade width and pay range are combined, the result is an **overlapping grade structure** running across the spectrum of job sizes. Exhibit 4.22, derived by Hay, shows this on the basis of the most common grade width of 18 per cent and pay range of 80 to 120 per cent. Organisations wishing to maximise **financial control** and have clear **status** recognition tend to have smaller grades with limited overlaps. This is typical of local government. Conversely, organisations wishing to encourage cross-working of staff and single status cultures tend to prefer larger grades. In the latter case far greater emphasis must be placed on **performance-linked** pay progression.
...effectiveness of APT&C grades

479 It is instructive to compare this 'classic grading structure' with that which should exist in local authorities following the national agreements. Grade widths in the APT&C structure (below PO level) range from 14 per cent for SOs, through 17 per cent for most scale posts, widening to more than 30 per cent for scale post 1. With the exception of scale 1, these widths are quite typical. The striking difference is in the pay ranges. National agreements prescribe narrow pay ranges, varying from a maximum of 93 to 107 per cent to a minimum of 97 to 103 per cent. This narrowness is achieved by setting the reference point for full competence at the top of the grade with no scope for additional contribution and therefore no grade overlaps.

480 Pay progression within these narrow pay ranges is on a time-served basis through (virtually) automatic annual increments, typically four or five per grade. In theory, this structure ought to impose very rigid control on pay determination and restrict the scope, if not manage the rate, of pay progression. In practice, actual pay variation for jobs of a similar size is far wider. It is clear from this that, while the APT&C grade widths may be soundly based (although whether this is the case would need to be tested through job evaluation), the pay ranges belong to an age of more prescriptive pay determination than now exists in many councils. The current APT&C grade structure has become prone to grade drift and restricts flexible pay management. But more worrying is that while the grading structure provides limited control over pay determination and progression, there is no other mechanism to take its place. Many councils have recognised the constraints that the APT&C grades impose and have responded:

♦ either with an explicit policy of linking or enlarging grades;
♦ or with an implicit policy of allowing grade drift.
Some local authorities have effectively created wider pay ranges without addressing how to manage pay progression within or between them. The following chapter considers some of the options available.

**SUMMARY OF ACTIONS**

<table>
<thead>
<tr>
<th>Consider the choice between pay grades and rate-for-the-job pay systems</th>
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<tbody>
<tr>
<td>Identify to which staff groups each system should apply</td>
</tr>
<tr>
<td>Consider changes to the existing grade structure</td>
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</table>
4.81 Grade drift is almost inevitable given the narrow pay ranges of the APT&C grades. The first step in managing drift must be to create grades with more realistic pay ranges. This may sound like a loosening of control - but, if the mechanism of control is so divorced from reality that systematically it is being ignored, then its impact is worse than useless, encouraging unregulated pay drift.

4.82 Protecting grade boundaries, and therefore containing grade drift, requires formal procedures for assessing job size. While it is right that front-line managers should take the lead in assessing job size and determining where in the pay range a job should be fitted, there is a need for some regulation of this procedure. Most authorities with well developed job evaluation systems retain central control over job sizing and hence grade demarcation. This is important to protect the integrity of the system - once this is compromised, the entire basis of pay management is undermined. For example, Box M (overleaf) lists some methods for managing grade drift. Box N (overleaf) describes the procedures used in one authority to regulate a job evaluation system.
Grade drift can be controlled by a variety of techniques:

- **Set up an evaluation panel:** Members must be trained in the methodology.

- **Use computer-aided evaluation packages:** These are less costly and time-consuming than evaluation panels, but they require a high degree of central monitoring if consistency is to be maintained.

- **Establish strict reference evaluations:** Movement of those references should be a major exercise.

- **Set clear criteria for changing grades:** When appeals are made to panels on the basis of increased responsibilities, the question should be asked where these increased responsibilities arise from. The second question is, will this have an effect on the job losing those responsibilities? In many circumstances this is more psychological than genuine but does create the need for thought in submitting appeals.

- **Establish ‘sponsoring’ managers:** These must provide support and justification before evaluation changes are considered.

- **Consider setting limits on the level of regrading:** Some organisations budget on the total job units in a division or unit and permit managers to change the jobs in grades but at the same time demand that the division does not increase the total number of job units for the same output. Even if outputs are changed, ratios can be used to indicate whether the new organisation is more or less efficient.

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The process

- The process of evaluating jobs should involve a small panel of informed individuals discussing and agreeing a view. The panel might consist of five members, one nominated from each directorate, plus the chief personnel officer acting as chairperson.

- The panel or computer-aided system should:
  - have clear information about the content of each job (in the form of principal accountabilities) and its position in the structure. The panel should be able to seek more information from the manager/jobholder, if necessary
  - assess for each factor within the job evaluation system, the level or score which fits the job best. In some cases no single level will be a perfect match for the job; the one which is the nearest match should be chosen, bearing in mind the job’s responsibilities and the way it compares to other jobs
  - add up the points reached for each of the levels to produce a total score for the job
  - review the scores when all the jobs have been assessed, to check relativities

- Finding the factor level which is the ‘best fit’ will clearly be a matter of judgement. Some jobs may fall fairly uniformly into a level whatever the factor, others may be in different levels, depending on the factor under consideration.
It is important to remember that there will be no ready answers to the level of a job. The evaluation process is about informed judgement based on criteria which are known and can be explained.

**Communication of results**
- The evaluation panel should be broadly satisfied with the rank order produced by the evaluation exercise.
- Individual jobholders should receive written notification of their grade and points score showing points awarded against each factor. The points range for each job grade will be disclosed.
- The normal practice will apply in respect of salary progression where job grades are increased and salary protection where jobs are downgraded.

**Appeals**
- In the event that a jobholder feels that their job has been undervalued against a factor or factors, they may appeal to the evaluation panel. They should discuss the matter with their immediate manager/director before doing so. There should be no further line of appeal after the evaluation panel.
- Appeals should be registered within ten working days of receipt of grade notification.
- The openness of the scheme and the information on results received by jobholders should reduce the need for formal appeals.

**Maintenance of the scheme**
- The scheme should be used to respond to any further upgrading claims where significant changes to job content have taken place. Claims must receive the support of the immediate manager/director.
- The scheme should be kept under review to ensure that its initial objectives continue to be met and whether these need to change to adapt to internal/external pressures.

*Source: Hay Management Consultants*
...linking pay to performance

4.83 Measures to control grade drift are only a partial solution. Councils also need to address pay progression within grades. Many authorities are addressing ways of linking pay with performance. At its simplest, this means tightening the link between pay and career progression. More controversially, some councils link pay to continuous assessment of individual performance. Performance-related pay has been introduced by many organisations in the private sector and some councils for a variety of reasons:

♦ to create a greater sense of performance consciousness - a 'Performance Culture';
♦ to improve employee motivation and hence performance standards;
♦ to increase pay and therefore improve recruitment and retention;
♦ to provide a way of managing pay progression.

4.84 There is no doubt that introducing PRP into any organisation, particularly one with a 'public service ethos', can have an immediate 'cultural' impact on staff. But as Section 2 of this handbook indicates and Section 5 shows in more detail, developing a performance-led approach to management and hence a sustained change in the way in which staff work requires a much broader range of policies. Some chief executives have argued that introducing PRP forces managers to implement the performance management measures that might otherwise be neglected. Be this as it may, PRP is only one component of this approach and is not critical to its success.

4.85 Perhaps the most controversial aspect of PRP is whether or not it affects staff motivation and consequently encourages an improvement in performance standards. Staff are more likely to perform satisfactorily if they are provided with clear objectives rather than vague instructions. Also, the Commission's staff attitude survey (Section 5) shows that the existence of clear and understood objectives and participation in their formulation has a positive impact on staff morale. There appears to be an important linkage between motivation and performance - not something that experienced managers would find difficult to accept.

4.86 Good PRP systems are based upon performance management. But while the positive impact of performance management on staff motivation and performance has been demonstrated, the pay factor has not. There is no evidence to suggest that pay itself improves staff motivation - moreover poor implementation of PRP can cause resentment and demotivate staff. There is also reason to believe that, even if pay does improve motivation, the impact in local government may be small:

♦ Public sector employees appear to be less driven by pay considerations than those employed in the private sector (supported by the IPM's recent report, Performance Management in the UK).
♦ PRP settlements in local government are generally small (typically less than five per cent of basic salary) because local government staff are rarely able to generate increased income to fund the payment.
Box 4.0
Maintenance and motivation factors

Retention depends on the avoidance of dissatisfaction

<table>
<thead>
<tr>
<th>Maintenance factors</th>
<th>Motivation factors</th>
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<tbody>
<tr>
<td>Some aspects of work associated with dissatisfaction:</td>
<td>Some aspects of work associated with satisfaction:</td>
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<tr>
<td>• Policy and administration</td>
<td>• Achievement</td>
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<tr>
<td>• Supervision</td>
<td>• Recognition</td>
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<tr>
<td>• Physical conditions</td>
<td>• Content of work</td>
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<tr>
<td>• Pay</td>
<td>• Responsibility</td>
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<tr>
<td>• Inter-personal relations</td>
<td>• Opportunities for advancement</td>
</tr>
<tr>
<td>• Status</td>
<td>• Personal growth</td>
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<tr>
<td>• Security</td>
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</tr>
</tbody>
</table>

Source: People Management: Retaining and Recruiting Professionals (Management Paper No. 4, Audit Commission, 1989)

So, while staff motivation is important and while the contribution of performance management is positive, PRP itself may have little, no or even a negative impact on staff attitudes and hence performance.

4.87 Many councils that introduced PRP in the late 1980s did so, albeit 'unofficially', to increase salaries in order to respond to recruitment and retention difficulties. The relationship between pay levels and recruitment and retention of staff is not straightforward. It is likely that the relationship between pay and staff retention (if not recruitment) is similar to that with motivation. One theory is that staff satisfaction is influenced by two separate sets of factors: maintenance and motivation factors (Box 4.O). Motivation factors are aspects of work which give intrinsic satisfaction and so motivate staff to better performance. Conversely, maintenance factors may not create job satisfaction, but they can be potent causes of dissatisfaction where they are not given sufficient attention. The Commission's staff attitude survey tends to support this view. Pay is a maintenance factor; in other words, if it is wrong it will dissatisfy staff – possibly causing them to leave the organisation – but if it is right, it is largely taken for granted. But, while pay is important, getting pay right does not depend on a PRP system.

4.88 For local government the value of linking pay to performance might appear to be limited. But there is one remaining reason for its introduction – the management of pay progression. The critical difference between the national grades and the 'classic grade structures' is the lack of a pay range above the competence level. But councils are, in practice, creating this flexibility. Some have adopted new grade structures; others have used the spinal column of pay points contained in the national agreements to construct new grade boundaries; the majority have increased grade size by 'linking' existing APT&C grades.
4.89 Exhibit 4.23 shows one such example for an authority in the South of England. This council has increased both the width and pay range of grades and incorporated additional increments to act as market supplements. Pay ranges extend to higher pay levels, allowing the council to pay more in the South's more expensive labour market. This grade structure offers greater flexibility, but the council uses annual increments for regulating pay progression within grades. Consequently, the net result may be less control over pay drift.

4.90 This feature is not uncommon; in most councils, no formal mechanism exists for linking pay progression to staff contribution - except on a time-served basis. But informally, managers are making performance judgements all the time: the initial decision to recruit into a particular grade; decisions regarding the tasks and responsibilities of staff; decisions to promote staff to higher grades. Since many of these decisions have a direct impact on pay levels, councils need to manage them on a formal and objective basis. Although councils do not necessarily need to adopt PRP in its totality, they do need to consider methods of managing pay progression.

...managing performance-related pay systems

To manage PRP systems properly, councils must consider:

♦ the balance between consolidated and unconsolidated payments;
♦ the basis for assessing performance;
♦ effective implementation of the scheme;
♦ control of the impact of the scheme on the paybill.

4.91 While pay up to the reference (competence) level would always be considered a full part of the basic pay package, payment beyond that level can be consolidated, where additional payments become a part of a new and higher base salary and cannot be withdrawn; or unconsolidated, where additional payments are treated as a bonus on top of basic pay and need to be 're-earned' in each review period. Each approach has its advantages and disadvantages (Box 4.P, overleaf). In a local government setting, where there is limited scope to 'earn' extra income to fund additional demands on paybill and with a general need to improve pay progression, a consolidated approach may be more attractive. But the LGMB's performance management and performance-related pay survey in 1993 indicated that less than 40 per cent of local government PRP schemes are consolidated.
Section 4 – Part 2
Chapter 3 Managing Pay Progression

Exhibit 4.23
Differences in grade structure

Some authorities have adopted a new structure; others have used the spinal column of pay points to construct new grade boundaries ...
Consolidated vs unconsolidated PRP

**Consolidated PRP**
- **Advantages:** Consolidated PRP provides a mechanism for managing overall pay progression and consequently improves control over pay and grade drift.
- **Disadvantages:** With low levels of staff turnover average salaries per head increase as the costs of the reward and retention of high performers are not offset by the recruitment of less experienced staff into the grade minima. Moreover, once high performers have reached the grade maxima, there is no further way of providing financial recognition for good performance. Consequently, consolidated schemes can become expensive if not properly controlled and demotivate the best performers unless further rewards are provided.

**Unconsolidated PRP**
- **Advantages:** Unconsolidated PRP avoids the problems identified above; sustained high performance can be recognised without distorting the underlying pay structure.
- **Disadvantages:** But, because it does not address overall pay progression and because in most councils, it represents less than five per cent of basic pay, unconsolidated PRP is unlikely to have a major impact on either the individual employee or the tendency for pay to drift. Also, it can be even more expensive to fund since all payments represent an additional cost to the basic paybill. Additionally, unconsolidated PRP tends to favour work on special projects or meeting particular targets, rather than sustained good overall performance.

4.92 Councils also need systems for measuring individual performance and hence pay progression. There are a variety of options available (Box 4.Q). But whatever approach, or combination of approaches, is chosen the scheme must be supported by effective systems of personal appraisal. These have been lacking in some councils, undermining not just the reputation of PRP, but also the effectiveness of pay management in general. Personal appraisal will be considered in more detail in Section 5 of this report.

4.93 Most advanced systems of PRP emphasise both performance of specific objectives and the attainment of skills and competencies. The precise mix varies considerably, but as a general rule of thumb:
- **Senior and experienced staff** should already possess the knowledge and skills necessary to perform their basic tasks well; consequently, increased performance is more likely to be associated with problem solving and accepting wider responsibility for specific projects. In this situation a greater emphasis on achieving specified objectives is more appropriate. However, there may also be important behavioural qualities that senior staff need to develop.
Junior and inexperienced staff should still be developing their skills and increasing their ability to cope with added responsibility. Also, they are unlikely to be in a position to influence the wide range of factors that contribute to achieving broader objectives. In this situation a greater emphasis on skills, competencies and specific task-related objectives is more appropriate.

PRP schemes that are in difficulties are often structurally sound but poorly implemented. The importance of good performance management systems to support pay assessment has already been mentioned. Councils with PRP schemes, and those planning to develop them, should review implementation procedures (Box 4.R, overleaf).
### Box 4.1
**Reviewing implementation of PRP: a checklist**

<table>
<thead>
<tr>
<th>Factors to consider</th>
<th>Observation</th>
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<tbody>
<tr>
<td>- The reasons for introducing PRP and the scheme’s aims and objectives have been clearly defined.</td>
<td>Examples of aims of a PRP scheme:</td>
</tr>
<tr>
<td></td>
<td>- to create a greater sense of performance consciousness</td>
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<td></td>
<td>- to improve employee motivation</td>
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<td></td>
<td>- to improve performance standards</td>
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<tr>
<td></td>
<td>- to improve recruitment and retention</td>
</tr>
<tr>
<td></td>
<td>- to manage pay progression</td>
</tr>
<tr>
<td>- PRP criteria are objective, free of personal bias or wholly subjective opinion and reinforce performance aims, values and objectives.</td>
<td>Example of linkage between performance and payment criteria</td>
</tr>
<tr>
<td></td>
<td>- performance aim: to improve customer responsiveness</td>
</tr>
<tr>
<td></td>
<td>- PRP criterion: evidence of improvement in employee’s handling of customers</td>
</tr>
<tr>
<td>- There is a clear explanation to employees of the basis of pay assessments and how payments are calculated.</td>
<td>Examples of method of explanation:</td>
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<tr>
<td></td>
<td>- explanatory presentations to staff before scheme is launched</td>
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<td></td>
<td>- issue of ‘employee-friendly’ explanatory booklet</td>
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<td></td>
<td>- personalised explanatory letters to staff, specific to each service, unit, or occupational group</td>
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<tr>
<td>- Managers have been trained in the operation of the scheme.</td>
<td>Example of method of ensuring consistency:</td>
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<tr>
<td></td>
<td>- managers’ preliminary assessments are scanned by the central personnel function to identify any evidence of significant variations in ‘marking’ standards between different managers</td>
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<td></td>
<td>- assessments are categorised, with defined levels of payment for each performance category</td>
</tr>
<tr>
<td>- Assessments of performance and the distribution of PRP payments are consistent across all the staff involved (i.e. the same standards and scale of rewards are applied).</td>
<td>Examples of different forms of reward:</td>
</tr>
<tr>
<td></td>
<td>- for exceptional work items: lump sum payments paid when item is completed (unconsolidated)</td>
</tr>
<tr>
<td></td>
<td>- for sustained high performance: salary enhancement, implemented on annual review date (consolidated)</td>
</tr>
<tr>
<td>- Consideration has been given to distinguishing between rewards for occasional exceptional work (e.g. successful completion of a difficult project) and sustained high performance in a job as a whole.</td>
<td>Example of solution:</td>
</tr>
<tr>
<td></td>
<td>- to make unconsolidated lump sum payments to high performers who have already received the maximum number of performance increments</td>
</tr>
<tr>
<td>- In a salary enhancement system (consolidated performance increments) consideration has been given to rewarding sustained high performers who reach salary scale maxima.</td>
<td>Examples of factors to be reviewed:</td>
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<td></td>
<td>- evidence of performance improvements</td>
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<td></td>
<td>- changes in staff attitudes and morale (may require checking by use of attitude surveys)</td>
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<td></td>
<td>- changes in recruitment and retention rates</td>
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<td></td>
<td>- the scheme’s costs - direct and related to the scheme’s perceived value</td>
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<tr>
<td>- Consideration has been given to team payments for work in which integrated teamwork is essential for high performance.</td>
<td></td>
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<tr>
<td>- Consideration has been given to profit-share payments (instead of, or in addition to, individual performance payments) for employees in trading units.</td>
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<tr>
<td>- PRP schemes are monitored and reviewed periodically to ensure they are achieving their intended purpose.</td>
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</table>
The impact on paybill of PRP can be less predictable than the general pay award. This is because pay increases are based upon performance ratings of staff rather than an across-the-board uplift in pay. There are a variety of ways of managing the cost of PRP schemes:

- setting cash limits on PRP payments and factoring performance scores up or down to meet this target;
- requiring PRP payments to be absorbed within departmental budgets;
- manipulating the actual performance scores into a predicted distribution and consequently a predictable impact on paybill.

Control mechanisms also need to recognise that individual managers make the performance assessments with some considerable degree of independent judgement, and so:

- there is a likelihood of differentials developing between different departments and functions with managers tending to under- or over-award;
- in the extreme, where managers feel inhibited about identifying inadequate performance, all staff score ‘above average’ levels;
- managers may try to manipulate the appraisal system to enable them to arrive at their pre-judged salary decision.

The extent of central monitoring and control of PRP assessments and payments is quite variable. Some councils set overall cash limits and rely on individual departments and managers to ensure that their overall performance scores do not force the paybill beyond budget. Others have sophisticated methods for controlling aspects of the PRP system. Box 4.S (overleaf) lists some of the options available.

