Pay Strategy in Further Education
A research report from Incomes Data Services, commissioned by Association of Colleges.

September 2014
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This report, commissioned by the Association of Colleges (AoC) in May 2014, aims to assist AoC member colleges in the ongoing development of their pay systems and processes. The report draws on the experiences and ‘lessons learned’ of five colleges who have implemented recent changes to their pay policies, all with the aim of improving college performance while at the same time managing costs.

The research presented here is in three parts:

1. An overview/history of the evolution of pay in UK FE colleges including a summary of current reward challenges in the sector

2. A case study section looking at approaches to pay and progression in 5 colleges

3. A ‘best practice’ section combining case study findings with IDS's own research with the aim of providing a practical guide to pay strategy/modernisation.

The case studies carried out were with colleges identified by the AoC as having made changes to their pay systems that have resulted in a closer alignment of pay with the organisation's wider strategy. All the case study colleges have in common a similar challenge: namely, how to increase efficiency and encourage excellent performance in a climate of significant funding cuts across the sector and general widespread financial uncertainty. We express our thanks to those colleges who took the time to participate in this important research.
This section provides an overview of developments in pay for FE colleges over the past ten years – including the current financial pressures affecting the sector – a background against which the case studies that follow may be understood.

Since its formation in 1996, the Association of Colleges has acted as the employers’ association for further education colleges. This includes promoting the employer interests of colleges nationally; providing advice to FE colleges on employment law and policy matters affecting the FE workforce, and representing their interests in national industrial relations. The AoC, on behalf of its member colleges negotiates with the sector’s recognised trade unions (AMIE, ATL, GMB, UCU, UNISON and Unite the Union), on pay, along with broader recommendations on terms and conditions where they have been mandated to do so. However, each college is an autonomous institution, determining its own pay strategies and accompanying systems.

### 2.1.1 History, harmonisation and local implementation

A harmonised pay scale for teaching and support staff in FE colleges was introduced from August 2004. Six job families (business support; learning support; teaching & training; advanced teaching & training; and leadership and management) were identified and each mapped to a single pay spine, overlapping at points, which replaced separate recommended pay spines for lecturers, management and support staff. The single pay spine also featured a shorter pay scale for qualified lecturers in order to speed up pay progression for this group. The new pay structure was agreed by the FE Colleges National Joint Forum (NJF) following extensive negotiations within a ‘Modernising Pay Arrangements‘ working group, and formed part of a wider agreement on pay.

The AoC’s priorities for the new national pay scale and the implications for bargaining arrangements were as follows:

- affordability
- maximum local flexibility within a competitive labour market
- a local negotiations environment which would permit greater stability and the opportunity to plan longer-term
- a framework for implementing workforce modernisation.

Underlying the efforts to bring about workforce modernisation was a jointly-held desire to

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1 Members of the NJF include AoC, UCU, UNISON, Unite, GMB, ATL, AMIE.
provide colleges with a framework for pay which gave colleges the freedom to tackle recruitment and retention issues, address the erosion of pay differentials witnessed by the sector, and respond to emerging case law on equal pay.

2.1.2 Progress on harmonisation

The responsibility to implement the nationally-agreed structure lay with individual colleges. The AoC undertook research in 2005 to review the progress on harmonisation at local level, which revealed that while great efforts had been made in the sector, not all colleges had introduced the harmonised spine. As part of the 2006 pay agreement, the AoC urged those colleges that had not yet introduced the harmonised pay scales to enter into local talks with trade unions.

Findings from the latest AoC Pay Survey Report (March 2014) has shown that it remains the case that not all colleges have fully implemented the harmonised pay structure, although significant progress has been made and some colleges are in the process of doing so. According to the survey, 66% of the 93 colleges who participated confirmed that they operate a harmonised pay spine for teaching, support and management staff. Of these respondents, over half (55%) indicated that this is the AoC harmonised pay spine. Among those colleges that have implemented the AoC harmonised pay spine, 77% said this included the 8 point scale for qualified teaching staff.

Over recent months a number of colleges have contacted the AoC requesting examples of approaches to contribution-based pay and seeking guidance elsewhere in reviewing pay systems. Colleges have been interested in how they can restructure their approach to pay to ensure that pay systems in place are focused on core college priorities. Areas under consideration commonly include:

- how employees progress through the pay scale,
- the pros and cons of moving away from automatic increments,
- the introduction of competency and performance frameworks and the linking of these to pay systems.

The issue of performance is arguably all the more pertinent in light of the latest Ofsted Common Inspection Framework for the sector, which assesses the effectiveness of leadership and management in part with reference to ‘rigorous performance management’ of staff, and associated professional development.

2.1.3 Challenges for the FE sector - funding

Colleges are autonomous institutions responsive to the local demands and with a range of income streams, the sector is hugely reliant on central government funding. For instance, funding for 16 to 18-years olds from The Department for Education's Education Funding Agency budget is currently worth 47% of total income to the average FE college. Funding from the Department for Business, Innovation and Skills via The Skills Funding Agency is worth 21% of total income for the average college.

The FE funding environment is complicated, however, by frequent shifts on skills policy, which has been subject to a myriad of changes within and between political administrations.

However, in recent years, dwarfing the issue of FE as an oft-used political football, have been the successive cuts to BIS and DfE funding. Both sources of income have been squeezed over successive years, causing enormous financial pressure for FE colleges.
In the Coalition’s first Comprehensive Spending Review in 2010, the Government announced that the resource budget for further education would be reduced by 25 per cent by 2014-15. Key casualties of the review were Train to Gain and funding for English for Speakers of Other Languages (ESOL). Basic skills funding was preserved, but over 25s taking GCSE and A-level equivalent qualifications for the first time would no longer be supported. The Government also announced the removal of funding for the Education Maintenance Allowance (EMA), together with major cuts to further education capital grants. The cuts hit a sector already adjusting to reductions in adult learner responsive funding earlier in 2010 under the previous administration.

