

**New Developments in
Public Sector Pay Setting**

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Introduction: New Developments in Public Sector Pay

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British Government pay policy for the public sector is based on three principles. One is affordability: wage awards should be consistent with projected public expenditure growth so that public finances balance over the business cycle. Another is flexibility which aims to set pay levels that are in line with regional economic and labour market conditions. The third principle is performance: pay setting should motivate and reward high quality service delivery.

The principle of affordability is an evergreen in public sector pay determination. All governments, no matter of what political hue, have been, and will continue to be, anxious to keep wage settlements within budgeted resources so not to divert money away from the delivery of public services. But the principles of flexibility and performance are relatively new innovations to public sector pay setting. On the one hand, Government argues that pay flexibility is desirable as it will allow employers to tailor their pay and reward packages to meet local recruitment and retention needs. On the other hand, it argues that performance related pay will support modernisation by rewarding high quality work and encourage new collaborative approaches across professional boundaries.

Thus, pursuing a public sector pay policy based on affordability, flexibility and performance aims to introduce greater variability across regions as well as across and within occupational and professional groups. This policy is likely to have a big impact on traditional collective bargaining systems used to determine public sector pay. For example, it is hard to see how the strongly national focus of existing collective bargaining structures is compatible with the regionalisation of pay. This raises the matter of whether collective bargaining procedures in the region are sufficiently well developed for the conduct of orderly pay negotiations.

Moreover, the consequences of the new pay policy for Northern Ireland are potentially far-reaching. As one of the poorer parts of the UK, the expectation on the part of Government will be that the drive toward pay decentralisation will produce moderate pay deals in the region. But this agenda is unlikely to play well with local trade unions who will not wish to see a divergence of pay levels either across regions or occupations in the UK. The

introduction of performance-related pay makes the picture even more complicated. There is an abundance of research to suggest that performance-related pay is extremely difficult to implement. One recognised danger is that to reward good performance, a performance-related pay system can overshoot budgeted resources, thus leading to pay drift. If this problem is avoided then the counter danger may emerge, whereby good performance is insufficiently rewarded, thus causing dissatisfaction and demotivation amongst staff. Thus the Government's current pay policy raises a range of potentially difficult issues for the regional industrial relations system.

To assess the progress that has been made to introducing the new public sector policy and to gain insight into how different occupational groups are reconciling the difficulties identified above, the Labour Relations Agency and the School of Management and Economics at The Queen's University Belfast organised a half day symposium on the topic. Four leading academics and policy analysts presented papers at the symposium on different aspects of the topic. These papers are reproduced in this integrated monograph to encourage wider debate about whether established methods of collective bargaining in the public sector in Northern Ireland need changing in light of the Government's new approach to pay determination. I hope you find the papers informative and stimulating.

The New Dynamics of Public Sector Pay

Devolution and Pay-Setting: The UK Experience

Professor David Bell, Department of Economics, University of Stirling

Introduction

Public sector pay is a large element of the total budget of the devolved administrations. It is the responsibility of public sector managers to use tax revenues efficiently to maintain a properly-staffed and well-motivated public sector workforce. They have to do so in an environment which is somewhat different from the private sector, although for many occupations, they compete with the private sector for staff. In particular, the public sector is more heavily unionised than the private sector. In addition, the equality agenda (broadly defined) plays a stronger role in the public than the private sector.

This paper seeks to answer a number of questions that relate to these issues. In particular, we ask whether one might expect devolution to impact on public sector pay? In practice, has it made a difference? Have bargaining arrangements changed? How does bargaining take place in large private sector organisations? Has the public sector premium altered? Does lack of comparability with private sector markets cause excess demand/excess supply in the public sector? How do the earnings of those who switch between the public and the private sector evolve?

The answers contained in the paper draw heavily on the research carried out by the author along with Bob Elliott, Tony Scott and Ada Ma at the University of Aberdeen and Elizabeth Roberts at the University of Stirling. This was funded by an ESRC Devolution programme grant.

Should devolution impact on public sector pay?

Devolution should led to spatial policy differentiation and in the associated allocation of resources across the territories of the UK. An example of this was the Scottish government's attempts to enhance the quality of primary and secondary education by improving the pay and conditions of service of teachers in Scotland. The McCrone "Committee of Inquiry into professional conditions of service for teaching", was established by the Executive, and recommended new and quite distinctive pay structures from those operating in England and Wales.

But throughout most of the UK public sector, rates of pay are determined by centralised arrangements (see below). These tend to allow very little regional variation and as a result there is far less regional variation in rates of pay in the public sector than exists in the private sector. The much flatter public sector wage structure when taken in conjunction with the steeper profile in the private sector means that the public sector pays above the private sector market rate in some parts of the UK and below in others. Where differences between the market rate and what the public sector pays are large, we would expect there will be an efficiency loss. This is difficult to correct because the institutional structures for determining the pay of public employees generally do not map on to the new devolved structures; the spatial boundaries are different, and thus there may be little prospect of achieving such change under the existing arrangements. In turn we would expect this to increase pressure to change the pay setting arrangements themselves.

The current public sector pay setting arrangements limit the capacity of territorial governments to respond to changing local market conditions in many important areas of public service. The resulting efficiency loss means that resources are devoted to public sector pay that could be better used on other items of expenditure. The ‘Barnet squeeze’ also means that the block grant awarded to Northern Ireland and Scotland will grow at a slower rate than will public expenditure on “comparable programmes¹” in England. This process will gradually increase the pressure on Scotland and Northern Ireland to use available resources more efficiently:

Public Sector Pay Setting

The current arrangements for setting the pay of public sector employees in the UK are detailed in Table 1 below from which it is easy to identify which groups have pay arrangements that allow rates to be set at levels appropriate to local markets. The final column identifies the degree to which the rates of pay of each of the groups of public sector employees shown in the table can be adjusted to match local market conditions. The table is taken from a recent study by Elliott et al. (2003) and reveals that, in general, governments in the territories have *very little scope* for adjusting to local or territorial market conditions. Only in the case of local authority employees, school teachers and, most recently, prison officers do the institutional structures for setting pay map on to the devolved structures.

¹ e.g. health, education, transport

Table 1: Arrangements for determining the pay of public sector employees in 2002

Territorial Coverage and the System of Pay Setting by Public Sector Staff Group	No. of employees	Arrangements operated from	Territorial * Flexibility
<i>UK- wide</i>			
Review bodies			
Armed forces	210 000	1971	None
Nursing staff, midwives, health visitors and allied professionals (full-time equivalents)	500 000	1984	None
Doctors and dentists	145 000	1971	None
Senior salaries; judiciary, senior civil servants and senior officers – armed forces	6 000	1972	None
Prison Officers			
Collective bargaining			
Centralised Index linking			
Police service	150 000	1979	Limited
Fire service	42 000	1977	None
Decentralised			
Civil service	519 000	Early 1990s	Limited
Centralised			
NHS:			
Ancillary staff	100 000	Early 1950s	Limited
Administrative and clerical	160 000	Early 1950s	Limited
Professional, technical and scientific	65 000	Early 1950s	None
Ambulance staff	22 000	Early 1950s	Limited
Maintenance	20 000	Early 1950s	Considerable
Universities:			
Academic and related staff (pre 1992)	50 000	Early 1950s	Limited
Clerical, administrative and computing	32 000	Early 1950s	Limited
Academic and related staff (post 1992)	40 000		Limited
<i>England and Wales only</i>			
Review bodies			
School teachers	485 000	1992	N/A
Prison officers	31 000	2002	N/A
Collective Bargaining			
Centralised Framework Agreement			
Local authorities; England and Wales			
Professional technical, administrative, clerical, manual	1,300 000	1997	N/A
Further education	56 000	1997	N/A
Craft workers	40 000	1997	N/A
<i>Scotland only</i>			
Collective bargaining			
School teachers	50 000	1992	N/A
Prison officers	4 500	2002	N/A
Local authorities			
Professional technical, administrative, clerical, manual	200 000	1997	N/A
Craft workers	11 000	1997	N/A

Note to Table 1:

None = London pay supplements only
Limited = some opportunities for local variation beyond London
Considerable = Local pay supplements in excess of 20% of earnings can be paid in addition to London allowances

Source: Incomes Data Services (various years); Review Body Reports (various years); Elliott and Duffus (1995).

Though there is very limited local flexibility there have been major reforms of pay structures in some important areas of public sector employment north and south of the border since devolution. The new pay structure for teachers in Scotland is quite distinct from that agreed for England and Wales and the new Local Authority framework agreement has introduced greater sensitivity to local market conditions, particularly in England. Additional special payments have been awarded to police officers in London and South East England. Hospital doctors have enjoyed enhanced levels of earnings due to agreements on working time for some junior hospital doctors and the scale of these payments will differ between areas. These developments might be expected to have had a different effect on the average levels of public sector pay in the devolved territories.

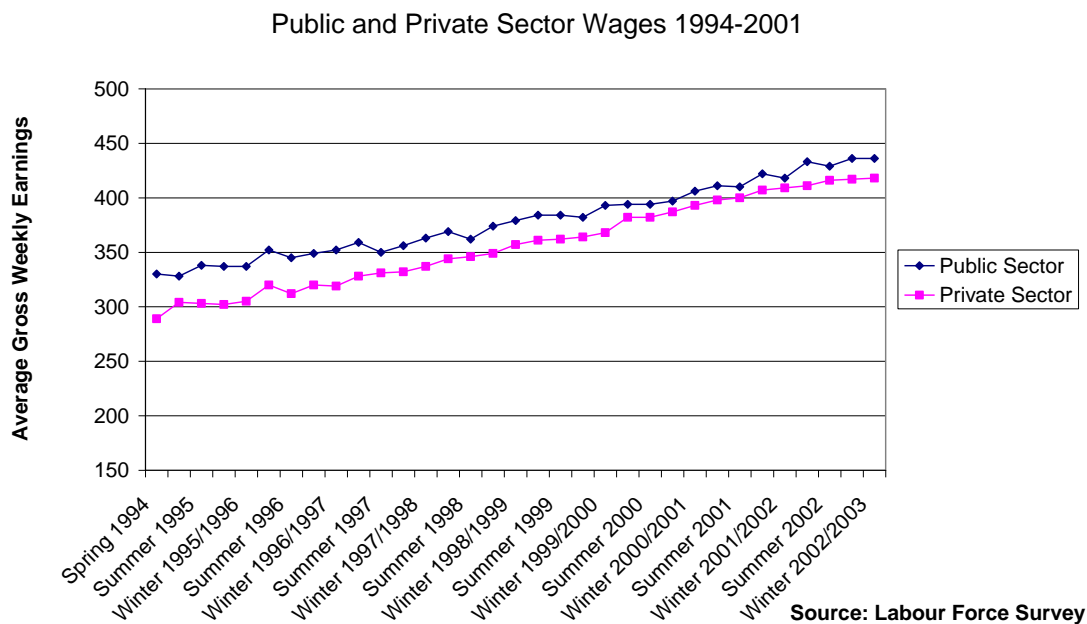
There are a number of particular issues that affected UK public sector wages during the last two decades and have probably had more impact on bargaining outcomes than devolution. These are described in Disney et al (1997) who argue that the size and composition of the UK public sector changed dramatically during the 1980s and 1990s. In 1985, 36 per cent of workers were employed in the public sector. By 1995 this had fallen to 23 per cent – approximately 5 million workers. The main causes of this decline were:

1. *Contracting out of services.* Many public sector organizations now contract out significant aspects of their activity to the private sector. The contracted-out functions typically employ less-skilled workers. A consequence is that the unqualified are now much less likely to be employed in the public sector.
2. *Privatisation of previously nationalised industries.* 750,000 jobs were transferred from the public sector between the early 1980s and 1995. The transfer of British Rail into the private sector in 1996 further reduced the size of the public sector workforce. Disney et al observe that since privatisation, wage inequality in the industries previously dominated by public sector employment has increased at the same rate as the private sector as a whole.

3. Attempts to introduce efficiency gains and productivity improvements into public sector pay determination

It is these changes, rather than devolution that have had the greatest impact on public sector pay in the last two decades. Devolution did not bring with it any new levers that the devolved administration could use to manipulate public sector labour markets. Figure 1 below shows the evolution of private and public sector pay in the UK from 1994 to 2004, showing that the period has been dominated by a gradual narrowing of public/private differentials.

FIGURE 1: PRIVATE AND PUBLIC SECTOR WAGES IN THE UK 1994-2002



The Public Sector Premium

Figure 1 illustrates that public sector wages are generally higher than those in the private sector – there is a public sector “pay premium”. There are two ways of thinking about this premium: first there is the “raw” premium, the difference in average wages between the private and public sectors as illustrated in Figure 1. Then there is the “adjusted” premium - the margin by which public sector workers’ wages vary from *equivalent private sector workers*. The adjusted premium is usually estimated by comparing wages and worker characteristics across large-scale datasets.