Any form of central control or manipulation of performance scores runs the risk of undermining staff acceptance of the system. Staff may believe that objectivity is being compromised and the figures 'rigged'. Conversely, not seeking to 'quality control' the assessment process can have a similar impact with staff seeing PRP merely as a way for managers to reward their favourite staff – the 'blue-eyed boy' syndrome. The choices councils make will, in part, reflect their overall approach to the devolution of management responsibilities. In councils where a high degree of devolution is established, heavy-handed central control may be counter-productive. Conversely, where there is a continuing emphasis on central regulation of practices and standards, such an approach may not be out of place.
4.99 PRP is difficult to do well – and even if well managed it will always have certain problems – whichever system is chosen. But no system for managing pay progression is perfect and, for those councils wishing to develop more flexible pay management, some consideration of performance-related payments is inevitable. Box 4.T describes the PRP system in King’s Lynn and West Norfolk Borough Council which is almost a ‘textbook case’ of a particular form of PRP. This case study illustrates the quality of management processes that need to be in place to make PRP work. But it also shows that even the best constructed systems have difficulties that need to be taken account of – since they can never be fully overcome.

Box 4.S

Methods for controlling aspects of the performance-related pay system

♦ Establishing cash limits and/or performance score targets for departments: But this may discourage discrimination between high and low performance (especially in smaller-sized units) leading to ‘average’ scores for all staff.

♦ Forced distribution: Under these circumstances, managers are forced to achieve a pre-set distribution of ratings. This assumes that the true distribution is in fact a ‘normal distribution’ and that any variation on this is a result of the manager’s lack, statistically, of objectivity. The second assumption is that the average performance rating is the same in each function and department. These two assumptions may or may not be true. This system only works if there is a sufficient number of individuals to make such a statistical distribution meaningful. Therefore the overall distribution may need to be considered rather than specific departments.

♦ Normative ratings: Under this process a manager’s ratings have a correction factor applied to them which is derived from his or her long-term tendency to over- or under-rate. This tendency would be monitored and updated throughout the manager’s career and the factor applied to all ratings carried out by that manager. This method has been used with some success in the armed forces.

♦ Review of ratings: Regular checking by a senior manager, probably at the level above the appraising manager, to obtain the objective broader view.
Example: King’s Lynn and West Norfolk Borough Council.

Basis of the system – the link to performance management

In 1988 the council (which won the first public sector Investor in People award) endorsed a ‘Strategy for the Future’, outlining its corporate aims and objectives. A comprehensive system of objective-setting was developed, new job descriptions were produced and the whole pay system redesigned with 13 local grades. Jobs are priced by a proprietary job evaluation system and the whole salary structure is re-priced annually on the basis of the consultants’ advice. A staff appraisal process, linked to PRP, is an integral element of the system, operating to an annual timetable:

- April/May: appraisal interviews between each employee and his or her manager
- October: short progress review interviews
- March: managers produce overall employee performance ratings
- July: performance payments implemented

The appraisal interviews consider the previous year’s performance, any steps necessary to achieve improvement, action plans for the next year, an assessment of training requirements and the outcome of any training in the previous year. Appraisees are encouraged to undertake self-appraisal as part of their preparation for the interview.

Action plans agreed between appraisers and appraisees define key results areas and targeted performance standards (quantitative and qualitative). Action plans are weighted to indicate their relative importance and must support service and corporate goals. The employee’s various training requirements are given priority ratings and are forwarded to the personnel function so that collective training needs can be identified for action.

Payment structure

For payment purposes, managers make assessments of overall performance which are then vetted by senior managers and the personnel function to ensure consistency of assessment standards. Five performance ratings, A to E, are used, ranging from A: outstanding to E: inadequate. Ratings take account of the extent to which key tasks and standards have been achieved, but the final assessments have regard to overall job performance and are not solely confined to the identified objectives.

The council uses consolidated performance ratings to determine progression through the pay grades. Each salary grade has three ‘performance zones’ – for example, grade PG06 (£20013 to £30105 – 1993/94) is made up of:

- lower performance zone (LPZ): £20013 – £23376
- middle performance zone (MPZ): £23377 – £26742
- upper performance zone (UPZ): £26743 – £30105

The amount of performance pay (movement through the grade) is dependent on two factors – the performance rating and the performance zone of each employee’s current salary. For the same performance rating, a larger payment is made when the current salary is in the lower zone; a smaller payment when in the higher. This has the effect of allowing staff on the ‘learning curve’ to progress
more rapidly than those in the top zones – in other words it becomes more and more difficult to exceed current performance. The amounts paid are calculated by taking a standard percentage of the mid point of each grade and multiplying this for each individual by the factors shown in the following table:

<table>
<thead>
<tr>
<th>Performance rating</th>
<th>Position in grade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LPZ</td>
</tr>
<tr>
<td>Outstanding</td>
<td>2.00</td>
</tr>
<tr>
<td>Very good</td>
<td>1.50</td>
</tr>
<tr>
<td>Good</td>
<td>1.25</td>
</tr>
<tr>
<td>Fully acceptable</td>
<td>1.00</td>
</tr>
<tr>
<td>Marginal</td>
<td>0.50</td>
</tr>
<tr>
<td>Inadequate</td>
<td>Nil</td>
</tr>
</tbody>
</table>

The resultant monetary sum is incorporated into salary. Performance payments for marginal ratings are made only in an employee's first two years' service to recognise progress during the learning curve. Seventy per cent of employees received PRP awards in 1993; most of those not receiving payments being either at their grade maxima or having fully acceptable ratings in the UPZ.

Observations on system structure and management

This is one of the most systematic and comprehensive PRP schemes operating in local government:

♦ It applies to all staff from the chief executive down to basic clerical staff.

♦ It is about as objective as a scheme can be (key objectives are given statistical weightings so that eventual assessments can be scored).

♦ It is one of a few schemes which pay more for the same rating to less experienced staff than to those who have reached the upper parts of their pay grades. In other words it is able to reflect the ‘learning effect’.

♦ It is very strongly linked to personal appraisal – both of objectives and competencies.

♦ It is efficiently managed; much effort has been put into training managers in appraisal skills, and in the maintenance of consistent assessment standards. In the Commission's attitude survey 99 per cent of staff reported receiving appraisals according to schedule.

Observations on affordability and impact

Although the system is well structured and managed, there are various implications for affordability. These are inherent in any consolidated progression based system; but they can be reduced through tight control of the size of PRP awards.

PRP is paid in addition to an annual general pay award. This cost is not directly covered by identified efficiency savings. But PRP may have an unspecified impact on costs as part of the wider PM strategy.

An increasing number of employees have moved into the top sector of long pay scales which at maxima are well above market medians.

The council has recently reviewed the scheme and will provide the option of lump sum payments (i.e. not consolidated into salary) to staff in the upper zone of their grades in order to address the complaint that good performance cannot be fully recognised when staff reach the grade maxima. The lump sum payments will resolve this problem; costs will be contained within the existing cash limit for the overall budget for PRP.
SUMMARY OF ACTIONS

- Establish procedures to manage grade drift
- Consider ways of linking pay progression with staff performance
- Review the use and implementation of existing performance-related pay schemes
What is the council's policy on controlling pay management?

- Has the council considered the balance between central and devolved management?
- What processes does the council use to maintain control over pay management?

...central versus devolved management

4.100 It is a central theme of this study that wherever possible the details of people and pay management should be devolved to the front-line. This is relatively straightforward in people management; as long as cash limits are enforced, the decisions of one manager over staffing policy will not influence other departments. Pay management is different. Internal referencing of pay means that pay decisions in one part of the authority have an impact elsewhere. And the law must be applied across the council. Therefore, while flexible pay strategies will require the active involvement of front-line managers, there is an understandable reluctance on the part of members, chief officers and the personnel department to relinquish complete control.

4.101 Councils need to develop a tight-loose balance – establishing a clear framework of control and support measures but allowing flexibility within that framework. Establishing a tight-loose balance requires councils to identify the responsibilities of the corporate centre versus the front-line and to ensure that they are properly integrated. There is no prescriptive solution; councils will need to develop an approach that reflects their own local circumstances. Each council should address the following issues:

- **Pay policy**
  - the choice of pay system;
  - the method for determining the rate for the job;
  - the method for managing pay progression.

- **Processes and services**
  - maintaining the techniques of pay management (for example, job sizing, market tracking and PRP);
  - information services;
  - training and advisory services.
Control and evaluation

– regulating the application of processes and techniques;
– prescribing regulatory standards and guidelines;
– monitoring and reviewing experience.

4.102 The majority of councils pursue council-wide pay policies, although some now give managers greater freedom to vary the approach in their own departments. Providing managers with this freedom is acceptable, but there remains a corporate responsibility to ensure that:

♦ pay policies are clearly and explicitly defined, whatever combination exists within the council;
♦ the various processes that are necessary to support the policies are in place;
♦ these processes are being effectively and consistently managed.

4.103 Consequently, the choice of pay policy is less important than the ability of the council to demonstrate that it is being applied in a sound and systematic manner. This will not only improve the quality of pay decisions; it will also go some way towards enabling the council to demonstrate its compliance with laws relating to equal pay. Councils may need to take professional advice regarding compliance with British and European law.

...maintaining control

4.104 How much freedom should front-line managers have in determining individual rates of pay and the pay progression of their staff? Many councils centralise these decisions within the personnel department. This is understandable, but it reduces the flexibility available to managers. A more responsive approach is to give managers room for manoeuvre within prescribed limits. Thus, a manager may be given the freedom to position pay levels of a new member of staff, but only within the pay grade indicated by the central personnel department; or a manager will have responsibility for assessing PRP scores, but the total amount of money available for performance payments will be cash limited. Consequently, the limits to freedom are determined not on the basis of broad judgement, for example, through a central personnel committee, but through the application of specific pay management techniques and controls such as job sizing, market tracking and payment ceilings.

4.105 For this approach to work these techniques and controls must be properly managed and maintained. Indeed, the integrity of these systems is critical to sound pay management. This requires professional expertise and is the responsibility of the central personnel department. How rigidly these techniques are applied varies between councils. Ideally, central personnel departments should involve managers in the design and application of systems, for example:

♦ The personnel department should design the job sizing system, but it may be appropriate to involve managers in the choice of factors and their weighting for particular job types.
Job sizing and grade reviews must involve personnel professionals, but managers should also be consulted on final determination of pay awards.

The core elements of PRP schemes need to be defined centrally to ensure consistency and quality of application, but variation may be permitted within that framework to reflect specific circumstances.

4.106 If managers are to be given the freedom to break out of the normal framework this must be made transparent. The most likely example of this will be where managers feel they need to pay more than the job-sizing system permits in order to retain and recruit a particular member of staff. In these circumstances it is normally better to make the additional payment as a time-limited market supplement. This gives the manager freedom to change the decision at a future date and does not disrupt the underlying pay structure. Clearly, however, if this practice becomes the norm, it may be necessary to review whether the entire pay band needs to be adjusted.

4.107 Some standards and regulations must be determined centrally and applied equally throughout the council. For example, there are equal opportunity and contractual rules which must be complied with. There are also reporting requirements to the council and minimum data sets on staffing. There are other areas where the central personnel department will be able to provide a higher quality and more cost-effective service. Examples include market tracking and calculation of pay comparability, monitoring workforce stability and the provision of technical advice.

4.108 In a situation where the personnel department is adopting a facilitative role, it is important that front-line managers receive the training they require to carry out their personnel responsibilities and that advice and information is readily available. Managing this relationship may be served by a service level agreement; the introduction of CCT into personnel services may lead to developments of this kind. But, whether on a contractual basis or not, managers need to know the limits to their freedom and how to access central support. One way of doing this is to provide a guidance manual. Box 4.U reproduces the pay section of Berkshire County Council's Human Resource Management Guide for front-line managers.
Box 4.U
The pay section of Berkshire County Council’s Human Resource Management Guide for front-line managers

Performance criteria

- Departments should manage remuneration within a framework of rational pay structures (i.e. pay grades or scales should not be introduced or discarded on an individual or ad hoc basis).
- Pay structures may be either as specified for the authority as a whole or designed to meet the specific characteristics of a particular service or function. Departments must seek direction as to their freedom to depart from authority-wide pay structures and take professional advice on the design and implementation of any departmental pay system which may then be authorised.
- The assessment of posts (allocation of jobs to grades/scales) must be done using consistent, systematic and equitable methods. These may be either as specified centrally or (with specific authority) as approved for use in particular services or functions.
- All assessment systems must be based on thorough and consistent evaluations of job content, normally by the preparation of job descriptions (including person specifications).
- Grading decisions must be capable, on objective and consistent grounds, of withstanding critical scrutiny both for an appeal process and audit purposes.
- Where it is agreed that pay levels (or supplements) should be based directly on market comparisons, the following criteria must be met:
  - the market must be clearly defined in terms of the type of job and the comparator organisations
  - sufficient market data must be available (or be obtained) to produce adequate statistics about pay distributions (ad hoc surveys of job advertisements do not meet this criterion)
  - a policy decision must be taken on how pay structures are linked to market data (i.e. median, upper or lower quartile positions, etc.)
  - payments of any market supplements must be reviewed and revised on a regular and systematic basis
- Professional advice should be sought about the availability (or design and administration) of market surveys.
- PRP systems may be either as specified for the authority as a whole or be designed for specific services or functions. Direction and professional advice should be sought in the design of any agreed departmental systems, including the decision as to whether performance payments are additional to, or part of, the basic pay system.
- For all performance pay systems, the following criteria apply:
  - they must form part of a broader system of performance management
  - they must be based on assessments of performance against previously agreed targets and objectives which are capable of objective assessment
  - each employee’s eligibility for performance payments must be considered objectively against his or her achievements against targets (there should be no arbitrary quotas for the numbers or percentages of employees receiving various levels of payment)
  - records of payments must be kept both on employees’ files and as departmental schedules
- When changes are made to pay systems, consideration must be given to:
  - whether the changes constitute changes to the contracts of employment of existing employees
  - whether the changes require negotiation with the employee and/or the trade union(s)
Box 4.1 (continued)

- Professional advice should be sought on both these issues.
- Equitable procedures must be operated for handling grading appeals. These must follow the same general principles as apply to the processing of grievances.
- Overtime payments should not be used as a method of achieving satisfactory gross earnings levels.

**Standard requirements and indicators**

**Legislation**

- Local Government Act 1972 – requirement for remuneration to be ‘reasonable’
- Employment Protection (Consolidation) Act 1978, as amended by Schedule 2, Employment Act 1982 – new employees to be given written notification of the rate or scale of remuneration. Also, employees to be notified of changes to terms of employment
- Contract law (case law) – major changes to contracts of employment require either employees’ consent or termination of contract (i.e. dismissal) and offer of new contract

Note: the terms of nationally- and locally-negotiated agreements, and changes thereto, may be incorporated automatically in individual contracts

**Codes of Practice**

- The codes of the Equal Opportunities Commission and the Commission for Racial Equality include general reference to bias-free payment systems.
- Equal Opportunities Commission: an advisory guide – *Job Evaluation free from Sex Bias*, 1985
- Incomes Data Services: Directory of salary surveys

**Standard methods of monitoring**

- Periodic analyses of pay and grading profiles: numbers of posts/employees in each grade/scale by function/cost centre
- Periodic earnings’ analyses: average earnings per employee category/function/cost centre
- Schedules of posts and/or organisation charts, showing numbers and grades
- Periodic overtime analyses: average overtime hours/pay per employee category/function/cost centre
- Schedules of pay and grade changes in designated periods, with numbers involved
- Schedules of grading appeals and outcomes in designated periods
- Schedules of performance payments: numbers and percentages of employees by category/function/cost centre to whom payments of specified amounts have been made
- Manpower budget, and budget performance, by cost centre and employee category
Finally, as part of its regulatory function of pay policy, the personnel department should carry out an overall monitoring function. This might include specific projects such as pay review but it should also include continual monitoring of pay trends – acting to prevent anomalies developing and preventing uncontrolled pay drift.

SUMMARY OF ACTIONS

- Develop policies for controlling pay management
- Set up processes to support the policy
Councils need to review their choices of pay system and pay progression (Exhibit 4.24):

- **Determining the pay system**: By choosing when to use a rate for the job and grade-based systems. Councils will need job-sizing and market-tracking systems to support this process. Detailed definition of grade width and pay ranges will require further detailed analysis – in part influenced by the choice of pay progression system.

- **Determine pay progression**: By choosing between promotion, time-in-service or a performance-based system (or a combination thereof). These approaches will require different degrees of support from job evaluation and performance management systems (see Section 5). Detailed definition of the management processes will require confirmation that support systems are in place.
Councils need to review their choices of pay system and pay progression ...
Councils also need to maintain control over pay decisions by establishing a tight-loose balance for pay management (Exhibit 4.25).

### Exhibit 4.25
**Summary: maintaining control**

Maintain control over pay decisions by establishing a tight-loose balance for pay management ...

<table>
<thead>
<tr>
<th>Policy</th>
<th>Process</th>
<th>Corporate</th>
<th>Departmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay policy</td>
<td>Pay system</td>
<td>Clear and explicit definition of all pay policies operating in the council</td>
<td>Make individual pay decisions according to recognised policy(ies) of the council</td>
</tr>
<tr>
<td></td>
<td>Pay determination</td>
<td>Ensure that supporting processes are in place and properly managed</td>
<td>Possible freedom over choice of system operated within each department</td>
</tr>
<tr>
<td></td>
<td>Pay progression</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processes and services</td>
<td>Job sizing</td>
<td>Maintain the integrity of pay management systems</td>
<td>Make pay decisions within the limits prescribed by pay management systems</td>
</tr>
<tr>
<td></td>
<td>Market tracking</td>
<td></td>
<td>Freedom permitted within those limits</td>
</tr>
<tr>
<td></td>
<td>PRP</td>
<td></td>
<td>Departure from these constraints to be agreed centrally, made transparent and limited in extent</td>
</tr>
<tr>
<td></td>
<td>Training and advisory services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control and evaluation</td>
<td>Job evaluation panels</td>
<td>Establish procedures for maintaining processes</td>
<td>Participate in control and evaluation procedures</td>
</tr>
<tr>
<td></td>
<td>Monitoring of PRP</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Work stability indicators</td>
<td>Collect, provide and interpret information relevant to pay management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Statutory requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pay review</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitoring of pay trends</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Audit Commission*
<table>
<thead>
<tr>
<th>Section 4</th>
<th>Pay Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annexes</td>
<td></td>
</tr>
<tr>
<td>1:</td>
<td>Measuring internal pay consistency</td>
</tr>
<tr>
<td>2:</td>
<td>Pay consistency and comparability</td>
</tr>
<tr>
<td>3:</td>
<td>Chief officers' pay</td>
</tr>
</tbody>
</table>
This annex describes the Commission's job-matching tool. Councils may use this tool, either as part of the audit or independently. In the latter case, councils should approach their auditor for full details of the methodology and the supporting information they will need to apply the tool. Full details are not provided in this annex.

The objective of the job-matching tool is to evaluate the pay of a sample of junior and middle ranking jobs (up to the bottom or middle of the PO scale):

♦ to see how pay levels for jobs of different size compare with other local authorities;
♦ to review whether these comparative pay levels are consistent with the authority's declared pay policy;
♦ to determine whether there is internal consistency in the levels of pay for different jobs.

This tool is based on a job-matching exercise carried out by Hay Management Consultants for the Audit Commission in Autumn 1993. Pay data was analysed for 38 local authorities throughout England and Wales. It was also compared with equivalent data from other sectors of employment.

Job matching is not the same as full job evaluation. Job evaluation requires evaluators who are trained in a particular proprietary scheme and who are able to evaluate the size of any individual job. In contrast, job matching uses a set of job descriptions that have already been sized and asks whether the organisation employs people who fit any of the descriptions. The job descriptions are designed to cover job types that are likely to be fairly uniform between different authorities and for which the importance of the job is unlikely to be affected by the size of the local authority.

