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To: County Council **Date:** 23 May 2024
Subject: Pay Strategy
Classification: Unrestricted

Summary:

This report sets out the proposed changes to Kent County Council’s grading structure to be implemented from 1 April 2025.

Recommendation(s):

County Council is asked to agree the recommendation from Personnel Committee to the proposed model and transition approach.

1. Introduction

1.1 On 12 March 2024, Personnel Committee received a paper presenting the final proposal for the grading structure, indicative costings based on assumed pay awards and how the Authority will transition from its existing structure to the new one. The Committee agreed the proposals and recommend them to County Council for agreement with a view to begin implementation on 1 April 2025.

2. Background

2.1 Since, Kent County Council came out of the National Joint Council (NJC) process for pay and employment terms and implemented the Kent Scheme in 1990 the Council’s approach to its grading structure and progression through grades has evolved. In 2004, the Authority introduced performance progression through the grades and in 2011 removed increments and introduced a single pay award which reflected both performance progression and an annual pay uplift. In 2019, as part of broader pay principles agreed by Personnel Committee, it was decided to pay the equivalent of, if not exceed, the Foundation Living Wage for the lowest salary in the grading structure.

2.2 In March 2023 Personnel Committee considered a number of different grading models, it looked at the considerations and challenges and the proposed use of the narrow band grade structure as the basis for the changes identified in this paper. Committee endorsed the principle of a narrow band approach. Given the proliferation of different roles in Kent County Council and that they are grouped within grades, a narrow band approach enables the Authority to maintain a robust approach to equal pay.

3. Scope

- 3.1 The scope of this review has been to consider a new pay structure for all grades, KR3 to KR20. It is intended that the determined principles (see section 5) that underpin the changes are applied across the whole of the Kent Scheme.

4. Challenges and Issues

- 4.1 The Authority's grading structure has changed over time – sometimes for expedient reasons and other times due to external drivers (such as Single Status). There has been form to these changes but equally there has been a degree of organic change too. KCC is now at a point, however, where a fundamental change is required to address pressures on the structure.

Wage Inflation

- 4.2 In 2016, the Government introduced a new mandatory National Living Wage. The Government's objective for the National Living Wage was for it to reach two thirds of median earnings with the implication during the transition that pay for the lowest paid increased at a higher rate than general pay. In this context Personnel Committee, and County Council, wanted to ensure that the Authority remains competitive as well as being seen as an employer which values their employees by not paying just the minimum so decided to pay the equivalent, or exceed, the Foundation Living Wage. In the last 7 years the Foundation Living Wage has increased by 42% (NLW by 44%). KCC has seen an equivalent cumulative pay pot of 24%, much of which has been used to maintain the Authority's relative position above the National Living Wage.
- 4.3 These increases eventually saw KCC merging grades KR2 and KR3 and, if not addressed, future increases will have the impact of eroding pay ranges for other grades at the lower end of the grading structure.

Grade Length

- 4.4 At KCC the current lengths of grades, measured by the difference between the bottom salary and the top salary of the range, is variable in terms of percentage difference. There is currently no consistency to the length of grades at KCC. KR3 is a spot point, and the rest of the grade lengths vary considerably. This means under the current performance progression regime if you receive a pay rise of 3% each year it can take, depending on the grade a person is on, anywhere from 2 to 16 years to reach the top of the grade.

Performance Connection

- 4.5 When performance progression was introduced in 2004 the key reasons for this were to break from automatic pay rises, encourage greater discretionary effort, and to further embed a performance management approach, through the use of action and development plans.
- 4.6 The Authority now has a well-established approach to pay progression through Total Contribution Pay and the concept of performance management and setting objectives and targets is in a much stronger place than it was 20 years ago. However, despite this, it is not without its challenges in terms of staff understanding, ratings distributions and some inconsistency in distribution.

5. Proposed New Structure

- 5.1 As identified earlier in this report presentations to Personnel Committee, in March 2023 and March 2024, explored the approach that could underpin what a new grading structure would look like. It was decided that a narrow band approach best suited the Authority's needs. The proposed new structure is based on this model (Appendix 1).
- 5.2 In developing a new pay scheme several principles were devised to address the challenges that is faced in relation to maintaining the current structure. These include that progression in grade will be based on a combination of performance and length of service, employees will receive a separately negotiated annual pay settlement, grade lengths will reduce, there will be a prescribed time to reach the top of a grade and KR3 will continue to track the Foundation Living Wage.
- 5.3 Also, in order to inform how performance progression works in the new structure, a number of principles have been established. These include a performance assessment against set objectives taking place each year, the assessment will be a simple yes/no based-on set criteria, progression through a grade will take place on the anniversary of starting in a grade, those who do not meet the criteria will have progression held back or the pay award withheld.
- 5.4 It is expected that people will meet their performance targets and will therefore receive an affirmative performance rating which will be used to inform their progression through a grade. By exception, if a person's performance falls below the expected level and is in a performance or conduct process their ability to bank a year for progression is withheld. Therefore, where it ordinarily would take 2 years in a particular grade to move to the next point it would take 3 years, providing performance improves to the required standard based on the current assumed pay award.
- 5.5 It is proposed that KCC uses the anniversary of the person entering the grade for the date that they progress. The main reason for this is it is more equitable for people than the alternative of moving everyone on the first of April, as the Council does currently. Whilst having everyone who is due to move to a point in the grade on the 1 April is simple and easily understood what it would mean is that some