Looking at the 16-18-year olds EFA budget in isolation:

- As part of the 2010 spending review the DfE reduced the non-school budgets by 12% in real terms over the period 2010/11 to 2014/2015.
- Further cuts to DfE’s non-schools budgets for 2014-15 and 2015-16 were announced in successive autumn statements (December 2012 and December 2013).
- Total DfE spending on 16 to 18-years olds fell from £7.7 billion in 2010/11 to £7.0 billion in 2012/13.

Turning to adult funding:

- Government expenditure on adult training and education (excluding apprenticeships) has fallen by 22% over the period 2009-10 to 2013-14 (at which point the Government started to route some funding via income-contingent loans for students).
- Cuts to FE spending have gathered pace recently, with colleges facing average cuts of 15% a year on adults skills funding (excluding apprenticeships) for the past two years.
- Funding for apprenticeships has been maintained in cash terms but is complicated by apprenticeship take up and the ongoing debate about the nature of vocational qualifications.
- Opportunities to raise college income elsewhere exist but the potential to do so via student fee income is complicated by the fact that many students are either unemployed or covered by statutory elements such as those that apply to basic skills training.
- Similarly complicated are the opportunities available to FE colleges as a result of the relaxation of the Higher Education providers’ market. Potential income from degree provision may be counterbalanced by the drop in part-time student numbers that has taken place following changes to higher education funding. According to HEFCE’s 2013 analysis of the changes to higher education, while there was a 6% increase in FE degree places funded (indirectly) by HEFCE between 2011-12 and 2012-13, there was a 19% fall in the number of part-time FE places funded (indirectly) by HEFCE between 2010 and 2012.

Changes to funding rules have also taken place over the period where income is withdrawn from colleges failing to meet specified targets, adding further uncertainty to revenue streams.

### 2.2 Staff costs

Findings from the latest AoC pay survey data show that colleges spend an average of 63% of income on staff and the challenging environment set out above is exacerbated by increases to staff costs over the coming years. Employer increases to pension schemes took effect for support staff schemes from April 2014, and will do so from September 2015 for the Teachers’ Pension Scheme. Changes to national insurance rules in 2016 will result in a tax increase that
will add approximately 2% to college paybills.

### 2.2.1 Job cuts

The funding squeeze, challenges in income creation and increased costs have resulted in job cuts and low pay increases (both recommended nationally, and those implementation decisions taken at local level) for the sector.

Over the past 4 academic years (09/10 to 12/13) the average number of teaching staff lost per college has been 9.15 each year. Details of redundancies for other staff groups are set out below from the latest AoC research, and show that for both 2011/12 and 2012/13, voluntary redundancies have consistently outnumbered compulsory redundancies, across job families.

<table>
<thead>
<tr>
<th>Year</th>
<th>Management</th>
<th>Teaching</th>
<th>Support</th>
<th>All Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>4.2</td>
<td>9.2</td>
<td>9.6</td>
<td>18.3</td>
</tr>
<tr>
<td>2011/12</td>
<td>2.4</td>
<td>8.8</td>
<td>6.6</td>
<td>17.7</td>
</tr>
<tr>
<td>2010/11</td>
<td>2.0</td>
<td>8.2</td>
<td>8.9</td>
<td>19.0</td>
</tr>
<tr>
<td>2009/10</td>
<td>2.1</td>
<td>10.4</td>
<td>11.3</td>
<td>23.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Redundancy type</th>
<th>Management</th>
<th>Teaching</th>
<th>Support</th>
<th>All staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary</td>
<td>2011/12</td>
<td>2012/13</td>
<td>2011/12</td>
<td>2012/13</td>
</tr>
<tr>
<td></td>
<td>70%</td>
<td>76%</td>
<td>63%</td>
<td>63%</td>
</tr>
<tr>
<td>Compulsory</td>
<td>30%</td>
<td>24%</td>
<td>37%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Throughout national negotiations of the past five years, the trade unions and the AoC stressed the need for both sides to work together at college-level to minimise the impact of funding cuts on staff. During the pay talks for the 2011/12 award, for instance, the AoC and the sector’s unions issued a joint statement:

‘In order to respond to challenges in some colleges and to maintain stability, both sides recognise the need to proactively explore and seek mutually acceptable and innovative responses’.

The hope has consistently been that individual colleges and trade unions will engage regularly on funding issues, and avoid unilaterally imposed restructuring, in favour of mutually acceptable solutions. Joint guidance has also been produced on how to best manage job losses.

### 2.3 Sector specific developments – FE pay

As noted above, one of the ways in which funding pressures have expressed themselves in the sector is through a series of low pay increases over the past 5 years. Colleges have a difficult task in balancing the need to recruit and retain the best staff with managing funding pressures, as well as striving for excellence in employee performance across an institution.

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2 AoC, College funding and finance, May 2014
Pay settlement recommendations are negotiated by the AoC and recognised trade unions (along with broader recommendations on terms and conditions at FE colleges) via the NJF each year, with a target implementation date for colleges of 1 August. The table below illustrates how the funding environment has affected the level of pay award. While staggered increases totalling 3% or more were more common prior to 2010, since the funding squeeze, pay settlements have fallen to well below 1% each year.