But the form of job matching used in this tool cannot take account of subtle differences in job descriptions. Furthermore, because it depends on a certain amount of subjective judgement by the person doing the job matching, it relies on their integrity not to introduce any systematic bias. This tool should not be viewed as an alternative to job evaluation, but as an initial assessment of whether a more detailed evaluation is likely to be fruitful. Any authority that has recently applied a proprietary job evaluation scheme is less likely to gain value by applying this job matching, although they may still be interested in a comparison with a representative set of other authorities.
4.117 The council will be provided with job descriptions for around 80 separate posts (for an example see Box 4.V, overleaf). Managers will match as many jobs as possible to these descriptions and calculate the mean pay level for each job type. The council's auditor will provide the job sizes for each job type, enabling the council to construct graphs showing pay consistency, similar to those used in this handbook.
### Box 4.V

**Examples of job descriptions: Accounts Clerk**

<table>
<thead>
<tr>
<th>Job Ref Code</th>
<th>Job title</th>
<th>Job purpose</th>
<th>Representative activities</th>
<th>Differentiating factors</th>
<th>Experience and reporting structure</th>
</tr>
</thead>
</table>
| A08          | Accounts Clerk  | Performs basic manual or computer-related accounting tasks typically within a sub-section of the accounting function. | 1. Processes e.g. payments/invoices/vouchers in accordance with standard routine(s) checking for completeness and/or obvious errors.  
2. Extracts specified information from documents or adds appropriate e.g. standard coding/attachments to documents.  
3. Compiles simple summaries of information relating to documents processed.  
4. Locates and extracts information from files/records as requested.  
5. May perform simple additions, subtractions, multiplications, divisions manually and/or using a calculator.  
6. May assist more senior clerks under close supervision. | This junior accounting clerical position requires numeracy but does not require knowledge of accounting or bookkeeping. This could be an entry position or require a modest amount of previous clerical experience. The jobholder requires familiarity with routine clerical procedures appropriate to the job. Minimal work organisation is required to meet deadlines within the day and non-standard situations are referred to a more senior clerk or supervisor. The job may require use of a VDU/computer terminal to input or access information. |                                                                                                                                                                                                 |}

| A09          | Accounts Clerk II | Carries out routine accounting clerical duties associated with a specific accounting function. | 1. Processes payments/invoices/vouchers within closely defined procedures.  
2. Verifies calculations, checks or allocates codes, checks or obtains correct authorisation and obtains information for incorrect or incomplete documents.  
3. Scans e.g. statements/ledgers/accounts to identify unusual/overdue items and selects the correct procedure for action, referring more complex items to a supervisor or senior clerk.  
4. Prepares and/or verifies computer input where information is coded for computer processing.  
5. Investigates statements/ledgers/records in order to establish the facts required to deal with queries raised by suppliers/customers/departments.  
6. May prepare ad hoc information and/or statistical breakdowns, as directed, from readily available sources  
7. May raise standard letters in response to queries.  
8. May have limited telephone contact with e.g. customers/suppliers to pass/receive routine information. | This position normally requires some previous office experience. The jobholder requires a good understanding of the procedures related to the job and how they fit the overall functioning of the department. The system itself provides some supervision but the jobholder is required to organise work to meet priorities and achieve deadlines. Non-routine items will require the involvement of a supervisor or more senior clerk. The job may require use of a VDU/computer terminal to input or access information. |                                                                                                                                                                                                 |
<table>
<thead>
<tr>
<th>Job Ref Code</th>
<th>Job title</th>
<th>Job purpose</th>
<th>Representative activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>A10</td>
<td>Accounts Clerk III</td>
<td>Undertakes a range of specialised accounting clerical duties within a specific accounting function.</td>
<td>1. Analyses data from e.g. statements/ledgers/accounts. 2. Identifies and undertakes initial investigation of variances against budgets/standards. 3. Collates and/or extracts data and produces routine reports, schedules, summaries and letters to e.g. customers/suppliers. 4. May deal with e.g. customers/suppliers on the telephone to exchange information and/or clarify facts. 5. May provide ad hoc analyses and summaries of information as requested. 6. May provide technical guidance and/or assist in the initial training of less senior clerks. This is a position for an experienced accounts clerk with a sound knowledge of bookkeeping/accounting techniques, as may apply to the job. The jobholder requires the ability to arrive at conclusions and follow the most appropriate course of action, within procedure constraints. The job may require use of a VDU/computer terminal/mini computer to input or access information.</td>
</tr>
<tr>
<td>A11</td>
<td>Accounts Clerk IV</td>
<td>Operates as a senior accounting clerk undertaking the more technical clerical accounting operations related to a specific accounting function; may have responsibility for the instruction and guidance of other accounting clerks engaged in routine work.</td>
<td>1. Prepares reports from statistical and financial information to ensure management receives appropriate information in an accurate and timely manner. 2. Maintains e.g. ledgers/statements/accounts and within established procedures takes appropriate action to secure or make payment/resolve discrepancies. 3. Deals with the more technical aspects of and/or troubleshoots on work handled by less senior clerks. 4. Deals with external sources e.g. customers/suppliers in order to resolve non routine queries and problems. 5. Likely to provide technical guidance and/or assistance in the training of less senior accounts clerks. This position requires considerable accounting experience and a thorough understanding of accounting techniques and customs as they apply to the activities of the section/department. It does not require knowledge to the level of part professional qualification. Elements of the job may require use of a VDU/computer terminal/mini computer to input or manipulate information.</td>
</tr>
</tbody>
</table>
Box 4. V (continued)

<table>
<thead>
<tr>
<th>JobRefCode</th>
<th>Job title</th>
<th>Job purpose</th>
<th>Representative activities</th>
<th>Differentiating factors</th>
<th>Experience and reporting structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>A12</td>
<td>Accounts Clerk V</td>
<td>Operates as a senior accounting clerk personally undertaking the more complex clerical operations relating to a specific accounting function and typically coordinates the work of accounting clerks engaged in routine work.</td>
<td>As Level 11 except: 5. Produces regular and/or ad hoc analyses of information relating to work processed. 6. Trains and, on a day-to-day basis, motivates a group of between two and five less senior accounting clerks and oversees the quality of their work. 7. May assist in the selection of potential new recruits.</td>
<td>This position requires considerable accounting experience and a thorough understanding of accounting techniques and customs as they apply to the activities of the section/department. It does not require knowledge to the level of part professional qualification. It is likely that the jobholder will require an appreciation of the operation of the major functions within the organisation. Elements of the job may require use of a VDU/computer terminal/mini computer to input or manipulate information.</td>
<td></td>
</tr>
</tbody>
</table>

Note: Derived by Hay Management Consultants and contained in the Audit Guide supporting this study.
Local authorities show marked variation in the way in which internal pay levels reflect the regional pay market - both that of local government and the total market of all employers. In the Commission's sample of 38 local authorities, the median pay position for jobs up to around 500 job units (broadly equivalent to the most junior PO posts) was compared to the regional pay median for all employers. This showed:

- around 25 per cent of councils pay most of their staff above the regional median;
- around 20 per cent pay below the regional median;
- the remaining 55 per cent pay around the regional median.

Since the median pay position within an authority does not take account of the internal consistency of pay levels, the range of pay variation from the regional median is greater than these figures suggest - councils with poor pay consistency have a greater chance of paying more or less than the 'market rate' for a significant proportion of jobs. Provided they are able to attract and retain the quality of staff they need, authorities that are paying with reasonable consistency and at or below market rates, have economic and effective pay policies. But councils paying less consistently and at or above market rates have uneconomic and ineffective pay policies.

Exhibits 4.13b to 4.13h provide further examples for each of the categories identified in Exhibit 4.13 in Part 1, Chapter 3, and repeated in this Annex. Councils should recognise that the 'total market' is derived from a large group of employers participating in Hay Management Consultants' annual pay survey. The local government market is based on the Commission's sample of 38 authorities. Analysis of this type can help councils to judge their own pay position and ask questions about their pay policies. But, as previously indicated, the results of all pay surveys should be interpreted with care. Councils should take account of their own local knowledge when using such information.
Councils with poor pay consistency have a greater chance of paying more or less than the ‘market rate’ ...

*Note: Percentages indicate the proportion of authorities within the Commission’s sample in each category.*

*Source: Hay Management Consultants; Audit Commission*
4.121 **Authorities with high pay consistency**: Exhibits 4.13a – shown in Part 1, Chapter 3 – 4.13b and 4.13c show authorities A, B and C which possess the following characteristics:
- use of job sizing and job matching to maintain pay consistency;
- use of market tracking with little or no evidence of pay drift.

---

**Exhibits 4.13b and c**

*Pay comparability and pay consistency*

Authorities with high pay consistency...

Example B: A shire district

Example C: A metropolitan district

*Note: For Example A, see Part 1, Chapter 3.*

*Source: Hay Management Consultants; Audit Commission*
4.122 Authorities with moderate pay consistency: Exhibits 4.13d, 4.13e and 4.13f show authorities D, E and F which possess the following characteristics:

♦ use of some job sizing and market tracking, but mainly internal referencing with existing grades;

♦ no explicit policy for D and E on pay comparability leading to a wide pay scatter around the median; council F introduced increased pay rates during the late 1980s to respond to recruitment difficulties.
Exhibits 4.13d, e and f
Pay comparability and pay consistency

Authorities with moderate pay consistency...

Example D: A shire district

Example E: A county

Example F: A shire district

Source: Hay Management Consultants; Audit Commission
Authorities with low pay consistency: Exhibit 4.13g, 4.13h and 4.13i – shown in Part 1, Chapter 3 – show authorities G, H and I which possess the following characteristics:

♦ ad hoc adjustment of national grades, no formal job sizing or market tracking undermining the relationship between pay and job characteristics;

♦ inconsistency between departments suggests a breakdown of central control.

Exhibits 4.13 g and h
Pay comparability and consistency

Authorities with low pay consistency...

Example G: A large shire district

Example H: A metropolitan district

Note: For Example I, see Part 1, Chapter 3.
Source: Hay Management Consultants; Audit Commission
Exhibit 4.26 to 4.32 shows the pay levels for different chief officer functions for each authority type. Box 4.W (page 4.106) summarises the mean, upper and lower quartile salaries for the same staff groups. The pay maxima recommended within the JNC agreements are also included. Councils should review chief officer salaries, and their pay policy for these officers, in relation to:

♦ national agreements
♦ comparability with other local authorities

Note on the Exhibits: The JNC agreements allow authorities to take account of seasonal influxes, influxes of day workers and projected increases in population. Increases due to each of the above factors are divided by four and added to the general population estimate to give the 'enhanced population'. The enhanced population, as reported to the LGMB, has been further adjusted in the exhibits to protect the anonymity of individual authorities: the data have been banded into groups of at least three local authorities and are presented as the average enhanced population of those authorities within the band. Some local authorities have not made data available. In these cases there will be less than three authorities present in each band.
Exhibit 4.26
Chief officers’ pay

Chief education officer

Source: LGMB JNC Chief Officers’ Pay survey; Audit Commission
Chief officers’ pay

Exhibit 4.27

Chief finance officer

Source: LGMB JNC Chief Officers' Pay survey; Audit Commission

(continued overleaf)
Exhibit 4.27 (continued)

Chief officers' pay

Source: LGMB, JNC Chief Officers' Pay survey; Audit Commission
Exhibit 4.28
Chief officers’ pay

Chief housing officer

Source: LGMB JNC Chief Officers’ Pay survey; Audit Commission
Exhibit 4.29
Chief officers’ pay

Chief leisure officer

Source: LGMB JNC Chief Officers’ Pay survey; Audit Commission
Exhibit 4.30
Chief officers’ pay

Chief librarian

Source: LGMB JNC Chief Officers’ Pay survey; Audit Commission

Exhibit 4.31
Chief officers’ pay

Chief personnel officer

Source: LGMB JNC Chief Officers’ Pay survey; Audit Commission

(continued overleaf)
**Exhibit 4.31 (continued)**

*Chief officers' pay*

*Chief personnel officer*

Source: LGMB JNC Chief Officers' Pay survey; Audit Commission
Exhibit 4.32
Chief officers’ pay

Social services director

Source: LGMB JNC Chief Officers’ Pay survey; Audit Commission
Chief officers’ pay

Chief officer salary data April 1994 (basic pay)

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* The number of observations on the preceding graphs is not always identical to the number of data points
** The inter quartile range is the percentage by which the upper quartile exceeds the lower quartile

Source: LGMB JNC Chief Officers' Pay survey; Audit Commission
Managing Performance

How can the council get the best out of the people that it employs?

♦ How does the council manage performance?
♦ How does the council ensure effective implementation of performance management?

This section of the handbook is aimed at:

- chief officers and personnel professionals – describing in detail the processes necessary for improving performance management
- divisional heads and front-line managers – indicating their role within the overall policy framework
- members – who may wish to improve their understanding of some of the technical aspects of performance management
Local government is facing many external pressures and it will need to respond to and manage substantial change in a period of declining resources. Sections 3 and 4 of the handbook define technical measures to improve the flexibility and responsiveness of people and pay management. Section 2 of the handbook describes an integrated performance-led approach to managing people, pay and performance and the need for a tight-loose balance between management at the corporate level and the front-line. But these measures do not fully address the questions of how the council decides what it wants to achieve or of how to make sure that it is done.

How does the council get the best out of the people that it employs? This is a fundamental question councils must ask themselves - to answer it they need to address two main issues:

- How does the council manage performance?
- How does the council ensure effective implementation of performance management processes?

Until recently most authorities had not developed a systematic range of processes to improve council and staff performance. Research by the Commission shows wide variation in the development of these processes, which collectively are referred to as performance management (PM). This section of the handbook describes the various processes that make up performance management. Exhibit 5.1 provides a guide to the structure of the performance management section and some of the questions that councils need to answer. Box 5.A summarises the actions necessary to improve performance management.

Part 1 of this section considers performance management systems. Chapter 1 describes the functions that constitute a PM system and explores how PM relates to people, pay and personnel management. Chapters 2, 3 and 4 provide good practice guidance to councils for each process within PM.

Part 2 of this section considers the implementation of performance management. Chapter 1 considers policy issues. Chapter 2 explores in more detail the effective implementation of PM. Chapter 3 addresses management of the process and how to reduce the burden on managers. And Chapter 4 reviews methods for monitoring the impact of PM. Finally, Chapter 5 summarises the steps necessary for developing and implementing a PM system.
### Box 5.A

The actions required to improve performance management

<table>
<thead>
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<th>Part</th>
<th>Chapter</th>
<th>Action</th>
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| 1    | 1       | • Develop a performance management policy which addresses specification, communication and evaluation of objectives  
       |         | • Link performance management with people, pay and personnel management |
| 1    | 2       | • Establish a code of good practice for developing objectives and business planning  
       |         | • Define objectives and appropriate funding for each service area |
| 1    | 3       | • Develop a communication strategy  
       |         | • Implement the communication strategy |
| 1    | 4       | • Establish performance review procedures  
       |         | • Develop performance indicators for each service area  
       |         | • Develop a code of good practice for personal appraisal  
       |         | • Extend personal appraisal to all staff |
| 2    | 1       | • Develop an implementation strategy for performance management |
| 2    | 2       | • Ensure that the implementation strategy addresses:   
       |         | making it real  
       |         | making it happen  
       |         | making it work |
| 2    | 3       | • When setting up performance management, get maximum value and allow sufficient time  
       |         | • Keep systems simple and eliminate duplication  
       |         | • Plan the progress of implementation throughout the council |
| 2    | 4       | • Review the strengths and weaknesses of existing systems by using a range of measures  
       |         | • Set up periodic monitoring of progress |
Exhibit 5.1

Performance management

The structure of the performance management section and some of the questions that councils need to answer...
Section 5: Managing Performance

Part 1: Performance Management Systems
## Performance Management Systems

**How does the council manage performance?**

- What is the council's overall approach to performance management?
- How does the council determine its aims and objectives?
- How does the council communicate its objectives?
- How does the council determine success in achieving its objectives?
Section 5

Managing Performance

Part 1

Performance Management Systems

Chapter 1

Approaches to Performance Management

What is the council's overall approach to performance management?

♦ What processes are included in the council's performance management policy?
♦ Does the council link performance management policies with other management processes?

...performance management processes

5.6 Performance management should improve the individual performance of staff, by setting individual objectives, identifying training and development needs and assessing the results through personal appraisal. But these measures will have more impact if integrated with processes to improve organisational performance: the definition of corporate and service level aims and objectives, business planning and performance review. Also, successful targeting of the efforts of the council and its staff depends on assessing the views of those outside the council through external communication, and on taking advantage of internal knowledge and passing back to staff relevant information through internal communication.

5.7 Consequently, PM consists of six separate functions, which can be combined into a PM strategy based upon three processes covering both individual and organisational aspects of performance management (Exhibit 5.2):

♦ Specification: A set of financially realistic strategic and functional aims and objectives which cascade through the organisation into specific objectives for each employee. These are expressed in terms of desired outcomes and specific input/output-related targets; they are supported by business planning processes in addition to the annual budget cycle. Specification helps councils to develop detailed and properly budgeted policies which respond to external pressures and provide more and better services with less money.

♦ Communication: External communication, to help define objectives that are responsive to public needs, and internal communication, to ensure that staff are aware of their own responsibilities and can contribute to the detailed formulation of policy, so that policies are realistic. Good communication enables councils to recognise and
respond to external pressures and, in combination with personnel management, equips staff with the skills and understanding necessary to give of their best; it also enables staff to give their views on how they are managed in achieving their objectives.

- **Evaluation**: Performance review tracks the performance of departments and service units and identifies actions necessary for improvement; personal appraisal extends this to the level of the individual employee. Good evaluation enables councils to maintain control and accountability and to explain and interpret the specification down to the level of the individual department, function and staff member.

5.8 Although it is not necessary for each of these processes to operate in precisely the same way in each part of the council – indeed there are advantages in allowing individual departments to develop their own tailor-made procedures to suit their local requirements – it is important that the strands that link different processes are in place. This will require a corporate lead – normally from the chief executive and head of personnel with strong backing from members – and the active participation of divisional heads in developing the system. It will also require a degree of formality in reporting arrangements between management tiers and a method for engaging members at the strategic level.

---

**Exhibit 5.2**  
**The structure of performance management**

PM consists of six separate functions which can be combined into a PM strategy based upon three processes ...
5.9 Good practice for each of the processes within PM is described in Chapters 2 to 4 of this part of Section 5 of the handbook. But councils should also ensure that PM links with wider management processes.

...wider integration

5.10 PM represents the heart of a performance-led approach to management. But to contribute fully to efficiency and effectiveness, PM needs to be integrated with a wider range of council policies (Exhibit 5.3):

- people and pay management to improve organisational performance;
- personnel and pay management to improve individual performance.

Exhibit 5.3
The wider integration of performance management

To contribute fully to efficiency and effectiveness, PM needs to be integrated with a wider range of council policies ...
5.11 People management focuses on the number of staff, and the way that they are organised and matched with workload. But before considering these operational issues, managers need to be clear about their objectives; the activities and services they are going to provide and hence the resources they will need. PM helps authorities to **target resources** better (Exhibit 5.4).

**People management** and PM practices are closely linked:

♦ The setting of objectives and business planning are necessary for targeting resources and defining cash limits.

♦ Setting objectives and performance review can be closely aligned with internal review of services and benchmarking techniques.

♦ External communication can provide information on good practice and therefore be linked with benchmarking.

♦ Changes to staffing structures may require job evaluation and changes to pay systems with tighter management of pay progression. Objective setting and personal appraisal are necessary to support those processes.

Councils should ensure that these processes work together to improve the performance of the organisation.

---

**Exhibit 5.4**

Integrating performance management to improve organisational performance

PM helps authorities to target resources better ...

Source: Audit Commission
5.12 Similarly, PM needs to be aligned with pay and personnel management to optimise individual contribution (Exhibit 5.5):

- Changes to organisation and staffing structures, the development of objectives and the devolution of responsibility must be supported by training and staff development policies.
- Better targeted training and development programmes require effective personal appraisal.
- Personal appraisal and internal communication support the staff welfare and staff motivation elements of personnel services.
- Pay policies are closely associated with recruitment and retention functions.
- Individual objectives and personal appraisal are necessary to support performance-based pay progression and job evaluation of individual posts.

Councils should ensure that these processes work together to improve individual performance.

5.13 Pursuing an integrated approach means aligning the various processes necessary for effective people, pay, personnel and performance management and recognising the linkages between separate processes. But it does not mean building an over-elaborate and bureaucratic system, a triumph of procedure over substance.

