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Pay progression in the public sector

A research report for UNISON

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EXECUTIVE SUMMARY

- There is an assumption that progression only occurs in the public sector
- Yet, IDS monitoring of reward practice shows that progression is widespread within the private sector, although the method of delivery may be different
- In the private sector performance-related pay progression is more widespread, however there is evidence of a shift away from systems based solely on performance to those which combine performance with other criteria
- The Chancellor's Budget Statement also seemed to imply that progression in the public sector is always automatic. Again, IDS research shows that, similarly to the private sector, there has been a shift towards including performance, skills acquisition or contribution measures in addition to service across the public sector
- Hybrid schemes which combine a range of factors including incremental progression and individual performance have been common in the civil service since the mid-1990s
- In cases where automatic progression does still operate in the public sector, large sections of the workforce are no longer eligible for these progression increments as they are at the top of pay bands or grades. This acts as a constraint on the costs associated with progression
- Official figures for growth in earnings, as measured by the Annual Survey of Hours and Earnings (ASHE), show that progression plays an unacknowledged role in earnings growth in the private sector
- Arguably the cost of progression is neutral over the longer-term as higher-paid employees leave the organisation and new starters arrive at the bottom of the pay range
- There are complex linkages between progression, pay and contribution and devising a new pay system will need to be carefully thought through as there are implications for equal pay
- Performance can be difficult to assess effectively and the link between performance and pay will be more difficult to define in the many varied and specialist roles in the public sector
- The Government has not provided any additional funding to move away from automatic progression where it does still exist and this will make transition to a new pay model difficult.

INTRODUCTION

The Government's thinking on progression in the public sector appears to be linked to a belief that all public sector employees receive increments automatically each and every year, whereas in reality the picture is very different. Firstly, while time-served arrangements are more common in the public sector compared with the private sector, not every public sector group has incremental progression arrangements in place. Furthermore, where length of service arrangements are still in place, quite often large numbers of staff have already reached the top of the scale and are therefore no longer eligible to receive progression awards.

Similarly in the private sector, not all pay arrangements are based solely on individual performance. In practice there is evidence of a shift away from progression systems based purely on performance across the private sector, linked to issues around transparency, equality and fairness. IDS research shows that there are a range of approaches evident in both sectors with three broad types standing out as the most common. These are pay systems that combine length of service with performance measures and those that combine performance with either skills or competencies.

In his 2013 Budget Statement the Chancellor said:

'Progression pay can at best be described as antiquated; at worst, it's deeply unfair to other parts of the public sector who don't get it and to the private sector who have to pay for it. So we will end automatic progression pay in the civil service by 2015-16. And we are working to remove automatic pay rises simply for time served in our schools, NHS, prisons and police. The armed forces will be excluded from [this]. Keeping pay awards down and ending automatic progression means that, for every pound we have to save in central administration, we can better limit job losses.'

IDS research shows that it is not only public sector employees that receive progression increases. Organisations in the private sector also recognise the importance of awarding progression increases to employees. Aside from cost-of-living uplifts to pay, progression increases are awarded as a way of acknowledging the growing capability and contribution of workforces. We outline examples of pay progression arrangements in private sector companies and present evidence from official earnings figures that show the continued significance of progression in the private sector.

This report has been commissioned by Unison and examines progression arrangements in the public and private sectors based on IDS monitoring of pay developments across the

economy. We also discuss some of the issues relating to the announcements made regarding potential changes to public sector progression arrangements.

1 Progression in the public sector

In this section of the report we provide an overview of pay progression in the public sector. We focus on Unison’s largest membership groups in local government, health care, education and police and justice.

Table 1 Overview of current progression arrangements for key public sector groups

Sector	Basis for progression	Proportion of staff eligible for progression
Central government		
Armed Forces	Incremental progression	About 75 per cent ¹
Civil servants	Under devolved bargaining each department sets its own pay and progression arrangements. Incremental scales and broad-banded structures with links with performance are commonplace	Varies at each department and agency
Education		
School teachers	Teachers on main scale receive a point each year, subject to satisfactory performance. Teachers on the upper scale normally awarded a progression point every other year, based on performance appraisals	According to the STRB around 40 per cent are at the top of their respective scales
School support staff	(See local government)	
Universities	Progression is determined at individual institutions but many have 2 or 3 ‘contribution points’ at the top of each pay grade. Within this structure, the Framework Agreement sets out three main forms of progression open to individual institutions: service-linked increments up to the ‘contribution threshold’; accelerated incremental progression reflecting exceptional performance; and discretionary progression beyond the threshold based on contribution.	According to UCEA around 60 per cent of the total workforce are at the top of their scales
Health care		
NHS staff (Agenda for Change grades)	Progression through pay bands is mostly automatic with the exemption of two pay points in each band. At these ‘gateways’ staff need to demonstrate agreed knowledge and skills to progress. From April 2013 employers in England can make progression conditional upon locally-defined performance objectives as well as knowledge and skills by implementing gateways at all AfC spine points	Latest NHS Pay Review Body report (published in March 2013) states 58 per cent of staff are eligible for progression
Local Government		
Local Government Services NJC	The nationally-agreed ‘Green Book’ provides guidance on progression, individual councils decide on the terms under which employees qualify for increments. IDS research shows 49% base this on service alone, 26% service plus competency and/or performance, 15% performance alone, 5% competency/skills alone, and 5% performance and competency	IDS’ latest survey shows a median proportion of 33% of staff are eligible for progression ²
Firefighters and control room staff	Competency-related progression linked to the attainment of skills	
Police staff (England & Wales)	Incremental progression, staff progress through their pay scale by one increment each year subject to satisfactory performance	

¹ As noted in the AFPRB 42nd report, 2013.

² IDS pay in local authorities 2013. Based on 44 responses including 6 councils opted-out of national pay bargaining.