Table 1 FE pay settlements 2003-2013

<table>
<thead>
<tr>
<th>Academic year</th>
<th>Effective date of increase</th>
<th>Recommended increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/04</td>
<td>01/04/2003 01/08/2003</td>
<td>0.5 3</td>
</tr>
<tr>
<td>2004/05</td>
<td>01/08/2004</td>
<td>3</td>
</tr>
<tr>
<td>2005/06</td>
<td>01/08/2005 01/02/2006</td>
<td>2 0.8</td>
</tr>
<tr>
<td>2006/07</td>
<td>01/08/2006 01/02/2007</td>
<td>2 1</td>
</tr>
<tr>
<td>2007/08</td>
<td>01/08/2007 01/02/2008</td>
<td>2 1</td>
</tr>
<tr>
<td>2008/09</td>
<td>01/10/2008 01/08/2009</td>
<td>3.2 1.5</td>
</tr>
<tr>
<td>2010/11</td>
<td>01/08/2010</td>
<td>0.2 or £50, whichever the larger</td>
</tr>
<tr>
<td>2011/12</td>
<td>01/08/2011</td>
<td>0.3 (minimum increase. £125 paid to all staff earning £21,000 or above; £309 for all staff on the minimum point of the pay scale; £200 for all staff earning below £21,000)</td>
</tr>
<tr>
<td>2012/13</td>
<td>01/08/2012</td>
<td>0.7 (for staff earning over £15,000 pa: consolidated increase of £200 for those earning less than £15,000 pa)</td>
</tr>
<tr>
<td>2013/14</td>
<td>01/08/2013</td>
<td>0.7 (for higher than point 4 of the national pay spine; consolidated increase of £282 for those on point 4 or below - £14,052 pa)</td>
</tr>
</tbody>
</table>

Even the implementation of pay awards considered to be relatively low in size can be seen to be beyond the means of individual colleges. The AoC Pay Survey 2014 found that 24 per cent of colleges that responded to the survey implemented the AoC recommendation from 1 August 2013, with a further 4 per cent implementing the recommendation from a later date that academic year. Of the 66 respondent colleges that did not implement the recommended award, 38 froze pay in 2013/14.

2.3.1 Pay for teachers

In recent years pay settlements have been similarly subdued across FE, Teachers employed in Schools, and Sixth Form colleges. The table below compares the annual recommended increases in FE with those for Teachers in England and Wales and teaching staff in Sixth form colleges over the past five years.
### Table 2  Basic pay increase comparison for FE, teachers and sixth-form colleges (excluding progression)\%

<table>
<thead>
<tr>
<th>Year</th>
<th>FE staff</th>
<th>Teachers (E&amp;W)</th>
<th>Sixth-form colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11</td>
<td>0.2 or £50, whichever the greater</td>
<td>2.3</td>
<td>0.75</td>
</tr>
<tr>
<td>2011/12</td>
<td>0.3 (minimum increase. £125 paid to all staff earning £21,000 or above; £309 for all staff on the minimum point of the pay scale; £200 for all staff earning below £21,000)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2012/13</td>
<td>0.7 (for staff earning over £15,000 pa; consolidated increase of £200 for those earning less than £15,000 pa)</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>2013/14</td>
<td>0.7 (for staff higher than point 4 of the national pay spine; consolidated increase of £282 for those on point 4 or below - £14,052 pa)</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

### 2.3.2 Private sector pay awards

The table below provides further context for FE pay settlements by setting out the median annual pay increase for the whole economy over past five FE review periods. In keeping with the austerity measures put in place by the Government, these median awards dwarf FE recommended pay settlements.

### Table 3  Whole economy median settlement

<table>
<thead>
<tr>
<th>Period</th>
<th>Medium settlement whole economy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 09 - July 10</td>
<td>2</td>
</tr>
<tr>
<td>Aug 10 - July 11</td>
<td>2.5</td>
</tr>
<tr>
<td>Aug 11 - July 12</td>
<td>2.5</td>
</tr>
<tr>
<td>Aug 12 - July 13</td>
<td>2.5</td>
</tr>
<tr>
<td>Aug 13 - June 14</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: IDSPay.co.uk

A closer look at the latest whole economy settlement data broken down by sector shows that the 2.5 per cent private sector settlement comprises settlements worth a median of 2.6 per cent in manufacturing and production and 2.5 per cent in private services, . Given that FE colleges recruit large numbers of staff from private sector industries, for both support and teaching functions, it is likely that this will become more challenging if the current trends in the disparity of pay settlements continue, and pay in FE lags further behind.
### Table 4  Pay settlements by sector

<table>
<thead>
<tr>
<th>Pay settlement data - three months to the end of June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Median by sector</strong></td>
</tr>
<tr>
<td><strong>Private sector</strong></td>
</tr>
<tr>
<td><strong>Manufacturing &amp; production</strong></td>
</tr>
<tr>
<td><strong>Private services</strong></td>
</tr>
<tr>
<td><strong>Public sector</strong></td>
</tr>
<tr>
<td><strong>Not-for-profit</strong></td>
</tr>
<tr>
<td><strong>Based on 119 settlements covering 2,372,782 employees</strong></td>
</tr>
</tbody>
</table>

**Source:** IDS Pay

### 2.3.3  Recent pay bargaining developments

Further notable developments in national negotiations that relate to pay over recent years include:

**Express request to apply additional rigour to incremental progression**

At the beginning of the 2012/13 pay negotiations the AoC requested an end to automatic incremental progression on the basis of potential disproportionate distribution between employees' and the significant financial pressure it places on institutions, hindering many colleges in their ability to pay recommended cost of living increases. Reflecting the view of colleges in the sector, the AoC presented suggestions that the sector would benefit from applying ‘additional rigor and objective criteria’ to incremental progression in light of its associated costs. Although no national interest to negotiate terms for performance related pay, colleges have indicated a continued interest to assess the value such schemes can offer locally.