---

**Exhibit 5.5**

*Integrating performance management to improve individual performance*

PM needs to be aligned with pay and personnel management to optimise individual contribution ...
5.14 Many councils are developing PM techniques. Few have fully integrated systems. Although the precise approach varies between authorities, the main elements are similar. Annex 1, at the end of this section, provides case study examples in ten councils. Although councils should review all the case studies, attention will be drawn to the relevance of specific examples. In the case of an integrated approach to PM, the following councils are of special interest:

- Cambridgeshire County Council (Box 5.P)
- Fareham District Council (Box 5.Q)
- Hampshire County Council (Box 5.R)
- Solihull Metropolitan Borough Council (Box 5.V)

5.15 Many sources of information are available on PM techniques. Among the various organisations that practitioners may wish to contact are:

- the LGMB
- the Institute of Employment Studies (IES) (formerly the Institute of Manpower Studies)
- the Institute of Personnel and Development (IPD) (incorporating the former Institute of Personnel Management)
- the Society of Chief Personnel Officers (SOCPO)

**SUMMARY OF ACTIONS**

- Develop a performance management policy which addresses specification, communication and evaluation of objectives
- Link performance management with people, pay and personnel management processes
Specification

How does the council determine its aims and objectives?

♦ Does the council have processes for identifying service objectives?
♦ How does the council ensure that these processes are relevant and useful?
♦ What is good practice?

...the process of specification

5.16 The heart of the PM system, indeed of integrated management of people, pay and performance, is the process of specification. This consists of two parts:

♦ **The setting of aims and objectives:** Beginning at the corporate level and cascading down to service level/departmental objectives. These are then translated into key tasks and workplans for individual members of staff.

♦ **A business planning process:** At both the corporate and departmental level; integrated with aims and objectives and linked with the annual budgeting cycle.

...making specification work

5.17 There is a risk that the setting of aims and objectives will become a bureaucratic and cosmetic exercise irrelevant to the 'real' management of the council. If this occurs, the entire process of PM will become a waste of time. To avoid this, specification must be:

♦ **Relevant:** Objectives must reflect real service needs that are tested through external communication, the political process and the active involvement of management and staff.

♦ **Comprehensive, but manageable:** Objectives need to cover all the activities of the council; this means addressing not only a small number of specific or new projects but also the regular tasks of a department. This will involve the detailed identification of objectives within departments and possibly the clarification of regular procedures and standards (for example, Kings Lynn and West Norfolk Borough Council has developed a ‘procedure manual’ identifying each step in the annual financial cycle). At the same time, managers must guard against this process becoming too bureaucratic, time-consuming and unmanageable.
Financially realistic: Objectives can easily become an unrealistic ‘wish list’ which is then ignored. To prevent this, objectives must be funded, which means developing them within a business planning framework.

Aims and objectives should be SMART: That is, specific, measurable, agreed, realistic and timebound. If objectives do not satisfy these requirements they will not address the issues raised above; they will fail to focus on recognisable actions that managers and staff can implement and they will be incapable of monitoring and evaluation. A good discipline is to ensure that objectives are capable of being tested through performance review – if this is not the case, then they are unlikely to be SMART.

...good practice

5.18 Box 5.B (overleaf) and Box 5.C (on page 5.16) provide summaries of the key elements of setting aims and objectives and business planning. Councils should use these as a checklist when developing their own systems. They should also refer to the case studies for the following councils (contained in Annex 1 at the end of this section of the handbook):

- Berkshire County Council (Box 5.O)
- Cambridgeshire County Council (Box 5.P)
- Hampshire County Council (Box 5.R)
- the Royal Borough of Windsor and Maidenhead (Box 5.X)

SUMMARY OF ACTIONS

Establish a code of good practice for developing objectives and business planning

Define objectives and appropriate funding for each service area
The authority’s mission (its fundamental purpose) and core values (the qualities to be upheld throughout all its activities) are defined.

**Example of a mission statement:**
- To promote the economic, social and environmental well-being of the local community, through cost-effective services provided by or for the authority, and by acting as a focus for community action in influencing and lobbying other relevant organisations.

**Example of core values:**
- Responsiveness to the needs and views of customers and citizens
- Integrity, fairness and openness in internal and external relations and communications
- Equality of opportunities
- Financial prudence

There is a hierarchy of aims and objectives, consistent with the mission statement and core values, beginning with definition of those for the authority as a whole. Aims (or goals) are distinguished from objectives (or targets).

**Example of an aim:**
- To enhance the town centre environment

**Example of an objective:**
- To produce a plan for pedestrianisation of the High Street within a budget of £X by 1 March 1995

Each committee and service or department defines its aims and objectives to support those of the authority as a whole, supplemented by items specific to each service.

**Example of service aim:**
- To improve public access to the town centre library

**Example of service objective:**
- To complete modifications to the library entrances, consistent with the pedestrianisation plan and at a cost not exceeding £Y, by end July 1995

Aims and objectives supportive of those of committees/services/departments are defined for each division, section, unit, etc.

**Example of divisional aim:**
- To improve the information held by the town centre library about town centre events

**Example of divisional objective:**
- To install a redesigned information display unit in the town centre library by end December 1995

Aims and objectives supportive of those of divisions or sections are defined for teams or sub-sections and for individual managers and their staff.

**Example of manager’s aims:**
- To ensure the effective provision of information about town centre events within the town centre library

**Example of manager’s objective:**
- To implement a system for the systematic collection and display of information of forthcoming events by end December 1995

At each level action plans are produced to ensure objectives are met.

**Example of service action plan:**
- To establish a project team of four designated officers (architect, planner, engineer, accountant) to produce the pedestrianisation plan: the team to commence work by 1 November 1995
All objectives are capable of objective assessment.

| Example of poorly defined objective: | To take early action to improve the non-fiction book stock on mobile rounds |
| Example of assessable objective: | By end November 1995, to increase the proportion of the non-fiction book stock on mobile rounds to X per cent |

Objectives include, as necessary, quantitative, financial, qualitative and time-related factors; are defined for all significant functions; and cover all important features of each relevant activity.

| Quantitative: | To reduce the number of administrative support staff in central support services from X to Y |
|              | To increase the percentage of planning applications decided within six weeks from X per cent to Y per cent |
| Financial:   | To achieve annualised savings of £X on telephone rental and call charges |
|              | To reduce the average cost per building control inspection to £A |
| Qualitative: | To achieve a higher proportion of ‘excellent’ ratings by customers of the leisure centre this year than last (this can be converted to a quantitative objective by specifying a targeted percentage increase) |
|              | To obtain external recognition for the quality of a specified service or function (e.g. Chartermark, BS 5750, Investor in People etc.) |
| Time factors: | To produce a report for Council on economic development strategy by 1 October 1995 |
|              | To complete a programme of customer care training for first-line supervisors by 30 November 1995 |

Objectives are supported by and are consistent with resource availability.

Objectives are kept under review and changed if circumstances arise which alter priorities or practicability i.e. all defined objectives should be ‘live’.
<table>
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Each cost centre or business unit is able to answer the questions:

- What is the primary purpose of this unit (i.e. a definition of the business)?
- What is it aiming to achieve (long and short term)?
- What factors or characteristics are of critical importance?

This aspect of business planning equates at unit level to the production of a mission statement and definition of core values.

**Example of business statement (for an in-house contractor/provider unit):**

Our purpose is to achieve and maintain a deserved reputation among all our clients for the high quality, relevance and value for money of our professional services, while ensuring our own success by meeting or exceeding our financial targets. In all our activities we will aim to ensure:

- the highest possible level of professional expertise
- priority to client requirements
- fairness and integrity
- administrative efficiency and cost-consciousness

The cost centre or business unit’s ‘market’ is researched and defined, together with the customers’ or clients’ requirements and an identification of competitors.

**Example (summary) of market analysis (for an in-house financial provider unit):**

Our current commissioning clients are... (list of clients...) for whom the services currently provided are,..., (list of services). Research has indicated a growing demand for advice on cost accounting and some diminution of demand for assistance with budget preparation. There are consequently opportunities to negotiate additional service level agreements from modifications to current agreements with,... (clients). Under CCT, there are likely to be two locally-based private sector competitors for the consultancy elements of our services, with lower overheads.

A marketing strategy is defined (i.e. how the unit’s services are publicised and promoted).

**Example (summary) of a marketing strategy (for an in-house client unit):**

To ensure the range and quality of our functions are more fully understood by councillors and the top management team, we shall:

- invite elected members and chief officers to a series of half-day seminars
- provide quarterly information and progress reports to the chief executive’s management team
- produce an annual report for councillors
The strengths and weaknesses of the unit are identified, against the needs indicated by the marketing analysis and strategy. This may be part of a systematic SWOT analysis - strengths, weaknesses, opportunities, threats.

Examples of statements of strengths and weaknesses:

We perceive our strengths are:
- detailed understanding of end-user needs
- high level of professional expertise

We perceive our weaknesses are:
- too frequent failure to meet deadlines
- no systematic quality monitoring

Action plans are produced to achieve marketing objectives and address weaknesses. Plans include timescales, resources and management accountability.

Example of action plan:
To design, test and implement an effective system for monitoring work in progress in order to ensure deadlines and cost limits are met. Manager responsible: (name), assisted by: (names)... Estimated staff time 15 days @ £120 per day. Start date: (date)... Implementation of tested system not later than: (date).

The resource implications of all action plans are analysed and any necessary corrective action is scheduled. Resources include finance, staffing (numbers, levels, skills), information and information technology, premises, plant and equipment.

Example of resource schedule:
- Planned or targeted income (from budgetary allocation or fee-generated)
- Planned expenditure (revenue and capital)
- Number of employees: managerial/professional/technical/administrative/clerical
- IT system and information sources
- Other equipment or plant

Assuming an internal trading system is operated, service costs and charges are calculated and scheduled, together with detailed income and expenditure estimates and cash flow forecasts.

Examples of options for service charges:
- Unit prices (e.g. price per payroll entry)
- Project lump sums
- Daily rates based on staff time recording
- Retainer fees

Unit performance is monitored systematically.

Examples of types of monitoring data:
- Expenditure and income analyses
- Output returns (e.g. number of transactions)
- Budget variances
- Non-productive time analysis
- Analysis of customer comments and complaints
Communication

How does the council communicate its objectives?

♦ Does the council have a communication strategy?
♦ What is good practice?

...the process

5.19 The process of specification will be ineffective if it exists in isolation; it needs to be supported by a communication strategy which takes into account:

♦ **External communication:**
  - gathering information from the community about its needs;
  - incorporating political priorities;
  - transmitting information back to the various stakeholders, describing
    the services being provided and the standards being achieved.

♦ **Internal communication:**
  - involving managers and staff in the development and evaluation of
    objectives to capture the value of their knowledge and experience;
  - ensuring that staff know what is expected of them;
    building a sense of ownership and commitment to the policies being
  - pursued by the council.

Communication overlaps with formal and informal consultation processes and also with **training and development** programmes.
...good practice

There are several initiatives an authority can adopt to develop external and internal communication; some examples are included in Box 5.D. Also, Box 5.E (overleaf) gives specific guidance on customer satisfaction surveys, which are now being used in many councils. But internal communication remains the cornerstone of a communication strategy; Box 5.F (overleaf) describes in a more systematic manner the key elements of an internal communication strategy to support aims and objectives. Councils should use these as a checklist for developing their own policies. They should also refer to the case study for Nottinghamshire County Council (Box 5.T - contained in Annex 1 at the end of this section of the handbook).

<table>
<thead>
<tr>
<th>Box 5.D</th>
<th>Initiatives an authority can adopt to develop communication</th>
</tr>
</thead>
</table>
| **Internal Communication** | Team briefings (including a core brief to be communicated to all staff)  
Seminars and training sessions (to cover new policies or initiatives)  
Away days (to encourage upward involvement in drawing up policies and plans)  
Open meetings (where any staff member can quiz chief officers about current issues)  
Staff suggestions schemes  
Staff attitude surveys (to get systematic feedback on staff views) |
| **External Communication** | Public newsletters, annual reports and press releases  
Targets to ensure prompt answering of telephones and written communications  
The wearing of uniforms or name badges by front-line staff  
Complaint forms prominently displayed in libraries and other public facilities  
The chief executive being personally available to take phone calls from the public for an advertised period each week  
Chief officers spending a regular session on an authority reception desk  
Customer surveys before and after a proposed change in service  
Regular surveys to monitor client perceptions of services  
Citizen juries, deliberative polling and community boards |
Many authorities now include customer satisfaction ratings, either performance indicators or performance targets or both. These ratings are obtained from some form of customer survey, service comment cards or questionnaire.

Ratings are normally based on responses to two types of question:

- general questions, asking for a service to be rated on a scale (e.g. excellent, good, quite good, not fully satisfactory, poor)
- specific questions about what happened when the respondent used the service

There are reservations about the value of the first type. Answers can be subjective, one person's 'good' may be another's 'poor' – answers are not standardised against any specified service level/quality.

The second type of question has much more value. Carefully worded, it can produce factual data, not opinion:

- For example, for refuse collection respondents can be asked: 'When was your bin last emptied?'
  - Was it emptied on the right day?
  - Did the operative spill any of the contents?
  - If they had to open your gate, did they close it afterwards?

A statistical analysis can be made from this type of questionnaire and numerical targets set for improved standards. If the same questions are asked on each survey, trends can be identified. For example, Redditch Borough Council uses a residents' panel, questioned in a standard format every six months.
The performance management system, its aims and processes, have been evolved through discussions and studies to which elected members and all senior managers have contributed (or had the opportunity of contributing). The system has received the formal endorsement of the appropriate committee(s) and council.

Example of main stages in evolving a performance management system:

- Chief executive gains approval in principle from elected members to conduct a study and make proposals
- Chief executive initiates a working party study of possible approaches
- Working party’s report discussed by top management team and preliminary proposals agreed
- Consultation about proposals with trade unions
- Top management team finalises proposals in the light of the consultations
- Proposals put to and approved by Policy & Resources Committee

A description and explanation of the system has been communicated throughout the authority.

Examples of forms of communication:

- Explanatory reports for all committees
- Briefing notes supplied to all managers for them to use in staff briefing groups
- The issue of an explanatory document to managers and employees at large

Training has been provided for all those involved, including appraisees (for personal appraisal schemes).

Examples of training activities:

- Seminars for elected members
- Courses for managers in:
  - objective setting
  - business planning
  - cost centre management
  - service level agreements
  - CCT (client & contractor)
  - appraisal interviewing
- Courses for appraisees in:
  - objective setting
  - self-assessment
  - the appraisal interview

(continued overleaf)
### Box 5.F (continued)

**Aims and objectives at all levels evolve by discussion between those involved, with consultation when relevant with other interested parties.**

<table>
<thead>
<tr>
<th>Examples of consultation:</th>
<th>♦ With external organisations which may be affected by or have a significant interest in proposed service objectives (e.g. voluntary agencies, community groups)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>♦ With trade unions, if there might be changes in employment levels or working conditions</td>
</tr>
<tr>
<td></td>
<td>♦ With other sections or departments if objectives imply any changes in relationships</td>
</tr>
</tbody>
</table>

**Public information is provided about aims and objectives which affect the nature or quality of public services and about the outcome of reviews of progress towards these objectives.**

<table>
<thead>
<tr>
<th>Examples of public communication (in addition to the publicity required to be given to the nationally prescribed performance indicators):</th>
<th>♦ Inclusion of information about service objectives and achievements in public newsletters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>♦ Inclusion of performance information in annual reports</td>
</tr>
<tr>
<td></td>
<td>♦ Press releases about specific objectives and achievements</td>
</tr>
</tbody>
</table>

### SUMMARY OF ACTIONS

- Develop a communication strategy
- Implement the communication strategy
Evaluation

How does the council determine success in achieving its objectives?

♦ Does the council have processes for evaluating organisational performance?
♦ Does the council have processes for evaluating individual performance?
♦ What is good practice?

5.21 There is little point to a council investing time and effort into developing objectives if it does not evaluate its performance and learn from experience. This should have two components:
 ♦ performance review – this measures organisational performance;
 ♦ personal appraisal – this evaluates individual performance.

...the process – review

5.22 Members should receive aggregate data presented in a user-friendly way a few times a year. The executive management team should receive slightly more detailed information and at more frequent intervals (for example, monthly). At the department and unit level the information will become increasingly more detailed and more frequent.

5.23 If performance review is to ‘have teeth’ it must be based upon performance indicators (PIs). When choosing these, councils should take into account the following checklist, developed by Redditch Borough Council:
 ♦ Is it relevant?
   – Does it provide a useful guide to efficiency and effectiveness?
 ♦ Is it measurable?
   – Can the target or standard be quantified in some way?
 ♦ Is it pure?
   – Does it really measure what it seems to indicate?
 ♦ Are targets realistic?
   – Can standards be achieved while still aiming to stretch and improve the service?
 ♦ Does it reflect the authority’s core values and policy objectives
   – Are targets and standards linked to specified objectives?
5.24 The use of PIs should not be regarded as an academic exercise. Where they identify poor performance, councils should take action to remedy the situation. Failure to feedback and act on the findings of performance review is a common weakness in many councils. Also PIs should be developed and used by service departments and committees, not by separate performance review machinery. Unless departments and committees own their PIs, managers often regard the PIs as a bureaucratic inconvenience rather than an aid to management and a legitimate form of control and accountability.

5.25 The Citizen’s Charter has introduced many authorities to the use of PIs. However, these will not necessarily reflect each council’s own priorities and objectives. Neither do they take account of detailed operational issues which may be an important indicator of service quality or efficiency. It is therefore important that councils develop their own PIs at each level of the authority.

...the process – appraisal

5.26 To influence all staff, the processes of evaluation must be extended to personal appraisal. Also, this is often among the most successful forms of internal communication. It enables managers to explain to staff the broad direction of policy and each individual employee’s specific responsibilities and also to answer direct questions about any concerns staff may have, in a confidential environment. Personal appraisal also provides a forum for discussing an employee’s strengths and weaknesses, any support necessary from the manager and training and development requirements.

5.27 In some authorities personal appraisal is linked to performance-related pay (PRP) schemes. It is now considered good practice to separate personal appraisal interviews for performance and development assessment from those for performance pay settlements. This is because consideration of the pay element can undermine the need for open and honest discussion that is a prerequisite for successful personal appraisal. The disadvantages of separation are the increased amount of management time required to complete more than one interview each year and the fact that a link with pay helps to ensure that appraisals are completed on time.

...good practice

5.28 Box 5.G and Box 5.H (overleaf) summarise good practice for performance review and personal appraisal. Councils should use these as a checklist for developing their own policies; but they should remember that there are many possible variations of the same theme. They should also refer to the case study examples for:

♦ Cambridgeshire County Council (Box 5.P)
♦ London Borough of Lewisham (Box 5.S)
♦ Redditch Borough Council (Box 5.U)
♦ Solihull Borough Council (Box 5.V)
♦ Swale Borough Council (Box 5.W)
### Box 5.6
**Good practice guide – performance review**

Performance indicators are identified at each organisational level, consistent with aims, objectives and core values. Every objective is capable of consistent and objective measurement or assessment.

<table>
<thead>
<tr>
<th>Examples of types of performance indicators:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ Numbers (e.g. numbers of leisure centre users per month,</td>
</tr>
<tr>
<td>and percentage change on the previous month or the same</td>
</tr>
<tr>
<td>month in the previous year)</td>
</tr>
<tr>
<td>✦ Ratios (e.g. number or percentage of complaints per 1,000</td>
</tr>
<tr>
<td>transactions)</td>
</tr>
<tr>
<td>✦ Financial indices (e.g. unit costs; fee income)</td>
</tr>
<tr>
<td>✦ Judgmental scales (e.g. customers’ views of service standards as expressed on a rating scale)</td>
</tr>
<tr>
<td>✦ Descriptive opinion (the informed views of elected members, external organisations, auditors etc.)</td>
</tr>
<tr>
<td>✦ Time factors (e.g. duration or response time per transaction)</td>
</tr>
</tbody>
</table>

Data is maintained to enable trends to be identified:

<table>
<thead>
<tr>
<th>Examples of trend data:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ Current month’s performance (e.g. number of transactions)</td>
</tr>
<tr>
<td>compared with the previous month and the same month last year</td>
</tr>
<tr>
<td>✦ Rolling three months’ averages (e.g. average monthly income for past three months; calculated monthly and charted to show trends)</td>
</tr>
<tr>
<td>✦ Weekly percentage changes in service usage against annual or monthly average</td>
</tr>
</tbody>
</table>

Performance standards and trends are monitored systematically and consistently, with key indicators reported to elected members, top management, service or unit management as required in order to ensure effective management and control.