A number of arguments have been put forward to explain why the adjusted premium is also usually positive:

1. Higher levels of unionisation in the public sector which might explain both the positive premium and the lower variance of public sector pay. Trade union density is higher in the public sector and unions have much greater influence over setting wage rates in the public than in the private sector (Gregory and Borland, 1999; Disney and Gosling, 1998; Metcalf et al, 2001). Union density is greater in the public sector and public sector unions are frequently larger and better organised than their private sector counterparts. Metcalf et al (op. cit) argue that unions have a preference for a lower variance of wages.
2. Efficiency wage theory argues that workers whose productivity is hard to measure will be paid a higher wage to induce sustained effort. Workers whose productivity is difficult to measure and who are difficult to fire will be paid even more since they can reduce their productivity with a low probability of incurring a significant sanction. The public sector wage premium is therefore an inducement to maintain levels of output in the public sector. One difficulty with this argument is that higher paid public sector employees should be paid a larger premium than the low paid, since the costs of their malfeasance will be greater, but this appears not to be the case.
3. It is also argued that the public sector faces a much softer budget constraint than the private sector. Holmlund (1993) presents a formal model in which the private sector must fully internalize the costs of wage increases, while the public sector can shift some of the burden onto the private sector through higher taxes.
4. Differences in non-wage benefits, or more generally compensating differentials, comprise further potential explanations of the public sector premium. Gregory and Borland (1999) argue that the public sector wage premium balances higher non-wage benefits in the private sector. But the direction of this balance is not clear-cut since benefits such as company cars tend to be concentrated in the private sector while the public sector may in general provide more generous pension awards and job security. Other aspects of the job, such as potential for advancement and working-time flexibility are even more difficult to measure and compare across sectors.
5. Relative risk aversion has also been proposed to explain differences in average levels of pay between the sectors. Bellante and Link (1981) suggest that public sector employees are more risk averse than their private sector counterparts. But this

implies that the premium should favour the private sector as compensation for holding extra risk.

Theory provides no clear guide on the magnitude or sign of the public sector wage premium and therefore its existence and magnitude are an empirical issue. Further, there is a dispute about the appropriate framework for understanding and modelling public sector wages. Estimates of the public sector “premium” - the gap between public and private sector wages – are often based on strong assumptions about the selection processes that underlie the choice between jobs in the private and public sectors. It has long been argued that unmeasured individual heterogeneity biases estimates of the wage gap – that the productive characteristics of those who choose public sector jobs differ in unmeasured ways from those of apparently identical private sector employees. However there is no consensus on this point.

A large literature on raw and adjusted premia has developed and some of its key findings are:

- (1) In most countries public sector workers earn more than their private sector equivalents.
- (2) The public sector pay differential is relatively small for males, but much larger for females.
- (3) The premium varies with both the economic and political cycle. It is likely to fall during periods of rapid growth, when private sector wages are being bid up rapidly. And it will also decline during periods of fiscal stringency. In contrast, public sector wages tend to move ahead of those in the private sector when the economy is in recession and/or fiscal expansion is taking place.
- (4) The inequality of earnings tends to be smaller in the public sector than in the private sector. Thus, the gap between the low paid and the highly paid is generally smaller in the public sector, implying that, relative to the private sector, the public sector tends to pay low skilled workers quite well and highly skilled workers relatively poorly.

Some of these points are illustrated below for GB using data from the BHPS 1991-1995. Individual weekly earnings are regressed on age and education, and then estimates public sector premiums for GB are tabulated.

Table 2: Adjusted Public Sector Premiums for GB 1991-95 (Per Cent)

	Men	Women
Public Sector	3.6	17.9
Civil service/central government	9.6	24.8
Local government	3.9	12.9
NHS/Higher education	-8.1	23.4
Nationalised Industries	-0.1	-0.13
Armed Forces	0.1	-0.1

Table 2 illustrates the point that the premium for women is generally larger than that for men. It also shows that premiums are typically larger when weekly earnings are low, and this may reflect the greater concern in the public sector to address equality issues.

There are also international estimates of the public sector premium. For example, Blanchflower (1996) provides a cross-country comparison of public sector premia after controlling for age, schooling, gender and union status. Some of his estimates are shown in Table 3:

Table 3: The Adjusted Public Sector Premium in Selected Countries (Per Cent)

Country	Premium	Year
Canada	9%	1992-93
Germany	6%	1989-93
Italy	8%	1989-93
Japan	21%	1993
UK	4%	1989-93
USA	9%	1993

Source: Blanchflower (1996)

Note that the UK public sector premium is smaller than the other G7 countries included in Table 3. However, the premium is calibrated over the period 1989-1993. This was a period of considerable restraint in UK public sector spending. Note also that the raw premium estimated by Disney et al (1998) is much larger than Blanchflower's estimates which take account of differences in age, schooling etc. An important explanation of the smaller gap between the "corrected" premium and the raw premium is the relatively greater use of well-qualified labour in the public sector. Those with higher qualifications usually receive higher returns in the labour market. Thus the raw premium may be quite large, but after taking account of differences in qualifications between workers in the private and public sectors, it is much reduced.

Pay Setting Arrangements in the Private Sector

How do private sector employers deal with regional variation in wage rates? Employers with factories or workplaces in only one part of the country would pay local wages. For instance a local garage in Doncaster in the North East of England will not try to match rates for pay for mechanics or clerks in London. But in 2003 around 26% of all employees in Great Britain worked in organisations that had only one work place. Large employers with a network of factories or workplaces retain a national framework but use a variety of devices to adjust pay to the local market rates. Some large employers have a national pay scale, or spine, but locate new employees further up the spine and advance existing employees more quickly up the pay spine in high pay low unemployment areas. Others pay regional allowances in the high cost and unattractive areas. Some pay London and South East allowances while others have zonal or regional pay bands.

Evidence from Incomes Data Services reveals that many private sector employers do not bargain locally. They retain a national framework because of the high transaction costs, resulting from the duplication of time and effort that are associated with multiple bargaining units. Another reason is because local managers are unlikely to be experienced pay negotiators and as a result concede too much. Moreover local bargaining is vulnerable to union 'whipsawing' tactics. As a result private sector firms establish rules or guidelines at the national level, and the rules identify the conditions under which higher pay is offered in some areas of the UK. Typically these rules require evidence of the rates paid by local competitors, of the local cost of living, and perhaps of local unemployment rates or turnover rates as evidence of market tightness.

The Public Sector Pay Premium and Devolution

The public sector premium differs between the devolved territories. We can decompose the "raw" premium into two components. The first captures differences in the average characteristics of workers – experience, education etc, while the second is the unexplained component, which cannot be explained by measurable individual characteristics that have value in the labour market.

We calculated this breakdown for Scotland and England, pre and post devolution for men and women. Results are shown in Figures 2 and 3 below:

Figure 2: The Adjusted Public Sector Premium in Scotland and England Pre Devolution

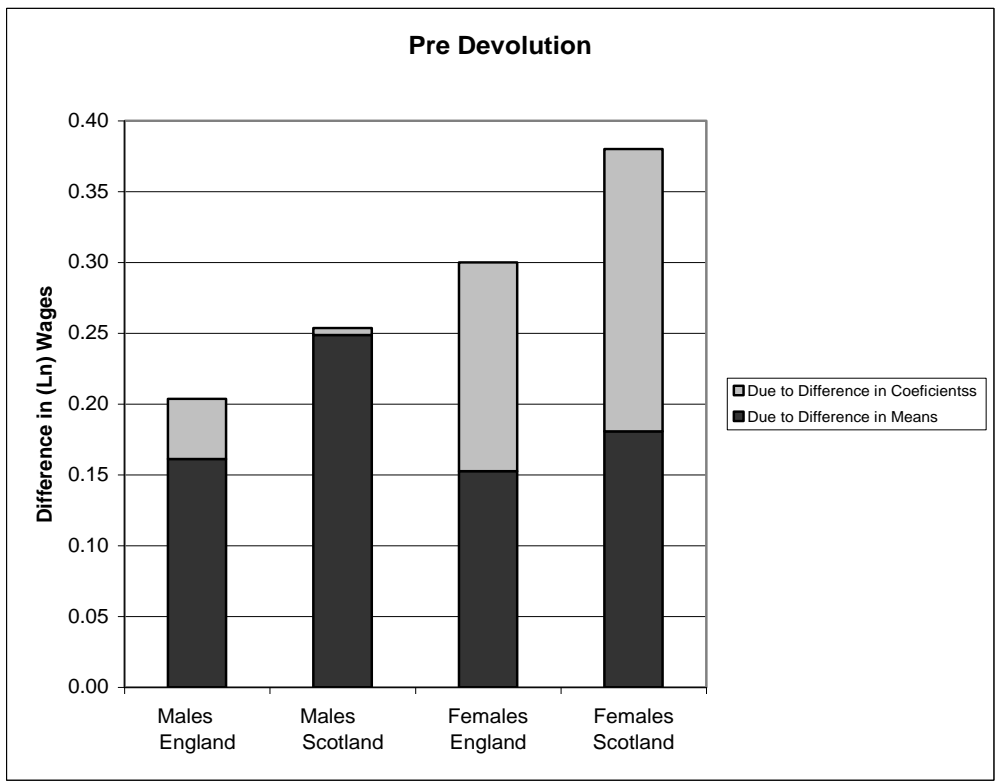
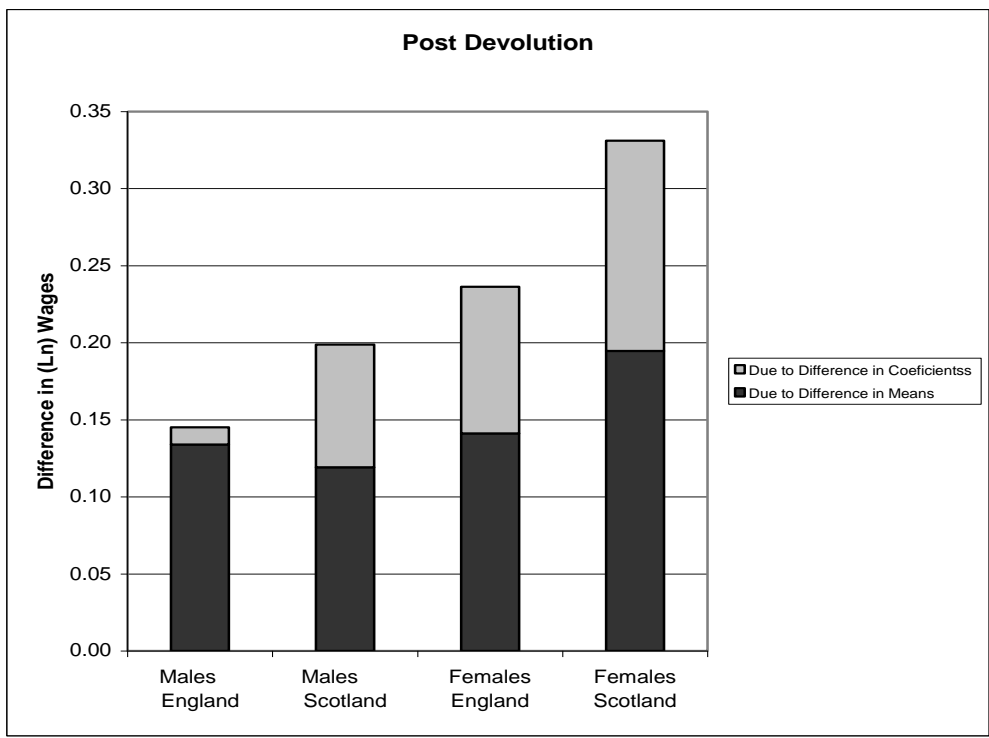


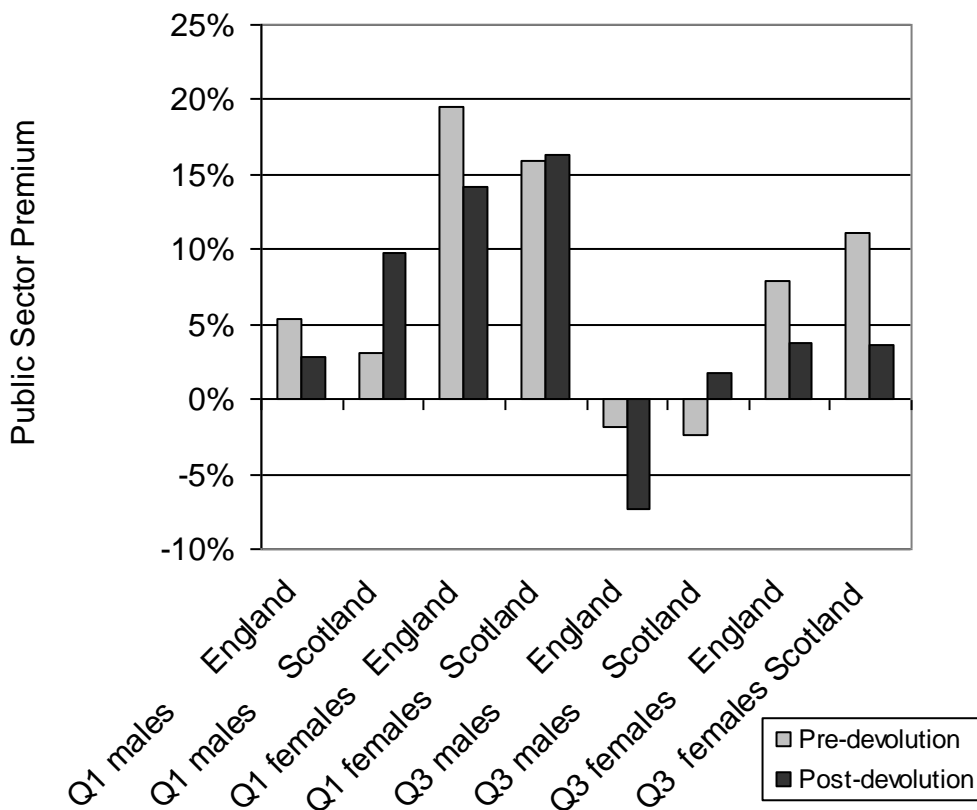
Figure 3: The Adjusted Public Sector Premium in Scotland and England Post Devolution



We have argued that the public sector is more concerned with equality issues than the private sector. One might expect this to lead to a flatter pay structure in the public sector due to greater pay equality than exists in the private sector. It follows that the size of the public sector premium will vary across the pay distribution. In their study of UK public sector differentials, Disney & Gosling (1998), identify larger premia at the lower end of the pay distribution and smaller, sometimes negative, differentials at the top, supporting this view. Their results apply to the early 1990s and they use different data sets to that employed here, they use the British Household Panel Survey and the General Household Survey, but their findings are consonant with those reported here.