**Withdrawal from recommendations on sick leave**

The AoC notified FE trade unions of its withdrawal from the national agreement on guidance for sickness leave in FE colleges in the same academic year following lengthy negotiations. The agreement required colleges to pay contractual sick pay from day one of absence and for a maximum entitlement of six months full and six months half pay after five years of service. The tabled proposals, not agreed by the trade unions included a reduction in service based benefits and clauses which provided the ability to withhold contractual pay in some circumstances.

**‘Living wage’**

The 2013/14 pay agreement included a recommendation to colleges to increase the minimum hourly rate of pay to £7.45 (equivalent to the ‘Living Wage’ at the time of negotiations). However the AoC was clear that this recommendation would not commit individual colleges to be accredited Living Wage employers and employers were not therefore bound to increase minimum rates in line with the uprated calculated Living Wage rates each year. These concerns continued to be present during negotiations for 2014/15 and AoC have again tabled recommendations which do not require colleges to become accredited. Independently, a number of colleges have become accredited Living Wage employers and the return on investment is assessed at a local level often dependent on the colleges positioning locally as an employer of choice and the impact on the local labour market.

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3  The ‘Living Wage’ is a figure calculated by the Living Wage Foundation, based on panel judgments of minimum judgments of minimum living standards and reference to median UK income figures.
2.4 Pay progression in the public and private sectors

Early last year the Chancellor of the Exchequer announced the intention to end progression pay in the public sector. He said, ‘We will... seek substantial savings from what is called progression pay. These are the annual increases in the pay of some parts of the public sector.’ He went on to argue: ‘I think they [progression increases] are difficult to justify when others in the public sector, and millions more in the private sector, have seen pay frozen or even cut. I know that is tough but it is fair. In difficult times with the inevitable trade-off between paying people more and saving jobs, we should put jobs first.’

While the Chancellor gave the impression that automatic pay progression was widespread in the public sector, a closer examination of practice indicates a more nuanced picture. Progression arrangements in the same organisation, for example, may vary by grade level, with senior staff more likely to be covered by individual performance pay than more junior employees. And while the typical public sector pay progression system is often characterised as involving salary scales with the guaranteed receipt of fixed increments based on length of service, even these arrangements demonstrate variations. Examples of these variations are featured in our Managers’ benchmark pay report 2012/13, which includes detailed descriptions of reward practice in several public sector organisations. One of the featured case studies in that report is the Highways Agency where staff below the leadership group are on pay ranges divided into six ‘steps’. Staff are eligible to receive one step each year but this is subject to acceptable performance. Pay progression for more senior staff at the Highways Agency, the leadership group, is based entirely on individual contribution. Middle and senior managers at Essex County Council are also covered by individual performance-based progression arrangements.

Essex County Council’s and the Highways Agency’s pay arrangements reflect longer-term trends in the public sector. In particular, stronger links between pay progression and performance have been developing in the sector since the late 1990s. In 2007, for instance, the Ministry of Justice linked progression to performance for staff in higher pay bands, while retaining incremental steps for staff in lower pay grades. More recently, in the NHS, progression at all spine points has been linked to competencies since April 2013.

From September 2013, teachers working in schools were no longer automatically entitled to annual progression increments. Instead, these became linked to the school’s assessment of a teacher’s contribution or performance and school management 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. While the national pay scales remain in place as reference points, the guidelines state that it is up to each school to decide how best to implement the changes.

These variations in public sector practice show that pay progression is not just about the award of service-related increments. Even systems thought to be based entirely on individual performance often have an inbuilt expectation of salary 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. Higher increases targeted at those at the lower end of a range is specifically intended to recognise the need for pay progression. Major companies such as Ford, which featured as a case study in our 2011 benchmark pay report, use this type of arrangement for their managers.

A variation on this theme is employed by Anglian Water. It has a broad banded salary
structure which includes three different ranges to reflect different levels of experience and contribution. Most notably, there is a developing range for employees who are developing into a role and do not yet have the full range of experience and skills required. As with Ford, although there is performance pay, this arrangement is designed to recognise pay progression.

2.4.1 Overview of pay systems

These examples warn against drawing a too simplistic picture of pay progression arrangements in the public and private sectors. Incremental salary scales may not involve automatic progression and individual performance systems may not exclude pay progression. A broader overview of the extent of pay progression across the economy is provided by the reward surveys conducted for our annual managers’ benchmark pay reports. In these surveys we regularly collect information on the shape of salary and grade structures.

An indication of the use of salary ranges and scales in the private and public sectors is shown in the table below, based on three year’s data taken from 275 separate respondents. The table confirms that incremental-based salary structures are most common in the public sector, whereas formal salary ranges with minima, maxima and midpoints are most likely in the private sector, especially at middle and junior management and professional and technical levels. But even in the private sector salary scales are not unknown.

Table 5  Salary ranges and scales used in organisations by sector and job level at October 2012

<table>
<thead>
<tr>
<th></th>
<th>Board</th>
<th>Senior managers</th>
<th>Middle / junior managers</th>
<th>Professional &amp; technical staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal salary ranges</td>
<td>20.7</td>
<td>24.4</td>
<td>45.6</td>
<td>28.0</td>
</tr>
<tr>
<td>Incremental salary scales</td>
<td>2.7</td>
<td>24.4</td>
<td>5.1</td>
<td>44.0</td>
</tr>
<tr>
<td>No formal arrangements</td>
<td>51.6</td>
<td>7.3</td>
<td>33.6</td>
<td>2.0</td>
</tr>
<tr>
<td>other</td>
<td>9.8</td>
<td>4.9</td>
<td>4.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Spot salaries</td>
<td>15.2</td>
<td>39.0</td>
<td>11.5</td>
<td>20.0</td>
</tr>
</tbody>
</table>

As the examples above show, the existence of incremental scales should not be interpreted as implying that pay progression is always automatic. Asked how staff progress through their pay ranges or scales, our survey found that length of service was mentioned the most frequently for public sector junior and middle managers, but individual performance also registered highly. In many cases there was an overlap in responses, perhaps indicating the difficulty in classifying some of the hybrid arrangements such as at the Highways Agency where both length of service and individual performance are employed.