<table>
<thead>
<tr>
<th>Example of hierarchy of key data reports:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ Council level: annual numbers and trends in overall service usage (global figures only)</td>
</tr>
<tr>
<td>✦ Committee level: quarterly numbers and trends broken down into main user categories</td>
</tr>
<tr>
<td>✦ Service senior management: monthly data, analysed by service type and detailed user categories</td>
</tr>
<tr>
<td>✦ Unit management: detailed weekly returns of service usage by type and user category</td>
</tr>
</tbody>
</table>

Performance monitoring data is evaluated to determine whether further action is necessary to ensure objectives are met or to amend objectives in the light of operational experience.
The purpose of the appraisal system is clearly defined and has been explained to managers and employees at large.

**Example (summary) of explanatory statement:**

- To assist each employee to achieve a high standard of performance in the work which is necessary to enable their service and section to meet its own and the authority's aims and objectives.
- To identify employees' training and development needs.

The appraisal process includes consideration of past and current performance, and sets future objectives.

**Example of structure of an appraisal discussion:**

- Performance against previously agreed objectives
  - Current job content (does current job description require amendment?)
  - Revised or new objectives for next review period
  - Employee's long-term job/career development needs

The process addresses work or task performance and the employee's skills and competence i.e. it is both task- and employee-focused.

- **Task focus:**
  - Assessment of the extent to which an employee has achieved a previously agreed objective
- **Employee focus:**
  - Assessment of the nature and level of skill or competence demonstrated in (and required for) the achievement of this objective

Objectives evolve through discussion between each employee and his or her manager.

**Example of criteria for objectives:**

- Related to and supportive of sectional, service and corporate aims, objectives and values
- Capable of achievement by motivated and adequately competent employees
- Capable of objective assessment

**Appraisal discussions include appraisees' suggestions for improvements and views on the support needed from their managers, i.e. the process is two-way, not simply concerned with managers' assessments.**

**Example of questions to be addressed:**

- Is there anything about the way the manager works which creates difficulties for the employee?
- What action might the manager take to help the employee achieve his or her objectives?
- Are any changes required to work systems or procedures?
An action plan is agreed for each objective (unless action is self-evident within the description of the objective). The objective states what is to be achieved; the action plan states how this is to be done.

<table>
<thead>
<tr>
<th>Example of objective and action plan:</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Objective: To increase the number of job-sharers by 20 per cent over the next 12 months</td>
</tr>
<tr>
<td>♦ Action plan: to run a management seminar and produce a management guidance note within the next three months and to include references to job-sharing in recruitment advertisement</td>
</tr>
</tbody>
</table>

Appraisal administration and paperwork is kept to a necessary minimum, and the process is not driven or constrained by its formal documentation.

<table>
<thead>
<tr>
<th>Examples of simple documentation include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ No forms, but a note is produced by manager and employee listing key outcomes, objectives for next period, action plans</td>
</tr>
<tr>
<td>♦ A simple form with four headings: performance in last review period, any changes to job, objectives for next period, action plan</td>
</tr>
</tbody>
</table>

The appraisal does not include discussion or consideration of performance pay: i.e. any pay decisions are linked only indirectly with the appraisal.

<table>
<thead>
<tr>
<th>Example of linkage:</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Appraisal discussion takes place in January</td>
</tr>
<tr>
<td>♦ Performance pay discussions made in March for April payment. The earlier appraisal ensures managers are well-informed about performance standards before deciding pay, but pay does not 'infect' the appraisal</td>
</tr>
</tbody>
</table>

Senior management and the personnel function monitor the appraisal process to ensure consistency of approach and to identify matters requiring corporate action.

<table>
<thead>
<tr>
<th>Example of senior manager involvement:</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Each manager submits his or her appraisals of their staff to the next higher management level before results are finalised</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example of personnel function involvement:</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ All appraisal results are scanned to identify group training and development needs</td>
</tr>
</tbody>
</table>

**SUMMARY OF ACTIONS**

- Establish performance review procedures
- Develop performance indicators for each service area
- Develop a code of good practice for personal appraisal
- Extend personal appraisal to all staff
Section 5:
Managing Performance

Part 2:
Implementing
Performance Management
<table>
<thead>
<tr>
<th>Section 5</th>
<th>Managing Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 2</td>
<td><strong>Implementing Performance Management</strong></td>
</tr>
<tr>
<td></td>
<td>How does the council ensure effective implementation of performance management?</td>
</tr>
<tr>
<td></td>
<td>♦ What is the council's policy for implementing performance management?</td>
</tr>
<tr>
<td></td>
<td>♦ How does the council ensure that performance management works?</td>
</tr>
<tr>
<td></td>
<td>♦ How does the council prevent performance management becoming a burden to managers?</td>
</tr>
<tr>
<td></td>
<td>♦ How does the council monitor the impact of performance management policies?</td>
</tr>
</tbody>
</table>
What is the council's policy for implementing performance management?

5.29 The earlier part of this section concentrated on two themes:
♦ describing the separate functions that make up performance management (PM) and providing good practice guidance on their operation;
♦ emphasising that a performance-led approach to management is more than a collection of separate processes; it requires integration of functions within PM and more widely between PM, paybill and personnel management.

Experience shows that moving from one to the other is easier said than done. But few would deny that these measures represent no more - or less - than the normal processes of good management. PM is therefore not a theory or an option; it is a fact of life.

5.30 Making PM a success has more to do with implementation than with skill in managing each separate function; councils need policies that address:
♦ effective implementation - to ensure that processes are soundly based and carried through to the front-line managers and staff who deliver services to the public;
♦ managing the process – to ensure that the implementation of PM is achievable and manageable and does not place an unreasonable burden on managers;
♦ reviewing and monitoring PM – to judge the need for and effectiveness of PM processes and the impact they are having, particularly on staff.

5.31 Together, these elements constitute an implementation strategy for PM. Each is considered in the following three chapters. It is important that managers pay as much attention to implementation issues as to individual features of good practice.

SUMMARY OF ACTIONS

Develop an implementation strategy for performance management
Developing Performance Management

How does the council ensure that performance management works?

♦ Has the council considered the different steps necessary for effective implementation?
♦ How does the council make performance management ‘real’ to staff?
♦ How does the council make performance management ‘happen’ at the front-line?
♦ How does the council make performance management ‘work’ to improve services and productivity?

...elements of policy

5.32 If councils are to develop soundly based policies and to ensure that staff carry them out, they will need to operate all the PM functions together. Councils need not only to confirm that each of the ‘building blocks’ is in place; they also need to check the quality of their implementation. Ten steps are necessary for the successful implementation of PM, divided into three main stages (Box 5.1, overleaf):

♦ Making it real: Many authorities are developing aims and objectives. These should be determined by members in accordance with their priorities and should be realistic and meaningful to managers and front-line staff. To make it real, three factors are important: consultation, clarification and credibility.

♦ Making it happen: Councils which have succeeded in making it real should then organise themselves to deliver their objectives. To make it happen, four factors are important: commitment, continuity, communication and conflict.

♦ Making it work: To make it work, councils must ensure that staff are able to perform and that performance can be monitored and improved. Three factors are important: competence, control and consolidation.
Box 5.1
The steps necessary for the successful implementation of performance management

| Making it real | Consultation | Carry out internal and external consultation to identify objectives, set priorities and build staff ownership |
|               | Clarification | Establish aims, objectives and key tasks for each level of the authority and for individual employees |
|               | Credibility   | Ensure that objectives are financially realistic, measurable and operationally relevant |

| Making it happen | Commitment | Sustain chief officer and member commitment and develop 'champions' at lower levels in the authority |
|                 | Continuity  | Follow through, review and improve processes for what is a long-term programme of change |
|                 | Communication | Extend initial consultation to ensure staff understanding and commitment. Link this to training programmes |
|                 | Conflict    | Identify and resolve conflicts of interest which would otherwise hamper progress |

| Making it work | Competence | Train staff in both the new management approach and any new responsibilities that may arise from delegation. Link this to communication |
|               | Control    | Develop systems for review, control and accountability which support objectives but which are neither bureaucratic nor rely on extended management hierarchies |
|               | Consolidation | Use monitoring and reviews to act to improve both performance against objectives and the operation of the management process |

5.32 Councils should ensure that they are following good practice both for each separate function of PM described in Part 1 of this section of the handbook and implementation of the whole system. PM must keep the commitment of staff at all levels, without descending into routine ticking of boxes which loses its original purpose. Senior officers and members should work together, to generate commitment for the changes which they agree and to act to put them into effect. Taken together, these ten steps – the ten Cs that make up PM – form a continuous process of setting up, managing and reviewing the performance of the organisation, of staff and of the PM system itself. Councils should use the ten Cs as a checklist when developing their own implementation strategy for PM (Exhibit 5.6).
Councils should use the ten Cs as a check list when developing their own implementation strategy for PM ...

Source: Audit Commission

...making it real

5.34 Consultation helps to determine the right objectives and build a sense of ownership for them and the processes used to deliver them. Some authorities have adopted a largely top-down approach to PM; this results in little awareness, and less commitment from front-line staff. But, a staff attitude survey carried out by the Commission (see Chapter 4 of this part and section of the handbook) confirms the importance of staff participation. For example, King's Lynn and West Norfolk Borough Council was the first local authority to obtain Investor in People status; it also achieved the highest 'score' in the staff attitude survey. The council operates an extensive and integrated communication and training programme, supported by personal appraisal of all non-manual staff. In spite of this record, when asked what he would do differently, the chief executive commented 'consult and communicate even more with staff'.

5.35 It is also important that councils consult with the wider community. Junior staff, in particular, are strongly influenced by external communication: the views of the public on the services that they provide. Feedback of this kind is real to staff – it deals with identifiable services and reflects the views of actual customers with which staff are familiar.
5.36 **Clarification** of objectives is equally important. Members can use objectives to help frame their relationship with senior officers and to evaluate performance. Senior officers can use the same processes to focus the attention of members on the issues that demand their attention, leaving operational details to front-line managers to resolve. These objectives should be integrated within the authority's financial and business planning processes and must be expressed in specific, measurable terms that are relevant to managers and front-line staff. Clear goal setting and relevant objectives were both important factors identified in the staff attitude survey. But some authorities produce extensive lists of objectives which are virtually ignored at the unit level.

5.37 Together, consultation and clarification should ensure **credibility**, both in terms of what the authority is aiming to do, how it intends to pay for it and how it intends to do it. Some authorities find it hard to develop credible targets and objectives for junior staff, whose job is simply to carry out tasks that they are given. For these employees a greater emphasis on quality standards and the development of 'competencies' is often more appropriate. For example, for a secretary it is more meaningful to specify technical skills - maybe word processing and administrative duties - and the standards expected rather than vague references to their contribution to service objectives which are the responsibility of their manager.

5.38 There can also be practical difficulties to overcome. Managers need to change their behaviour, working less by direction and more by setting objectives for their staff and monitoring their achievement through appraisals. One housing manager spoke of her efforts to complete personal appraisals twice yearly for 15 staff. Personal appraisal should represent a redirection rather than an increase in workload and should not place an excessive burden on managers' time. However, if PM is to work, managers must find time to do the job - and do it well.

...making it happen

5.39 **PM** is a long-term strategy. It requires **commitment** and **continuity** in its application; a senior level 'champion' is important. The commitment of the head of personnel is not sufficient by itself. If PM runs into problems, it does so most often if it is perceived as being driven by the personnel department rather than by the chief executive and line management. A strong lead by the chief executive and, additionally, the finance director is necessary. It is also important for members and, in particular, the leader of the council to participate, not just in setting objectives but also in drawing up a scheme. Lower level champions are important too, especially if an authority decides to begin implementing PM in selected departments. Commitment and continuity can be encouraged if the council seeks external validation of its efforts through initiatives like Investors in People or applications for Chartermarks.

5.40 Once PM has been implemented, it must be followed through. Some authorities begin with good intentions which subsequently lapse; for example, the attitude survey showed that 30 per cent of eligible staff had not received a personal appraisal interview in the past 12 months (Exhibit 5.7). In some
Exhibit 5.7
Commitment and continuity are sometimes missing

30 per cent of eligible staff had not received a personal appraisal interview in the past 12 months ...

Source: Audit Commission

councils the shortfall was over 50 per cent. Frequently these councils look good ‘on paper’, but for them PM makes little contribution to real management decisions.

5.41 Good communication is required if PM is to maintain its clarity and credibility. Communication is not merely a question of newsletters and occasional seminars. Nor is it a one-way process from the top of the organisation to the bottom. At its most advanced communication becomes indistinguishable from staff participation in management decisions and from staff development and training programmes. Leading authorities use staff appraisal, team briefings, quality circles, training cycles and open meetings with management backed up by published material. Councils should refer to the case study for Nottinghamshire County Council (Box 5.T - contained in Annex 1 at the end of this section).

5.42 PM encourages an open culture; it can reveal and sometimes generate conflicts of interest. These occur at the authority and departmental level, regarding service objectives, budgets, employee status and power. Conflicts can also emerge when responsibility is devolved to the front line. The progress of PM can be undermined by internal conflicts. Clarification of the role of members, senior officers and front-line managers will go some way to resolving these difficulties, as will recognition and enforcement of the standards and systems necessary to maintain corporate responsibilities and an effective open system for reconciling service objectives with available resources through financial and business planning. Senior officers and members must intervene to resolve conflicts and clarify policies and responsibilities before conflicts reduce the effectiveness of the organisation.

...making it work

5.43 PM normally results in some delegation of responsibility and changes the way in which middle and senior managerial and professional staff operate. This requires the learning of new skills and competencies. Leading authorities
emphasise the competence element of personal appraisal and the importance of training and development. Many have obtained or are in the process of working towards external accreditation such as Investors in People. Most treat staff development as an ongoing programme linked closely to initiatives in communication, training, staff participation and changes to organisation structures.

5.44 The development of staff is linked closely with systematic appraisal of all staff. Personal appraisal systems are well developed in many authorities. These schemes should define work objectives and the skills and development needs of employees. This should be done on a joint basis, building a sense of ownership and reinforcing the essential partnership between employer and employee. Councils should refer to the case study for Lewisham Borough Council (Box 5.5 - contained in Annex 1 at the end of this section of the handbook).

5.45 Personal appraisal supports the development of competence and control of performance at the individual level; more broadly, authorities are developing detailed standards and performance indicators (PIs) linked to service and financial objectives. This provides a control system to keep overall authority performance under review. One striking difference between traditionally managed and leading authorities is the attitude of members and chief officers towards PIs and their role in underpinning effective control. In leading authorities PIs are now treated as useful tools for managing performance. Effective management requires a wide range of information. Leading authorities have developed their own PIs, particularly in areas of operational management. Councils should refer to the case study for Redditch Borough Council (Box 5.U - contained in Annex 1 at the end of this section of the handbook).

5.46 Performance review enables councils to monitor and improve performance. But it is also important that the PM system is itself reviewed and consolidated to reflect changing circumstances. Many leading authorities, with perhaps four or five years of experience with PM, are now involved in this process. As PM systems get better and managers gain experience in their use, there is usually pressure for greater flexibility and variation at the departmental level. A less prescriptive approach to PM may emerge. Some authorities are implementing PM gradually, questioning whether processes are really necessary, ensuring that they do not become too costly or bureaucratic to manage.

SUMMARY OF ACTIONS

Ensure that the implementation strategy addresses:

- making it real
- making it happen
- making it work
There is a risk that the practical application of PM can become bureaucratic, procedure-driven and take up a lot of management time. To some extent the latter is inevitable – what is management about if not the specification, communication and evaluation of objectives? But, if PM processes become a burden, managers are likely to neglect and by-pass them; very quickly the value of the system is lost.

Just as it is essential that PM is implemented in a way that has a real impact on staff and hence services, so it is also important that the systems and arrangements that councils adopt are practical, achievable and manageable. Implementing PM is not a trivial exercise. Councils need to address a variety of issues:
♦ the initial investment in setting up the system and developing policy;
♦ the ongoing operation of procedures and processes and the updating of policy;
♦ the pace, nature and progress of implementation.

How does the council prevent performance management becoming a burden to managers?

♦ Has the council considered the burden of performance management?
♦ How does the council manage the setting up of the system?
♦ How does the council manage its ongoing operation?
♦ How does the council manage the development of performance management in different parts of the authority?

The greatest effort comes at the beginning. Managers at all levels will need to invest a good deal of time helping to formulate policies and establish management arrangements. To be effective, this will require internal and external consultation. There is also likely to be a need for staff training and support. The amount of work involved should not be underestimated.
5.50 But, councils should treat this period not as a burden to be overcome but as an opportunity to be realised. In its sample of authorities, the Commission interviewed over 200 local government professionals ranging from chief executives through to front-line managers. Although these interviews sometimes revealed dissatisfaction with elements of the implementation and ongoing operation of PM, there was almost universal and often enthusiastic recognition of the value of the setting-up stage - managers and staff found the initial questioning of policies, priorities and practices, and identification of the council’s strengths and weaknesses extremely useful.

5.51 These findings have several implications for councils:

♦ The initial investment in PM is considerable and unavoidable if authorities wish to be successful.
♦ Full and widespread participation of managers and staff should not be regarded as a ‘necessary evil’, but rather as a way of maximising the benefits of the initial investment. PM should never be seen, developed or promoted as the latest gimmick from the personnel department.
♦ Newly reorganised authorities have perhaps the most to gain from PM, but they will need to manage the setting-up stage carefully, during a period when so much management time will be otherwise engaged - and indeed when many senior staff may be new in post.

operating performance management

5.52 Councils will wish to satisfy themselves that once this initial stage is over, the ongoing operation of the PM system does not impose unnecessary burdens. In part, this will happen automatically; major policy reviews would normally occur every three to five years; the intervening years will require updating of progress not fundamental change. But PM requires some formalised structure and documentation.

5.53 Organisational aims and objectives, performance review and business planning require a reporting framework to serve members. Similarly, while many aspects of internal communication can be carried out informally, large-scale internal and external consultation requires a structured approach. But service aims and objectives and personal appraisal may not always require such a formal system.

5.54 Councils should formalise the PM process as little as necessary. Before adding to the existing procedures, they should ask themselves:

♦ Will new documents help clarity or merely create unnecessary paperwork?
♦ Are the reports needed for other parts of the organisation?
♦ If so, what is the minimum data set required?
♦ How little needs to be prescribed centrally to ensure consistency – how much can be left to local discretion?
♦ How far can PM use existing processes?
♦ Can any procedures be eliminated?
Section 5 – Part 2
Chapter 3 Managing the Process

♦ How realistic are the pressures being placed on managers and staff to operate the system – how can they be reduced?

5.55 Although the case studies of PM illustrated in this report all have a clear vision and approach, there is considerable variation between authorities in the details of the procedures adopted. There are many steps councils can take to reduce the administrative burden of PM (Box 5.J). Councils should use this as a checklist when developing their own systems.

**Box 5.J**
There are many steps councils can take to reduce the administrative burden of performance management

- **Integrating PM with existing strategic management:** PM is not something done in addition to the normal policy-making and reporting procedures of the council – it is the basis for them. Consequently, the corporate elements of PM should be incorporated into the normal council, committee and management team sessions and documentation.

- **Combining service aims and objectives with personal objectives for senior officers:** For chief officers and heads of department, corporate and departmental objectives should represent the large majority of each officer’s personal objectives. Consequently, while personal appraisal will require the addition of personal development issues and the maintenance of day-to-day operations, most aims and objectives can be transferred from corporate and departmental plans. This also promotes consistency and linkage between management tiers.