We estimated quantile regressions at the 1st and 3rd quartiles (25th and 75th percentiles) for males and females in Scotland and the whole of England both before and after devolution. The results of our analysis are shown in Figure 4 below. They reveal that public sector premia are greater at the lower end of the earnings distribution than those at the upper end and that the premia for females are generally larger than those for males.

Figure 4: Quantile Estimates of the Adjusted Premium Pre and Post Devolution



In both Scotland and England the public sector premium is much greater for women at the lower end of the pay distribution than it is for men. Prior to devolution, the public sector premium at this lower end of the women's distribution was larger in England than in Scotland, but following devolution it is now larger in Scotland. Similarly Scottish males at the lower end of the earnings distribution had a lower premium than those in England prior to devolution, but again the position has reversed since devolution. It seems clear that public sector employees towards the lower end of the pay distribution in Scotland have fared relatively better than their counterparts in England in the post devolution era.

At the upper end of the earnings distribution for males there is either no significant premium, as in Scotland, or a wage penalty, as in England, for those who were employed in the public sector. In England, this penalty has increased since devolution, but in Scotland, there is no evidence of significant change.

One possible explanation of the changes we report is the relatively more robust performance of the English economy in recent years. The stronger economic performance of the private sector in England may have resulted in a more rapid erosion of the public sector differential in England compared with Scotland. In Scotland that erosion seems to have been confined to women at the upper end of the pay distribution. It may be that the relatively weak Scottish private sector explains the results reported here and in particular the pay of men at the lower end of the pay distribution. Higher levels of unionisation among low-paid public sector workers may have helped protect pay levels in the face of the decline in economic activity. It is also possible that unions may have been able to exploit inconsistencies between the policy stances of different tiers of government and have been able therefore to use the creation of the new layer of political power to increase their bargaining effectiveness. There may also be a better understanding on the part of unions that the Barnett Formula provides a rent that is not available in England or Wales and that they can act opportunistically to acquire some of this rent.

Spatial Earnings Differentials in Particular Occupations: Nurses

Does lack of comparability with private sector markets cause excess demand/excess supply in the public sector? The role of pecuniary and non-pecuniary factors in labour supply decisions is a key issue in devising policies to influence recruitment and retention in specific public sector occupations such as nursing. Nursing is an important occupation in

relation to devolution both because it is extremely large and because the funding for nurses is controlled by the respective devolved authorities. But the bargaining mechanism, as we have already seen, is essentially a national one.

A key role in determining disequilibria in occupational labour markets is played by alternative employment opportunities in local labour markets. Local NHS employers need to be able to alter pecuniary and non-pecuniary rewards to compete with other employees who require similar skills and training. One way of investigating this issue is to examine the relationship between the relative pay of NHS nurses and comparator occupations, and NHS vacancy rates in health authorities. Our results show that disequilibrium in the labour market for nurses is influenced by wage differentials, and that this result is robust to a number of different model specifications.

But there may be other characteristics of health authorities that influence vacancies, such as the characteristics of the working population, and the characteristics of the NHS, such as whether there is a teaching hospital in the health authority that may make working there more attractive.

A further issue is that we have restricted the model so that competition occurs within a given geographical area. Though the appropriate labour market for nurses is likely to be a small geographical area, it is still likely that health authorities also compete for nurses with other geographical areas, particularly neighbouring health authority areas (Elliott et al., 2003).

Altering the pecuniary and non-pecuniary rewards offered by the NHS may help to reduce vacancy rates in the NHS. Although pay matters, previous research in the UK and in Norway suggests its effect on labour supply decisions is likely to be small (Skatun et al., 2001; Frijters et al., 2003; Askildsen et al., 2003; Shields and Ward, 2001). Our results show that the responsiveness of vacancy rates to wage differentials is lower for qualified nurses than for all nurses. There is little scope for NHS employers to alter pay given the current pay setting arrangements, and new contracts for non-medical staff in the NHS are likely to eliminate any scope that did exist. Relative pay does matter, but the current institutional framework in the NHS means it cannot be used a policy instrument by employers. The absence of evidence about the costs and effects of changing non-

pecuniary job characteristics means that it remains uncertain as to whether altering pay or altering non-pecuniary factors is the most efficient policy to influence staffing outcomes.

Conclusion

Devolution has made little difference to the underlying forces which determine public sector pay in the UK. Bargaining structures remain complex and have not significantly responded to new governmental structures. While public sector premia overall have probably been in long-term decline, particularly for men, there are indications that, at least in Scotland, the public sector premium is relatively large and cannot be explained by differences in the measured characteristics of the workers. The size of the premium probably also reflects the relative weakness of the private sector in Scotland compared with that in England. It is also clear that it is public sector workers at the lower end of the earnings distribution that particularly benefit from being part of the public sector in the sense that the premium they receive is larger than that of better paid public sector workers. Finally, we have established that in specific occupations such as nursing, larger discrepancies between private and public sector wage outcomes in local labour markets is related to measures of disequilibrium in the labour market, such as high levels of unfilled vacancies.

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Performance-related pay in the UK Public Services: unravelling the contradictions

Steve French, Centre for Industrial Relations, Keele University

Introduction

Performance-related pay (PRP) schemes have been defined as payment systems 'where some part (conceivably all) of someone's pay depends on an assessment of performance against predetermined criteria' (Arrowsmith et al., 2001:114). PRP schemes usually involve the measurement of behavioural traits or the attainment of previously determined objectives or targets, with individual appraisal usually assuming a central role in a largely subjective judgement of a worker's performance.

When examining the operation of performance-related pay (PRP) schemes in the UK public sector, three apparent contradictions emerge. Firstly, there is the issue of the coverage of payment systems based upon PRP. Linking the pay of UK public sector workers to their performance became an explicit policy of the previous Conservative administrations (1979-1997) and, following the extension of PRP to classroom teachers, also appeared to be a component of the current Labour government's attempts to achieve 'something for something' for their continuing investment in public services. However, while performance-related pay has constituted official government pay policy, it is clear that the introduction of PRP into the UK public sector has neither been comprehensive nor uniform. According to the 1998 WERS survey (Cully et al, 1999) only 20% of public sector workplaces operated pay schemes which linked individual pay rises to staff appraisal for non-managerial staff. Although this survey pre-dates the extension to PRP to classroom teachers and excludes a limited number of workplaces where some form of team-based performance pay had been in operation, it is evident that the adoption of PRP has been limited.

Secondly, an explicit aim of many PRP schemes introduced into the UK public sector has been to motivate staff through linking their pay (progression) to their performance. Indeed, a large body of academic research into PRP has tended to focus upon management's stated aims for introducing their schemes. These aims usually emphasise the role of pay as an incentive to motivate employees to perform better. Consequently, studies have employed motivational 'theories' such as expectancy theory (Lawler, 1971) and goal setting (Locke and Latham, 1990) to examine and evaluate PRP schemes, primarily

through staff attitudinal surveys. These studies (e.g. Thompson, 1993; Marsden and Richardson, 1994; Dowling and Richardson, 1997; Marsden and French, 1998) provide, however, a significant body of evidence that questions whether there has been *any* positive motivational impact of PRP schemes on workers. In fact, most studies conservatively conclude that the net effect of these schemes is to de-motivate workers. The third contradiction, therefore, relates to the continued use, and indeed - in the case of classroom teachers - the extension of PRP schemes in the late 1990s, while established research indicates that such schemes do not meet their primary stated objective, employee motivation.

The aim of this paper is to explore and explain these apparent contradictions by examining the role of PRP, not from the perspective of employee motivation, but one of managerial control of the employment relationship. It is argued that PRP, in common with all payment systems, should be examined in terms of role it plays in facilitating managerial control of the work-effort bargain and the labour process. Building upon the research of Kessler and Purcell (1992) and Procter et al. (1993), which identified a number of non-motivational objectives associated with the introduction of PRP, the paper attempts to re-assess the role that PRP can play in regaining control over the payroll; and, crucially, intensifying work by breaking down established job demarcations and increasing workloads.

The paper begins by providing a brief overview of the use of PRP schemes in the UK public sector. The paper then examines the problems associated with using an expectancy framework to evaluate PRP schemes. An alternative approach, drawing primarily upon the wage-effort bargain and the labour process, is then developed to highlight how control remains central to pay determination. The development of Performance Management in the Inland Revenue is then examined, to illustrate how, despite the stated objectives of motivating employees made by management in the department, control remains central to the operation of PRP. The concluding section examines more recent developments in relation to the operation of PRP suggesting that, even if recent developments in public sector pay may suggest a move away from PRP, the role of PRP in shifting the 'frontier of control' (Goodrich, 1920) has been largely successful.

Performance-related pay in the UK Public sector

While it is beyond the scope of this paper to provide a detailed analysis of the use of PRP across the UK public sector, it is important to illustrate the potential problems of applying PRP to public service work and to highlight the variations in its application across different parts of the public sector. The application of PRP, with its origins in the private sector payment systems, to public services should be viewed as part of the attempt to 'marketize' industrial relations in the public sector. This brings with it a number of potential issues relating to the use of PRP and public service work.

Firstly, one of the most problematic issues is the measurement of work. Most PRP schemes, especially those based upon individual appraisal, require line managers to measure the worker's performance against a number of targets. In many cases of public sector work, however, it is difficult to find reliable quantifiable targets. As a result many assessments rely heavily upon subjective judgements, which immediately raise questions of fairness and consistency. The use of individual appraisal is additionally problematic where public service work is based upon teamworking, with the use of selective individual rewards often leading to jealousies arising between team members and a focus upon individual rather than team targets.

Secondly, PRP with its promise of selective financial rewards has been applied to a sector that has 'selected' for pay restraint and pay freezes. Prior to the increased investment by the Labour Government (after initially sticking to Conservative party spending limits), there have been very few additional sources of finance available. As a result PRP has been funded by a redistribution of the paybill. Thirdly, PRP has been introduced mainly on the assumption that pay bonuses will act as strong incentive to public sector workers. While pay and low pay are clearly major concerns of public sector workers and their unions, the notion of bonuses acting as a key motivator to public sector workers – especially in the light of the measurement problems and limited funding constraints highlighted above – is highly questionable.

Finally, the introduction of PRP, based in most cases on the individualisation of pay determination through appraisal, conflicts with the traditional joint regulation of the employment relationship of centralised pay negotiation between employers and public sector unions with high levels of membership.

When looking at the operation of PRP in the UK public services it is possible to identify certain trends in the coverage and characteristics of the schemes. In terms of the coverage of PRP schemes across the public sector, the main cleavage would appear to be between central imposition and local managerial discretion over implementation. In the case of the civil service, PRP was first introduced in late 1980s, but crucially the implementation of PRP was made a condition of pay delegation from the Treasury in the 1990s. Virtually all staff are covered by PRP, although the type of scheme varies between Departments and Agencies. This should be contrasted with Local Government and the NHS where central negotiating systems provided very little scope for the development of local pay and conditions. Although a number of local authorities broke away from central bargaining and a number of NHS Trusts made use of their powers to establish separate pay and grading structures, the number of organisations implementing PRP schemes was modest, with many of those introduced subsequently withdrawn (IDS, 2004). Finally, in education the School Teachers Pay Review Body (STPRB) consistently resisted attempts by the Conservative governments to introduce PRP for classroom teachers, due primarily to concerns over insufficient funding as well as union opposition. The Labour government subsequently implemented a national system for teachers, again against considerable opposition from teaching unions, but backed by substantial funding aimed at recruitment and retention.

In terms of variation between schemes, there have been significant differences in terms of the staff groups covered, the form of performance measurement, and the composition of pay under PRP. For some sectors, PRP has been used for selected groups of staff only. In the NHS despite the limited use of PRP for all staffing groups, a national scheme operated for managerial staff from the beginning of the 1990s (see Dowling and Richardson, 1997), though this was subsequently made a voluntary scheme. The School Teachers Pay Review Body also began to adopt a more structured approach for assessing and rewarding the performance of head- and deputy headteachers. Research indicates around one third heads and deputies had a performance review in the academic year 1996-7 (Marsden and French 1997). Similarly, there has been variation in the methods of assessment, with a limited number of schemes seeking to assess the performance of groups of staff. This was given impetus in the civil service by the findings of the Makinson Report (2000). Finally, there is variation in the proportion that PRP constitutes in terms of a worker's pay progression. Public sector unions have attempted, with some success, in maintaining some cost of living element in pay awards, minimising the differentials

between those receiving different performance markings. Nevertheless, a recent survey by the PCS (2002) found that in 17% of bargaining units, PRP was the only method of pay progression.

In summary, therefore, it is clear that the implementation of PRP has been far from uniform in the UK public services. While the introduction of PRP can be linked to attempts to fragment and decentralise industrial relations in the civil service, it has been more problematic to achieve this where bargaining remained centralised or co-ordinated, based upon the pay review body system. This reflects the problems identified above in applying PRP to public service work, something frequently acknowledged by public sector managers. However, the existence of PRP in some shape or form does raise the question as to how to examine and assess its application.