In contrast, the most frequently mentioned method of progressing through salary ranges at junior and middle management level in the private sector is individual performance. Many private sector performance systems employees can receive annual pay uplifts in excess of the contractual progression entitlements of public sector staff. And our quarterly monitoring of managerial pay awards suggests that such increases are representative of many other major private sector companies.
The case studies, presented below, were based on structured interviews with questions broadly aligning with the following headings:

- About the organisation
- Challenges and strategies
- Current pay arrangements/what has changed
- Outcomes

The colleges who kindly agreed to participate in this research are listed below:

1. St Helens College
2. Weston College
3. Case study 3 - anonymous
4. Middlesbrough College
5. John Ruskin College

Case study questions, shown in the appendix, were sent to colleges in advance and followed up with a face-to-face interview in four instances, and a telephone interview in one.

The case studies aim to illustrate different practice in further education and do not intend to be instructive to colleges on the approaches they should take to develop pay strategies at a local level.
Before the recession in 2008, St Helens College had been a growing institution with an annual income of £38 million. By the end of 2011, it was shrinking, and its income had fallen by around a third to £26 million. In order to make savings, and rather than continuing to make staff redundant, the college set out to reduce its ‘above market’ pay for qualified lecturers. By January 2013, these staff had agreed to cut salaries at the top of their pay scale from £35,000 to £30,690, over a period of 18 months from 1 August 2013. Managers’ pay was also cut, leave entitlement was reduced for all employees and a new performance management system had been introduced. These changes will save the college £900,000 annually from 2013/14, and were projected to reduce staffing costs from 72 per cent to 67 per cent of turnover.

4.1 Background

St Helens College is situated in the North West of England and has around 227 full-time equivalent academic staff, 241 business support staff and 9,000 students. It recognises four unions for collective bargaining, the Universities and Colleges Union (UCU), the Association of Teachers and Lecturers (ATL), AMiE, the section of ATL for leaders and managers, and Unison. There is single-table bargaining on pay, but separate bargaining on issues pertaining only to some occupational groups. Around 80 per cent of staff are at the top of their pay scales. In 2012/13 the college did not implement the Association of Colleges’ recommended 0.7 per cent pay increase, so its single harmonised pay spine paid some 0.7 per cent less than the AoC’s 1 August 2012 recommended pay rates.

4.2 Challenges and strategies

Income constraints over the three to four year period leading up to the end of 2011 resulted in the college having to respond by reducing headcount from 800 to 530. These staffing cuts, however, impacted on the quality of the education and training it provided, the HR Director says.

The decline in revenue from £38 million to £26 million was the result of:

- The loss of £6-7 million of grants from the European Social Fund
- Government cuts in student funding
- Failure to hit student recruitment targets, due to increased competition from the schools sector, student demographics, and a five-year new build programme which made the campus challenging at times.
In addition, the 2011 Ofsted inspection assessed the college's provision as grade 3 – 'satisfactory', which would now, under the current Common Inspection Framework, be described as 'requires improvement', down from 'good' in 2006. The new Principal, who joined the college in January 2012, needed to cut costs and increase performance. Failure to achieve this might have resulted in a merger with another institution, which would have been unwelcome.

To improve performance, the college set out to achieve the top Ofsted rating of 'outstanding' over time. Improving the financial situation required reductions in the college pay bill, which comprised 72 per cent of the college's operating costs at the beginning of 2012. These reductions could be achieved by redundancies, changes to pay and a recruitment freeze. Further redundancies would impact on the quality of the education and training provided, so the college chose to pursue pay reductions as what it considered the only alternative. The unions were also keen to preserve jobs. From August 2013, the college's strategy for reducing the paybill contained three elements:

1. introduce a performance management system linked to pay, to improve performance and encourage managers to manage their staff more vigorously,
2. recruit hourly paid academic staff directly, rather than use an agency,
3. use hourly paid academic staff to deliver up to 20 per cent of teaching hours and employ them on flexible hours contracts to give the college maximum flexibility in deploying academic resources.

### 4.3 Reducing pay and benefits

Before August 2013, St Helens used a single harmonised incremental pay spine which followed the structure of the AoC's recommended pay spine. In January 2012, when negotiations began, qualified lecturers at St Helens were on an 11 point pay scale ranging from £22,695 at point 22 to £35,304 at point 37. Points 36 and 37 are identified by AoC as 'discretionary recruitment, retention and motivation pay points', but all qualified lecturers at St Helens moved onto them as a matter of course: some 80 per cent of academic staff were on scale point 37. St Helens had elected to pay well since becoming an independent organisation, free of local government control, in 1993. By the beginning of 2012 this could no longer be afforded, and research identified that St Helens' salaries were well above further education market rates. Benchmarking was undertaken using the AoC national payscales, AoC surveys and other surveys undertaken through the JISC HR Network and JISC Finance Directors Network.

At the beginning of 2012, HR proposed to the academic unions that:

- the maximum academic salary should be reduced from £35,304 to £27,000
- academic holidays should be reduced from 47 days to 35 days
- the salaries of those earning more than the new maximum rate should be reduced to the new rate over three months.

Information about the drop in income levels and research showing that academic pay rates were above market rates was shared with the unions. Unions accepted from the outset that there would be either pay cuts or redundancies. Negotiations continued for the best part of a year, and the college estimates that union membership rose during the period from about 50 per cent to 75 per cent. One indispensable part of the process, the HR director says, was the holding of road shows with the Deputy Principal, four times a day, every day for four weeks during April and May 2012. This provided the opportunity to speak to every member of the
academic staff, and a number of other employees, any of whom were free to attend. The other important factor was that the college Governors had agreed that if agreement could not be reached with the unions, all academic staff would be dismissed and invited to apply for their jobs on much reduced terms and conditions.