Police staff (Scotland)	Incremental progression, staff progress through their pay scale by one increment each year	
Police and justice		
Federated police ranks	Incremental progression, officers typically progress one pay point a year, reaching the top after 10 years' service. First three points exempt from suspension	
Probation service	Employees below the development point receive two increments annually and those above it receive one increment. Increments are generally awarded on the basis of service and can be withheld if service is deemed to be unsatisfactory.	16 per cent are at the top of pay bands

1.1 Recent changes

A number of changes to progression arrangements in the public sector were already underway before the Chancellor made his Budget statement in March 2013 including pay progression for the police and teachers. The Winsor review made the recommendation that only police officers receiving 'satisfactory performance' or better in their annual appraisals should move to the next pay point. The introduction of this new system of progression is subject to the development of a national performance and development (PDR) process. Teachers will no longer be automatically entitled to annual progression increments from September 2013. Instead, these will be linked to the school's assessment of a teacher's contribution or performance and school management will have the right to withhold pay increments or to accelerate 'high' performers through the pay scales. The first appraisal-related progression increases will take place from September 2014. The NHS already has a form of competency-based pay in the form of 'gateway's located at the bottom and top of each grade. And from April 2013 individual NHS employers in England have the flexibility to restrict progression by implementing gateways at all Agenda for Change spine points.

1.2 Health care

All NHS employees in the UK, with the exception of doctors and dentists, are covered by the Agenda for Change (AfC) pay and grading structure. AfC terms and conditions, covering some 1.3 million staff in a variety of clinical and support roles, are overseen by the NHS Staff Council, a body made of employer representatives, trade unions and NHS Employers. Annual recommendations on staff remuneration are made by the NHS Pay Review Body.

The AfC pay structure is divided into nine incremental bands, with progression within the bands linked to service and competence under the NHS' Knowledge and Skills Framework (KSF). Until April 2013 all UK employees were eligible for annual progression although this was not wholly automatic. The progression system entailed two competency-based gateways in each band, one near the bottom of each grade and one near the top. Staff

progressed through the gateway point upon demonstrating the required level of knowledge and skill for their role. After 12 months in the role, employees will be eligible to pass through the 'foundation gateway' which contains a reduced subset of the full list of competences required for a particular job.

A second gateway at the end of the pay band (although the exact point varies between bands) contains the KSF outline for full competence in the role (see box below for example job role). If employees fail to meet the requirements at either gateway, progression can be deferred.

In February 2013 the NHS Staff Council formally agreed contractual changes to the AfC pay system which included changes to progression. After April 2013, individual NHS employers in England have the flexibility to further restrict progression by implementing gateways at all AfC spine points.

In addition, pay progression through the last two pay points in bands 8C, 8D and 9 has become non-consolidated, meaning that these increments can be withdrawn with unsatisfactory performance. Finally, the changes have removed accelerated progression that was previously available to employees joining at band 5 (the main pay band for qualified nurses). Prior to the changes, employees joining band 5 under a 'preceptorship' (a period of extra guidance and support for newly qualified nursing staff) were eligible for a pay increase of two increments in their first year.

The number of steps each employee is eligible for varies depending on their pay band. The smallest number of steps comes in pay band 1 where there are just two steps (three pay points). Employees in bands 6 and 7 can move up 8 steps to the grade maximum, the highest number of steps of the nine bands.

Across the entire pay spine (bands 1-9) the median value of a single increment is 3.5 per cent, although this varies between different pay bands. This is higher than the median value of an increment on the Local Government NJC pay scale (valued at 2.7 per cent). Employees who reach the top of their grade can expect to add between 5 per cent and 34 per cent to their starting salary, averaging at 22.8 per cent across the pay bands.

Agenda for Change Knowledge and Skills Framework

The KSF is a competency tool to help NHS staff identify the knowledge, skills and training they need to do their jobs. Launched in 2006, the full version of the KSF was criticised as being too complex and time consuming by many trusts. In response, the NHS Staff Council introduced a simplified version, which employers can tailor to their needs. Employers can still adopt relevant aspects of the full KSF if they wish or use a similar competency framework. Adoption of the KSF at trust level increased after it was simplified.

The purpose of the KSF, according to the RCN, is to:

- Identify knowledge and skills needed for the post
- Help guide development
- Provide fair and objective framework on which to review staff development
- Provide basis of career progression in the NHS

The full KSF comprises six core competencies and 24 specific competencies. The core competencies apply to all staff while the specific competencies only apply to some staff. Each competency has four levels of proficiency, with a brief description of the knowledge, skills and behaviours expected at each level. Employees at higher pay bands are expected to be more proficient in the core competencies. However, the levels of proficiency expected for specific competencies do not necessarily increase with pay bands, as these tend to be specific to the profession, eg estates and facilities.

The simplified KSF focuses on the six core competencies defined in the full KSF:

1. communication
2. personal and people development
3. health, safety and security
4. service improvement
5. quality
6. equality and diversity

Because similar jobs may vary between organisations, there is no centrally defined mapping of KSF to NHS jobs. However, there is a national library of KSF post outlines (e-KSF) that are considered good examples, which other employers and staff can refer to when developing their own KSF post outlines. A KSF post outline typically covers the level of proficiency expected for each of the core dimension along with a brief description of how an individual might demonstrate the knowledge and skills required for the role. Professional codes of practice that apply to regulated professions can also be captured in the KSF post outline.

However, with the simplified KSF, employers can use a job description or person specification in place of a post outline. And there is also more emphasis on discussing individual developmental needs and less on going through every single area of knowledge skills.

Source: *IDS Pay and benefits in the public services 2013, February 2013.*

Table 2 Typical value of increments in Agenda for Change

Pay band	Number of steps	Median increment value (%)	Min/max salary (%)
1	2	2.5	5
2	7	2.7	22
3	6	2.9	18
4	6	3.0	14
5	7	4.0	30
6	8	3.5	34
7	8	3.4	32
8a	5	3.9	20
8b	5	5.1	24
8c	5	4.4	23
8d	5	4.8	24
9	5	4.8	26

Source: *IDS*

According to the latest NHS Pay Review Body report, published in March 2013, 58 per cent of staff were eligible for progression (ie 42 per cent were at the top of their pay band). The annual cost of this progression is estimated by the review body to stand at around 1 per cent.