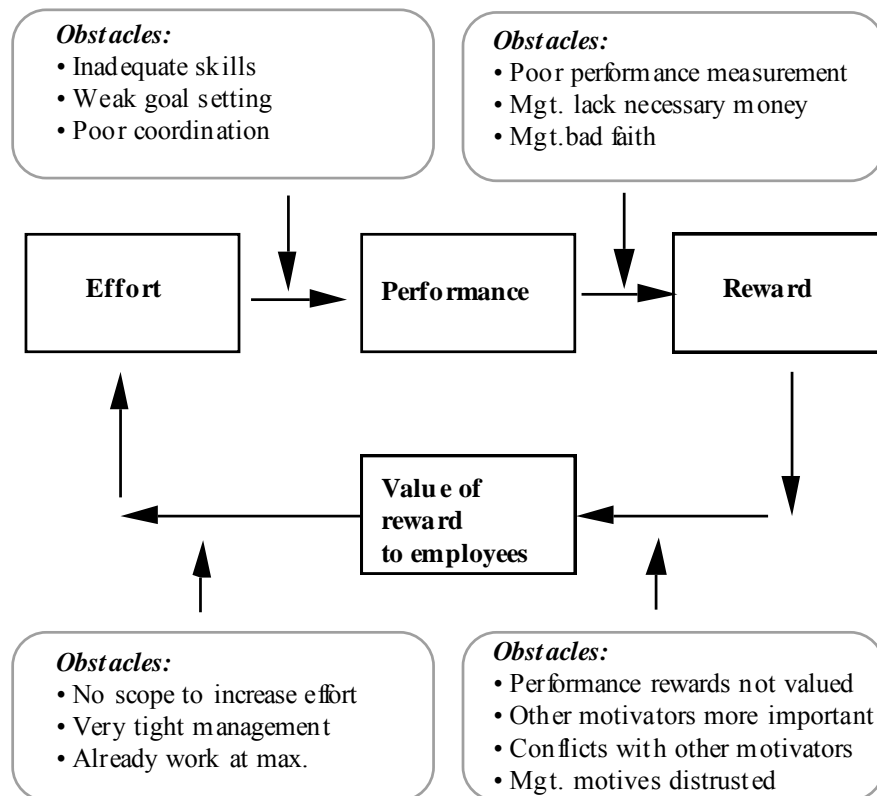
Expectancy theory, motivation and PRP.

The introduction of PRP schemes and subsequent academic research into their effectiveness has concentrated primarily upon the issues of motivation and fairness. For example, Marsden and French (1998), drawing upon Lawler, rest their analysis upon expectancy theory, suggesting that the primary reason for introducing PRP is employee motivation. According to this 'theory', the motivation of employees requires that they value the nature of the reward; are aware of the effort expected of them to obtain that reward; are capable of reaching the required performance levels for the (necessary) effort expended; and expect to receive a reward which reflects the effort expended. The logical consequence of this approach to PRP is that a successful system will encourage employees to work harder towards achieving an organisation's goals and consequently improve the overall performance of the organisation. Indeed the Advisory, Conciliation and Arbitration Service (1990) stressed this interpretation of PRP, which:

in the right context can be of potential benefit to both employer and employee. It can, for example, help employers improve the efficiency of their workforce by emphasising the need for high standards of job performance. It is further agreed that it can offer the flexibility to help motivate and retain valuable employees by targeting higher pay at better performance. Employees in turn may welcome a system which rewards extra effort by extra pay.

By using expectancy theory to underpin their studies of PRP schemes and utilising employee attitudinal surveys, researchers have focused upon the concepts of motivation and fairness to evaluate the relative strengths and weaknesses of these schemes, highlighting problems that arise in the operation of PRP schemes and identifying how these act as obstacles to the positive reward-effort-performance cycle predicted by expectancy theory (as outlined in figure 1 below).

Figure 1: The 'expectancy' framework.



Source: Marsden and French (1998).

There are a number of criticisms that can be levelled against this research. Firstly, the quantitative methodological approach employed by researchers – through attitudinal surveys of staff subject to PRP - makes an assumption that complicated concepts such as motivation and fairness can be reduced into a set of (inflexible) questions which focus on an individual's perception and subjective ranking of views. Secondly, the reliance on attitudinal surveys highlights the difficulties facing researchers trying to measure the performance improvements predicted by expectancy theory. Again 'evidence' of improved performance relies on the subjective perceptions of employees, because of the complexity of measuring and linking individual and organisational performance. A clear example of this is the Inland Revenue case study (Marsden and French, 1998) where line managers' perceptions of the impact of PRP on productivity could not be disentangled from more

important changes in the department, notably the impact of a recruitment freeze that had reduced staff numbers while workloads had increased, notably as a result of the introduction of Self-Assessment. As Arrowsmith et al. (2001:115) note there are 'no longitudinal studies seeking to estimate the effects of PRP on some reliable and objective outcome measure while properly controlling for other possible influences.'

While it is important to note these criticisms, they do reflect the methodological problems common to research into industrial relations and indeed social science in general. However, the major criticism relates to the use of expectancy theory to underpin the research. Effectively, the primary focus upon expectancy theory represents a unitary approach (Fox, 1966) to the subject, with the implicit acceptance that pay determination is solely about the motivation of employees. By relying upon managerialist theories of pay, the researchers have disregarded the wealth of literature on the wage-effort bargaining, the labour process and the struggle over the regulation of pay, and the scope of collective bargaining.

Consequently, research underpinned by expectancy theory does not question the 'stated aims' of employee motivation associated with the introduction and operation of PRP schemes. Researchers effectively become trapped. They may identify problems that disrupt the positive reward-effort-performance cycle, but these are seen as 'obstacles' to the efficient functioning of a PRP system. The perceived robustness of expectancy 'theory', means that these obstacles, once identified, can be tackled through reform (or tinkering) with malfunctioning PRP schemes. In other words, there is no questioning of the theoretical underpinnings, merely the process of implementation.

PRP, the wage-effort bargain and the labour process.

Within the body of research into PRP there is a second, rather under-developed, approach that deserves more attention. Kessler and Purcell (1992) identify a tradition of research into pay which sees 'the design and operation of pay structures and systems as central to management as well as employee attempts to control a wage-effort bargain whose terms can never be fully spelt out in formal contracts.' They highlight how pay systems can be viewed as a means by which managers seek to control the workplace and address the problem of actualising workers' potential to work in a productive manner. In this way PRP, in conjunction with other managerial techniques such as job evaluation and regrading, has

been utilised to: signal a change in organisational culture; restructure the employment relationship; reward selectively without increasing the paybill; decentralise collective bargaining and marginalize trade unions; obtain closer financial control; and act as a substitute to promotion. These issues clearly reach beyond the 'narrow' issue of pay and motivation and raise important questions about the use of PRP schemes.

This approach is much more closely aligned with traditional pay research that considers both managerial and market relations (Fox, 1966) in understanding levels of pay, the structure of payment systems, the relationship between pay and effort and issues of managerial control and worker resistance. Recently, this rich tradition of pay research (e.g. Baldamus, 1961; Behrend, 1957; Hyman and Brough, 1975; Brown and Nolan, 1988, Brown et al., 1995) has been supplemented by research by Green (2001), who highlights substantial work intensification in Britain over the last two decades, and Beynon et al. (2002), who focus on how the regulation of individual performance has been tightened, highlighting the considerable work intensification pressures on workers as a result of greater control measures (such as the use of information and communication technologies, performance management and traditional 'technical control' of the production processes).

While PRP schemes have not been the explicit focus of this recent research, it appears logical, as French and Gilman (2003) and Gilman (2004) argue, to extend this research tradition to the use of performance-related pay, since it is important to consider how such payment systems may address both the labour market and labour process concerns of public sector management. A notable example of this would be the case of PRP for classroom teachers. It would be absurd to examine the issue of PRP for classroom teachers from a purely motivational perspective, given that the primary reason for changes to the payment system was an urgent need to address acute recruitment and retention problems. The opportunity to extend teachers scales to aid retention and indicate good pay prospects for new recruits was linked with performance-related 'gateways' to justify large increases in public expenditure on teachers' pay. Indeed, it appears now as though access to the upper pay scale has become almost automatic (IDS 2004).

Similarly, the importance of PRP in the civil service, as part of a series of changes to pay and grading systems, should be seen not simply in terms of motivation, but rather as part of an attempt to create a pay and grading system in which reduction of labour costs,

financial flexibility and greater control over workloads is possible. This is illustrated by a brief case study of the Inland Revenue.

The Inland Revenue Case

The following section reports the experience of PRP in the Inland Revenue, examining the pay mechanisms and their relationship to managerial control of job content and labour costs. The Inland Revenue is an important and well-researched case study. It was the first Government department to set up a PRP scheme in 1988, which was examined by Marsden and Richardson (1994). Following the drive towards pay delegation, and to a certain extent in the light of this research, the original scheme was dramatically altered in 1993 when a Performance Management (PM) system was introduced. This scheme was subsequently investigated by Marsden and French (1998, 2002), providing the opportunity for a comparison of staff attitudes over time and an investigation into the impact of pay system reform upon the operation of PRP in the organisation. The aim of this study is not to revisit the attitudinal surveys carried out by both sets of researchers, but rather to emphasise that PRP, as part of a Performance Management system, should not be viewed in terms of employee motivation, but rather as mechanism to enhance managerial control over the wage-effort bargain and labour process. This means, out of necessity that some areas, for example the problem of objective setting and measurement; issues relating to peer pressure; the individualisation of the employment relationship; and the marginalization of trade unions, have been omitted.

The Introduction of Performance Pay

Under the 1988 PRP scheme, performance pay was awarded on the basis of individual staff appraisals conducted by their line managers. The performance assessment used the standard civil service performance criteria (then 13 in all) that applied to employees in all jobs. On the basis of this, employees were awarded a 'Box marking' ranging from 'Box 5' for unsatisfactory performance, to 'Box 1' for outstanding performance. The same appraisal process was also used to determine a member of staff's suitability for promotion. It is important to stress that in many respects the 1988 PRP represented an 'add-on' to the existing system. Cost of living increases and incremental progression remained key elements of pay progression, with performance pay awards taking the form of movements along the existing pay scale, resulting in accelerated increments for those who received

performance awards. Those with a Box 1 got an accelerated increment, and those on the top of their pay scale receiving two Box 2s in two successive years got half an increment. Awards were consolidated into basic salary and were pensionable. The scheme operated within the established departmental grading structure (which equated broadly to the national civil service grades).

The Introduction of Performance Management

By contrast the 1993 PM scheme marked a radical departure in terms of pay and grading, combining the processes of individual goal-setting, appraisal, and performance pay for all staff. Under Performance Management, staff agreed their individual performance objectives for the coming year with their line manager. Objectives had to be 'realistic and achievable, but also stretching' to encourage staff to give realistic improvements in their performance. These encapsulated most of the criteria listed under the old appraisal system to which the 1988 PRP was attached, but were set more clearly in relation to broader work objectives than previously. In addition, jobs could be counted as 'extra loaded', if they involved an exceptionally large or difficult work load. At the end of the year, staff were appraised by their managers as to how far they have achieved their objectives, and classified as follows:

- Exceed: having achieved performance well above that agreed;
- Succeed: having achieved what the person set out to do;
- Not Met: performance below that agreed.

The appraisal also took account of whether or not jobs were graded as 'extra loaded' at the start of the year. Staff were rewarded according to their performance appraisal and whether the post was 'extra loaded'. Those appraised as having 'Not Met' receive no performance increase, and additional rewards are given for those succeeding or exceeding in extra loaded posts. Larger percentage increases were awarded to the lower paid groups. This was intended to compensate for the removal of incremental payments, which had been greater for the lowest paid grades. In some years, staff annual pay increases comprised a general, across-the-board, 'A' element, and a 'B' element for performance, though in some cases annual pay increases depended almost entirely upon performance (i.e. the A element is 0%). The size of the increases was negotiated with the unions.

Performance management was introduced with a major restructuring of pay scales and job grades. Jobs were allocated to one of a number of 'Pay Bands' that replaced the old job grades. Pay bands were divided into five layers, or quintiles. Staff moved between pay bands and spans by promotion, whereas movement within spans was determined by the annual performance pay increase. Performance pay increases were consolidated into basic pay until a worker reached the top of the pay span, after which they were non-consolidated bonuses. The changes introduced in the 1993 pay agreement are illustrated in Table 1.

Table 1: Changes to the Inland Revenue's PRP scheme 1989-1993

	1989	1993
Individual Objectives	No (standard for grade)	Yes
Assessment procedures	PRP based on appraisal <u>and</u> promotion system	PRP based on separate, individual Performance Agreement
Grading changes (JE)	No	Yes
Penalise poor Performance	No	Yes
Increments	Yes	No (weighted progression)
Cost of living	Yes	Yes (nominally)
Pay Consolidation	Yes	Yes (to pay band max.)
Appeals	Yes	Yes (after review)

Objectives of the Scheme

The stated aims of the new scheme appear to 'fit' the expectancy and goal-setting model. The objectives of the Performance Management scheme as presented in 'the Guide' (the Inland Revenue staff manual) are to: improve the quality of management; motivate jobholders and release their full potential; focus on what is really important; achieve a higher level of job satisfaction and recognition; and lead to further improvement in the Department's performance. However, the 1993 pay agreement, which incidentally was agreed by the IRSF trade union in a membership ballot rushed through before the full details of the PM scheme had been finalised (in order to settle before the union's annual conference), actually represented a significant shift in the frontier of control in favour of the management.