people would have to wait longer than others to move depending on when they started in the organisation or are promoted.

- 5.6 A note on the anniversary proposal is that this will only apply to people newly appointed or promoted once the new structure goes live. The current staffing cohort will all transition on the 1 April so that will be their anniversary. As such, we will see more variance over time.
- 5.7 The length of grades will differ from each other. It is intended that by 2027/28 we will have standardised them at KR3 and KR4 being a spot point (a single salary), the difference between the top and bottom of KR5 will be set at 4% with this increasing by 1% each grade from KR6 to KR10. Grades KR11 to KR15 will be 10%. Grade KR16 will be set at 15% and will increase in length by 1% per grade with KR20 being 19% in length. (Appendix 2).
- 5.8 The net annual cost of progression will need to be separately identified in future budgets as this will depend on the numbers and grades of staff due for progression assessment each year and impact of turnover on starting salaries. The amount for progression would no longer be subject to annual member decision on the size and distribution of a single pay pot. The cost of progression is likely to vary each year and from an average of 2% to 2.5% per annum for KR5 to KR15 although this would only apply to those staff not on the top of the pay range. This equates to average cost of progression of approx. £4.0m after saving from turnover.
- 5.9 The annual pay award will be negotiated with the trades unions and funded in the same way as it is now through an annual member decision as part of the budget process. The separation of performance and a yearly pay award will make the conversation with the unions cleaner than it is now where their views on TCP are invariably a significant factor.
- 5.10 The annual pay award will be consolidated into the salaries of all employees, including those people at the top of grades.
- 5.11 The shortening of the salary ranges will be achieved by bringing up the bottom of the current pay scales over time. The top of grades will be increased by the full amount of the annual pay award, rather than what currently happens where only half of the Successful rating is applied to the salary at the top of the grade. There is a transitional cost of moving staff to the new fixed points (including the uplifted bottom of each range), the shorter ranges will also reduce the offsetting reduction from turnover where new staff are usually appointed on lower points than their predecessors. The budget will no longer need to include costs of non-consolidated lump sum payments.
- 5.12 We do know people will continue to work exceptionally and KCC still wishes to recognise that effort and proposes a stronger promotion and use of cash and non-cash awards than currently. In order to facilitate the use of cash awards, the governance for particular amounts will change so that it better supports the proposals in this report.

- 5.13 The fundamental principle KCC has had in place for many years is that people are appointed to the bottom of the grade. Given the shortening of the time it takes to progress through grades in this proposal it is intended that this principle will be retained. However, it is appreciated that a degree of flexibility may be required, and it is therefore proposed that this is afforded in the same way that it is now. This will mean that an appointing manager, if they get permission, can appoint anywhere on the scale. However, what the managers will need to consider is that the jump to the next point in the grade would be smaller after the commensurate performance period required than if they have been appointed at the bottom of the grade.
- 5.14 It is proposed that the Authority retains the option to award a 2.5% pay increase to promoted staff if the increase from where they are placed on a grade to the bottom of the next is less than this amount.

6. Transition

- 6.1 The straightforward aspect of transitioning from the old structure to the new is that because we are keeping the same number of grades and the same job evaluation differentials, we can automatically place people across from the old grades into the new grades. The more technical issue is where to place them on the new grade in terms of salaries, as most salaries will not match those points on the new grades.
- 6.2 In order to assist the transition of a large number of employees into a grading structure that will continue developing, in terms of grade lengths, up to 2027 it is proposed to smooth the trajectory of placing people onto salary points in the grade. The following section is divided into transitional years to give a sense of how the proposed process will work.

Year 2025/26

- KR4 will become a spot point.
- the length of some grades will continue to shorten as part of the phased transition.
- move all staff to a set point in the new grade (either on a temporary intermediate point for this transition year or the point that they will be on at the end of the transition period)
- for those people who have transitioned to one of the points in the final grade structure (i.e. not an intermediate point) this is the first year of people's performance review that will inform their progression
- apply a negotiated pay increase to everyone's consolidated pay.