In line with the Government's pay policy, staff on the AfC pay bands received a 1 per cent basic pay rise from 1 April 2013. The increase followed a two-year pay freeze for staff earning above £21,000. Those earning below £21,000 received flat-rate payments of £250 in both 2011 and 2012. During the freeze increments have continued to be awarded.

Recent changes to AfC for NHS staff in England, also include changes to sick pay. Sickness absence will now be paid at the basic rate, excluding unsocial hours payments. This change does not apply to employees in bands 1 and 2, and those absent due to work-related injury or illness, who will continue to have any unsocial hours payments calculated as part of their sick pay.

1.3 Local government

The majority of local authorities in England and Wales set rates of pay according to a nationally-agreed pay spine. However, despite most councils' continued adherence to the Local Government Services NJC there exists considerable diversity in the nature of progression across the sector in terms of the criteria for progression, the size and frequency of increments and the proportion of staff eligible.

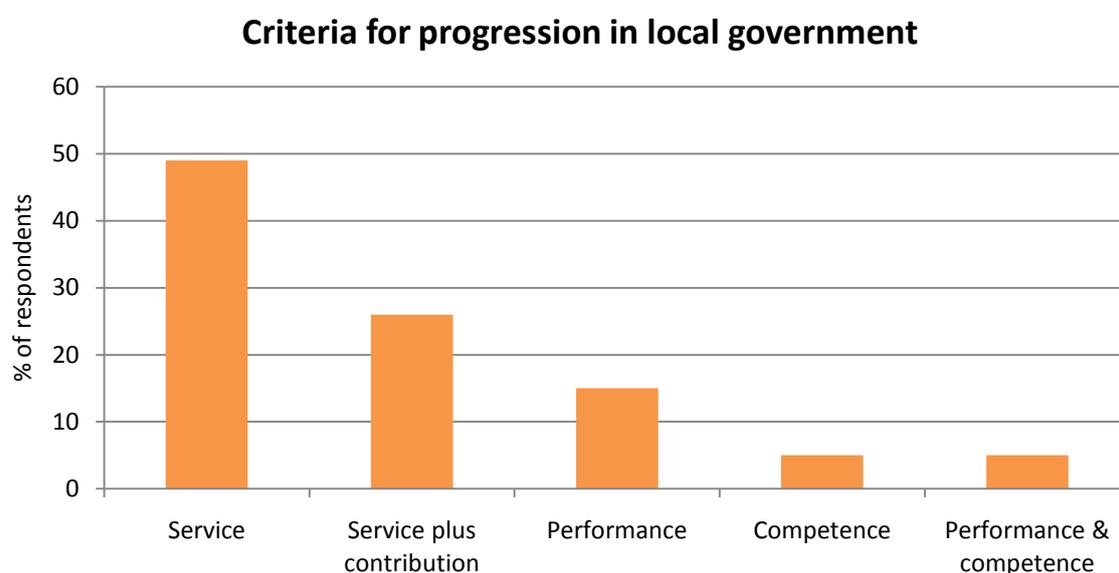
Variation exists as although the national pay spine provides a set of pay points, local authorities are free to set their own pay bands and assign different job roles to them. Furthermore, although the 'Green Book' (the document detailing nationally-agreed terms and conditions) provides some guidance on progression, it is for individual councils to decide on the terms under which employees qualify for increments or points.

Added to this around 45 local authorities, predominantly in the South East, broke away from national negotiations in the late 1980s and early 1990s. In many cases these councils introduced their own pay scales, and continue to negotiate pay at a local level.

Although there are no national-level agreements relating to progression pay, the Green Book provides some guidance on the differing systems of incremental progression open to councils. In particular it references the Single Status Agreement (1997) which 'provides the scope to introduce alternative arrangements in place of the traditional 'time-served' progression'. Councils are therefore free to decide on the criteria under which increments are

awarded which, according to the Green Book, could include experience (service), skills/competencies, contribution and performance.

In reality, the most common approach continues to be annual increments based on experience. However, the application of service-based progression is not uniform across all councils. IDS' recent survey of local government³, published in July 2013, found that 49 per cent of respondents used service alone in awarding increments. A further 26 per cent combined service with another form of contribution. In these cases councils, for example, withhold increments based on poor performance or accelerate annual progression with the development of new skills. Some 15 per cent of participating councils awarded progression solely as a result of performance appraisals, with 5 per cent combining performance with an assessment of competence or skills development.



Source: IDS Pay and conditions in local government 2013

Where factors other than service are used, the Green Book emphasises the need for eligibility criteria to be 'objectively justified'. Poorly designed performance pay systems can lack transparency and rely on subjective managerial decisions, heightening the risk of equal pay claims. The Green Book therefore emphasises that justification against objective criteria is particularly necessary for progression systems relating to traditionally male job roles.

The value of increments on the main NJC pay scale (points 4-49) ranges from 1.4 to 6.2 per cent, with a median increment of 2.7 per cent. The median increments on the other major

³ IDS pay in local authorities 2013. Based on 44 responses including 6 councils opted-out of national pay bargaining.

local government pay scales in Britain, the inner London pay spine and the Scottish Joint Council (SJC) are at similar levels to the NJC at 2.5 per cent and 2.7 per cent respectively.

As individual local authorities are free to decide how particular roles are attached to the pay spine, grade boundaries will vary from council to council. As a consequence the number of increments taken to reach the grade maximum for a particular job will vary between councils.