Control of Labour Costs

The PM scheme gave senior management within the Inland Revenue a much larger degree of discretion in managing the department's pay costs. This is reflected primarily in the abolition of incremental progression. Incremental progression represented a fixed-cost that had to be calculated on a year-on-year basis. Although higher percentage increases were awarded to in lower spans (of the new pay bands) to compensate for the loss of increments, these increases were not fixed and could be re-negotiated on an annual basis (compared to the automatic revalorization of the pay scales under previous pay agreements). In addition to this, managers also gained other mechanisms that could increase the discretionary control of the paybill. The 1993 PM scheme envisaged an 'A+B' award, where A represented a general cost of living increase and B the performance award. As Marsden and French (1998) note, however:

In the first year of the agreement, staff received a 1.5% general increase, but in the following two years, there was no across-the-board element. In 1996, an across-the-board payment of £175 was agreed as the 'A' element. Only those staff going through disciplinary or adverse performance procedures would not receive the payment. Other staff awarded a 'Not Met' were entitled to receive the increase.

Thus, management were both able to suspend the cost of living allowance as well as withhold it from those facing 'disciplinary or adverse performance procedures' when a general increase was agreed. In addition, those judged not to have met their performance objectives would not be entitled to receive any performance award. Although the number of staff receiving 'not met' in their performance appraisals was rather small, the PM scheme nevertheless ensures that pay savings are made in all of these cases. A final pay saving came with the non-consolidation of pay when staff reached the top of their pay bands. While under the 1988 scheme additional 'range points' were awarded to those receiving performance pay on the top of their incremental pay scale (which were fully consolidated payments) staff now reaching the top of the pay scale would find that additional awards were non-consolidated.

However, these mechanisms of control were not, by themselves sufficient, precisely because the overall control of the paybill still required some 'expected distribution' of performance awards. Thus, despite explicit claims that there were no quotas applied to the

number of 'exceeds', pressure was clearly placed upon line managers (in part through their own performance appraisals) to maintain 'consistency' of appraisals. As one respondent to the Marsden and French (1998) survey wrote:

In my office the quota of exceeds are given to the members of staff on the promotion list or progression list in the clerical grades. Other members of staff neither expect, or get exceeds. Most staff see the system as pointless for them and a way for the Revenue to reduce the pay bill and to eat into, and undermine, national pay bargaining. I also know very hard working experienced members of staff, who no longer work as hard as they did previously, because they see it as a waste of time and effort (female, part time, Band E1 employee from South Yorkshire region).

Contracts and standardisation

The second area where Inland Revenue management made gains in the 1993 PM scheme was in the area of job control. The shift from standard job or grade performance criteria to individual targets is significant both in terms of breaking down job demarcations and increasing workload. The operation of Performance Management was focused upon an individual performance agreement between the line manager and the jobholder. This agreement, and crucially the targets set in the agreement, can be 'tailored' to the abilities of the individual. This provided managers with the opportunity to determine, unilaterally, job content.

Performance agreements can, therefore, be used to get staff to take upon extra responsibilities that previously would not have been associated with their 'grade'. This opportunity to break down job demarcations was reinforced by the creation of 'extra-loaded' posts and the introduction of a job evaluation. Extra-loaded posts were determined by management, and staff in such posts are awarded marginally higher performance bonuses. Effectively, this allowed job content to be extended, enabling a recruitment freeze to be implemented and pay savings to be attained from non-replacement. This process of increasing job content, by breaking down grade demarcations, was reinforced by a job evaluation scheme implemented to deliver a new grading system for the PM scheme. The regarding of posts, if not formalising the increased job content, at least

severed the connection that staff would have perceived between the old grading system and 'expected' responsibilities. This was reflected again by comments made by staff surveyed by Marsden and French.

It seems like a way of piling on more work and then the job holder being advised that because they have already had extra loaded/Exceed, they should continue with the extra work, but no hope of more pay (female, full time, Band E1 employee from South Wales).

Crucially once work intensification had been established, new targets became the norm for the following year's performance agreement. The performance agreement, because it was supposed to reflect individual performance and create individual targets, provided management with a mechanism through which the amount of work could be increased, through annually 'ratcheting-up' targets. Again this was recognised early by some respondents to the survey by Marsden and French:

Inspectors in Wales and the Midlands investigation targets were 'ratcheted' up by 7% without explanation, but performance agreements have not changed i.e. we are not allowed to exceed or get extra loaded, although we are taking on more work than agreed at the start of the year (female, full-time, Band C" employee from Wales and West Midlands Region).

There have been some significant developments in PRP within the Revenue and wider Civil service since the time of the Marsden and French survey, notably in response to the Makinson report with its emphasis upon team-pay and non-consolidated bonuses. Indeed, in common with other civil service departments and agencies, there was a period when unions and managers gained a breathing space from the Treasury in order to reformulate performance-pay. Following two years of almost guaranteed progression, some form of team-based performances will now supplement cost of living and the basic performance award (IDS 2004). While these developments may reduce the scope for labour cost reduction, the real issue concerns the extent to which management have been able to gain control over workloads. While the PRP scheme, in conjunction with regarding and job evaluation, provided a framework for such control, further research is clearly necessary to ascertain the extent to which line managers have exercised this authority, and the extent

to which the PCS union, and groups or individual workers have been able to standardise job content and resist the unilateral imposition of targets.

Conclusion – new developments in PRP?

This paper has tried to deal with three apparent contradictions relating to the use of PRP in the UK public services. Firstly, it has explained that despite government policy supporting the introduction of PRP, the coverage of PRP has not been uniform across the public sector. While it has been possible to introduce PRP into central government, tied explicitly to the fragmentation of civil service structures and industrial relations, and into teaching to specifically address recruitment and retention issues, PRP has been limited in other sectors where central bargaining or pay review bodies have dominated (though it can be argued that in these sectors policies such as pay harmonisation and job evaluation have been implemented to gain greater control of pay). Secondly, it has addressed with the apparent contradiction of the stated aim of employee motivation and the large body of evidence suggesting that the outcome of PRP has been to demotivate workers. By examining PRP schemes as a type of payment system, it has been argued that the introduction of PRP is associated with financial flexibility, cost control and, crucially, control over job content. This in turn, helps to explain the apparently long-life of PRP schemes that have not met their stated aims. But it may also help to explain the move away from PRP schemes that is now being witnessed (IDS 2004), because if significant gains over job content in the civil service have now been made, then the PRP has served its purpose - a purpose that no-one has been looking for!!

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Emerging Trends in Public Sector Collective Bargaining

Agenda for Change: Emerging Issues and Tensions

Ken Mulkearn, Incomes Data Services (March 2005)

Agenda for Change (AfC) is currently being rolled out across the NHS, with a completion date of 30 September 2005 for pay assimilation. This paper examines in particular the extent of decentralisation/local pay in the new pay system and concludes that Agenda for Change differs from other public sector pay modernisation packages in that there is a national approach to grading. There is a common core set of terms and conditions, including hours, and new bargaining structures that bring together formerly separate 'Whitley' bargaining groups. The main element of local flexibility is confined to the provision for recruitment and retention premiums on top of basic salary. There are serious concerns over the local setting of these and the extra freedoms given foundation trusts in respect of these premiums, and the potential divisiveness that may result.

Set against this, the new Knowledge and Skills Framework will provide competency-based progression for all staff, including many lower-paid staff for the first time. However there are concerns over the long lead-in time for its implementation, by October 2006, and funding, with some elements on the staff side worried that cost squeezes may result in the new approach failing to live up to its promise in terms of delivering career development and pay progression for staff. In examining, these developments, I have drawn particularly from the Review Body's report on the experience of piloting AfC at the 12 'early implementer' sites in England.

The Agenda for Change (AfC) agreement covers all NHS staff, apart from very senior managers and staff covered by the Doctors' and Dentists' Pay Review Body. It began rolling out across the NHS in England on 1 December 2004, with the resulting changes to pay and conditions backdated to 1 October 2004, the original rollout date. An important exception to this is basic working hours, with the new arrangements here being phased in over two years, starting from 1 December 2004.

Most staff should be transferred to the new structure by 31 March 2005 and trusts should have completed assimilation by 30 September 2005. The Review Body will monitor progress. The national rollout follows votes in favour of the deal at three of the largest unions – Unison, Amicus and the TGWU, finally clearing the way for implementation. The ballot results came after a joint review had produced a number of significant changes to the package.

A national deal

Agenda for Change (AfC) is a national deal, and differs in certain important respects from other recent pay reform packages in the public sector. The new pay system aims to replace almost 650 different staff grades, and myriad different allowances and working arrangements, with nine national pay bands and harmonised terms and conditions. Jobs are being allocated to the new pay bands using a national job evaluation scheme, specifically designed for the NHS to ensure equal pay for work of equal value. National job profiles have been drawn up for those posts where the JE score has been agreed and staff whose jobs match these profiles will assimilate to the appropriate pay bands on the basis of the profile score. Other jobs will be evaluated locally. There are elements of local flexibility under the deal (see below) but the main stress is on national pay and grading.

Another element in the harmonisation across all staff groups is the introduction of a common core set of terms and conditions. It includes the establishment of a standard working week of 37½ hours, excluding meal breaks, which nurses worked already, prior to AfC implementation. Some staff groups such as ancillary workers who were contracted to work a 39-hour week will benefit from an immediate reduction in hours without any loss in pay when AfC is implemented. However, other groups such as radiographers, who currently work a 35-hour week, will have to work extra hours a week without any additional pay, though in these instances the new working week will be introduced in phases.

By contrast, the pay modernisation agreements in both higher education and local government provide for the implementation of local grading structures, albeit with national pay spines in each case. The arrangements governing job evaluation (JE) in these sectors also differ from the NHS. In local government, there is a nationally-recommended JE scheme, and while some two-thirds of councils are reporting to be using it, a significant majority are using other schemes. For example, a number of councils in the South West and Wales are using the Greater London Provincial Council (GLPC) scheme.

In higher education, there is no recommended scheme. However the pay agreement highlights the fact that a large number of higher education institutions are members of a consortium which has developed a scheme known as Higher Education Role Analysis (HERA). While a majority of institutions are using HERA, a significant minority are using

other schemes, for example Hay. Indeed, the first university to implement the deal locally, Southampton, has used a job family approach underpinned by the Hay JE system.

Why does the NHS approach differ? Initially at least, local flexibility was much higher up the bargaining agenda. Since talks began some six years ago however, a number of factors seem to have combined to ensure that the central emphasis was national. First, the experience of local bargaining in the NHS during the early to mid-1990s was mainly negative, with the experiment widely viewed to have failed. Secondly, when it came to developing a new pay system, the needs of a national service implied a national grading structure. Staff could develop into new and extended roles and then, if they moved to another part of the service, they could take their pay and benefits with them. This was felt to be a crucial aspect of providing a comprehensive and continuous service.

The rationale behind the national approach in the NHS also rests partly on the fact that as an organisation, it is more collegiate than higher education or local government. The approach to job evaluation under AfC partly reflects this. Whatever the outlook of the unions or their workforces, many councils and higher education institutions alike increasingly see themselves as individual employers, with their own strategies in respect of issues like HR and pay and grading. And while changes such as the granting of foundation status to NHS trusts, with its associated freedoms in respect of pay, may change NHS employers' outlook, the new system is in its infancy and the possible outcomes remain to be seen. Paradoxically as well, the agreement may well help provide some industrial relations stability during a period when the NHS is undergoing a number of changes, not just in terms of structure but also in respect of financing and the increasing role of private providers, for example.

New negotiating structure

The overriding theme of AfC is harmonisation, and this is seen especially in the associated changes to the collective bargaining structures. Introducing a harmonised pay and conditions structure for the NHS meant moving away from the existing structure of separate Whitley Councils, determining the pay and conditions for different staff groups, and the General Whitley Council, which had responsibility for common terms and conditions in the NHS.

Following agreement on AfC, the staff remit for the review body covering nurses, midwives and professions allied to medicine has been extended to cover all allied health professions, healthcare scientists and other professional staff groups. This includes hospital optometrists, pharmacists, psychotherapists, and speech and language therapists. To recognise this broader staff remit, the review body's title has changed to become the Review Body for Nursing and Other Health Professions (NOHPRB).

The remaining staff groups are covered by a new Negotiating Council. The trade unions represented on this council are Unison, the GMB, the TGWU, Amicus, UCATT and USDAW. This council will not actually negotiate a general pay award each year, but will follow the Review Body lead to ensure equal pay is maintained across the two pay spines. They will consider differential pay awards for some groups where they feel there is material evidence of differential recruitment and retention and labour market pressures.

New NHS Staff Council

In addition to the Review Body and the new Negotiating Council a separate NHS Staff Council has also been established to take over the relevant functions of the General Whitley Council. Its remit includes:

- Maintenance of the new pay system including any variations from the Agenda for Change agreement
- Negotiation of any variations in the harmonised national core conditions of service
- Interpretation of the proposed agreement and the general operation of the modernised NHS pay system including any concerns about equal pay for work of equal value across the pay spines
- The discussion of any general issues of common concern on pay and terms and conditions of service.