Negotiations stopped during the summer break, and the HR director says that this gave staff the impression that the process had stalled. The HR director said that in retrospect it would have been better to have at least continued to post information about the initiative on the intranet, to confirm that it was still ‘live’ and subject to ongoing negotiation. Failure to do this meant that some staff had to be convinced all over again that the college was serious about reducing academic pay.

In September, negotiations with the unions resumed, and final agreement was reached in January 2013. An important factor was that the college increased academic salaries by the 0.7 per cent AoC negotiated August 2012 recommendation on pay, which was seen by the unions as demonstrating a commitment to national pay bargaining. Non-academic staff received no increase in 2012.

Some 54 per cent of academic staff voted for acceptance of the changes to their terms and conditions in a ballot. The final outcomes of the negotiations were that:

- the maximum academic salary was reduced to £30,690, not £27,000 as originally proposed,
- holidays are being reduced over a three year period – 1st year reduction of two days, 2nd year 1 day, 3rd year 1 day. 4th year revised entitlement of 42 days in force,
- the salaries of those earning more than the new maximum rate were to be reduced to the new rate in 18 equal instalments over 18 months, rather than three.

In addition, the unions agreed to the introduction of a new performance management system linked to pay progression and the direct recruitment of hourly paid academic staff, who had previously been recruited through an agency, thus saving agency fees. Hourly paid staff are now recruited on flexible hours contracts although other terms and conditions, such as leave and access to the pension scheme, are the same as for permanent academic staff. Hourly paid staff receive the full time rate divided by 24 for teaching hours and 36 for non-teaching hours.

Table 6  Pay for academic staff at St Helens College at 1 August 2012

<table>
<thead>
<tr>
<th>Incremental point</th>
<th>Basic pay 1.8.11 - 31.7.12 £pa</th>
<th>Basic pay 1.8.13 £pa</th>
<th>Hourly rate for teaching £ph</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>22,695</td>
<td>22,854</td>
<td>19.06</td>
</tr>
<tr>
<td>24</td>
<td>24,072</td>
<td>24,243</td>
<td>20.22</td>
</tr>
<tr>
<td>26</td>
<td>25,398</td>
<td>25,704</td>
<td>21.44</td>
</tr>
<tr>
<td>28</td>
<td>27,075</td>
<td>27,267</td>
<td>22.74</td>
</tr>
<tr>
<td>29</td>
<td>27,891</td>
<td>28,089</td>
<td>23.43</td>
</tr>
<tr>
<td>30</td>
<td>28,725</td>
<td>28,929</td>
<td>24.13</td>
</tr>
<tr>
<td>31</td>
<td>29,580</td>
<td>29,790</td>
<td>24.85</td>
</tr>
<tr>
<td>32</td>
<td>30,474</td>
<td>30,690</td>
<td>25.60</td>
</tr>
<tr>
<td>34</td>
<td>32,322</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36*</td>
<td>34,155</td>
<td></td>
<td></td>
</tr>
<tr>
<td>37*</td>
<td>35,304</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Discretionary points
4.4 Managers and business support staff

Although the main focus of cost reductions was on academic pay, a whole tier of management was made redundant and remaining managers took a pay cut of one increment, staged in 12 equal instalments over 12 months from 1 January 2013. Holiday entitlement for all non-academic staff was reduced from 35 or 30 days (plus bank holidays) depending on role, to 26 days for new starters with an additional five days after five years. No attempt was made to reduce the salaries of business support staff as they were already in line with the local and FE labour market and in fact they too have experienced pay cuts in that inflation has eroded the value of salaries since they were last increased – by 1 per cent – in August 2011.

A vacancy freeze has impacted more on business support areas than redundancies over the last two years but this year, 2013/14, there has been a need to undertake some significant restructuring of business support functions resulting in potential job losses. Some 95 redundancies are currently being discussed, though 40 individuals are likely to be retained in restructured jobs. The college is now losing economies of scale, and a shared services model is being considered.

4.5 Pay progression and performance management

As part of the negotiations over pay reductions, St Helens introduced a new performance management system linked to pay progression. Prior to August 2012, when this was introduced, all staff moved almost automatically up the incremental pay spine and ‘there had to be a reason to withhold an increment whereas now there has to be a good reason to award one’, the HR director says. As some 80 per cent of staff throughout the organisation were already at the top of their scales, the introduction of the new system was not as controversial as it might have been in an organisation where a greater proportion of the workforce would be affected.

From August 2012, all staff have been rated on a scale of 4 (poor), 3 (requires improvement), 2 (good) or 1 (outstanding) each year in the following areas:

- safeguarding/health and safety/equality and diversity
- professional standards
- teaching and learning (if applicable)
- success rates (if applicable)
- team leading/supervisory/management activities (if applicable)
- attitude and behaviours at work
- relationship to others/ability to work as part of a team
- attendance and time keeping
- job knowledge/willingness to learn new things or take on additional responsibility
- volume, accuracy and impact of work
- communication
- customer focus
- sickness absence
- teaching and learning (if applicable)
- success rates (if applicable)
- team leading/supervisory/management activities (if applicable).
The new system also requires targets to be set and recorded and continual professional
development discussed. Staff who are not already at the top of their incremental scale
receive an increment each year if they receive a rating of 1, 2 or in some instances 3.

4.6 Recruitment and retention

The college finds it difficult to recruit maths and English teachers, and part-time teachers. It
is taking in its first cohort of 14-16 year olds in September 2014 and recruiting their teachers
could have been difficult as the college cannot compete with the salaries offered by schools.
Job applicants, however, have been attracted by the chance of being involved with setting
up new courses for 14-16 year olds, and the smaller class sizes that the college will offer, so
recruitment does not seem to be a problem. Where there are difficulties, the college pays an
additional increment rather than a separate supplement.

