



PAY MODELLING SOFTWARE FROM A UNION PERSPECTIVE

INTRODUCTION

This Guidance Note is intended for UNISON branch representatives whose employer is proposing to use pay modelling software to develop a new grading and pay system. Its aim is to answer some frequently asked questions. Examples are: What are the advantages and disadvantages of pay modelling systems? Can we get training? What questions should we put to the employer?

The most commonly used pay modelling software is that supplied by Link-HR, now part of NorthgateArinso Reward Solutions [www.linkhr.co.uk]. So the questions relate mainly to this particular product, but most are nevertheless likely to be equally applicable to other pay modelling software systems.

The guidance assumes basic awareness of the principles of developing grading and pay structures. It should be read in conjunction with union guidance on this subject [*Trade Union Side Guide to Local Government Grading and Pay*]. The paper does not assume any knowledge of software systems and indeed none is required to be able to ask the right questions of the employer.

The guidance is based on the assumption that the job evaluation outcomes have been thoroughly consistency checked to the satisfaction of all parties. This should have been done using the advice in the Quality Assurance technical note of September 2003 for users of the NJC JES and its more recent equivalent on the GLPC JES.

The paper is written in the form of frequently asked questions (FAQs) and their answers. An appendix provides a summary list of possible questions to be put to the employer in relation to use of pay modelling software.

Q1: WHAT ARE THE ADVANTAGES TO THE EMPLOYER OF USING PAY MODELLING SOFTWARE?

Once a job evaluation exercise is complete and there is an evaluation score for every individual employee's job, grading and pay structures can be devised manually using Excel spreadsheet or similar software applications. However, once the number of employees is more than a couple of hundred, the spreadsheet is inevitably large and the calculations required to test different grading and pay options become increasingly tedious. For a large organisation, the investment in the pay modelling software – around £15,000 - is quickly recouped through savings in time and HR and/or payroll staff resource. So, the main advantage to the larger employer is efficiency.

Other advantages to the employer, regardless of size, include:

- Accurate costings, including on-costs (employer NI, pension contributions etc), because data from most payroll systems can be downloaded into the pay modelling software system
- Reasonably accurate cost estimates for future years, on the basis of assumptions about turnover and pay progression. Such estimates are very difficult and time consuming to make using spreadsheet technology, but are important because grading and pay structure proposals which are low cost in year 1 may be high cost in the medium term (where there are pay progression opportunities for most employees) and vice versa (where pay scales are short and/or pay progression opportunities restricted).
- Ability to restrict options considered through inserting as a parameter into the software a maximum total cost.

Q2: ARE THERE ADVANTAGES TO UNIONS AND THEIR MEMBERS?

Most of the advantages to employers apply also from a union perspective:

- It is generally in the interests of unions and their members for it to be possible to test a wide range of options and variations to grading and pay structure proposals, in order to ascertain the most advantageous/ least disadvantageous
- It is also helpful to union representatives to be able to consider the future cost estimates, as this may help identify situations where the employer is using the grading and pay review to make future pay bill savings, even where the immediate costs seem quite high

The employer needs to be asked whether they have built in a maximum cost parameter and if so what it is. Caution is needed because a maximum cost parameter will exclude all options that cost even £1 more than it, including any which may be desirable in relation to other criteria (e.g. in relation to maximising gainers and minimising losers), so it is usually helpful to set any cost parameter a little higher than the stipulated resource ceiling.

Q3: SHOULD WE BE INVOLVED?

The quick answer to whether unions should be involved in the use of pay modelling software is 'Yes, as much as possible'. The reason for this is that branch representatives and Regional Organisers will be in a better position to inform and advise members if they have worked through the pay modelling process.

The advantage to the employer of the involvement of union representatives is that they will be able to confirm that the agreed option is the best that can be achieved. There are an infinite number of grading and pay structure options. Most will be agreed by employer and unions to be inappropriate or otherwise unacceptable, but if unions have been involved in the process, they will be able to reassure members that the baby has not been thrown out with the bath water. If they have not been involved, they will not be able to provide this essential reassurance.

Q4: WHAT SORT OF 'INVOLVEMENT'?

In an ideal world, union nominees will participate in the same pay modelling software training programme as the employer nominees, so that they are in a position to operate the software system. This has been the case in a number of local authorities. The basic Link training programme lasts two days and there are opportunities for subsequent training sessions to make best use of all the software facilities.

Those trained in use of the pay modelling software need not be branch representatives or Regional negotiators, who may not have time for full involvement in the modelling process. They could be interested activists or members with some IT skills - although high levels of skill are not required.

Whether or not union nominees undertake the full training programme, union representatives and negotiators should request a presentation and briefing session on what the system can do. This will take at least half a day. This enables them to understand the pay modelling process, get a feel for what the software can do, ask the right questions and get the best out of the system.

Modern pay modelling software is very user friendly. Options in scattergram format can be projected onto a large screen and variations (for example, changes to JE grade ranges or boundaries) modelled by simply moving the cursor. Observations on the screen can be highlighted so that you can see which jobs are falling outside possible grade and salary ranges. It is more important to be able to suggest alternatives or variations than it is to be able to actually operate the system.

Q5: WHAT OTHER TRAINING IS AVAILABLE?

UNISON's Local Government Service Group provides training on developing grading and pay structures which covers the principles of pay modelling using software systems, but does not go into detail. Branch negotiators should have undertaken this course before the commencement of the pay modelling process.