Year 2026/27

- length of some grades will continue to shorten as part of the phased transition.
- continue to apply the performance reviews.
- apply a negotiated pay increase.
- where intermediate points were used in 2025/6 move people to the next point in the grade,

Year 2027/28

- full application of the new grade structure

7. Financial Implications

- 7.1 The move to the new structure will not be cost neutral. Moving the bottom of the grades over time and transitioning people to points above their salary will require financing. However, in order to address the long-term issues of the Authority's current structure, not least the impact of wage inflation at the bottom end, it is imperative that we address this now.
- 7.2 It is proposed that the cost of transition is managed within the pay provision as defined in the current MTFP. If the pay provision is insufficient to cover the initial transition, the subsequent pay progression, and the planned annual pay award there are two options available: increase the size of the pay provision or reduce the amount available for the annual pay award. The annual pay award element of the pay pot is currently assumed to be 1.5% for 2025/26 onwards – this is the increase that someone on the top of their grade will receive for those years. However, this has been assumed for modelling purposes and the actual increase will be determined via pay bargaining with KCC's recognised trades unions and agreed as part of the annual budget process.
- 7.3 The value of the current pay provision for each financial year of the transition period will be included in the 2025-28 MTFP and comprises of pay growth provision and an assumption of an amount saved through regression (staff turnover where new staff are appointed lower in the pay range than staff they replace).

	2025/26	2026/27	2027/28	Total
£'m	£8.6m	£9.0m	£9.3m	£26.9m
%	3%	3%	3%	

Transition

- 7.4 The figures below represent an illustration of what the phased approach would cost. These figures are based on a series of assumptions which are stated below the table. The phased approach means that in 2025/26 everyone would move to either the next 'proper' step or a temporary intermediate point (which would represent a smaller increase in salary). Those who move to a temporary

intermediate point would move to the next 'proper' step point up within their grade in 2026/7. This would have the impact of spreading out the bigger pay increases to staff over two years instead of one year, and therefore spread the cost of implementation out too.

	2025/26	2026/27	2027/28	Total
Cost of increasing bottom of grades KR3-KR7 (impacted by FLW)	£2.6m	£1.3m	£1.3m	£5.2m
Cost of living (assumed at 1.5%)	£4.3m	£4.5m	£4.6m	£13.4m
Cost of transition (net of regression)	£4.3m	£4.1m		£8.4m
Cost of progression (net of regression)			£3.9m	£3.9m
Total	£11.2m	£9.9m	£9.8m	£30.9m

Assumptions

- 1) The figures only relate to staff funded from base budget. Any staff funded by external income or grant funding have been excluded.
- 2) Foundation Living Wage (FLW) increases have been assumed as follows: 2025-26 at 5%, 2026-27 at 3.5% and 2027-28 at 3.5%.
- 3) Annual pay award increase has been assumed at 1.5% in each financial year.
- 4) The overall cohort of staff remains constant.

8. Engagement

8.1 Throughout the development of this proposal there have been a number of managers' focus groups held in order to test some of the ideas and working principles. The Authority has also taken the opportunity to trail the top-level proposals with schools so that, depending on the changes being agreed, they can start to consider and plan how they will deliver the developments. Given we have started to speak to groups of people, we have also commenced broader staff engagement by highlighting the main principles to KCC staff through a message in December 2023. There have also been staff briefings in advance of County Council sitting so that this paper can be explained to people. This communication has made it clear that the changes are merely proposals and require County Council agreement.

8.2 KCC's recognised trades unions have been fully engaged from a very early stage and the Authority will continue this as we approach implementation.

9. Legal Implications

9.1 Given the proposal amounts to a beneficial change for employee this mitigates to a large extent any risks arising from a legal challenge by employees.

10 Equality Impact Assessment

10.1 The overall strategic direction of the pay strategy is beneficial to staff. However, there are certain categories of employees where the process for progression through the grades would need to be addressed – these are familiar in our current system and wholly manageable. The main examples are absence due to

pregnancy and family leave and the impact that absence may have on a performance assessment and equally absence due to a disability. These can be easily mitigated through the application of rules to ensure they are not disadvantaged.

11 Conclusion

11.1 It is essential that we have a way of managing the bottom-up wage inflation so that KR5 is not absorbed by it and that the implications for how the organisation determines its pay award is not compromised. Also, if this proposed change is not agreed an alternative approach is required. The alternatives, beyond total system change, will be piecemeal and non-sustainable. Not changing would just delay by a few years the requirement to make wholesale change whilst distorting the grading structure in the meantime. The proposals in this paper are professionally determined as the best way for KCC to address the issues and are recommended to County Council.

12. Recommendation

Recommendation

County Council is asked to agree the recommendation from Personnel Committee to the proposed model and transition approach for implementation to commence from 1 April 2025.

13. Contact details

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