The Council will not negotiate pay settlements and it will not consider individual cases. The Health Departments, NHS employers' organisations, and relevant trade unions will be recognised on this council. The chairs of the Review Bodies and the chair of the Negotiating Council may also attend. Of the trade unions on the Staff Council, Unison has the most seats (seven), while the RCN has the next largest representation, with five seats. Other unions, including the Chartered Society of Physiotherapists, the GMB and the RCM,

have two seats, while some others, including the British Dietetic Association, have one seat each.

New allowances replace London weighting

An element of AfC that introduces the possibility of more local variation in NHS pay is the introduction of a harmonised system of 'High Cost Area' allowances for all staff. These replace the former system whereby different staff groups received different levels of London allowances. In addition, since 2001 qualified nurses and professions allied to medicine in London were in receipt of cost-of-living supplements (COLS), on top of their London allowances. For example, ancillary staff in inner London used to receive a London weighting payment worth £2,079 a year, whereas qualified nursing staff used to receive an inner London weighting worth £3,441 (effective 1 April 2004) plus COLS worth an extra 4 per cent of basic pay.

Under the new system, all NHS staff in inner London, outer London and the fringe areas are covered by the same scheme of location payments, shown in the box below. All previous weighting payments and COLS in London have been discontinued. For many staff, such as ancillary workers, the new payments are worth significantly more than the previous London weightings and produce a substantial boost to the earnings of lower-paid employees, particularly in inner London.

The possibility of more local pay variation arises with the fact that the new system permits other high cost areas to apply for an allowance. However local employers and staff side organisations would have to show that their area had higher living costs and as a result faced significantly worse recruitment and retention problems compared to neighbouring areas in order to qualify for extra payments. Therefore it is unlikely, in the short-term at least, that the new system will spread beyond the traditional high-cost areas of London and the South East.

High Cost Area allowances at 1.10.04			
Area	% of basic pay	Minimum £pa	Maximum £pa
Inner London	20	3,197	5,328
Outer London	15	2,664	3,729
Fringe areas	5	799	1,385

London boundary issues

One London trust, which straddles different London weighting zones, told the Review Body (RB) that it hoped the proposed review of London boundaries would remove the differentials between the inner, outer and fringe areas. The agreement says that 'modern definitions...are being developed', with an understanding that the new boundaries would be based on the existing ones, but would reflect current NHS areas.

However managers at this trust told the RB that nothing has happened yet and felt that the current division is leading to problems, with staff receiving different payments depending on where they are based, and many therefore being unwilling to transfer between sites. One manager I spoke to recently said he hoped that these problems would be sorted out in the medium-term.

What has happened to cost-of-living supplements?

When these payments were first introduced in 2001, to tackle recruitment and retention problems among qualified nurses and professions allied to medicine (PAMS) across London and designated parts of the South as far as Avon, they were initially referred to as 'market supplements'. This name was quickly dropped in favour of 'cost-of-living supplements', partly because union negotiators disliked the original term, with its connotations of the failed local bargaining experiments of the 1990s. However, the key problem, as far as unions and other staff groups were concerned, remained; namely, that they were only payable to specific groups. They proved to be extremely unpopular among other staff groups who argued they faced the same cost-of-living difficulties in these areas, and the employers' organisation criticised them as being divisive, unfair, and damaging to the morale of non-nursing employees.

Under the new system, all NHS staff in inner London, outer London and the fringe areas will be covered by the same scheme of location payments. In some ways, this is a concession to employer and staff objections to the unfairness of the COLS system, at least in London. However, there will still be a degree of variation in the actual amounts staff receive as the new payments are expressed as a proportion of salary, though they are subject to flat-rate minimums and maximums.

For qualified nursing and PAMs staff in London and the fringe, the new high cost area allowance may fall short of the previous combined total of London weighting and COLS. If this is the case, their previous level of pay will be protected until their new level of total pay catches up with the previous level. For qualified nursing and PAMs staff outside of London and the fringe who currently receive COLS, the payments will continue but will be re-expressed as long-term recruitment and retention premiums.

Recruitment and retention premiums

When the Government published its original Agenda for Change document in 1999 much was made of the local flexibility that would exist within the new national framework. For example, it envisaged a job evaluation framework and national minimum thresholds for jobs, but with grades and actual pay rates determined at a local level. However, partly because of considerations such as the need to ensure equal pay for work of equal value, what has emerged in the final deal is a national pay structure, with grades and basic pay being determined at a national level.

The main local pay flexibility that does exist in the final deal is the freedom for local NHS employers to award recruitment and retention premiums on top of the nationally determined basic rates. These premiums can be awarded 'where market pressures would otherwise prevent the employer from being able to recruit and retain staff in sufficient numbers for the post concerned at the normal salary level and for a job of that weight'.

An annex to the main agreement sets out the criteria that need to be fulfilled before a local employer can award a recruitment and retention premium. For example, they must have exhausted all non-pay benefits and avenues of improving recruitment and retention, and they must consult with neighbouring trusts, the relevant Strategic Health Authority, staff-side organisations and Workforce Development Confederations before applying a premium to a particular post.

The Review Body and the new national negotiating council can also recommend premiums for particular occupations where they believe there are nationwide recruitment and retention problems. They can recommend a flat-rate premium or issue guidance to local

employers on how to determine the premiums for a particular occupation if they feel that the extent of the problems varies across the country. However, the combined value of any nationally determined or locally determined recruitment and retention premiums must not exceed 30 per cent of basic pay.

Some nationwide groups, such as pharmacists, newly-qualified midwives and qualified maintenance technicians, qualify for recruitment and retention premiums from the start. This is because the early results from JE indicated that while these jobs had been overgraded in the past, lower pay rates under AfC would 'severely disadvantage the NHS in the labour market'.

Some managers expressed concerns to the Review Body that recruitment and retention premiums would be used to mask problems with job evaluation, and they were concerned that excessive use could undermine confidence in the system. They felt it was better to ensure the JE factors adequately reflected non-clinical factors. This issue has since been addressed by a joint review, following which, revised guidance was issued, with additional non-clinical job profiles to ensure correct banding of these jobs and to provide benchmarks for other similar posts.

The lack of central funding for the premiums was a worry for managers as the money would have to be found from existing budgets. Staff side reps at one trust visited by the RB said that since funding was an issue, they were concerned that premiums would only be awarded to small groups of staff and that larger, equally deserving groups would lose out on grounds of cost.

In addition, managers and staff side reps expressed concerns that the local setting of recruitment and retention premiums would lead to different rates across the country, and in a situation of tight labour markets, or particular staff shortages, might lead to poaching. There was also disappointment that since COLS only apply to qualified staff, the lack of coverage for unqualified staff would be replicated after assimilation to AfC.

So far in London, no recruitment and retention premiums have been applied. Decisions in this area are likely to be made in September when the parties have all the national JE profiles (these are continually being updated as JE takes place) and the outcomes of local job evaluations. The employers will want to keep pay protection to a minimum, with premiums only used where there is a demonstrable need to do so.

Extra freedom for foundation trusts

Foundation trusts have been given additional local freedoms under Agenda for Change. For example, the amount they can award in recruitment and retention premiums will not be capped, and they will be able to offer accelerated pay progression or additional non-pay benefits to attract or retain staff. However, the DoH, obviously mindful of the dangers of Foundation Trusts poaching staff from other NHS employers, has said they must only use their freedoms 'in ways that fit with key NHS principles and do not undermine the ability of other providers in the local health economy to meet their NHS obligations' (see IDS Report 880, p.4).

Despite this, the freedoms given to foundation trusts to tailor AfC to suit their own circumstances have worried staff in other trusts. The Review Body report says that at several trusts visited, people expressed concern that the additional freedoms enjoyed by foundations in respect of AfC would make them more competitive in the labour market, to the detriment of neighbouring trusts. Staff reps at one early implementer were worried that trusts gaining foundation status might use the freedoms to opt out of 'problematic parts of the AfC agreement'.

The Knowledge and Skills Framework

AfC will also see the introduction of a new competency-based progression system for all staff, the Knowledge and Skills Framework (KSF). Once implemented, this will provide many low-paid staff with pay progression and career development opportunities for the first time, and as such, is being looked at as a possible model for other sectors with large numbers of low-paid staff, for example in local government. It will also play a role in the development and growth of new roles. The KSF has been designed to:

- identify the knowledge and skills that individuals need to apply in their post
- help guide the development of individuals
- provide a fair and objective framework on which to base the review and development of all staff
- provide the basis for pay progression within bands.

It is made up of a number of competencies or 'dimensions'. There are six dimensions which are core to the NHS and will occur in everyone's job and 16 specific dimensions which will apply to some jobs but not others. Each dimension is divided into a series of levels, which show successively more advanced levels of knowledge and skill and the increasing complexity of applying them. For example, the box below shows how the 'assessment of health and wellbeing' dimension has been broken down. In addition, for every level in each dimension there are a number of 'indicators' which describe the kind of behaviour and applied knowledge that would be in evidence if someone were working in that way.

Job descriptions based on KSF

When the KSF is fully implemented all individuals will have their jobs described in terms of what dimensions are required and at what level. All of the six core dimensions should apply to all jobs and in most cases between three and six of the specific dimensions will also apply. In an annex to the KSF there is an example of a competence-based job description for a basic qualified nurse. It gives the six core dimensions and also contains dimensions 7, 8 and 9 (assessment of health and well-being of individuals, addressing individuals' health and wellbeing needs, and improvement of health and wellbeing).

The job descriptions for particular posts will be determined at a local level, usually between line managers and the HR department although in some cases where a specialist role has developed, they will also involve the jobholder to ensure they have fully understood what the role involves. A copy of the job description will be held by the individual employee and by their line managers. It will provide the basis for development reviews, assessing training needs, and progression through the gateway points in a pay band.

The guidance on how to write job descriptions using the KSF points out that there is no advantage in trying to include as many dimensions as possible in a job description, or in individuals claiming that they are working at higher levels than they are. This is because the pay band and pay rate for a job is not set by the KSF description but by the job evaluation score.

The core and specific dimensions in the KSF

Core dimensions:

1. Communications
2. Personal and people development
3. Health, safety and security
4. Service development
5. Quality
6. Equality, diversity and rights

Specific dimensions:

7. Assessment of health and well-being of individuals
8. Addressing individuals' health and wellbeing needs
9. Improvement of health and wellbeing
10. Protection of health and wellbeing
11. Logistics
12. Data processing and management
13. Production and communication of information and knowledge
14. Facilities maintenance and management
15. Design and production of equipment, devices and visual records
16. Biomedical investigation and reporting
17. Measuring, monitoring and treating physiological conditions through the application of specific technologies
18. Partnership
19. Leadership
20. Management of people
21. Management of physical and/or financial resources
22. Research and development

Joint development reviews

The introduction of joint development reviews for all staff is a major change for the NHS. The review meetings will take place between line managers and individual staff on an

annual basis. They will involve an assessment of how an individual is meeting the requirements of the job as set out in their KSF job description and what training and development is needed for them to fill any skills gaps and to continue to progress in the long term.

The KSF also emphasises the importance of ongoing assessments, constructive feedback, and informal discussions between line managers and individuals throughout the year. It stresses that there should be no surprises at the time of the formal meeting, particularly where there are serious concerns about someone's work. Line managers should discuss any concerns with an individual at an early stage and work with them to develop action plans to deal with any noticeable skill gaps or development needs.

KSF: Levels of competence in dimension 7 - 'Assessment of health and well-being'

Level A	Undertake routine assessment tasks related to individuals' health and wellbeing
Level B	Assist in assessing people's health and wellbeing and related needs
Level C*	Assess the health and wellbeing needs of people whose needs are relatively stable and consistent with others in the caseload
Level D	Assess people's health and wellbeing needs when those needs are complex and change across the caseload
Level E	Develop practice in assessment of health and wellbeing needs

*This would be the level required by a qualified nurse.

Progression through gateway points

When the KSF is applied at the foundation gateway and the second gateway in a pay band, a more formal type of review will take place. The foundation gateway will be based on a subset of the KSF job description, with the individual usually having to show evidence of meeting at least one indicator at the appropriate level in each of the dimensions for the job. They should also show progress towards all the other indicators. At the second gateway the assessment is against the full KSF job description.

The KSF guidance says: 'There is an expectation that individuals will progress through the paypoints on a payband by applying the necessary knowledge and skills to the demands of the post. It is only at gateways, or if concerns have been raised about significant

weaknesses in undertaking the current role, that the outcome of a review might lead to deferment of pay progression.’

If an individual fails to show adequate evidence of having met the necessary level of applied knowledge and skills at the gateway points, pay progression will be deferred until they can do so. If an individual does fail the assessment, their line manager has to develop an action plan with them to remedy the problem areas and agree a date for a further assessment. If an individual can show that they did not pass their initial gateway assessment because their manager failed to identify or provide the necessary training and development opportunities in good time, then when they do pass the gateway, their pay progression will be backdated to the original review date.

No quotas for progression

According to the KSF guidance, there will be no national or local quotas for pay progression. All staff who demonstrate the required standards of applied knowledge and skills will be able to progress through gateway points and ‘this will also be the basis on which the new system will be costed and funded’. Monitoring will take place at a national and local level to ensure that pay progression is occurring on non-discriminatory basis, checking that there is no bias in terms of gender, ethnicity, sexual orientation, disability, age, religion, or trade union membership.

Encouraging career planning

As well as providing the basis for pay progression for individuals within pay bands, an important part of the KSF and development review process is the identification of individuals’ potential for further achievement and development. It is believed that this will encourage lifelong learning and better career and succession planning in the NHS. It should also facilitate the development of new roles that fit with the changing organisational needs and workforce structure.