- **Balancing formal/centralised systems with informal/decentralised systems:** Most detailed elements of service level objectives and personal appraisal will not normally need to be maintained or reported outside of the immediate unit or department. Managers will wish to ensure proper documentation and reporting of the key indicators required by chief officers and members, but may rely on locally generated PIs as part of their regular management information package for the department. Similarly, while personal appraisal can be highly structured and very thoroughly documented – which may be valuable when trying to maintain the quality and consistency of assessment - most managers and staff consider the opportunity to communicate, in confidence and in a focused manner, as the real benefit of appraisal – this does not necessarily need extensive documentation. Most councils begin with a more formalised, often centrally defined and even regulated PM system. This may be useful for getting things started but as the organisation gains in experience, authorities should permit greater diversity and, where appropriate, greater informality in approach.

- **Eliminating duplication:** Many PM processes will already exist in some form within the council. This is true, for example, of policy development, budgeting and financial planning, the specification of standards and procedures and career progression and promotion. Most of these processes will have existing documentation and procedures. Some of this may need to be modified, but councils should avoid duplication. A good rule to follow is that existing processes can either be left the same (that is, they are separate from PM), changed to PM or eliminated – running in parallel should not be an option.
...developing performance management throughout the council

5.56 However committed a council may be to PM and however conscientious it may be in getting each element of implementation right, the system will still take time to set up and more time to mature and settle down. Many councils will therefore be tempted to develop PM in phases; there are three broad options:

♦ **a functional approach** – separately set up each of the functions of PM and gradually integrate them into a single system;

♦ **a departmental approach** – set up the whole system in some departments and gradually extend the approach to the rest of the council;

♦ **combinations** of the above.

5.57 Councils need to begin with where they are now - their existing practices. All councils have some elements of PM; gradually improving those processes and linking them together may well represent the easiest and most pragmatic way of developing PM. But, the dangers of a **functional approach** are twofold:

♦ the direction and momentum of the effort can become lost or fragmented;

♦ PM does not properly operate until all processes are in place, so the full benefits of implementation will be delayed.

5.58 A common pattern is for councils to begin with corporate aims and objectives and Citizen's Charter PIs. Often business planning and fully developed performance review are neglected; and communication, individual objectives and personal appraisal are ignored or delayed. Many of these councils have invested a lot of management time and often have sophisticated corporate plans. Unfortunately, evidence from interviews with front-line managers and the Commission's staff attitude survey indicate that while this approach may improve the quality of policy development, it has no impact on those people delivering services to the public. Councils may not be able simultaneously to move 'full speed ahead' on all functions, but they should not ignore or delay those elements of PM that engage front-line staff.

5.59 Some councils adopt a **departmental approach**, especially larger authorities. There is certainly merit in beginning with departments with a particular need or enthusiasm for PM. This may reflect growing competition, the desire to **reconfigure services** or, and perhaps most importantly, the **interest and commitment of management and staff**. This also allows councils to reflect the particular circumstances prevailing in different services; to go through the learning experience in a more 'favourable' environment and finally to demonstrate a working system to more reluctant departments.
5.60 The extent of PM varies between departments, with 'leaders' and 'laggards' being found within the same authority. But, it is rare for individual departments to develop PM without some of the corporate elements of the system already being in place. This confirms the importance of a strong corporate lead, but also the ability and, indeed, desirability of individual departments to pursue PM for themselves. Councils need to plan in advance for the development of PM – not allow it to emerge on an ad hoc basis.

**SUMMARY OF ACTIONS**

- When setting up performance management, get maximum value and allow sufficient time
- Keep systems simple and eliminate duplication
- Plan the progress of implementation throughout the council
Reviewing and Monitoring Performance Management

How does the council monitor the impact of performance management policies?

♦ Does the council have a policy for monitoring performance management?
♦ Does the council assess its general responsiveness and flexibility?
♦ Does the council review the operation of each process within performance management?
♦ Does the council review the implementation of performance management?
♦ Does the council review the impact of performance management on front-line staff?
♦ Does the council periodically review the overall approach to performance management?

...elements of policy

5.61 In a recent survey by the LGMB¹ 44 per cent of local authorities were already operating PM policies and a further 14 per cent were considering their introduction. Actual experience therefore varies from councils with sophisticated PM systems (like those included in the case studies for this report) through to councils with little or no explicit PM policy. Given this diversity, the Commission is not putting forward a single approach to reviewing and monitoring PM. But councils should consider the following options:

♦ Cultural review – where members and different staff groups assess the degree of external responsiveness and internal flexibility of the council.
♦ Good practice review – where members and different staff groups assess the separate functions of PM, taking into account whether systems are in place and what impact they are having on management practices.
♦ Review of implementation – a more detailed assessment of individual PM functions, the overall implementation of the PM system and the integration of PM with other management practices.

¹ Performance Management and Performance Related Pay Survey 1993 (LGMB, 1994)
Staff attitude survey – measuring staff attitudes and hence the impact of PM policies on front-line staff.

Periodic monitoring – the occasional review of the overall approach to PM by members and chief officers.

...cultural review

5.62 Councils are facing increasing pressures to become externally responsive and internally flexible. But is there a way of measuring these qualities? Fareham Borough Council used cultural review to judge whether the council had a static or adaptable culture (Box 5.K). All third-tier managers and above 'scored' the authority against this checklist of characteristics in March 1993.

<table>
<thead>
<tr>
<th>The static organisation</th>
<th>The adaptable organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reaction to external change is defensive</td>
<td>Reaction to external change is opportunistic</td>
</tr>
<tr>
<td>No systematic action to monitor customer needs and views</td>
<td>Constant monitoring of customer needs and views</td>
</tr>
<tr>
<td>Reluctance to form joint working arrangements with other bodies</td>
<td>Enthusiasm for joint working with other bodies</td>
</tr>
<tr>
<td>Internal focus on adherence to own rules and procedures</td>
<td>External focus on action to respond to opportunities and threats</td>
</tr>
<tr>
<td>High value placed on precedent</td>
<td>Enthusiasm for fresh thinking</td>
</tr>
<tr>
<td>All action driven from the top</td>
<td>Clear top direction on core values and corporate goals; otherwise, extensive devolution of decision making</td>
</tr>
<tr>
<td>Centralised systems of detailed vetting and approval</td>
<td>Central vetting limited to minimum needed to achieve corporate aims</td>
</tr>
<tr>
<td>Structure reflects/reinforces professional groupings and interests</td>
<td>Structure reflects customer groupings and needs</td>
</tr>
<tr>
<td>Systems emphasis on internal administrative convenience</td>
<td>Systems emphasis on customer convenience</td>
</tr>
<tr>
<td>Detailed, prescriptive job descriptions</td>
<td>Outline job description, emphasising job purpose</td>
</tr>
<tr>
<td>Intolerance of mistakes, emphasis on allocating blame</td>
<td>Tolerance of mistakes resulting from well-intentioned initiatives, emphasis on learning from mistakes</td>
</tr>
<tr>
<td>Reluctance to innovate in case things go wrong</td>
<td>Encouragement of innovation</td>
</tr>
<tr>
<td>Strong sense of status distinctions</td>
<td>Minimisation of status distinctions</td>
</tr>
<tr>
<td>Little attempt to tap ideas/initiative of junior/front-line staff</td>
<td>Active involvement of, and consultation with, employees at all levels</td>
</tr>
<tr>
<td>Little attention to internal communications: employees poorly informed</td>
<td>Wide-ranging internal communication: employees fully informed</td>
</tr>
</tbody>
</table>
and, after a year of implementing a range of PM-related measures, repeated the exercise – which revealed a substantial improvement in the score achieved. Councils should also refer to the case study on Fareham (Box 5.Q – contained in Annex 1 at the end of this section of the management handbook). Senior officers and members may wish to use this technique to assess their council’s overall responsiveness and flexibility.

**...good practice review**

5.63 Self-diagnostic exercises, like cultural review, do not provide councils with answers to their problems. But they do provide a way for senior staff to question the culture of the council. This debate becomes more valuable when it is focused on particular functions and processes – good practice review. The Commission adopted such an approach in a sample of authorities. A cross-section of senior staff, ranging from chief officers to unit managers, were asked structured questions about the extent and operation of PM. Researchers were able to ‘score’ councils on a PM index (Exhibit 5.8). Each score represents an assessment both of coverage (the scope of functions in operation) and effectiveness (contribution to the management process and impact on service delivery) of PM.

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**Exhibit 5.8**

**Performance management**

It is possible to ‘score’ councils on a PM index

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*Source: Audit Commission*
This approach has been adapted to develop a self-diagnostic tool for use during the audit of this study. Councils can use this either as part of the audit or for themselves. Details of the questions and how to apply them are contained in Annex 2 at the end of this section of the handbook.

**5.65** Good practice review can help councils assess their progress in developing PM in two ways:

- By providing a broadly based judgement on the coverage and quality of existing practices, it will help councils to identify shortcomings and target improvements.

- By identifying differences in the perception of, for example, chief officers versus front-line managers, the diagnostic will provide an indication of how much real impact PM is having at the front-line and whether there is a need to strengthen internal communication or address the relevance and practicality of aims and objectives.

Exhibit 5.9 (overleaf) shows an example of using good practice review - and the kinds of questions it should lead a council to address.

**...review of implementation**

**5.66** Good practice review, if used sensibly, can lead councils to question not only how well each function is operating but also how the overall process of implementation is progressing. But councils may wish to take this further and focus more on the implementation and integration of policies. To carry out a review of implementation, councils can use the ten implementation steps (described in Part 2, Chapter 2 of this section of the handbook) as a checklist. Councils should assess each of the PM functions and the wider links to people, pay and personnel management (Box 5.1, overleaf). Internal review by the personnel department rather than the use of a self-diagnostic questionnaire is more likely to be successful in this more complex review of practice.
Exhibit 5.9
Good practice review – an example

Good practice review can be used by councils to help assess their progress in developing PM ...

Note: These represent the average scores (where 1=poor; 5=good) for each element of PM (based upon the questionnaires contained in Annex 2) for a sample of members, chief officers and middle managers

Source: Audit Commission
### Box 5.L

**Review of implementation: checklist**

<table>
<thead>
<tr>
<th>Main steps</th>
<th>Short description</th>
<th>Relationship to PM functions</th>
<th>Link to other functions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Making it real</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultation:</td>
<td>• Carry out internal and external consultation to identify objectives, set priorities and build staff ownership</td>
<td>Internal/external communication</td>
<td></td>
</tr>
<tr>
<td>Clarification:</td>
<td>• Establish aims, objectives and key tasks of each level of the authority and for individual employees</td>
<td>Corporate, service level and individual aims and objectives; personal appraisal</td>
<td>Paybill management, especially benchmarking, staffing structures and job sizing</td>
</tr>
<tr>
<td>Credibility:</td>
<td>• Ensure that objectives are financially realistic, measurable and operationally relevant</td>
<td>Service level aims and objectives; business planning; performance review</td>
<td></td>
</tr>
<tr>
<td><strong>Making it happen</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitment:</td>
<td>• Sustain chief officer and member commitment and develop ‘champions’ at lower levels in the authority</td>
<td>Internal communication</td>
<td>Training and development, staff welfare and commitment</td>
</tr>
<tr>
<td>Continuity:</td>
<td>• Follow through, review and improve processes for what is a long-term programme of change</td>
<td>Performance review</td>
<td></td>
</tr>
<tr>
<td>Communication:</td>
<td>• Extend initial consultation to ensure staff understanding and commitment. Link this to training programmes</td>
<td>Internal communication, personal appraisal</td>
<td></td>
</tr>
<tr>
<td>Conflict:</td>
<td>• Identify and resolve conflicts of interest which would otherwise hamper progress</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Making it work</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competence:</td>
<td>• Train staff in both the new management approach and any new responsibilities that may arise from delegation. Link this to communication</td>
<td>Internal communication</td>
<td></td>
</tr>
<tr>
<td>Control:</td>
<td>• Develop systems for review, control and accountability which support objectives but which are neither bureaucratic nor rely on extended management hierarchies</td>
<td>Performance review, personal appraisal</td>
<td>Training and development, job sizing, pay progression</td>
</tr>
<tr>
<td>Consolidation:</td>
<td>• Use monitoring and reviews to act to improve both performance against objectives and the operation of the management process</td>
<td>Performance review, personal appraisal</td>
<td></td>
</tr>
</tbody>
</table>
...staff attitude survey

5.67 Another way in which councils can test the impact of PM policies, particularly on front-line staff, is to carry out a staff attitude survey. The Commission carried out a staff attitude survey in 17 local authorities. A total of 2,250 staff (65 per cent of the sample), divided equally between junior staff (those on scale posts) and more senior staff, returned questionnaires. Staff attitudes were then compared with the PM processes operating in each authority. As with the good practice review, this technique will be available to councils during the audit. For councils wishing to carry out their own survey, details of the approach and supporting information are contained in Annex 3 at the end of this section of the management handbook.

5.68 The survey is based upon 76 questions which are combined into 24 attitude indices, each reflecting specific factors, for example ‘staff participation in goal setting’, ‘loyalty’ and ‘attitude to changes’. Some of these indices can be further combined to create know-how and feel-good factors (Box 5.M).

5.69 A strong relationship exists between staff attitudes and the effectiveness of PM systems. Good PM is linked with staff know-how (Exhibit 5.10); high know-how is associated with feeling good (Exhibit 5.11). In particular, good communication has most impact – without this, aims and objectives have little effect on staff attitudes (Exhibit 5.12).

---

**Box 5.M**
The 'know-how' and 'feel-good' factors

'Know-how' measures staff understanding of their role. In the staff attitude survey it is represented by responses to statements on the clarity, priority, difficulty and feedback of goals set for the individual and on individual perception of participation in and contribution to the definition and achievement of goals.

The 'feel-good' factor measures job satisfaction and commitment. In the staff attitude survey it is represented by responses to statements on personal identification and involvement with and loyalty to the authority and on individual job satisfaction.
Exhibit 5.10
Staff attitudes – ‘know-how’

Good PM is linked with staff know-how ...

Source: Audit Commission

Exhibit 5.11
Staff attitudes – ‘feel-good’

High know-how is associated with feeling good ...

Source: Audit Commission

Exhibit 5.12
Staff attitudes – impact of performance management

Good communication has most impact; without this, aims & objectives have little effect on staff attitudes ...

Source: Audit Commission
5.70 Councils can use the results of such surveys to identify possible shortcomings in their own PM policies:
- by comparing overall scores for individual indices within the authority;
- by taking account of differences in score between staff types and departments;
- by comparing the council's scores with those from the Commission's sample.

5.71 In general, staff in senior posts have higher attitude scores than those in junior posts. This is not surprising; senior officers have greater access to information about the authority – and their scores on the know-how factor are higher (Exhibit 5.13). But junior officers are more dependent on PM systems to develop their understanding of the council's objectives (Exhibit 5.14). Not only does this confirm the importance of extending PM to all staff; low differences in scores between grades is a good indicator that PM policies are influencing front-line staff (Exhibit 5.15). If sample sizes are sufficiently large (a minimum of around 30 staff per category to be statistically significant), councils may also wish to investigate differences in attitudes according to gender, ethnicity and age.
Exhibit 5.13
Staff attitudes – differences by grade (1)

Staff in senior posts have higher attitude scores than those in junior posts ...

Source: Audit Commission

Exhibit 5.14
Staff attitudes – differences by grade (2)

Junior officers are more dependent on PM systems ...

Source: Audit Commission

Exhibit 5.15
Staff attitudes – differences by grade (3)

Low differences in scores between grades is a good indicator that PM policies are influencing front-line staff ...

Source: Audit Commission
5.72 Differences in attitude scores \textbf{between departments} can also reveal the impact of PM. Sometimes, especially in larger authorities, departments develop PM at different rates and in different ways. This may influence scores in some or all attitude indices. If trends can be linked to known differences in PM practices, councils can use the results to identify strengths and weaknesses in their policies (Exhibit 5.16).

\textit{Exhibit 5.16}\newline
\textbf{Staff attitudes – departmental variations}\newline

If trends can be linked to known differences in PM practices, councils can use these results to identify strengths and weaknesses in their policies ...

\textit{Note: Shows the percentage difference for attitude indices scores between the finance and library departments in the same council. In this case the library department scores an average 13 per cent higher for know-how and 10 per cent higher for feel-good.}

\textit{Source: Audit Commission}
Combining different PM monitoring techniques with local knowledge of the council's recent history and current circumstances can be very informative. Exhibits 5.17 and 5.18 contrast attitudes in four authorities. Councils should use a variety of sources to help them interpret their current practices and develop future policy.

**Exhibit 5.17**

**Staff attitudes: different experiences (1)**

Combining different PM monitoring techniques with local knowledge can be very informative ...

---

**Good practice review**

<table>
<thead>
<tr>
<th>PM functions</th>
<th>Authority A</th>
<th>Authority B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aims and objectives</td>
<td>Good</td>
<td>Very good</td>
</tr>
<tr>
<td>Business planning</td>
<td>Very poor</td>
<td>Fair</td>
</tr>
<tr>
<td>Internal communication</td>
<td>Poor</td>
<td>Very good</td>
</tr>
<tr>
<td>External communication</td>
<td>Very poor</td>
<td>Very good</td>
</tr>
<tr>
<td>Performance review</td>
<td>Very poor</td>
<td>Good</td>
</tr>
<tr>
<td>Personal appraisal</td>
<td>Very poor</td>
<td>Very good</td>
</tr>
</tbody>
</table>

* (Very good/good/fair/poor/very poor)

**Observations**

**Authority A**

This 'traditionally' organised metropolitan council has experienced considerable instability in recent years. The quality of policy formation and strategic management has been improved. But there has been little investment in internal communication and there is no personal appraisal. Awareness of the council’s objectives below third tier is limited. The 'culture' of the council remains static and averse to change at the front-line. The attitude survey confirms that considerable work remains to be done to improve PM.

**Authority B**

This stable rural district council embarked on a deliberate policy of cultural change in the late 1980s. It has invested heavily in the full range of PM practices linked to a sophisticated PRP system. It was one of the first authorities to achieve Investor in People status and has a well developed staff training and development programme. The attitude survey confirms the positive impact of these policies on staff.

*Source: Audit Commission*
Exhibit 5.18
Staff attitudes: different experiences (2)

Combining different PM monitoring techniques with local knowledge can be very informative ...

Source: Audit Commission
5.74 Whether or not councils choose to use any of the specific techniques for reviewing PM described in this report; there remains a need for periodic monitoring of the operation of PM. The precise factors that councils may wish to monitor will depend on the configuration of their own local systems. However, members and senior managers should satisfy themselves that they are able to answer a set of key questions (Box 5.N).

**Box 5.N**

**Key questions for members and senior officers in monitoring PM**

- Are the core elements of PM - specification, communication and evaluation – in place?
- Are they a key and relevant part of day-to-day management processes?
- Are they generating challenging but realistic targets and standards to guide management?
- Are these targets and standards being met?
- What benefits is PM delivering to the council?
- Is the cost of maintaining PM commensurate with the benefits being achieved?
- If not, what should be done – improvements to PM, to strategic management or to operational management?

**SUMMARY OF ACTIONS**

- Review the strengths and weaknesses of existing systems by using a range of measures
- Set up periodic monitoring of progress
To improve performance management councils should (Exhibit 5.19):

♦ **Develop PM functions and processes:** This should begin with a review of existing practices to ensure that specification, communication and evaluation are in place and conform with good practice. Councils should also assess the impact of these processes by using cultural review, good practice review and staff attitude surveys to identify areas for improvement.

♦ **Implement PM processes:** By ensuring that PM is integrated with people, pay and personnel management. Councils should make sure that front-line staff are properly engaged in PM by applying the ten Cs of PM as a checklist when developing the implementation strategy.

♦ **Consolidate PM processes:** By continuously reviewing the quality of implementation and undertaking periodic monitoring of all PM processes. This should result in a reassessment of the whole system every three to four years.
To improve performance management, councils should develop, implement and consolidate PM processes...