Taking five example job roles from IDS’ recent local government survey, the median number of steps between the starting and maximum rate is generally between 3 and 5 increments. However, there can be significant variations between councils with some operating spot rates (ie a single rate for the job with no increments) and others using broad bands, with the number of steps running into double figures. For our example job roles, employees can expect to add between 12 and 18 per cent to the value of their starting salary with progression to the grade maximum (within 3 or 5 years).

Table 3 Typical value of increments in local authorities

Job examples	Number of steps			Max/min (%)
	Median	Minimum	Maximum	
Admin officer	3	0	13	16
Accountant (senior)	4	0	12	13
HR manager	3.5	0	28	12
Building control officer	5	3	11	17
Social worker	5	1	9	18

Source: IDS Pay and conditions in local government 2013

As many salary ranges contain a relatively small number of steps, often a significant proportion of a council’s workforce sit at the top of their respective grade boundary, without further scope for progression. This phenomenon has been exacerbated where recruitment freezes have been in place, in many occasions leading to the majority of the workforce being ineligible for further increments. The IDS survey of local government found that at the median just one third of respondents’ total workforces were still eligible for progression. The situation varied substantially between individual councils, however, with the proportion still receiving increments ranging from 76 to just 5 per cent.

In 2011 Local Government Employers estimated that progression added between 1.25 and 1.5 per cent to the paybill. Although this may have come down slightly as more employees reach their grade maximum, when pay budgets are squeezed progression can represent a larger proportion of paybill costs than it did in the past. As a result of these intense funding pressures a small number of councils have frozen progression payments to reduce costs. In this year’s IDS survey, 5 per cent of councils said they had frozen increments in the last year,

while in the previous survey in 2011 10 per cent said they were considering suspending progression.

In some cases councils have maintained progression, but introduced new systems as part of wider cost-cutting packages. In 2011 Plymouth City Council, for example, linked increments to satisfactory performance as well as simplifying overtime pay and reducing maternity, paternity and redundancy pay. The council estimated that these changes would save £18 million over three years. Arguably, most of the savings are likely to come from the reductions in maternity, paternity and redundancy pay.

Following protracted negotiations a pay increase of 1 per cent was agreed in July 2013 for councils covered by the local government NJC. The increase, which is backdated to 1 April 2013, follows a three-year pay freeze with the previous pay award made in 2009. Unlike other parts of the public sector, no underpinning payments were made to employees on lower salaries during the freeze, although a number of individual councils did agree to pay the Living Wage.

In Scotland pay under the SJC has been frozen since 1 April 2011. A pre-emptive offer for 2013 of a 1 per cent increase to all pay spine points and the introduction of a 'Scottish Local Government Living Wage' of £7.50 an hour was rejected by Unison and Unite members.

Progression at Buckinghamshire County Council

In 2011 Buckinghamshire County Council introduced a new performance management framework, 'Delivering Successful Performance' (DSP), which will be linked to pay from next year. The new scheme replaces an incremental service-based system of progression through five fixed steps. Under the new DSP system, contribution is measured through performance against a set of agreed individual objectives and desired behaviours. Objectives are drafted by employees and agreed with managers, while behaviours relate to organisational values set out in a bank of behavioural indicators developed by the HR team. Based on these objectives and behaviours employees are given one of five ratings – 'unsatisfactory', 'needs development', 'successful', 'exceeding' or 'outstanding' – at a year-end review in April.

From 2014, these ratings will affect the level of the annual uplift given to individual employees as well as determining the size of an additional payment, known as a contribution-based payment (CBP). Individual pay rises will also be affected by grade position, with the council removing incremental points in the pay scale and replacing them with three 'reference points' – 'entry', 'competent' and 'advanced'. The 'competent' point is regarded as the midpoint for the job and is at the midpoint of the range.

In April 2013 all employees received a 1 per cent general pay increase, however, from next April this will be linked to performance. All employees with an 'outstanding' or 'exceeding rating' will receive the full value of the agreed annual uplift. Employees with a rating of 'successful' receive the full uplift if at or below the competent point, those above this point will receive half the uplift. Employees who 'need development' will be given the full increase if at the entry point, half if at or below competent, and nothing if above competent. No increase will be awarded to those with 'unsatisfactory performance'. In the last performance review (not linked to pay), 96 per cent of employees were rated as 'successful' or higher.

Employees are now also eligible for an additional progression payment, CBP, dependent on performance. 'Outstanding' and 'exceeding' performers receive a payment equivalent to 100 per cent and 50 per cent respectively of the gap between competent and advanced points. Where employees are

at the top of their pay range, the CBP will be non-consolidated. 'Successful' performers above the competent point will not receive a CBP, while those below will be moved up to competent.

Source: IDS Pay Report

1.4 Education

1.4.1 School support staff

For school support staff in England, including teaching assistants, administrators, catering staff and cleaners, pay is dependent on the type of school at which they are employed. In maintained schools support staff are paid according to the local government pay spine, whereas in academies individual schools are able to determine the level of remuneration but in practice it is not clear how many depart from the NJC pay points. In 2009 the then Labour Government introduced a Schools Support Staff Negotiating Body (SSSNB) to establish a new national pay and grading framework for support staff. However, the SSSNB was subsequently abolished by the Coalition Government in 2011 and control over pay returned to individual schools or local authorities.

Progression arrangements therefore vary from school to school, not only in academies but also in local authority-funded schools. Variation in pay in maintained schools comes about as the local government pay spine allows for grade boundaries to be determined by individual councils.

According to IDS' recent local government survey the minimum starting salary for a teaching assistant at participating councils was £12,145 (pay point 4, effective April 2012) compared to the maximum starting salary of £17,802 (pay point 19, effective April 2012). The number of steps from the minimum to the maximum of the pay band recorded in the survey ranged from one to eight, with a median of three. Teaching assistants could add between 3 and 32 per cent to their starting salary on progression to the grade maximum, with a median of 9 per cent.