Review Body on KSF

While trusts have a longer period in which to implement the KSF – by October 2006 – the Review Body found that in some trusts there were worries that the implementation of the Knowledge and Skills Framework was being overlooked due to other pressures. While all parties agreed that it was an integral part of AfC, some said it should have been the first area to be implemented. The RB said that it is not clear to what extent Workforce Development Confederations (and Strategic Health Authorities who are taking on the responsibilities of the confederations) are involved in implementing the KSF. In response to all this, the Review Body report stressed that the framework is a key element of the new system and ‘it is vital that equal importance is given to its introduction as to the higher profile components such as job evaluation.’

Some staff felt uneasy with the links between the KSF and pay. According to the Review Body report, they feared that it would lead to the introduction of performance pay, or that the gateways would be applied unequally. In addition, managers and union reps felt that the true costs of implementing the KSF had not been fully appreciated by the centre. They said that many staff expected either to be financially rewarded for completing training courses, ‘or to be able to progress continually through the pay bands without applying for higher graded posts’.

Summary and conclusions

There are obvious concerns around the use of recruitment and retention premiums. Grade drift under the old Whitley structures raises the prospect of relatively large numbers of staff on pay protection, and the possibility that recruitment and retention premiums will have to be used more widely than would be preferable. This in turn is linked to the issue of costs.

Initial models of the new system had indicated increases to NHS trusts’ paybills of around 5 per cent. Subsequently, some trusts had told the Review Body that they were anticipating higher costs, mainly as a result of more staff than expected on pay protection. However, following changes to the JE scheme, and other changes, the parties hope that the original cost estimate will not be exceeded. The parties estimate that no more than around 8 per cent of staff will require pay protection on assimilation to the AfC structure. It

will be interesting to see the results in both these areas – costs and the numbers requiring protection – as trusts complete staff assimilation.

However the worries about divisiveness as a result of the application of recruitment and retention premiums to those groups previously in receipt of COLS, and the additional freedoms granted foundation trusts, are likely to remain. Managing these aspects of the new pay system will be a major challenge for the parties.

On the KSF, it is difficult to predict outcomes, in the main because of the longer lead-in time for implementation. It represents a vital element of the deal for both parties, and particularly for the union side. Therefore we might expect that both sides will endeavour to overcome any potential barriers to its implementation relating to cost, or even simply to its being seen as ‘secondary’ to job evaluation and assimilation to the new bands.

There has been some debate at grassroots level about the extent of the linkages between the KSF and pay progression, with some union commentators, who were mostly lukewarm about the overall deal, arguing initially that the linkages were weak, at best. Another related view has been that future costs requirements will mean that progression criteria will be tightened to ensure fewer staff pass through the KSF gateways.

Some of these views were based on the fact that the KSF can be implemented later than assimilation to the new bands, and that there’s at least a conceptual distinction between the development and review aspects of the KSF on the one hand, and the link to pay progression on the other. However, the official guidance on the KSF is clear that both it ‘and its associated development review process...form the basis of...career and pay progression.’

Many insiders are upbeat about the role that can be played by the KSF in providing progression for staff such as medical secretaries and ward clerks, as well as lower-paid staff such as cleaners. In this, it should play a role in improving retention, and possibly recruitment, at least down the line. They also hope that the KSF will assist in the development and growth of new roles, particularly those just below the registered

professional level. One notion doing the rounds is that as a result of these sorts of changes, the staffing 'shape' of the NHS will change from a triangular configuration to more of a 'diamond' or at least a pentahedron. It will be interesting to see if these predictions are borne out by actual outcomes.

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The Local Government Pay Commission: A Template for the Future?

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This paper represents the personal views of the author alone as a member of the Local Government Pay Commission. In no way does it seek to reflect or represent the opinions of others involved in the Commission.

Introduction

The establishment of the Local Government Pay Commission in 2002 was an unusual development in British industrial relations. Emerging in the wake of a major national dispute over pay for the one and a half million workers covered by the National Joint Council for Local Government Services, it was set-up by the local authority unions and employers themselves to address immediate but also more longstanding issues of concern. It was as if the dispute represented the high point of cumulative frustrations built-up on a much wider front than just pay, which needed to be confronted head-on if the two sides were to progress together.

Third party intervention to resolve disputes has been an established part of the British industrial relations landscape for many years. It has taken different forms, varying along such dimensions as the character and breadth of the third party's remit, the nature of the third party, the stimulus for the intervention, and the timescale along which it has been exercised. Remits have included the provision of advice, mediation and arbitration. Intervention has sometimes been stimulated by the parties themselves. However, it has also and perhaps more often been driven by Governments keen to end public sector disputes as, for instance, with the Scamp Committee to end the local authority 'dirty jobs' strike in the late sixties; to police incomes policies as with National Board for Prices and Incomes also in the sixties; or to oversee a more wide ranging reform on industrial relations as with the Commission for Industrial Relations in seventies. These interventions have ranged from the short lived, dealing with a specific issue, to the more longstanding, providing a service as with ACAS, or regularly adjudicating on aspects of pay and conditions, as with well established review bodies covering such groups as teachers, nurses and doctors.

Without seeking to develop a more considered typology by which to evaluate these forms of intervention, it would, nonetheless, be fair to suggest that the Local Government Pay

Commission was relatively distinctive from past experience and practice in a number of respects. First, unions and employers gave each other free rein on the issues which could be considered by the Commission without fear of veto by the other side. Second and as consequence of this open remit, it was a Commission called upon to consider not only an unusually wide set of issues but also to look at concerns to which the two sides attached very different degrees of importance. Third, it was an intervention set-up by the parties themselves and while this is not particularly novel, a joint initiative which attempted to deal in such a thorough and comprehensive way with issues of mutual and separate concerns arguably is. Finally, the outcomes from the Commission were always destined to be complex, varied and somewhat open-ended. For all their variety of form, most types of third party intervention are seeking some resolution of the issues or a clearly defined substantive outcome. Some of the Commission's terms of reference were framed in ways which explicitly called for firm recommendation or clear 'answers'. However, as a matter of design, others invited the Commission to consider how to take issues forward through clarification and review. In practice, the volume and range of issues laid at the Commission's 'door' in the context of a tight timescale and limited resources was always likely to undermine the possibility of the Commission coming up with definitive pronouncements or totally grounded prescriptions. As a consequence, the Commission's role might be seen as much closer to a kind of 'assisted bargaining' than a form of definitive conflict resolution based on binding outcomes.

As a rather unusual body, the Local Government Pay Commission is worthy of further considerations. Indeed, there have been few if any attempts to review the experience of the Commission, or to address the question posed in the title of this paper, whether it constitutes a template for the future. Clearly the scope of this paper does not allow a comprehensive and systematic consideration of the status of the Commission as a future template. This would require a detailed assessment of a range of factors including the extent to which bargaining arrangements in other parts of the public sector and beyond could ever lend themselves or benefit in some sense for such an arrangement. What this paper can do, however, is distil what this template actually looks like. In other words, it can outline the Commission's key features as a means of trying to characterise a particular and perhaps distinctive form of intervention. The paper does not attempt to present too much detail on the substantive issues dealt with by the Commission, but rather deals with the broad themes of context, structure, process and outcome.

Context

The Local Government Pay Commission can be seen as simply the latest episode in a tempestuous 'family saga' which goes back over decades, not far short of the industrial relations equivalent of 'Gone with the Wind.' The 'family', comprising local authority unions and employers, have regularly fallen out over the years with not inconsiderable consequences for those caught in the 'cross fire', in particular Governments and the public. The National Joint Councils for Manual Worker and Administrative, Professional, Technical and Clerical Staff had been the scene of various conflicts over the years. Contributing to the demise of the Labour Government in 1979, the 'Winter of Discontent', in which local authority manual workers figured prominently, was but the most dramatic and politically significant of a string of disputes. The 'marriage' between these two bodies to create the National Joint Council for Local Government Services in 1997 was always going to struggle to 'paper-over' or escape this history of family squabbles. It was not therefore a complete surprise when these flared-up again in a national dispute in 2002. It was a dispute only resolved with the help of ACAS and an agreement which included 'a Commission to look into pay and related issues... (and) reflect(ing) each side's agenda'.

To recognise this legacy of conflict is to glimpse the complexity of the bargaining unit(s) involved and the pressures to which they had been subject over years. Indeed, it is a legacy which not only forms a backdrop to the Commission but is crucial to an understanding of why it was established and how it operated. The NJC's for Manual Workers and APT&C staff had been the 'big beasts' of the industrial relations 'jungle' before the creation of the NJC for Local Government Services. The former was one of the largest bargaining units in the country covering over million workers, while the former was dwarfed by few others, covering some 500, 000 local authority white collar employees. But it was the unique combination of workforce and employer characteristics that, added to size, created such exotic bargaining creatures with a 'genetic blueprint' for ongoing tension. In combination the two NJC's embraced workers employed in the full range of local authority services, and the diversity of occupational groups employed to deliver them, Moreover, this was a highly feminized workforce with many of these women working on a part time basis. Of the one and a half million workers covered the NJC's, one million were women and almost 800, 000 of these were working part time. These were multi employer NJC's on a grand scale, covering over 450 independent local authority employers. They were employers who varied not only in terms of size and workforce composition from the

large, full service counties and metropolitan districts to the small, limited service shire districts, but also in terms of political complexion.

The wonder was not so much that these complex bargaining units, established on a firm basis just after the Second World War, were occasionally riven by conflict, but that they managed to survive for so long as the basis for the national determination of terms and conditions in the sector. However, the battering that these arrangements had taken from a range of pressures forced an increasingly frantic search to modify them as a means of ensuring their ongoing viability. Moreover, it is a search which had been complicated by the fact the unions and employers had very different views on what viable meant in this context. Indeed, the 'battle for viability' has been fought around some of the most fundamental of issues shaping the structure and substance of pay bargaining.

More specifically, two closely related issues have driven debates and developments on the future of bargaining amongst local authority manual and white collar workers. The first is the balance to be struck between the centralisation and decentralisation of bargaining. As local authority employers have sought to provide services in a manner which is more sensitive to their own specific financial, social and political circumstances, so they have seen a prescriptive national agreement as increasingly constraining. It is a position which runs-up against that of the unions who retain a strong commitment to centralised bargaining as a means of ensuring 'fair pay' in the form of standard rates for those in similar roles across local government. The second major issue related to the balance between pay based on internal and external job worth. Supported by a legislative equal pay regime, the unions have been increasingly concerned to ensure that the internal worth of females is recognised by ensuring that they get paid the same rate as men in similarly valued jobs. In contrast, employers have been less concerned with internal worth and more with external worth in the form of pay rates needed to attract and retain staff in their own specific local labour markets.

The creation of the National Joint Council for Local Government Services in 1997 and the accompanying Single Status Agreement were a bold and imaginative attempt to address these competing interests and concerns. The balance between centralisation and decentralisation was struck by moving away from prescribed national grades and establishing a 49 point spinal column with scope to develop local grades based on a specific configuration of these points. Moreover, while Part I of the new agreement set

national principles for pay determination and Part 2 retained national provisions on such issues as leave and working time, Part 3 now provided for issues such as working arrangements to be subject to local modification. On the second crucial issue related to pay and job worth, local authorities were called upon to undertake pay and grading reviews for the blue and white collar workers now covered by the agreement. This would not only allow for the creation an integrated grading structure but in so doing would help ensure that equal pay concerns were addressed. Indeed, indicative of the pursuit of a central-local balance was a nationally agreed job evaluation scheme to underpin pay review. This was a scheme which incorporated equal pay principles but was not formally binding on authorities if they could find another scheme which was also 'equality pay proof'.

As implied, the implementation of significant changes across such a large and complex bargaining unit was always going to be difficult, equivalent to an oil tanker undertaking a three point turn. The difficulties were compounded by the fact that the agreement continued to be confronted by pressures. These assaulted a number of the agreement's pillars. While the pressures often took a different form than in the past, they were no less potent in eroding plans for pay reform. 'New Labour's' 'customer centred' modernisation agenda placed continued pressure on the search for local solutions to service delivery unfettered by national terms and conditions. The drain on financial resources to local government was reversed, but the cost of such fundamental change in pay structures was still perceived by some as prohibitively high. External labour market pressures continued with major difficulties in recruiting key occupational groups such as social workers, and environmental health officers. All the while the legislative equal pay 'clock' continued to 'tick', with authorities given periodic shocks as isolated claims for groups such as teaching assistants and 'dinner ladies' met with success.

In combination these pressures severely slowed progressed on the implementation of the Single Status Agreement and led to a build up of frustration and concern on both the employer and the union sides. Indicative of this lack of progress and a 'lighting rod' for these frustrations was the slow pace of local pay and grading reviews. Even by Autumn, 2004, a self report survey of around 150 authorities revealed that only a third of such authorities had completed such reviews and this was seven years after the original agreement. With those having completed a pay review more likely to respond to such

survey than those who had not, the overall rate for completion might reasonable be assumed to be far below this figure.

The accumulated disappointment and frustration on both sides came to a head in the summer of 2002 when the unions submitted a 6% claim, the employers remained intransigent and national strike action took place. It was further indicative of the impasse that a settlement for that year could only be concluded with the establishment of the Local Government Pay Commission.

