Changes to the ‘employment offer’ in the public and not for profit sectors go way beyond the widely reported pay freeze and pension reforms. Organisations should be scrutinising their workforce costs and bringing them in line with practices elsewhere. But as these organisations face up to the challenge, are they doing enough and what are the implications of getting it wrong?

Background

As public and not for profit organisations grapple with budget cuts of as much as 20 per cent, attention has perhaps unsurprisingly turned to one of the largest organisational areas of spend. With the pay bill accounting for as much as 80 per cent of an organisation’s budget, the issue of employment terms and conditions is one that is being scrutinised at the top table.

Although the need to make savings is clear, the impact of these changes is less so. In a recent well-publicised case, a local authority imposed earnings-linked salary cuts of up to 5.5 percent. In the face of large-scale industrial action, the changes were made in early July with a reported 98 percent of staff signing new contracts. The challenge for the sector will be in finding the balance between making the level of savings necessary, remaining competitive in the local talent market, and implementing this change in a way that does not destroy levels of morale and engagement.

Hay Group public sector employment terms survey

Hay Group conducted a short survey to find out what changes were being made to a range of employment terms and conditions within the sector. The responses were categorised into five main groupings ranging from having no plans to change a particular area through to organisations having already made changes in the last six months. The survey was completed by public sector pay and reward professionals from a total of 85 UK organisations, including 33 local authorities, 21 universities, 14 charities and others from police, central government, housing and healthcare. Only one organisation in the survey is not planning any changes at all, but the following headline figures highlight a reluctance to look at the areas that may have the biggest impact, both now and in the future.
Headlines

- **No action being taken** – Despite a handful of well-publicised cases in local government, at the moment our respondents are not planning to take the same sort of action that the private sector took during the recession. For instance, none of the organisations in our survey have suggested they’ll impose a salary cut, only one per cent will force staff to take unpaid leave, and only two per cent will implement shorter working hours.

- **Local government most gloomy** – When asked which changes were being considered, the gloomiest outlook was from within local government. Even then, only nine per cent are currently looking at unpaid leave, six per cent at shorter working hours and just three per cent are investigating imposing salary cuts across the board.

- **Slow action** – The areas that are being considered and investigated most centre around overtime, out of hours payments and shift allowances, with over a quarter of respondents either watching what their peers next steps will be or actively considering changes in the coming months.

- **Redundancy pay** – 28 per cent of public sector organisations have changed redundancy pay although this figure jumps to 52 per cent when we observe the local government responses.

- **Salary cuts** – 21 per cent of local authorities have recently cut the salaries of senior managers and executives.

- **Freezing annual increments** – 21 per cent of organisations are looking to freeze annual increments with another 24 per cent considering doing so.

- **Car allowance** – Policies around using cars for work are being scrutinised more than most with over a quarter of organisations changing or actively considering change to mileage rates, car leasing and car allowance schemes.

The new employment offer

There are several reasons why the public sector will find it harder to make contractual changes than the private sector did during the recent recession. In many cases, these are huge organisations with complex structures. Given that many public sector organisations are the biggest employer in the area, negative changes to the pay packets of its workforce could have a dramatic effect on the local economy. In addition, with a comparatively small percentage of the private sector workforce now covered by a trade union, company executives can push through changes at a swifter pace than in the public sector where processes such as these require extensive diplomatic process and careful industrial relations.

With this said, our survey points to a lack of clarity about the overarching strategy and rationale for making changes. For instance, some respondents have talked about a need to become more like the private sector, others have talked about a need to reward greater levels of performance, and many, unsurprisingly see this solely as a way of lowering costs.
Facing up to the challenge

There is much the public sector can learn from the way the private sector handled the recession. A crisis can provide an opportunity to review out-dated structures and inflexible staff terms and conditions. Changes should be sustainable and reflect the future aims and objectives of the organisation. Although many of the planned changes are a response to the current budget pressures, fixing these structures with short term ‘freezes’ will not solve the problem in the longer term.

According to the Office for Budget Responsibility (2010), overall employment in the public sector will be reduced by around 330,000 posts. It is surprising that more organisations are not looking at the range of alternatives to redundancy. Flexible working patterns and new pay structures will both reward staff for the results these organisations require and help contain the pay bill. This theme is underlined by the fact that only 21 per cent of organisations are freezing automatic annual increment payments. In the other 79 per cent of cases, instead of there being a pay freeze, organisations may actually see their pay bill continue to rise this year. In addition, at a time when pay for results should be encouraged, we are seeing a third of the respondents across the sector actually freezing these payments or actively considering doing so.

Much comment about changes to pay and conditions in the sector have centred around a need for both fairness and comparability. In the coming months, the public sector will need to ensure that their new ‘employment offer’ enables them to attract and retain the talent they need, in addition to rewarding the performance and behaviours needed to drive through change. Get the mix wrong and they could become out of step with both local private sector employers offering flexible rewards and other public sector organisations that have agreed a more attractive benefits policy. There is a level of urgency for organisations to address these issues now or certainly within the next 12 months before the freeze in pay arrangements is relaxed. Otherwise the whole point of the pay freeze will be lost and pay will continue to rise as it did before the freeze without any commensurate increase in results, output, efficiency or performance through people.

The public sector will need to ensure that their new ‘employment offer’ enables them to attract and retain the talent they need.

Public and Not for Profit Reward Report 2011

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