1.4.2 Further education

Pay for lecturers, management staff and support staff at many further education colleges in England is set according to the 2004 'modernising pay agreement'. The agreement between the employers' body, the Association of Colleges (AoC) and trade unions established a harmonised pay scale for all staff and shortened the pay band for lecturers. However, although negotiations over pay and conditions take place at the national level it is at the discretion of individual colleges as to whether or not they implement the proposed changes.

The AoC harmonised pay spine is divided into six 'career family' pay scales. Qualified lecturers are on an eight-point scale between points 23 and 37, while unqualified lecturers

are on a four-point scale between 15 and 21. Support staff are divided into learning support, paid between spine points 4 and 26, and business support, paid between points 4 and 44. Employees in leadership and management roles are paid between points 37 and 68. Increments are generally service-linked and worth 3 per cent at the median.

During the 2012 pay negotiations the employers initially requested an end to automatic incremental progression, although this was eventually withdrawn. The employers said that they recognised that progression up the pay scale was an important feature of remuneration policies but that 'additional rigour and objective criteria [should] be introduced to account for the additional costs... incurred'.

1.4.3 Higher education

Pay and conditions in UK universities are based on the Framework Agreement which sets out national-level principles and parameters, as well as a 51-point national pay spine (covering all university staff below professor level). Individual institutions have the discretion to determine grade boundaries at a local level, although annual pay awards are determined through national negotiations on the JNC for Higher Education Staff (JNCHES). Progression is, therefore, also determined at a local level, although JNCHES issued guidance on the subject in 2004.

Although the grading structure varies between institutions many have two or three 'contribution points' at the top of each pay grade. Within this structure, the Framework Agreement sets out three main forms of progression open to individual institutions: service-linked increments up to the 'contribution threshold'; accelerated incremental progression reflecting exceptional performance; and discretionary progression beyond the threshold based on contribution. The values of increments on the JNCHES pay spine are fairly uniform ranging from 2.2 to 3.1 per cent, or 3 per cent at the median.

According to the Universities and Colleges Employers Association (UCEA) service-based progression remains the most commonly-used system. Of those institutions that operate some form of contribution/performance-based system the majority award progression on the basis of individual performance, although other criteria such as skills acquisition, competencies and team performance are also in evidence.

Some two-thirds of higher education institutions operate some form of contribution pay according to a recent report by UCEA. However, as often contribution progression only begins after a certain point on the pay scale or is restricted to certain groups, usually not all

the workforce will be in receipt of contribution-linked pay. The UCEA report found that the median proportion of employees receiving contribution pay at surveyed institutions was 8 per cent at the median for full-time employees and 5 per cent for part-time employees.

The cost of progression varies dependent on the type of scheme operated at individual institutions. The UCEA report found that the amount spent on contribution-related pay varied from very small amounts, where institutions made few awards, up to 1 per cent of the paybill at a number of universities. A small number of institutions have suspended schemes in recent years, however, the majority have continued to award increments.

1.5 Police and justice

Employees in many areas of the police and justice sector have experienced substantial changes to terms and conditions under the Coalition Government, with many affecting pay progression. The most high-profile changes have occurred as part of the Winsor review into police officer pay. However, in addition to this the Prison Service Pay Review Body has introduced an entirely new grading structure and future changes seem likely in probation due to wholesale changes to the service under the 'Transforming Rehabilitation' reforms.

1.5.1 Police support staff

Pay for police support staff, including administrative and technical employees and traffic wardens, is set by a different mechanism to that for police officers. The Police Staff Council, which is the forum for negotiations between the employers and trade unions, negotiates changes to a 42-point police staff pay spine as well as other terms and conditions. Specific grades are, however, determined locally by each police authority in consultation with the relevant trade union, using the pay spine as an underlying framework.

Increments on the spine are worth between 1.8 and 3.7 per cent, or 2.6 at the median. Progression through each pay grade is determined by service, with one increment awarded annually. However, progression can be withheld on the basis of unsatisfactory performance or accelerated in cases of excellent performance. During the two-year pay freeze from 1 September 2011 progression was continued for eligible employees.

1.5.2 Probation service

Pay for probation officers, managers and support staff is set under the National Negotiating Council, which brings together the Probation Association (which represents Probation Trusts), the National Offender Management Service (NOMS), and the trade unions (NAPO,

Unison, and the GMB). The NNC pay structure is made up of six incremental pay bands, with probation officers assigned to band 4 and senior probation officers to band 5.

In comparison to many other areas of the public sector, the Probation NNC pay structure has relatively long pay bands with a large number of incremental points. The number of steps required to move to the band maximum varies from 13 to 22 with a median of 20 steps. The increments are, however, of a smaller value than many other public sector organisations, with every step, across all the pay bands, worth 1 per cent.

As a result of the relatively long pay bands, but correspondingly small increments, the amount employees can expect to add to their salary in moving from the starting to maximum rate is similar to other public sector organisations. Maximum salaries are 22 per cent above entry-level rates at the median, ranging from 14 to 24 per cent.

Until 2011 the number of increments awarded annually varied in relation to employees' position in the band. Employees beneath a 'development point' located around four or five points from the end of the band would receive multiple increments, while those above this point would receive a single increment until they reached the maximum.

Before 2010, employees below the development point received three increments annually, those on the development point received two increments and those above it received one increment. In 2010, this was reduced to two increments below the development point, while those on or above it continued to receive a single increment. Under the public sector pay freeze, in 2011 and 2012, the development point was removed and all employees awarded a single increment, except for those in pay bands 1 and 2, all of whom were awarded two increments.

Under the system in place in 2009 it would take a probation officer in band 5, 12 years to reach the top of the pay band provided no increments were withheld. Under the current system of single annual increments it would take 22 years to progress from minimum to maximum rate.

Increments are generally awarded on the basis of service and can be withheld if service is deemed to be unsatisfactory. The NNC Pay and Modernisation Agreement published in 2005 stated that the future intention is for progression to be underpinned by a review process linked to an annual appraisal. In 2008 the NNC implemented a Performance and Personal Development Review (PPDR) scheme, which introduced annual appraisals to

assess performance against a set of work objectives (agreed by employees and their managers) and a list of skills essential for the role. However, as yet this scheme has not been linked to pay.