Pay modelling software providers, including Link, will provide a half or one day briefing session to union representatives – at a cost. This is only cost-effective if a largish group of union members can attend and requires someone to specify exactly what is required of the trainer.

Q6: WHAT DO WE NEED TO HAVE THOUGHT ABOUT BEFORE WE START PAY MODELLING?

The number of options for consideration will be much reduced if some basic principles have been agreed before pay modelling commences, for instance:

- Is the new grading and pay structure to be based on the nationally agreed spine? The expected answer is 'Yes'. Although the NJC pay spine is somewhat idiosyncratic as a result of its historical development, its use provides a guarantee that the employer will abide by national agreements, including annual pay settlements
- In broad terms, how many grades would provide a sensible structure for the needs of the organisation? Fewer, the same number, or more than in the old structure? Most organisations look to have fewer grades because structures are flatter and organisations less hierarchical than was historically the case. Between 9 and 12 is a good starting point for most local authorities
- Will the new salary structure be based on flat (spot) rates or incremental scales? If, as in most cases, the agreed option is incremental scales, how long should each scale be? The longer the scale the greater the risk of gender, age and possibly ethnicity discrimination. It is recommended that scales should not have more than 6 incremental points, that is, minimum plus 5 incremental increases
- Will pay progression be on the basis of experience in the role, as has historically been the case in the local government sector, or is the employer proposing an alternative approach, such as competence or performance related pay progression. This is an important question, as it affects the assumptions built into the pay modelling software for future estimates.

Q7: HOW DO WE GET STARTED ON THE PAY MODELLING?

The pay modelling system database should have in it:

- (a) A job evaluation score for every employee to be covered by the grading and pay structure proposals
- (b) Current full-time equivalent (FTE) salary. This should preferably be the actual salary, if this can be downloaded from the payroll system, otherwise an assumed salary, either maximum or midpoint of current salary scale
- (c) Actual or assumed salary and hours of work
- (d) Gender (and, if possible, ethnicity and disability information)
- (e) Other useful distinguishers to help in checking options, for example, department or directorate, so that the grading structure for related jobs can be reviewed

The main parameters of the system, any of which can provide a starting point for pay modelling, are:

- (1) Number of grades
- (2) Job evaluation grade ranges (You can get some idea about where breaks might fall from reviewing the JE outcomes spreadsheet)
- (3) Salary ranges - often based on spine scale points
- (4) Cost
- (5) Numbers of winners - identified as 'green circles' on the visual scattergram - and losers - 'red circles'

Realistically, it is probably sensible to start with the number of grades or, if breaks in the rank order of evaluated jobs are clear, job evaluation ranges.

It can be useful to model the possible extremes, that is, a model where there are no losers, which will almost certainly be too expensive to be viable and one which carries nil cost in year 1. This approach will almost certainly mean more red circles than any of the stakeholders are willing to contemplate. However, these options will give the extremes in terms of costs and red and green circles, and thus provide a framework for subsequent discussions and modelling.

Q8: WHERE DO WE GO FROM THERE?

Once the negotiators have an idea of what maximum and minimum cost options might look like, it may be most practical to delegate a small technical group to work on the realistic options. This involves identifying potential improvements to the basic framework by testing, for instance:

- Larger and smaller numbers of grades within the preferred range
- Modifications to the JE grade boundaries. This can often be done by moving the screen cursor to where there appear to be visual breaks in the clusters of outcomes
- Modifications to the length or position of pay scales. Lengthening the pay scales may reduce the year 1 costs because more employees will assimilate on their current salaries, but may increase future costs, if this increases progression opportunities
- Different cost ceilings, or numbers of red and green circles

Q9: WHAT CHECKS DO WE NEED TO MAKE?

As the modelling progresses, it is sensible to check the impact of serious options on a departmental or job family basis. If the pay modelling appears to be giving perverse outcomes, this is probably because there are inconsistencies in the job evaluation outcomes. If this is so, pay modelling should cease until a further JE consistency check has been undertaken (see Introduction).

Once the options have been narrowed to one or two preferred options, the data in the pay modelling system can be used to carry out an equality impact assessment on the basic grading and pay structure proposals. An equality impact assessment is required of local authorities making changes to grading and pay structures under the gender equality duty. The Link consultant will assist, if it is not immediately obvious as to how this should be done.

If you have any doubts about the options being modelled by the employer and have asked as many questions as you can think of, ask your Regional Organiser. S/he can seek assistance from Region or the Local Government Service Group, if required. It is better to do this at an early stage, rather than wait until the employer considers the proposals finalised.

APPENDIX: QUESTIONS FOR EMPLOYERS ON PAY MODELLING SOFTWARE

1. Can at least one and preferably two or three union nominees undertake the same training on the system as the employer nominees, please?
2. Can all union representatives and negotiators have a presentation/ briefing session on the pay modelling software, please?
3. Can the pay modelling technical group include at least two union representatives, please?
4. What, if any, parameters have been built into the modelling software? In particular, have any total cost parameters been included?
5. Can we agree as starting principles that:
 - a. All modelling options will be based on the national spine?
 - b. We will consider options with between (say) 9 and 13 grades?
 - c. Pay scales will not have more than 6 incremental points?
 - d. Pay progression will be on the basis of experience in post where that leads to increased competence?
6. On the basis of current preferred options in relation to numbers of grades, what would be the total year 1 costs of having no losers (no red circles)? And how many winners and losers would there be with a 'nil cost' option?
7. Once we get to a preferred option, can we use the pay modelling data to undertake an equality impact assessment on the basic pay structure proposals?