

# Facing the public

A disconnect between reward and performance and an over-reliance on central pay bargaining; the costly wage bill for public services in the UK could be addressed by looking at bonus and performance related pay measures.

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Each year in the UK a vast sum, £137 billion of public money, is spent on pay. That begs an important question: is this money being spent effectively? From personal experience we can all identify ways in which public services could be improved. As with all organisations, public sector employers need to develop pay structures that incentivise their workforce to deliver higher quality results.

There is no doubt that there are some problems with the way much of public sector pay is managed. Clearly, it could and should be better aligned with the needs of public services to increase efficiency and provide improved employee motivation. One reason for this disconnect is the over-reliance on centralised national pay bargaining. Often this places real or imagined constraints on the ability to ensure that pay is properly aligned with local needs.

Another problem is that pay is seldom based on performance. High-performing and motivated individuals are generally paid the same as (or very little more than) weaker performers. This is unfair and holds back high performing public sector workers.

Furthermore, pay structures are often flawed, frequently providing pay progression over a number of years for jobs that take just a few weeks to learn. In addition, most decision-making remains highly centralised, meaning that pay decisions are detached from service delivery models and from local market pay rates. Much progress has been made in achieving equal pay for work of equal value, but a consequence of this has been too many over-complex job evaluation systems. Rigid rules and procedures impede the ability of local managers to reward skills and performance in line with local needs.

## One approach that is certainly fit for purpose is the reward and contribution framework that West Midlands Police have developed for police staff. This has resulted in pay that is linked to contribution, more flexible job design and better performance

While pay rates in the UK public sector have historically been seen as lagging behind the private sector, progress has been made to correct the imbalance. More could still be done; recognising that the right senior management team brought in at a relatively small cost can have a highly positive impact on an organisation.

However, imbalances do exist the other way. Most public sector organisations can cite examples of employees who are overpaid for the value they are bringing to their organisations.

Such problems often stem from the fact that although starting salaries are reasonable, public sector employees then progress through a pay scale, ultimately receiving excessive salaries for doing the same job they did some years ago. Given that for many jobs most individuals become fully effective after six months, there is little reason to continue increasing pay year on year when no change in service delivery is achieved.

The emphasis needs to be reversed so that pay progression is applied only where employees can genuinely improve the way they do their work. Otherwise the rate for the job should be paid, making starting salaries competitive to attract better staff and enabling organisations to better manage costs over time.

Attempts to link pay more closely with performance have met with mixed success. One approach that is certainly fit for purpose is the reward and contribution framework that West Midlands Police Force has developed for police staff. This has resulted in pay that is linked to contribution, more flexible job design and better performance and development review processes. It is a significant move away from the inflexible pay structures that most police forces have used for their staff for decades.

Historically, the public sector has made very little use of bonus schemes. There is evidence that this situation is changing and there is a growing recognition that pay needs to be tied into individual performance. Some attempts to copy private sector models in the public sector have led to flawed bonus scheme design, however.

For example, if bonus schemes are based on individual performance, then it is essential that the jobs being done enable individuals to perform at different levels. This is typically the case for managerial roles, but less likely for many manual or basic administrative jobs. Similarly, team bonuses can work well, but only if individuals work together to achieve team objectives that they can directly influence

and where success can readily be measured.

Private sector schemes broadly have one or more of the following four objectives:

- to enable employees to share in the financial success of the organisation
- to compete for staff in recognition that competitors pay bonuses
- to recognise that employees can perform the same job to measurably different standards
- to provide an incentive to enhance performance, for example, with sales staff for whom clear, measurable targets can be set.

Based on PricewaterhouseCoopers' experience working with employers, the vast majority of private sector schemes have the first two objectives. These are not appropriate to the public sector.

Bonus schemes with the third and fourth of these objectives can work well in the public sector. That said, they should only be used if it really is practical to differentiate between levels of performance. Care should also be taken to avoid the use of targets in ways that produce perverse results. For example, a system that linked the bonus scheme solely to the volume of outputs produced, without regard to the quality of services, would soon become discredited.

A successful bonus scheme has been introduced at the London Borough of Barking and Dagenham. The Council's waste disposal partners, Shanks, introduced bonuses for the staff working on their civic amenity site (the rubbish tip) and dependent on them sifting out as much recyclable waste as possible at the gate. The result was a spectacular reduction in the tonnages of non-recyclable waste, saving the Council considerable sums of money. It is worth highlighting that such a scheme could only have been designed and implemented successfully by managers with a direct knowledge of the service.

The principles of performance-related pay and the use of bonus schemes are now more widely accepted in the public sector than they ever were. However, pay structures always need to be tailored to fit individual jobs. There is no one-size-fits-all solution, regardless of whether the employer is operating in the public or private sector.

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For further discussion, see the PricewaterhouseCoopers white paper, 'Connecting Public Sector Pay to Service Delivery'.