2 What happens in the private sector?

Official figures for growth in earnings, as measured by the Annual Survey of Hours and Earnings (ASHE), support the view that progression happens elsewhere in the economy. The latest figures show full-time employees in the private sector in the same job for more than a year saw median earnings growth of 3.8 per cent. Meanwhile basic pay settlements in the private sector, as monitored by IDS, are running at around 2½ per cent. The gap between the two figures is most likely explained by other elements such as promotion or progression.

Part of the discussion around progression for public sector workers is based on a comparison with how progression operates for private-sector employees. In this section we look at this in more detail, providing an overview of the approaches adopted in the private sector.

Similarly to the public sector, there are a number of different approaches to pay progression in the private sector and there has been evidence of a shift away from progression systems based purely on individual performance towards ‘hybrid’ schemes. In broad terms a system can be described as ‘pure’ where progression is based on a single criterion, such as length of service or performance, whereas ‘hybrid’ systems combine several types of progression, such as length of service with performance measures, performance with market measures, and those that combine performance with either skills or competencies. These hybrid systems provide employers with an approach that combines the best aspects of service-related schemes, in that they usually provide a level of transparency, predictable pay growth and simplicity, with the benefits of appraisal-based systems that can provide efficiencies and act as a driver for continuous development. As other IDS research has evidenced⁴, hybrid systems are widespread, with 45 per cent of respondents to a recent survey on progression operating progression systems that combine multiple measurement criteria.

2.1 Length of service with performance measures

While incremental scales are more common in the public sector, they also feature in large organisations in the private sector. In some cases these are still ‘pure’ types of progression schemes based solely on service, but more often progression to the next step or increment is subject to satisfactory performance, like some areas of the public sector.

Examples of organisations with incremental progression

Organisation	Progression system	Latest pay review
Cummins Engine Company (Daventry)	Service-related increments, subject to satisfactory performance. There are six increments for most grades, apart from grade 5 (lowest grade) which has four increments and grade 3T (skilled	5.2% from 1 Feb 2012. Covered 1,300 employees

⁴ IDS pay progression survey 2010, based on 91 respondents.

	maintenance craftsman) which has one.	
Cummins Turbo Technologies (Huddersfield)	Service-related increments, subject to satisfactory performance. It takes employees three incremental steps to progress from the minimum to the maximum of their salary band. Progression here is based on performance and job content.	2.95% from 1 Jan 2013. Covered 1,027 manual workers & staff
Ford (staff grades incl. clerks, secretaries, technicians, engineers & foremen)	Progression takes place by both service-related increments and individual performance, depending on employees' position on the pay range. Progression from the minimum to the incremental maximum is service-related, although annual increments may be brought forward in recognition of good performance or withheld in cases of unacceptable performance. There are four increments in grades 1 to 4, five in grades 5 and 6 and in the foreman grades 90 and 92, and six in grades 7 and 8 and foreman grades 93 and 94. Progression from the incremental maximum to the scale maximum is based on assessments of individual performance.	3.45% from 1 Nov 2012. Covered 2,500 non-management employees

2.2 Competency or skills-based progression

Competency-based progression schemes set out dimensions of behaviour that an employee must display in order to capably perform in the role. Examples might include analytical thinking or communication skills. Some schemes mix behavioural elements with more objective measures of skill level. There are also skills-based models where progression is based on the acquisition of skills. This approach is mainly used for manual workers and is less common for white-collar staff although it is used for some call centre roles. Growing out of traditional apprenticeship and training schemes, modern skills-based approaches are often aimed at equipping manual workers with the additional skills to operate or maintain high-tech machinery.

Examples of organisations with competency or skills-based progression

Organisation	Progression system	Latest pay review
BAE Systems Military Air and Information	Pay progression is based on competencies acquired by on and off the job training. Moving from lead-in operator to fully-approved operator involves two successful audits and a competency-based interview	3% from 1 Jan 2013. Covered 3,300 manual employees (Warton Unit; professional staff (Brough) & airport technicians)
E.ON	New pay structure introduced in 2010 with progression increases linked to the demonstration of competencies. Competency-based progression now applies to customer service agents, admin and support roles and staff on managerial and professional grades. For the latter group, progression is performance based. For those employees who are below the reference point for their grade their salary progression is based on their performance rating. Those receiving ratings 'achieved', 'exceeds' and 'outstanding' receive the negotiated settlement (basic uplift to pay) plus an additional merit increase ranging from 3 to 7%. Those receiving a rating of 'partly achieved' do not receive a progression increase and just receive the basic uplift to pay rates.	

2.3 Performance and market measures

Performance-related progression or merit pay – defined as performance-based payments that are consolidated into basic pay – has been a common approach in the private sector since the 1980s. Some private sector organisations, particularly those in financial services, have adapted pure performance-related progression schemes and apply individual pay increases according to an employee’s individual performance rating and position relative to the market reference salary. These types of schemes typically roll the basic pay award and performance award into a single payment.

However some organisations with performance-related progression arrangements in place are clear to differentiate the general increase to pay rates from any additional performance-related progression increase – similar to the approach in the public sector. This is the case at the John Lewis Partnership where each year the budget for paybill increases includes a fixed increase by which pay rates are uplifted, plus a budget allocation for merit-based increases. For example, in its most recent pay reviews retail staff and managers at the John Lewis Partnership received increases in basic pay from 1 April 2013. These were based on a combination of a general rise of 2 per cent, plus additional merit rises from a 0.5 per cent budget. The increases covered 29,705 employees in John Lewis stores, and a further 53,353 Waitrose supermarket staff.