4.7 Outcomes and future challenges

St Helens is pleased that it has secured significant pay bill savings with the consent of its staff,
and has been able to introduce a new performance management system. Morale among
academic staff seems to be higher than within business support staff. Sickness absence
among academic staff is just three per cent compared to the national average of 8.4 per
cent, and labour turnover has dropped to eight per cent after rising to 14 per cent during
2012. Morale is not so high among business support staff, with labour turnover rising from 3
per cent to 6 per cent over the last two years and sickness absence increasing to 7 per cent.
The structures and roles of business support areas are now being reviewed with an emphasis
on their contribution to the overall college aim of achieving ‘outstanding’. This does mean that
there are some significant realignments and restructurings of business support departments
currently taking place. It is a real priority for the college to reintroduce a cost of living
increase, and it aims to do so in 2015/16.

In October 2013 the College had a full Ofsted inspection of which the outcome was “good” in
all areas.

Table 7  Timeline of changes at St Helens College

<table>
<thead>
<tr>
<th>Period</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>End 2011</td>
<td>College had experienced a decline in income of one third, and a ‘requires improvement’ Ofsted rating.</td>
</tr>
<tr>
<td>January 2012</td>
<td>New Principal in post, HR floats the idea of pay cuts to the academic unions.</td>
</tr>
<tr>
<td>February/March 2012</td>
<td>HR shares with the academic unions information about the drop in income levels and research showing that pay rates were above market rates.</td>
</tr>
<tr>
<td></td>
<td>College Governors agree that failure to secure agreement to pay cuts will result in dismissal and reengagement of all academic staff.</td>
</tr>
<tr>
<td>April/May 2012</td>
<td>HR Director and Finance Director put on four roadshows a day, for four weeks, explaining the need for pay cuts.</td>
</tr>
<tr>
<td>June 2012</td>
<td>Negotiations with the unions commence.</td>
</tr>
<tr>
<td>July-September 2012</td>
<td>Hiatus, over the summer break. In retrospect this was a mistake, the HR director says.</td>
</tr>
<tr>
<td>October-December 2012</td>
<td>Negotiations with the unions.</td>
</tr>
<tr>
<td>January 2013</td>
<td>Academic staff formally agree to the cuts.</td>
</tr>
<tr>
<td>August 2013</td>
<td>Pay cuts start to be implemented, 1/18th of the total to be cut each month, in 18 equal instalments.</td>
</tr>
<tr>
<td>January 2015</td>
<td>Final salary reductions will be implemented.</td>
</tr>
</tbody>
</table>

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4 AoC Survey of Sickness Absence in Colleges, 2013
In an environment of reduced funding Weston College has raised the quality of the education and training it delivers through the use of rigorous performance management and capability procedures. It has also increased the productivity of its curriculum staff, who now work 828 teaching hours each year, up from 756 in early 2005 (a 9.5% increase). These increases in quality and competitiveness have allowed the college to undertake external projects, the biggest of which is the £10 million per year contract to provide education services to nine prisons in the South West of England.

5.1 Background

Situated in North Somerset, Weston College has 15,500 students and 800 permanent staff (600 full-time equivalents). The proportion of full-time students has increased from around 10 per cent in 2001 to some 40 per cent today. A further 200 individuals are employed through the college’s in-house Forward Futures Recruitment Agency, which provides a recruitment service for education professionals seeking temporary work at the college. The college received an ‘outstanding’ rating from Ofsted in January 2014, has achieved Investors in people Gold and is an IIP Champion. The college recognises UCU, as well as Unison. The HR Director says that the college has a strong union relationship, based on honesty and transparency, and this helped it convince the union of the rationale for the increase in curriculum hours. All-staff meetings are held once a term.

5.2 Challenges and strategies

In recent years the college has been working towards the outstanding Ofsted rating which it recently secured. To this end, all the college’s employment policies are geared to obtaining and rewarding excellent performance, and it now works only to employ curriculum staff whose performance is graded ‘outstanding’ or ‘good’. Changes in funding did mean that the college had to look at staff workloads, and this resulted in an increase from 21 hours a week for 36 weeks to 23 hours a week for 36 weeks. Normal weekly working hours are 37. Despite funding challenges, Weston College increases staff salaries each year by at least the AoC recommendation on pay. Staff also receive a non-consolidated award in addition to a consolidated award, provided the college has a financial surplus, targets from bodies such as the Skills Funding Agency and HEFCE have been hit, and quality is at least ‘good’.
5.3 Harmonisation

When Weston won the contract to provide education services to (originally) 11 local prisons, some 400 staff had to be TUPE’d over from two separate employers – another college and a private training provider. The two transfers were followed immediately by a restructure. Pay and benefits, including pensions and hours then had to be harmonised across the whole workforce. Finally the new staff needed to be motivated and inducted into the college’s culture of outstanding performance. Throughout the process, which took from August 2012 to December 2012, the college worked closely with UCU, which enabled restructure and harmonisation to take place quickly and smoothly.

5.4 Managing performance

Rigorous appraisal is one of the means by which excellent performance is encouraged. It includes regular 1-2-1 meetings and a mid-year appraisal, and a formal appraisal at the end of the academic year. The process is the same for all staff though objectives differ. Curriculum staff share the same learner-specific objectives, with additional objectives for those with managerial responsibilities while the objectives of business support staff are focused on individual job holders. All appraisals review the employee’s absence record and training and development needs. Appraisal data is entered on-line in iTrent, the college’s HR system.