Source: Audit Commission
Section 5: Managing Performance

Annexes
<table>
<thead>
<tr>
<th>Annexes</th>
<th>Managing Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Case studies</td>
<td></td>
</tr>
<tr>
<td>2: Good practice review</td>
<td></td>
</tr>
<tr>
<td>3: Staff attitude survey</td>
<td></td>
</tr>
</tbody>
</table>
Case Studies

- Berkshire County Council
- Cambridgeshire County Council
- Fareham Borough Council
- Hampshire County Council
- Lewisham Borough Council
- Nottinghamshire County Council
- Redditch Borough Council
- Solihull Metropolitan District Council
- Swale District Council
- Royal Borough of Windsor and Maidenhead
<table>
<thead>
<tr>
<th>Box 5.O</th>
<th>Case Study: Berkshire County Council – an example of using business planning to support contract management</th>
</tr>
</thead>
</table>

**Issue:** Berkshire County Council has practised extensive externalisation and introduced the client/contractor split throughout its services. In consequence, it has established a large number of business units – or internal trading agencies. All trading agencies are required to produce business plans.

**Practice:** The components of the business plan are:
- A statement of the fundamental purpose and character of the business – its mission, core values and primary aims – to answer the questions: ‘What is the business there for?’, ‘What is it aiming to achieve?’, ‘What characteristics are of critical importance?’
- The key performance criteria – to answer the question: ‘How will we know how well we are doing?’
- Business history – why, how and when the business was formed and any significant precedents or experience
- The market (or sphere of activity) – who the customers are and their needs, who are the competitors, the characteristics of the market (e.g. its volatility, growth, constraints)
- Primary strengths and weaknesses of the business and action to exploit strengths and correct weaknesses
- Objectives and action plans – what the business aims to achieve in the short and long term
- Resources – financial projections of income and expenditure and other resourcing issues (e.g. staffing, equipment). Resources and action plans must be compatible
- Monitoring and review arrangements – how results are to be monitored and the business plan kept under review and revised as necessary

To help users achieve this, the authority produced a best practice guide, provided training courses and set up a new post of 'Managing Coordinator: Trading Agencies' to help managers develop the skills needed to operate on a business basis.

The guide distinguishes between business planning as a continuous management process and the production of a business plan as a document. It emphasises that planning cannot be left to the single annual event of producing the business plan. Objectives and action plans need ongoing review and adjustment in the light of experience. However, the formal business plan ‘ensures that all relevant factors are taken into account when assessing the viability of the business and setting its annual objectives’. Also, ‘...a written plan will facilitate an assessment of the implications for one part of the plan of making changes in another’.
**Box 5.P**
Case study: Cambridgeshire County Council – an example of an integrated PM system developed with the assistance of management consultants

**Issue:** Cambridgeshire County Council wished to develop an integrated approach to PM. It has now been operating PM for over ten years.

**Practice:** The scheme is based on a proprietary system (HAY-MSL Management Consultants). The authority has developed the scheme in the light of their extensive experience, but this has been done in consultation with HAY-MSL and the basic principles have remained unchanged.

The scheme is described as creating a disciplined process for linking corporate/service policies and priorities to individual jobs and is applied corporately to all managerial employees. Departments are free to extend the scheme to non-managerial staff either in full or on a simpler basis. There is a performance pay linkage but this is not an essential feature. (The county has PRP under review.)

The scheme itself does not include the setting of corporate or service aims and objectives. These are defined through another process and the PM system then picks them up and applies them to individual managers i.e. the scheme is job-related. It has specific terminology, covering all aspects of the job.

- **Accountabilities:** These describe the principal purposes for which each job exists. They do not change from year to year unless the job changes. There are normally about eight per job, covering all aspects of the job.
- **Performance:** These are the ways of measuring achievement of accountabilities and goals. They may be objective or subjective.
  - Performance standards: These are target levels of performance. Once a way has been found to measure performance, a standard can be set.
- **Goals:** These reflect the immediate priorities of the job. They indicate specific measurable levels of achievement expected within a given period of time. They can be related to standards and used to influence how a jobholder meets particular accountabilities.
- **Action plans:** These are the steps to be taken to fulfil accountabilities and achieve goals.
- **Progress reviews:** These occur regularly between jobholder and manager during a performance review period (normally a year).
- **Performance reviews:** These are held annually and consist of a detailed discussion between jobholder and manager of the extent to which accountabilities and goals have been met. Training and development needs are also identified and goals and action plans agreed for the next review period.

Four types of performance measure are used:

**Money**
- maximising income
- minimising expenditure
- improving rates of return
- comparisons with external cost data
### Time:
- work timetables
- minimising backlogs
- durations
- response times

### Reaction (views of others)
- rating by an observer or assessor
- appraisal through an inquiry or report
- comment in correspondence or media
- incidence of complaints or disputes

### Effects (outcomes):
- changes in behaviour (e.g. of customers, staff)
- take-up of service
- attainment of a standard
- before and after studies
**Box 5.Q**

Case study: Fareham Borough Council – an example of using PM to change organisational culture

**Issue:** At the beginning of 1993 Fareham Borough Council embarked on a comprehensive programme of cultural change, with the objective of moving from a traditional, centralist and static culture to one characterised by flexibility and responsiveness to the community.

**Practice:** The council pursued a wide range of initiatives:

- The values of responsiveness, partnership, openness, financial prudence and respect for the democratic process have been identified and promoted.
- Corporate and service strategic aims, particularly to promote customer responsiveness, have been identified.
- The authority has been restructured into client and contractor units across all services - not just those subject to CCT. For central support services the roles of core client, user-agent and service provider have been separated in line with the model in the Audit Commission's report, *Behind Closed Doors: The Revolution in Central Support Services* (1994).
- A new financial management system has been introduced. Complaints procedures have been established. Contractor units are developing business plans. Their services are driven and managed through client-produced specifications.
- A comprehensive performance management process has been established.
- Managers have been encouraged to adopt a participative management style.
- Staffing levels and configurations are reassessed. One objective is to reduce the proportion of expensive professionals by substituting technician-type posts.
- Skills training is being redirected from conventional qualifications to work-based competencies and the Council is committed to the achievement of the Investor in People standard.

To measure progress the council used a diagnostic tool, which comprised paired lists of characteristics considered to apply to a static organisation or an adaptable organisation.* The ‘Managers Group’ – all 30 second-tier managers together with the chief executive and the management team – scored the authority against each pair of characteristics at the beginning of the programme, together with another score for where they thought the authority should be by March 1994. The exercise was repeated in March 1994 to assess the extent to which progress had been made. At the beginning of the programme the overall mean score (on a scale of 1, extremely static, to 5, highly adaptable) was 1.7. After 12 months this had risen to 3.3.

*See Box 5.K*
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Box 5.R

Case study: Hampshire County Council – an example of an integrated PM system used to maintain control and accountability structure

**Issue:** As a matter of formal organisational policy, Hampshire County Council operates a very flat top management structure, with no multi-functional directorates. Instead, there are 20 service or function heads below the chief executive, with workforces ranging in size from over 20,000 (Education) to less than 20 (Scientific Services). Operational support functions such as Personnel have been extensively devolved and the county has one of the lowest proportions of central support staff of all county councils. The council needs to maintain control and accountability in this flat and fragmented structure - it uses performance management techniques.

**Practice:** In terms of aims and objectives, each service or function is encouraged to innovate and take ‘ownership’ of its own performance goals and standards. However, these service objectives are set within a corporate framework of aims and values, which include a strong emphasis on Citizen’s Charter principles. At the core, attention is also given to the identification of issues requiring cross-functional working.

This whole approach is explained and publicised in a management guide – *The Way We Manage in Hampshire*. Annually, all services are required to identify their primary objectives for the forthcoming year, and to submit these to the Chief Officers Management Group (COMG), through the Corporate Planning Officer (CPO). The CPO identifies issues for which achievement in one service requires collaboration from others and adds in other corporate objectives. These may derive from elected members, the Chief Executive or from COMG discussions.

The COMG considers the total implications of all the proposed objectives, including checking they are consistent with budgetary constraints, and then endorses an annual statement of ‘Key Areas for Achievement’. A lead officer is designated to monitor progress on each topic and eventually report back to COMG on outcomes. In some instances, a service head will lead on a corporate issue. For example, a programme of preparation for the extension of CCT has been led by the County Surveyor because of his experience in operating on a client/contractor basis within a CCT environment. Most services, and the corporate centre, are committed through this process to the achievement of progress on between four and eight key areas.

In addition, each service prepares or updates an annual service plan, linked to the budget process and approved by the relevant service committee. Unlike the ‘Key Areas for Achievement’ (which focus on a small number of specific targets for action within each year) service plans consist of a more general statement of the strategic aims for each service as a whole, together with long- and short-term goals. For communication purposes (including the information needs of elected members) they are drawn together in a publication entitled Directions for Hampshire: a guide to the County Council’s service plans.

(continued overleaf)
Each service or function is encouraged to evolve its own style and detailed systems of management. There is a recognition that the cultures of the various services vary considerably.

Services and functions are free to develop their own more detailed systems of performance management and individual performance appraisal within the principles set out in a corporate model. These systems range from very structured, detailed and fully documented schemes in some services (e.g. Treasurers and Surveyors) to a very informal approach with a minimum of prescribed procedure or documentation in others.
Box 5.S
Case study: Lewisham Borough Council – an example of a personal appraisal scheme

**Issue:** Lewisham Borough Council wished to link policy development to the actions of front-line staff and to develop the skills of those staff. As part of its PM system, the council has developed an employee development scheme (EDS) which includes individual objectives, performance assessment and the systematic identification of training and development needs.

**Practice:** Each department produces an annual service programme, setting out objectives and action plans. This is linked to the EDS which operates across all services and all staff, though the detailed paperwork is customised for each department. The EDS involves two formal meetings each year between each employee and manager. The principal characteristics of the scheme are:

- appraisees must be given at least three weeks’ notice of each EDS meeting
- managers must allow adequate time for each meeting - normally not less than two hours
- employee and manager are urged to prepare thoroughly for the meeting and guidance notes and preparation forms are provided to assist them with this

In an explanatory leaflet, the benefits of EDS are described as:

- For employees:
  - to be able to express views about their work
  - to discover strengths and weaknesses
  - to look at development needs and develop personal effectiveness and potential
  - to be clear about the department’s objectives and how the employee is expected to contribute to the Service Programme
- For departments:
  - to ensure each employee is contributing to the department’s objectives
  - to hear employees’ views
  - to ensure employees have the guidance and support needed to do their jobs effectively
  - to ensure employees understand what is expected of them and what they can expect from their managers and the authority

Staff are provided with individual targets. On introducing performance management in the Finance department, the Director of Finance defined the necessary characteristics of goals or targets as:

- reasonable aspirations for able people to achieve
- not so readily achievable they become discredited
- mainly but not necessarily wholly dependent on the performance of the individual, and within his or her span of control
- capable of measurement in achievement
- related to the core values of the organisation
- renegotiable when external forces demand change
**Box 5.7**

**Case study: Nottinghamshire County Council – an example of developing and communicating a single vision**

**Issue:** Nottinghamshire County Council places great importance on the need for all its 36,000 employees to understand and support its goals – in short, to establish a sense of common purpose across all services. To this end, a programme of organisational development is being evolved, entitled *Towards One Organisation*, or TOO, as it has become known.

**Practice:** The council operates a comprehensive system of **objective setting** and **performance monitoring**, including the annual production of key tasks for each service and a review of achievement against tasks for the previous year. The system is being linked to a **staff development** and performance review process to ensure that training and development focuses on the competence needed by employees, collectively and individually, for the achievement of the council’s aims and values. This process is supported by the TOO strategy. In a leaflet describing the programme, the TOO statement lists nine **guiding principles** which underline the future direction of the authority:

- to extend and improve cross-service working
- to improve forward planning
- to improve arrangements for delegating responsibility
- to strengthen commitment to customer care
- to improve service quality and delivery
- to improve communications with customers and staff
- to develop staff skills and capabilities
- to develop more streamlined management arrangements
- to develop an improved understanding of internal relationships

TOO is explained as being based on five assumptions:

- **Care and commitment** – that staff care about the quality of the council’s services and are committed to their improvement
- **No complacency** – that the quality of services can continue to improve
- **We can’t stand still** – that the accelerating change in the conditions in which local government operates demands a positive response
- **None of us is as smart as all of us** – that more effective cross-service working can achieve real improvements in the quality of services
- **Better is stronger** – that more effective working will make an important contribution to the standing of the council and local government

All these principles or aims are reflected in **objectives** and **action plans** at individual, service and corporate levels. Action specifically to communicate the TOO message has included:

- the issue of the **TOO leaflet** from which the above quotes are taken
- the production of an explanatory TOO video
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- the production of a distance learning resource for managers and service providers for working with black and ethnic minority communities
- the inclusion of the TOO themes in recruitment and induction material and other corporate activities such as management development
- a series of programmes attended by cross-departmental groups of staff. Each programme consists of a day's orientation followed by eight one-day events based in each of the council's departments to enable participants to learn about and discuss each other's work and the various service issues of the day
- customer awareness days, on which cross-departmental groups of staff discuss service issues with customer groups
- the production of a Manager's Guide to Cross-service Working, aimed at promoting and supporting effective corporate working
### Issue:
Redditch Borough Council defines the objectives of its performance review system as being: ‘To measure council services objectively through a set of numerical indicators and relate these to a set of policy objectives and core values laid down by members’.

### Practice:
The council introduced a system of performance monitoring in 1989. The system has been kept under review and developed; it now covers all the council’s activities and integrates corporate, service and individual performance targeting and assessment.

About 1,000 performance indicators have been identified at corporate and service level, including ‘satisfaction quotients’ obtained from the analysis of periodic questionnaires issued to a panel of over 500 local residents. A much smaller number of key indicators has been selected to enable members to focus on the more strategic aspects of each service. These include the Audit Commission’s statutory PIs.

The system is set in the context of a statement of the council’s ten corporate core values and objectives which have been widely publicised, internally and externally. For each service there is then a set of:

- **policy objectives** – which are subject to review but may remain relevant for a period of years
- **annual key tasks** – specific projects or achievements to be completed by set dates. A lead officer is designated for each key task, so providing a link to the tasks and targets for individual managers
- **targeted performance indicators** – both for the key tasks and for the costs and quality of the service as a whole. These performance indicators are also reflected in the performance appraisal process for individual employees

There is a strong emphasis on quantifiable indicators, together with a distinction between indicators of service activity or demand (e.g. the size of the housing waiting list) and indicators of service performance (e.g. the rate at which people are rehoused from the list). The system focuses on the latter, as volumes of demand are not within the authority’s control.

In an explanatory document for members, managers and staff, the emphasis on numerical indicators is explained thus: ‘If it is not possible to express an indicator in numeric terms, it is not possible to set targets. Performance review is about numerical analysis, though the numeric expression of the qualitative aspects of services (such as customer satisfaction) requires a more imaginative approach. ... If a service cannot be quantified at the point of delivery, then service outcomes can be quantified by measuring user satisfaction . . .’

In selecting each indicator the authority applies five tests:

- **Is it relevant** as a useful guide to efficiency and effectiveness of the service?
- **Is it measurable** and are any new information systems necessary to produce the required data?
- **Is the indicator 'pure', so that it really measures what it seems to indicate?**
- **Is the target realistic**, while still aiming to stretch and improve the service?
- **Does it reflect the authority’s core values and policy objectives?**
Box 5.V
Case study: Solihull Metropolitan Borough Council – an example of an integrated PM system focused on customer service

Issue: Solihull Borough Council introduced performance management and appraisal about five years ago and there has been steady development of the systems since then. The authority aims to use specific processes such as target setting and staff appraisal to support organisational development and cultural changes. This concept has recently been set out in diagrammatic form at the end of the case study. The authority's primary objective is to be a 'customer first' organisation and for this emphasis on customer service to permeate every aspect of the council's activities and be reflected in every employee's attitude and conduct.

Practice: This focus on customer service determines the various services' business priorities and objectives, which then need to be defined through specifications, and supported by systems and processes such as business plans, effective contract management and service level agreements. Service delivery is then ensured through guidelines on standards, effective delivery systems, procedures and protocols.

The system requires the definition of council and committee objectives, the setting of corporate, service and individual targets and a wide range of human resource functions such as effective recruitment, training and development, appraisal, team briefing and quality circles - all with requisite management support.

The effects of the whole approach are evaluated: internally through a range of performance review and appraisal systems; externally by customer feedback, community consultation and relevant assessments by outside bodies.

The authority is part of the way through its preparation for an Investor in People award and has found that IIP principles and analysis provide a strong and comprehensive framework of support to the holistic approach. In particular, linking staff development to the authority's values and objectives and creating a genuine sense of ownership and involvement are seen as essential criteria for the creation of a genuine customer first organisation. The evaluation process is also aided by a readiness to learn - from whatever source - and a realisation that improvement and innovation must be continuous.

The formal performance system is based on the annual revision in October of a rolling three-year medium-term strategy review. Following the finalisation of the annual budget, corporate and departmental targets are set in March for action in the next financial year. Most departmental targets are categorised under three headings (after estimates of demand volumes) – amount of service, quality of service and cost. For development control, for example, this might be scheduled, in part, as:

- **Demand**: Expected number of applications per 1000 population
- **Amount**: Percentage of planning decisions delegated to officers and decided within eight weeks
- **Quality**: Customer satisfaction rates
- **Cost**: Costs per application and enforcement

(continued overleaf)
A detailed review is conducted in May of the extent to which targets for the previous year have been achieved. A particular feature of the May review is a very thorough appraisal of departmental performance, with full reports being made to members of achievements against targets, together with comments about shortfalls and proposals for improvement.

Individual appraisals, which essentially include discussion and agreement of objectives and targets to support service and corporate aims, take place at six-monthly intervals.

The authority's staff appraisal booklet, issued as a guide to managers and staff, includes advice on the identification of individual objectives and targets. This suggests that any meaningful assessment of achievement relating to a single objective will normally consider performance against at least two of the following six factors:

- **Quantity**: Work volumes, caseload, numbers of transactions etc.
- **Time**: Deadlines, durations, response times, etc.
- **Cost**: Unit/transaction costs, income generation, budget performance
- **Quality**: Standards, defects, cancellations, etc.
- **Reaction**: Customer satisfaction ratings, feedback from colleagues, etc.
- **Effect**: Task/project completion, before and after analysis, etc.
Box 5.W  
Case study: Swale District Council  
an example of an integrated PM system focused on organisational improvement

| Issue: | The council wished to develop a comprehensive system of setting objectives and assessing performance linked to the budget process and to publish response times and other performance indicators throughout the community. |
| Practice: | The system is passed down from the council, through committees and services, to sections and individuals. It is set within an annually reviewed corporate plan. Each service or function has between three and seven major objectives each year, together with a number of specific performance targets. Performance is assessed by a wide range of indicators, which include (examples only):  
- percentage of productive time for IT staff  
- collection costs of council tax per 1000 population  
- numbers of business re-location enquiries  
- car park revenue  
- cost per hectare of open space management  
- leisure centre usage  
- number of street cleaning complaints, and percentage responded to within the day  
- percentage of notifiable building control inspections completed within 24 hours  
- cost of personnel function as a percentage of net revenue costs  

The authority assesses the success of the system by external validation of the responsiveness and quality of its services – particularly through the Chartermark initiative – and through internal monitoring of performance trends and the extent to which performance targets are being achieved. Methods of assessment include (examples only):  
- surveys of user satisfaction  
- analysis of comparative data from other organisations  
- performance against deadlines or targeted durations  
- monitoring range and quality of media comment  
- accuracy of information and advice provided  
- surveys of public and business awareness of council initiatives  

The council is one of only two authorities to have been awarded three Chartermarks. Practical outcomes of the council’s PM policies include:  
- productive IT staff time up from 80 per cent to 84 per cent  
- number of employees per member of payroll staff up from 233 to 305  
- number of women in senior posts up from 18 per cent to 25 per cent  
- street sweeping complaints dealt with within one day up from 86 per cent to 95 per cent  
- proportion of building control inspections completed within 24 hours increased from 90 per cent to 98 per cent, while staff numbers were reduced
Case study: Royal Borough of Windsor and Maidenhead – an example of an integrated PM system

Issue: Performance management in Windsor and Maidenhead dates back to 1985. Whilst the systems and procedures introduced almost a decade ago have been adapted and refined, the council's approach to PM has remained fundamentally the same. According to the Chief Executive, the objective of PM is to 'improve the performance of the organisation and all the individuals within it'.