Structure

In moving to a consideration of how the Local Government Pay Commission (LGPC) was structured, the discussion can begin to concentrate on those features which might be deemed to constitute a template for this form of third party intervention. A number of these features were flagged up at the outset but can now be considered in greater detail. As also hinted at earlier, there are perhaps six structural features of any third party intervention- intent, make-up, breadth, depth, time and resource. The LGPC was based on particular configuration of these factors involving some trade off between them which reflected the circumstances of its establishment.

In terms of intent, the LGPC was seen as an opportunity for both sides to 'put their cards on the table'. It allowed issues to be raised in an unconstrained way and ensured that they were considered by an independent party. Two elements of the template emerge from this scenario. First, there was a need for both sides to feel ownership of the Commission. It was therefore set up by them. It was not a government appointed or sponsored body. Second, as a general purging of respective concerns, both parties were given free rein to table any and as many items they liked without fear of veto from the other side.

The make-up of the LGPC also followed in part from intention. It was crucial that those sitting on the Commission were in some sense independent but at the same time deemed by the respective side as able to contribute meaningfully to the deliberations. The solution was for the unions and the employers to nominate two members each along with an agreed Chairperson. While nominated by the respective side, each Commission member was to act as an independent expert rather than as a directly accountable representative. In the event, the union side nominated a senior officer from the TUC and a labour lawyer

while the employer side nominated an industrial relations academic and a local authority chief executive. The Commission was chaired by a leading industrial relations academic with expertise in area of labour law and equal opportunities and experience of different forms of Government sponsored third party intervention.

The unrestrained scope to table issues in such troubled times inevitably led to Commission terms which were extremely broad and varied. Indeed, the Commission was called upon to address ten areas:

- The nature of pay data bases used in negotiation
- The distribution of rewards
- Recruitment and retention
- The pay implications of agency and temporary staff
- Barriers to the Single Status Agreement
- Working time and pay
- Gender, race and pay
- The mixed market for services and pay
- Pay systems
- Bargaining arrangements

The situation was further complicated by the fact that the Commission was called upon to address these issues in slightly different ways; thus depending on the term of reference in question there was a requirement to 'advise', 'comment', 'examine' and 'establish'.

The time constraints facing the LGPC and the limited resources available combined to affect the degree of depth with the issues covered by terms of reference could be addressed. The two sides were keen for the Commission's deliberations to feed into the next annual NJC negotiations. With some delay in firming-up the arrangements for establishment of the LGPC, this meant that it had under a year to complete its work and deliver a report. The four commissioners and the Chair person were all in full-time, demanding jobs and could commit only a limited amount of time to Commission work. They were supported by a full time Commission secretary, an administrative workers and a part time research director. A small budget was available to the LGPC to commission some research and supporting work.

Process

It can perhaps be appreciated that dealing with such a range of issues in a relatively short time and with limited resource was a daunting task, something akin to mounting an assault on Everest with a walking stick. In the circumstances, the processes underpinning the Commission's work became crucial. They were characterised by a number of features.

First, there was a need to unpack the terms of reference, considering how they related to one another, what was required to address them and establishing a feel for the importance the sides attached to them. Once the terms of reference were approached in this structured and rational way, the sheer sense of panic at the scale of the task could dissipate and be viewed as more manageable. The work on pay data bases was viewed as a fairly well defined and self contained piece of technical work. The expertise within the Commission and its secretariat ensured that this and the work on pay distribution could be confidently undertaken. There were significant overlaps on those terms of reference which related to agency working and patterns of work which could be dealt with under the heading of flexibility, while issues of gender were central to a consideration of progress on the Single Status Agreement. Time had overtaken other issues rendering them less significant to the two sides. In particular, since establishing the Commission, a Code for regulating the Two Tier Workforce had been agreed with Government, so reducing the need to consider the relationship between pay and the mixed market for the provision of local authority services.

Second, there was need to consider how different forms of activity could take forward the Commission's agenda. In this context, it was crucial to consider the relationship between timing, activity and purpose. In the event, a range of activities were undertaken either on a direct or sponsored basis and at particular points in time as means of dealing with various issues and concerns. Immediate steps were taken to set-up a web site for the Commission. This provided some visibility and in so doing provided a platform for the Commission to call for views and evidence from any interested individual and organisation. More significant perhaps was an early series of visits by Commissioners to all regions of England as well as to Wales and Northern Ireland. These visits involved meetings with local union and employer representatives and served a number of purposes. They again raised the profile of the Commission so stimulating views amongst those interested in contributing. They provided an opportunity for the Commissioners to acquire a stronger

feel for the issues at stake and particularly the weight attached to them by the various parties at local levels. Finally, the views expressed at these meeting became of value in their own right as a source of information feeding into a review of the issues.

A raft in initial activities designed to generate interest and views as well as providing the Commissioners with a greater understanding of the terrain, established a firm platform for a series of more targeted activities. This included commissioned research in areas where there was seen to be a need for more dedicated and focused work. Three pieces of such work commissioned: a review of public sector pay drawing upon NES data, from Stirling University; an assessment of benefits packages within the private and the public sectors, from IDS; and an overview of progress on the Single Status Agreement, largely based on secondary data, from a free lance researcher. In addition, the Commission organised a number of presentations from experts in the field where a clear picture was required. These included a presentation from the EOC on equal pay legislation and developments, as well as another from IDS on regional pay. Two seminars were also arranged with differing rationales. One was a meeting of academics researchers who had undertaken research on public sector industrial relations. The other was a seminar involving representatives from the union and employers side along with technical experts to talk about the nature and quality of pay data bases. A final targeted activity related to a more detailed interrogation of the employer and union evidence through separate face to face discussions with representatives from each side. The evidence from the two sides was clearly going to be central to the Commission's deliberation and it was therefore felt that an opportunity to talk about it with the sides as means of clarifying and probing further was crucial.

Third, there was a need to develop a momentum to the Commission's work which allowed for incoming material to be processed and ensured that a report based on a full consideration of the issues could be drafted. In part, this was achieved by the periodic production of position papers on key topics, although the size of the secretariat perhaps did not allow the formulation of as many of these papers as might have been desirable. More significantly, the Commission met with a fair degree of frequency. From the first meeting in January 2003, it met on average once a month until its final meeting in mid October 2003. These meetings included two 'away weekends' at crucial times and in the case of one to consider drafts of the final report. The Commission Report was over 100

pages long and handed to the two sides of NJC at the end of October 2003. It is this report and other outcomes that attention now turns.

Outcomes

The Report

The outcomes from the Commission assumed different forms and might be considered in terms of their immediacy and links to the work undertaken. The most immediate outcome was the Report itself. As already noted, this is not the place to delve into its substance given the wide ranging nature and complexity of the issues covered. However, it is worth highlighting a number of broader characteristics of the Report. First, there were only four substantive part of the report organised around themes. This not only allowed a streamlined discussion of the issue but allowed for connections to be made between the different terms of reference. The sections and the terms of reference covered under each were as follows:

- Pay and Reward in Local Government:
 - Overview
 - Data Sources
- Staffing
 - Resourcing/Flexibility
 - Recruitment and Retention
- Equality
 - The Single Status Agreement
 - Gender and Race
- The Agreement, Pay Systems and Bargaining Arrangements

Second, it was a slightly unusual report in seeking to take forward the issues raised in the terms of references in various ways. Certainly, it did make a number of recommendations. These included fairly tight and narrow ones such as the recommendations that ‘the Employers’ Organisation should continue to collect pay and reward data but should review such activities to ensure consistency with local and regional activity, added value and to avoid duplication of effort’. But these extended to much broader and arguably more profound ones, for instance, reflected in the call for ‘every authority which has not done so (to) undertake a pay audit and develop an action plan for implementing a pay structure

embodying equal value principles.’ However, in addition to recommendations, the Report provided some detailed analysis. Responding to specific terms of reference, this was particularly the case in looking at the distribution of pay and in exploring causes of recruitment and retention problems in local government. It also provided a series of views or observations ranging from an endorsement or encouragement of ongoing initiatives such as the National Graduate Development programme designed to encourage younger to become local authority managers, to the more critical such as the concern voiced at the absence of national and regional support for proper local workforce planning. In other instance, these different types of comment came together. Thus analysis on labour market trends and pay rates led to a view that there were not general recruitment and retention problems at the bottom end of the labour market in local government and to the suggestions that a general increase of the minimum pay rate was not required.

Third, these recommendations and views were embedded in the narrative of the Report rather than being pulled out and presented as a stand alone section. It was acknowledged that in organising the Report in this way there was a risk that it would be viewed as not being particularly user friendly; the instinct of readers of such a report is to turn immediately to a set of distilled recommendations. However, it was felt that to detach any recommendations and views from the narrative ran the greater risk that they would be considered in ways which were not fully grounded in understanding of the issues at stake. In a process where the analysis of complex concerns was as important as general prescriptions, it was deemed important to guide the reader to those parts of the report in which the recommendations and views were rooted.

The Longer Term Consequences

Beyond the publication of the Report, the real test of its value and impact was how and whether the NJC decided to take it forward in their deliberations and actions. A key purpose of the Commission was to inform the 2003-4 negotiation and although it is, of course, impossible to establish whether a similar agreement would have emerged anyway without the Commission, it is certainly the case that 2003-4 deal bore the imprint of the Report. The Commission had endorsed long term deals and the multi year agreement had been signed. More significantly, the Commission’s attempt provide some impetus for the Single Status Agreement and especially pay and grading reviews which, in turn, would address the issue of equal pay, was reflected in key elements of the deal. The joint approach to pay review encouraged by the Commission was also endorsed. Moreover, a

timetable for the completion of local pay reviews was additionally agreed. It was asserted that such reviews 'must be completed and implemented by all authorities by 31 March 2007'. The Commission's call for greater attention to be given to Workforce Development Plans as a means of dealing in a more considered and strategic way with staffing issues was reflected in a new Training and Development framework which formed part of the 2003-4 deal. Steps were even taken to respond to the Commission's call for a more streamlined NJC with the establishment of NJC Executive to expedite business.

In the medium and longer term and beyond the imperative of a settlement for 2003-4, there were signs that the NJC had more explicitly engaged with the Commission's Report. Six working parties were established specifically tasked with addressing the Commission's views and recommendations. Only time will tell how efficiently and effectively these working parties take forward the relevant issues. The 'sting in the tail' of the Commission's deliberations was a call for the NJC to report back on the progress made in the following year. A re-convened Commission did indeed meet with the parties to review subsequent developments and was generally encouraged by the extent to which key findings had been addressed particularly in the national agreement. There were, however, nagging concerns about the pace of change and what was perceived by the Commissioners as a reluctance to engage with the spirit of the Report which not only implied the need for speedy responses, but responses which were based on integrated action. It takes some time 'big beast' to react and even longer for oil tankers to make three point turns. At the very least, the Commission had galvanised the parties and stimulated the development of an infrastructure which provided the potential for progress in the future

Speaker Biographies

Professor Paul Teague

Martin Naughton Chair, The Queen's University of Belfast

Paul was appointed to the Martin Naughton Chair in Strategic Management at The Queen's University of Belfast in 2001. He has researched and lectured on international employment relations and labour market issues widely in EU and US, and held senior posts at Cornell University and the University of Ulster.

Professor David Bell

Head of Department, Department of Economics, University of Stirling

David is Head of the Department of Economics at the University of Stirling, and is also joint Director of the Scottish Economic Policy Network and Fellow of the Royal Society of Edinburgh. His main areas of interest are labour economics, health economics, regional economics and economic modelling. He has published widely on these issues in the academic literature.

Dr Steve French

Lecturer in Industrial Relations, Keele University

Dr Steve French is a Lecturer in Industrial Relations at Keele University. He has worked in the Inland Revenue where he was active in the IRSF union (now PCS) and collaborated with David Marsden on a major project on performance-related pay at the London School of Economics. His main research interests are comparative industrial relations, particularly research into racism and racial discrimination; German collective bargaining and trade unions; civil service industrial relations and pay determination in the UK.

Ken Mulkearn

Incomes Data Services

Ken Mulkearn has worked for IDS for 10 years. He is part of a team that puts together the annual 'Pay in the public services' document. For the last four years he has covered pay in local government, the fire service and the police, and he has just moved over to cover developments in the NHS. During this time, he conducted the annual IDS local government pay and conditions benchmarking survey, which looks at pay levels, recruitment and retention issues, and progress on implementing local pay and grading reviews. He has spoken to a wide range of audiences on public sector pay, and has also broadcast on radio and television. He has an MSc in Social Research Methods from the London School of Economics, where he also took options in industrial relations. His primary degree is from Trinity College, Dublin.

Ian Kessler

Fellow in Human Resource Management, Templeton College and Lecturer in Management Studies, Saïd Business School University of Oxford

After studying industrial relations at Warwick University, Ian became a research officer in a civil service trade union, the Institution of Professional Civil Servants. In 1990 he became Fellow in Human Resource Management at Templeton College and Lecturer in Management Studies at the Saïd Business School, University of Oxford. He has been involved in a range of research activities including major projects on the operation of performance pay and employment relations in the public service sector. More recently he has been undertaking a research project funded by the Economic and Social Research Council (ESRC) on human resource management developments in the public services. He has also completed work for the European Commission on employee communication and involvement, for the British Low Pay Commission on the impact of the National Minimum Wage on pay systems and for the European Foundation on Improvement of Living and Working Condition on employee participation in the public service across Europe. He is currently working on another ESRC funded research project on changing job roles in the public services. He has advised various companies and government agencies including the Audit Commission, the Society of Chief Personnel Officers in Local Government and the Society of Local Authority Chief Executives. He was a member of the Local Government Pay Commission.