Examples of organisations with performance-based progression (general award is separated from merit-based awards)

Organisation	Progression system	Latest pay review
Honda	As well as raising pay rates by a basic percentage each year staff are also eligible for merit-based progression awards, typically worth between 0.5 and 1.5% of salary. These merit payments are dependent on performance review outcomes. In 2012, the general uplift to pay was 2.5% but 80% of the workforce received consolidated pay increases of 3% once merit payments were taken in to account. Honda employs around 4,000 employees	-
Nissan	In 2008 Nissan introduced a new pay progression matrix, ‘merit model 2’, applying to any employee joining the company from 1 March that year. Progression to the top of pay ranges occurs by means of annual merit increases, the precise amount of which is determined by grade and performance appraisal rating. The typical length of time taken for a new employee to progress from entry level to the pay range maximum is 14 to 32 years. The pay system shares a number of similarities with incremental structures. The key difference is that, for each grade, an individual’s performance rating determines which of four specific monetary amounts is payable – for example, all technicians covered by merit model 2 who achieved an ‘outstanding’ rating in 2010 received a pay rise of £475.06 on top of the general increase, while those who met expected performance received £237.54. The awards payable under the merit model increased each year by the same amount as the general award. Once employees	4% from 1 Jan 2013 plus merit-based pay rises. ‘In band’ employees (49% of the workforce) who have not reached the maximum of their range, received merit increases averaging 1.73%. Those employees at the scale maximum received non-consolidated lump sums averaging 1.18%. The review covered just under 7,000 employees

	reach the top of their band they are eligible for eight annual non-consolidated lump sum payments. Once again, these amounts are fixed and determined by an individual's grade and appraisal rating.	
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Examples of organisations with 'pure' performance-based progression

Organisation	Progression system	Latest pay review
HSBC	Employees receive individual pay awards which include progression payments according to a matrix system. This system takes account of an employee's individual performance rating and position relative to the market reference salary. The HSBC model is a common hybrid approach which combines individual performance with market measures.	2.1% average merit award from 1 Mar 2013. Covered 23,000 clerical staff

2.4 Pay awards and progression

Pay scales and increments are typically revalorized by a general or across-the-board percentage increase. This means all employees normally receive some form of pay rise to reflect the cost of living, even if they are at the top of the scale for their grade and therefore not eligible for further incremental progression.

Other pay awards can be based on merit, performance or overall pay bill increases where employees receive a range of increases. In some cases, a performance-related pay increase will be paid on top of the general uplift to pay. These types of increases are often referred to as 'general plus merit'. Examples of companies awarding these types of increases include John Lewis, Waitrose and Nissan as outlined above.

Around a fifth of pay settlements that IDS collects each year are based on merit only. Even these types of systems often have an inbuilt expectation of salary progression and in some cases the general uplift to pay and progression increases are part of the same award. For example, a look at median pay settlement levels in 2012 show that for those awarding general increases, the median award was 2.5 per cent. For general plus merit awards, the median increase was 2.6 per cent and the median award for merit awards was higher still at 2.8 per cent.

Higher increases targeted at those at the lower end of a range are specifically intended to recognise the need for pay progression. A common arrangement, particularly in the private sector, involves salary ranges defined by minima, maxima and mid-point rates with annual increases based on individual performance and position in the range. Employees below the mid-point usually receive a higher annual increase for the same level of performance than those above the mid-point.

Some organisations including HSBC use a matrix to determine an individual's precise increase based on his or her appraisal rating and position in the salary band. The intention is to enable employers to direct more of the available pay pot towards high performers near the bottom of the scale, with the aim of accelerating their progression to a 'target' or market rate. Some companies split the progression pay pot so that, while the majority is distributed through the matrix, a proportion is reserved to be awarded at line managers' discretion. For example, employees judged to be paid above the market rate for their role may receive lower increases than those paid below the market rate, or may instead receive an unconsolidated lump sum. These types of pay systems award the greatest increases to those deemed to be higher performers while those with lower performance markings will receive lower awards or may not receive part of an award.

Many merit schemes involve 'forced distributions' that shoehorn appraisal outcomes into predetermined patterns, whatever the reality of employees' performance. IDS research has highlighted that this kind of approach can contribute to a negative employee relations climate around performance-related pay. For example, as part of the 2013 pay agreement at HSBC, the bank agreed to take what Unite, the union representing staff, called a 'sensible approach' to the forced distribution of performance ratings. According to the union, 93 per cent of its members at the bank regard the forced distribution process as 'unfair'. The union said it hoped that following a recent review that led to many employees with the lowest performance scores leaving HSBC, there would be 'a commensurate reduction in the required percentage at these ratings among remaining employees at year end'.

3 Why is progression important?

In this final section of the report we discuss why progression is important for both employees and employers alike. We also look at the implications for policy from reality of practice both in the short- and longer-term.

3.1 Public sector progression

While time-served arrangements are still common in the public sector, not every public sector group has automatic incremental progression arrangements in place. Similarly to the private sector, there has been some evidence of a shift towards including performance, skills acquisition or contribution measures in addition to service, with the concept of ‘bars’ or ‘gateways’ which employees must pass through in order to progress.

Many civil service departments now have hybrid progression schemes in place. Most of these were put in place in the mid-1990s in order to bring paybills under control. For example, some departments operate a dual progression arrangement system where there is still an element of automatic incremental progression for those on the lowest pay bands, but for those on higher pay bands, progression is based on individual performance. This describes the progression system at the Ministry of Justice. The progression model at HM Treasury even has an element of a forced distribution (a system broadly viewed by employees as being unfair and are also difficult for line managers to administer) where 25 per cent of the workforce must be deemed ‘excellent’ performers and between 5 and 10 per cent in any year will be deemed as displaying ‘significant shortcomings’.

As outlined in the first section of this report, even in public sector organisations where progression is still time-served, large sections of the workforces are at the top of pay scales and are no longer eligible for progression increments. This is the case in local government including school support staff and in the higher education sector. Furthermore, other parts of the public sector already have scope to withhold progression increments should employee performance be below standard. For example this occurs in the NHS, parts of the civil service and some local authorities plus others parts have changes to progression already in progress including for teachers and the police.