Practice: To stimulate such improvements, the council has developed a comprehensive framework for linking strategic and operational aims with business unit and individual objectives and targets. This framework comprises the following:

- Strongly influenced by the council's corporate plan and by various unit business plans, accountabilities and objectives are established at unit, team and individual levels.
- Performance against accountabilities and objectives is monitored regularly.
- All staff are appraised at least annually.
- Considerable importance is attached to maintaining effective communication channels.

Accountabilities and objectives: The council's corporate plan summarises corporate and individual service aims. Both sets of aims inform preparation of business plans. The council's five directorates are organised into 29 business units; each is required to prepare its own business plan. The council has published a unit business plan template. This provides a common approach which all business unit managers are encouraged to follow.

When translating corporate and service aims into unit, team and individual accountabilities and objectives, the council combines top-down and bottom-up approaches. Within the broad framework set by the corporate plan and by more specific unit business plans, every employee is asked to identify the core elements of his/her job. The outcome is identification of 'key accountabilities' for each post-holder; based on these accountabilities, performance objectives are determined for all members of staff. This is done by post-holders in collaboration with their managers. This way, each employee has 'ownership' of the performance management process, since they are all involved in establishing their own individual objectives.

Performance monitoring: Performance against objectives is monitored at unit, directorate and corporate levels. Information used to monitor performance is collated and analysed at least quarterly. Performance monitoring information is subsequently circulated to all relevant staff.

Staff appraisal: All staff are appraised at least annually. Appraisals have a two-fold purpose. First, to evaluate individual performance against key accountabilities and objectives; second, to amend accountabilities, if necessary, and to agree future objectives and training/development needs, in the light of strategic and operational aims contained in corporate and business plans.

Communication: The performance management process is supported by a network of communication channels. All are designed to ensure that staff are kept informed of corporate, directorate and unit initiatives.
which will influence the strategic and operational direction of the council, and impact upon employees’ key accountabilities and objectives. All sections, units and directorates are required to hold regular team meetings. These are used to convey information down the organisation, and enable staff to raise issues upwards, by giving managers feedback and suggestions on how the performance management process, and performance itself, can be strengthened.
5.76 The objectives of the self-diagnostic good practice review are:
  ♦ to provide an assessment by members, chief officers and middle managers of the strengths and weaknesses of the authority's PM systems;
  ♦ to identify which elements of the PM systems should be improved.

5.77 Good practice review is based on a questionnaire designed to reflect respondents' views on the effectiveness of the authority's policies on managing performance. Councils should seek a separate assessment from three different groups of people:
  ♦ members
  ♦ chief officers/management team
  ♦ middle managers

Councils might also seek separate assessments for different departments. Answers should be obtained from at least six people within each group. A copy of the assessment form is at the end of this Annex. Councils should identify the survey group on the form. Responses should otherwise be anonymous.

5.78 Once the completed forms have been received, an average score across each survey group should be calculated for each question. The scores should then be aggregated across the seven questions in each section and the results presented in tabular or graphical form.
Performance Management:

GOOD PRACTICE REVIEW

Self-Assessment Form

The purpose of this form is to obtain the subjective views of various groups of officers and members on the effectiveness of the authority's policies on managing performance.

For each of the questions, you should tick the box that in your view represents the effectiveness of the authority's policies and procedures. You should take into account the quality of the systems and their operation. However excellent a particular aspect might be in theory, it should only achieve the highest rating if it is also well implemented. You should use the following scoring scale (except where the question indicates otherwise):

1 = Very poor or non-existent
2 = Poor
3 = Fair
4 = Good
5 = Very good or exemplary
## SPECIFICATION OF OBJECTIVES

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<th>Question</th>
<th>Poor</th>
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<tr>
<td>1. Does the authority have a clear and articulated view of its mission and core values?</td>
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<td>2. Is there a clear set of aims (or goals) and objectives (or targets) for the authority as a whole?</td>
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<td>3. Does each committee or department define its aims and objectives, consistent with those of the authority as a whole?</td>
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<td>4. Is there a planning process at the strategic level with the full involvement of members?</td>
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<td>5. Are departmental aims and objectives translated into targets for units and for individuals capable of objective assessment?</td>
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<td>6. Are action plans produced to ensure that targets are achieved?</td>
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<td>7. Are aims and objectives monitored, evaluated and reviewed on a regular basis?</td>
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## FINANCIAL/BUSINESS PLANNING

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<tr>
<td>1. How well does the annual budget-setting process reflect the authority's objectives at the authority-wide level?</td>
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<td>2. How well does the annual budget-setting process reflect the authority's objectives at the departmental and unit level?</td>
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<td>3. Is financial planning responsive and subordinate to the service-planning process? (e.g. Have there been zero-based budgeting or major transfers of resources in response to changes in service objectives?)</td>
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<td>4. Are cost centres/business units encouraged to carry out business planning, with action plans to build on strengths and address identified weaknesses?</td>
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<td>5. Are the resource implications of action plans analysed and any inconsistencies addressed?</td>
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<td>6. Are recharges between cost centres mutually agreed and related to the level and quality of services provided (e.g. SLAs)?</td>
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<td>7. Does the setting of aims and objectives facilitate the delegation of operational management? (i.e. Do they translate at the unit level into operational guidelines and work plans, thus minimising the need for regular referral to senior management?)</td>
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## PERFORMANCE REVIEW

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<th>1. Is there a comprehensive authority-wide approach to the monitoring of performance against targets?</th>
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<th>2. Are performance indicators used extensively to monitor inputs, outputs, service efficiency and service effectiveness?</th>
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<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Are qualitative indicators (including measures of customer satisfaction) used in situations where quantitative measures are neither practical nor relevant?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Are different and appropriate levels of aggregation and reporting frequency used at different levels in the organisation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Is the information presented in a clear and user-friendly manner?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Does the review of performance result in actions to remedy poor performance?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>7. Are members closely involved in reviewing performance?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

## INDIVIDUAL APPRAISAL

<table>
<thead>
<tr>
<th>1. Does the authority have a formalised system of personal appraisal that covers all staff? [5=all or nearly all, 4=most, 3=some depts/grades, 2=few, 1=none]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Does the application of the scheme allow for sufficient variation between departments and grades?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Are all appraisers and appraisees adequately trained in its use?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Does the appraisal system adequately cover the setting of individual objectives?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. Are staff development needs adequately assessed, documented and monitored to see if they have been fulfilled?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Is it an effective two-way process (e.g. by including self assessment, upward appraisal and participation in goal setting)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>7. Are there adequate mechanisms in place to monitor and review the application of the system?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
</tr>
<tr>
<td>EXTERNAL COMMUNICATION</td>
</tr>
<tr>
<td>------------------------------------------------------------</td>
</tr>
<tr>
<td>1. Is the authority responsive to external influences on service delivery (when developing service objectives)?</td>
</tr>
<tr>
<td>2. Is the authority responsive to customer needs and views on service delivery?</td>
</tr>
<tr>
<td>3. How extensively does the authority compare its performance and operations with other organisations (e.g. projects with other LAs, academic bodies, consultancies)?</td>
</tr>
<tr>
<td>4. How successful is the authority at incorporating external best practice into its own operations?</td>
</tr>
<tr>
<td>5. How widely have core values and service objectives been communicated to external bodies and members of the public?</td>
</tr>
<tr>
<td>6. Is a high priority given to external communication (e.g. through newsletters, telephone answering targets, uniforms/name badges, complaint forms, customer surveys)?</td>
</tr>
<tr>
<td>7. How well does the authority deal with public complaints? Are they monitored and reported on?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INTERNAL COMMUNICATION</th>
<th>Poor</th>
<th>Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the authority have a clear policy on internal communication?</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>2. How effectively have the authority’s core values been communicated throughout the authority?</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>3. How effectively have corporate and departmental objectives been communicated throughout the authority?</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>4. Are line managers and more junior staff actively involved in the development of goals and objectives?</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>5. Are all staff given adequate information on how well the authority has achieved its objectives?</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>6. How adequately are staff informed of current issues/developments (e.g. through staff briefings, newsletters and open meetings)?</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>7. Is sufficient priority given to seeking the views of staff (through away days, suggestion schemes and staff attitude surveys, etc.)?</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>
...introduction

5.79 The objectives of the staff attitude survey are:

♦ to assess staff attitudes to their job and to their authority, including measures of job satisfaction, motivation, and understanding of objectives;
♦ to provide the authority with detailed feedback on the average responses for each question, compared against other authorities;
♦ to interpret the results of the survey in terms of potential weaknesses in the authority's PM systems.

5.80 The staff attitude survey was designed by Professor Clive Fletcher of Goldsmiths' College. It is based on a similar survey he carried out for the Institute of Personnel Management study, *Performance Management in the UK*.

...distributing questionnaires

5.81 The personnel department should select a sample of staff and distribute a questionnaire and reply envelope to each individual. Recipients should be given two weeks to return the questionnaire. Reminder letters should also be distributed to the same members of staff who received the questionnaires. They should be sent out one week after the questionnaires themselves. Because no-one will know which recipients have returned their questionnaire, it is necessary to send reminder letters to everyone. The authority will need to keep an address list of individuals who received questionnaires, in order to send reminder letters. Staff must have confidence in the confidentiality of the survey. Many councils are using their external auditor to carry out the survey as part of the audit of People, Pay and Performance. Copies of the questionnaire and reminder letter are contained at the back of the management handbook.

5.82 Approximately ten days after the final return date (when few additional returns are likely), the personnel department should open, check and number the returns:

♦ Section 3 of the questionnaire should be checked to see if any staff answer 'other' when indicating their grade. In those cases the respondent should be recorded in another category (e.g. 'chief officer' should be recorded as 'PO & above').
♦ The completed questionnaires should be numbered sequentially by writing a number (1, 2, ... 101 ... etc.) on the back page. This is to enable
...selecting the sample base

5.83 The questionnaires should be distributed to a random sample of staff, with equal numbers to staff below SO level and to staff on SO level and above. In large authorities it is useful to compare attitudes in different departments; questionnaires should be distributed accordingly. The following distribution is a guideline only:

**County councils**
- 50 SO and above in County Treasurer’s department
- 50 SO and above in Library department
- 50 below SO grade in County Treasurer’s department
- 50 below SO grade in Library department

5.84 Where there are less than 50 staff in any of these categories, everyone within the category should be surveyed and the remaining questionnaires used to increase the sample size of the same staff group in the other department. If there are fewer than 100 staff of SO and above across the two departments combined, councils should distribute questionnaires to those below SO level in the department with fewer SOs and above (presumably Libraries).

**Metropolitan districts & London boroughs**
- 50 SO and above in Finance department
- 50 SO and above in Library department
- 50 SO and above in Housing department
- 50 below SO grade in Finance department
- 50 below SO grade in Library department
- 50 below SO grade in Housing department

5.85 Where there are less than 50 staff in any of these categories (presumably this would apply only to SO and above in libraries), everyone within the category should be surveyed and remaining questionnaires used to increase the sample size of the same staff group (i.e. SO and above) equally between the other two departments.

**Shire Districts**
- 50 SO & above across all departments
- 50 below SO level across all departments

5.86 If there are fewer than 100 staff of SO and above, survey all of them and distribute the remaining questionnaires to staff in lower grades. In the very largest shire districts, the sample could be restricted to the Finance and Housing departments only, if preferred.
5.87 It is very important that the questionnaires are distributed to a random cross-section of staff within each of the above groupings. In particular, the sample selection process should not be inadvertently biased in favour of staff from any particular work section or according to their level of seniority, age, gender, ethnicity or whether they are full- or part-time.

5.88 The most reliable method of ensuring a random sample is to start with a full list of staff within the appropriate grouping, calculate the required sampling rate \(1/n\) and then to select every \(n\)th name from the list. For example, a sample of 50 respondents from a group of 500 would require questionnaires to be distributed to every 10th (50/500) employee. If this procedure is followed, it does not matter whether the original list is sorted alphabetically, by staff number or separately by department.

5.89 Having selected a sample of names, authorities should ensure that the questionnaires are distributed to those named individuals. The distribution of questionnaires must not be at the discretion of section heads, nor on a self-selection basis. A reply-paid envelope should be attached to each questionnaire.

... analysing results

5.90 To analyse results, councils will need to sum the scores for each question and then divide by the number of respondents to provide an average score. A similar exercise can be carried out for each of the attitude indices and for the know-how and feel-good factors. Box 5.Y (overleaf) identifies which questions need to be combined to create the indices.

5.91 'Know-how' is the simple average of indices S5, S6, S8, S9, S12 and S13.

5.92 'Feel good' is the simple average of indices S1, S2, S3, S17 and S18.

5.93 Councils may wish to compare results between grades and departments. It is advised that councils create a spreadsheet of the survey results which can be easily subdivided into smaller samples.

5.94 Special note: The individual questions are phrased in both a positive and negative manner. Consequently, the scores need to be normalised such that 7 is always the best score and 1 is always the worst. Councils should develop a formula to adjust the base scores on the spreadsheet before completing the analysis.

5.95 Councils may wish to compare their own scores with the Commission's sample of 17 authorities. Box 5.Z (overleaf) summarises these scores for the attitude indices.
### Box 5.7

**Summary of indices**

<table>
<thead>
<tr>
<th>Index Code</th>
<th>Index</th>
<th>Questions comprising index</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>Identification</td>
<td>32,36,39</td>
</tr>
<tr>
<td>S2</td>
<td>Involvement</td>
<td>34,37,40</td>
</tr>
<tr>
<td>S3</td>
<td>Loyalty</td>
<td>33,35,38</td>
</tr>
<tr>
<td>S4</td>
<td>Organisational commitment</td>
<td>32,33,34,35,36,37,38,39,40</td>
</tr>
<tr>
<td>S5</td>
<td>Participation in goal setting</td>
<td>5,6,7,8</td>
</tr>
<tr>
<td>S6</td>
<td>Feedback on goal effort</td>
<td>9,10,11</td>
</tr>
<tr>
<td>S7</td>
<td>Peer competition</td>
<td>12,13</td>
</tr>
<tr>
<td>S8</td>
<td>Goal specificity</td>
<td>14,15,16</td>
</tr>
<tr>
<td>S9</td>
<td>Goal difficulty</td>
<td>17,18,19,20</td>
</tr>
<tr>
<td>S10</td>
<td>Clarity of organisational performance</td>
<td>2</td>
</tr>
<tr>
<td>S11</td>
<td>Teamworking</td>
<td>21,22</td>
</tr>
<tr>
<td>S12</td>
<td>Team/organisational goal clarity</td>
<td>1,3,4</td>
</tr>
<tr>
<td>S13</td>
<td>Contribution to department/organisation</td>
<td>23,24</td>
</tr>
<tr>
<td>S14</td>
<td>Promotion and performance link</td>
<td>41,42</td>
</tr>
<tr>
<td>S15</td>
<td>Effort-performance link</td>
<td>26,27,28</td>
</tr>
<tr>
<td>S16</td>
<td>Performance-reward link</td>
<td>25,29,30,31,43</td>
</tr>
<tr>
<td>S17</td>
<td>Extrinsic job satisfaction</td>
<td>62,64,66,68,70,72,74,76</td>
</tr>
<tr>
<td>S18</td>
<td>Intrinsic job satisfaction</td>
<td>63,65,67,69,71,73,75</td>
</tr>
<tr>
<td>S19</td>
<td>Attitudes to training</td>
<td>44,45,46,47</td>
</tr>
<tr>
<td>S20</td>
<td>Job ownership</td>
<td>48,49,50</td>
</tr>
<tr>
<td>S21</td>
<td>Attitudes to the boss</td>
<td>51,52,53,54</td>
</tr>
<tr>
<td>S22</td>
<td>External responsiveness</td>
<td>55,56</td>
</tr>
<tr>
<td>S23</td>
<td>Planning of changes</td>
<td>57,58,59</td>
</tr>
<tr>
<td>S24</td>
<td>Attitudes to change</td>
<td>60,61</td>
</tr>
</tbody>
</table>
### Summary of scores from all respondents

<table>
<thead>
<tr>
<th>Index</th>
<th>Average</th>
<th>Median</th>
<th>Lower quartile</th>
<th>Upper quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification</td>
<td>4.72</td>
<td>4.62</td>
<td>4.55</td>
<td>4.96</td>
</tr>
<tr>
<td>Involvement</td>
<td>5.81</td>
<td>5.82</td>
<td>5.72</td>
<td>5.92</td>
</tr>
<tr>
<td>Loyalty</td>
<td>4.25</td>
<td>4.23</td>
<td>4.12</td>
<td>4.46</td>
</tr>
<tr>
<td>Organisational commitment</td>
<td>4.93</td>
<td>4.94</td>
<td>4.80</td>
<td>5.08</td>
</tr>
<tr>
<td>Participation in goal setting</td>
<td>4.71</td>
<td>4.72</td>
<td>4.53</td>
<td>4.89</td>
</tr>
<tr>
<td>Feedback on goal effort</td>
<td>3.96</td>
<td>4.03</td>
<td>3.75</td>
<td>4.09</td>
</tr>
<tr>
<td>Peer competition</td>
<td>2.89</td>
<td>2.88</td>
<td>2.77</td>
<td>3.02</td>
</tr>
<tr>
<td>Goal specificity</td>
<td>5.47</td>
<td>5.48</td>
<td>5.27</td>
<td>5.61</td>
</tr>
<tr>
<td>Goal difficulty</td>
<td>4.64</td>
<td>4.58</td>
<td>4.51</td>
<td>4.75</td>
</tr>
<tr>
<td>Clarity of organisational performance</td>
<td>4.90</td>
<td>4.98</td>
<td>4.70</td>
<td>5.17</td>
</tr>
<tr>
<td>Teamworking</td>
<td>5.08</td>
<td>5.06</td>
<td>4.96</td>
<td>5.20</td>
</tr>
<tr>
<td>Team/organisational goal clarity</td>
<td>5.14</td>
<td>5.16</td>
<td>4.96</td>
<td>5.34</td>
</tr>
<tr>
<td>Contribution to department/organisation</td>
<td>5.38</td>
<td>5.38</td>
<td>5.26</td>
<td>5.45</td>
</tr>
<tr>
<td>Promotion and performance link</td>
<td>4.86</td>
<td>4.86</td>
<td>4.81</td>
<td>5.07</td>
</tr>
<tr>
<td>Effort-performance link</td>
<td>5.22</td>
<td>5.20</td>
<td>5.16</td>
<td>5.30</td>
</tr>
<tr>
<td>Performance-reward link</td>
<td>2.55</td>
<td>2.44</td>
<td>2.34</td>
<td>2.61</td>
</tr>
<tr>
<td>Extrinsic job satisfaction</td>
<td>4.36</td>
<td>4.35</td>
<td>4.25</td>
<td>4.59</td>
</tr>
<tr>
<td>Intrinsic job satisfaction</td>
<td>4.63</td>
<td>4.66</td>
<td>4.52</td>
<td>4.83</td>
</tr>
<tr>
<td>Attitudes to training</td>
<td>3.99</td>
<td>3.98</td>
<td>3.85</td>
<td>4.25</td>
</tr>
<tr>
<td>Job ownership</td>
<td>5.60</td>
<td>5.65</td>
<td>5.49</td>
<td>5.75</td>
</tr>
<tr>
<td>Attitudes to the boss</td>
<td>4.74</td>
<td>4.79</td>
<td>4.57</td>
<td>4.94</td>
</tr>
<tr>
<td>External responsiveness</td>
<td>5.92</td>
<td>6.12</td>
<td>5.76</td>
<td>6.20</td>
</tr>
<tr>
<td>Planning of changes</td>
<td>3.98</td>
<td>4.08</td>
<td>3.92</td>
<td>4.31</td>
</tr>
<tr>
<td>Attitudes to change</td>
<td>4.15</td>
<td>4.21</td>
<td>3.95</td>
<td>4.48</td>
</tr>
<tr>
<td>'Know-how' index</td>
<td>4.88</td>
<td>4.92</td>
<td>4.76</td>
<td>4.96</td>
</tr>
<tr>
<td>'Feel-good' index</td>
<td>4.74</td>
<td>4.72</td>
<td>4.67</td>
<td>4.92</td>
</tr>
</tbody>
</table>