3.2 Evidence of progression in the private sector

There are also examples of private sector firms that award progression increases in addition to a basic pay rise. These include Anglian Water, KFC, Nissan, HSBC, E.ON, Waitrose, Honda and John Lewis which is similar to how pay operates in the public sector (see section 2 for further details).

3.3 The recession and the continuation of progression awards

The recession highlighted the continued importance of pay progression. Where general pay reviews resulted in zero awards, many employers continued to pay progression increases. An IDS survey on progression⁵ found that the majority of employers (87 per cent) continued to pay progression increases, despite the fact that two-fifths decided not to make general cost-of-living awards.

3.4 Cost of progression

Arguably the cost of progression is neutral over the longer-term as higher-paid employees leave the organisation and new starters arrive at the bottom of the pay range. Currently, the majority of teachers are on scale maximums, but levels of staff turnover among newer staff means the incremental pay system is cost neutral.

In parts of the public sector where around half the workforce is no longer eligible for progression increments (in particular local government and the university sector), pay bill increases are relatively small. In local government, pay progression is estimated at adding between 1.25 and 1.5 per cent to the annual pay bill (estimate from Local Government Employers, 2011). According to the Universities and Colleges Employers Association (UCEA), progression increments account for around an increase of 1.3 per cent per annum on pay bills, in addition to any increase on the pay spine.

3.5 Importance of progression

As our research shows pay progression is an important feature of many private sector pay systems and most organisations award pay rises to staff to recognise their growing capability and contribution. Progression is that element of pay which aims to reward employees for their contribution to the organisation.

We have already outlined how progression is not always treated separately from other pay increases designed to reflect the cost of living. But differentiating the two – and developing a robust and transparent framework that enables staff to move up their salary range and identify opportunities for career development – can help to show employees that their contribution is valued and that there is scope for further progression.

The Treasury has tended to see the payment of progression mainly as an avoidable cost, and while HR/reward managers are mindful of this, they also view it as a motivational tool that

⁵ IDS pay progression survey, 2010. Based on a sample of 91 respondents.

allows individuals to rise up the pay scale as their contribution increases, while helping to alleviate recruitment and retention issues.

3.6 Appropriateness of performance-related pay

There are a number of key issues related to how performance-related pay progression operates in practice. Performance-related pay may not be appropriate for all employee groups and for some jobs performance is more difficult to effectively assess, particularly for more skilled and professional roles, or those centred on team-working, which exist across the public sector. Performance-related pay is thought to work more effectively where there exists a clear 'line of sight' between pay and performance, such as in sales roles, but the link between performance and pay will be more difficult to define in the many varied roles in the public sector.

3.7 Implications of the current policy

While the current policy posits change the Government does not provide any additional funding to move away from automatic progression where it does still exist in the public sector. This will make progress on moves to new pay progression systems slow over the short term.

The 2012 pay remit guidance stated that the Treasury would 'exceptionally' consider proposals that exceeded the 1 per cent cap, provided that they were 'linked to substantive plans to remove automatic time-served progression pay arrangements.' In IDS's monitoring of outcomes in 2012, one department considered buying out contractual progression, as part of a broader harmonisation of terms and conditions that remained from earlier mergers of government departments. This department tabled proposals to the Treasury who subsequently refused to provide the additional funding on the grounds that it would be too costly.

3.8 Considerations for a new pay model

Progression systems based solely on performance or 'merit' are generally disliked by employees because of the lack of transparency and objectivity around decision-making. John Makinson's report on performance-pay in the civil service report ('Incentives for change: Rewarding performance in national government networks', published in 2000), was critical of performance management systems in the civil service and the operation of performance-related pay. The review found that performance-related progression in the civil service was 'seen as divisive and unfair' and far from it motivating staff, it was regarded as de-motivating. A particular problem was that the focus on individual performance objectives led to

‘individuals not working to support their team or help other colleagues’. As a result, early experiments in performance-related progression in the civil service were ended in favour of rewarding performance through bonuses. However, in recent years changes in government policy have led to attempts, in some cases, to link progression once more to performance or competencies.

One of the main issues of moving towards a pay system where there is an element of measuring performance or competencies is that these systems place a certain amount of responsibility on line managers to understand the progression system and to adequately conduct appraisals. Moves towards linking employee output to pay require an effective form of assessment and there needs to be an increased emphasis placed on developing an effective appraisal system, including the training of line managers and the communication of objectives and measurement criteria to the workforce.

Merit pay typically involves devolving decisions on pay rises to line managers. This almost always heightens the potential for inconsistent outcomes, and in practice, some of these may be the result of discrimination. The Equality and Human Rights Commission (EHRC), in its report on pay discrimination in the finance sector⁶, found evidence of gender bias in the distribution of performance-related pay and bonuses, with a gender gap of 80% for performance-related pay (based on the 42 cases providing complete data under this study). In terms of how this might have arisen, women reported adverse impacts from taking maternity leave, including less favourable performance assessments. Lack of transparency around performance criteria was a factor here.

When decisions over pay are devolved to individual managers, this can give rise to discriminatory outcomes, especially where criteria for progression are vague or ill-defined. The EHRC regards merit pay systems as ‘high risk’ in this regard, though it points out a number of ways in which the risks can be reduced. Despite this, there have been relatively few equal pay cases involving merit pay in the private sector. But this may be partly to do with lower levels of union density. In the public sector, by contrast, union backing of individual employees has been a major factor in the number of equal pay cases brought in connection with progression, in this case over lengthy pay scales, which tend to favour male employees. This has been a factor behind the shortening of pay scales over the past decade.

⁶ Financial Services Enquiry: Sex discrimination and gender pay gap report of the Equality and Human Rights Commission’, 2009.