<table>
<thead>
<tr>
<th>Objective*</th>
<th>Example measures of achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver outstanding outcomes for learners</td>
<td>Attendance and success rates</td>
</tr>
<tr>
<td>Ensure learners make outstanding progress that leads to positive progression outcomes</td>
<td>% high grades; progression to further education or employment; evidence of effective student monitoring, feedback and support</td>
</tr>
<tr>
<td>Ensure high levels of learner satisfaction</td>
<td>High response rates to student surveys; positive responses to mid and end of year course/subject surveys</td>
</tr>
<tr>
<td>Improve/maintain (if already grade 1) the quality of teaching and learning. Encourage activities that enrich the curriculum offer and/or lead to an improved learner experience.</td>
<td>Observation grade; student feedback</td>
</tr>
</tbody>
</table>

*Ratings of achievements against three of the four core objectives must be at or above the overall performance grade awarded.

5.4.1 Use of the capability procedure

The end of year appraisal awards a single grading for the year -1 – outstanding; 2 – good; 3 – requires improvement and 4. – unsatisfactory. Staff who receive grading’s of ‘3’ and ‘4’ become subject to the capability procedures, which were revised by the college in 2013 as part of its efforts to improve employee performance. The capability policy sets out a four stage procedure, as follows:

Stage 1 - informal hearing
This takes place when the line manager has identified an employee’s inability to perform the
main duties and responsibilities set out in their job description. Problems could include poor quality teaching or administrative work, failure to meet deadlines, or complaints from other staff, students or members of the public. At the hearing the manager outlines the concerns about performance and discusses possible support measures, such as training or development, or unpaid time off or flexible working where support is required for non-work factors. Within five working days of the meeting the employee is given a written action plan setting out the standard of performance required, targets to be achieved, actions required from the employee and any support or training to be provided. The plan also outlines the review period during which the employee's performance will be monitored, and how it will be monitored. At the end of the review period a meeting takes place at which the employee is told either that their performance has improved and no further action is required, or that there has been some improvement but a further review period is set or that there has been insufficient improvement and the formal review procedure is being activated.

**Stage 2 - first formal meeting**
The employee is reminded of progress through the informal procedure and asked why performance is still unsatisfactory. A revised action plan to remedy the situation is drawn up and the employee is advised of the performance improvements required, targets and timescales and the consequences of not improving their performance. At the end of the review period the employee is told either that their performance is now satisfactory, or that there has been some improvement but there needs to be another review or that there has been insufficient improvement and a second formal meeting is to be held. At stage 2 the manager may give the employee a written warning, which could be 'spent' after 24 months of sustained satisfactory performance. If the employee's performance does not improve, or improvements are not sustained, stage 3 of the procedure can be triggered immediately. The employee has the right to be accompanied by a recognised trade union representative or workplace colleague from stage 2 of the procedure onwards.

**Stage 3 - second formal meeting**
Progress to date through the informal and first formal meeting stages of the procedure is reviewed. The employee is given a revised action plan to remedy deficiencies and a summary of current deficiencies in performance, improvements required, targets and timescales. If the employee's performance has not improved sufficiently in the timescale set, either a further review period will be set or there will be a dismissal hearing.

**Stage 4 - dismissal hearing**
The outcomes of stage 4 meetings are dismissal or redeployment. Possible further steps to bring the employee’s performance up to the standard required are considered, but if there is no evidence that further time or support will bring about the desired improvement, the college will consider alternative roles. If there are no suitable alternative roles the employee will be dismissed with full notice or payment in lieu of notice. Stage 4 meetings are usually conducted by a member of the corporate management team, supported by HR.

**Stage 5 - appeals against dismissal**
An employee can appeal against dismissal, with the appeal heard by the Principal or another member of the corporate management team if the Principal has previously been involved in the detail of the case or the decision to dismiss. An employee can also appeal at stages 3 and 4 of the procedure, with the appeal heard by the line manager of the manager/supervisor imposing the action.
5.4.2 Capability and teaching observations

Weston College has a policy of seeking to employ grade 1 or grade 2 teachers. This means that teachers whose performance is graded ‘3’ or ‘4’ either in their end of year appraisal or for their teaching observations, (carried out once a term or year) must improve their performance or leave the college. A grade 4 or a second consecutive grade 3 ‘requires improvement’ lesson observation triggers a stage 2 first formal capability meeting. The employee is given a written warning and an action plan. After six weeks the teacher is re-observed. If they again receive a grade 3 or grade 4, a stage 3 second formal capability meeting is held and they receive an action plan and a final written warning. If they receive a grade 3 or 4 at the next observation, a stage 4 dismissal meeting is arranged. If they are given a grade 2 or grade 1 at two consecutive re-observations during stage 3 or stage 4 of the process, they go back into the normal observation period.

5.5 Pay and progression

Pay is important as a retention issue, the college believes. It tries to ensure that pay is competitive, and structures and systems are fair, but it has not sought to reduce the playbill, which represents 62% of operating costs. The college uses the AoC Senior Remuneration survey data, local market intelligence and Skills Funding Agency data to benchmark pay rates. Weston follows the AoC’s recommended pay scale closely. It has an eight-point incremental salary scale, paying lecturers between £23,032 and £33,364 (from 1 August 2013). Incremental progression is only available to staff with appraisal ratings of outstanding or good; in practice almost all staff achieve these ratings and so receive their increment. Each year, subject to approval by the governors, Weston College increases individual staff salaries with appraisal ratings 1 and 2 by the AoC recommendation on pay. In recent years, these staff have also received an annual non-consolidated further award. The further award is designed to reward staff for achievement of the college’s targets.

5.6 Recruitment and retention

The college’s approach to recruitment and retention is to be an employer of choice at local, regional and national level. It believes that it has achieved this, by receiving an Ofsted rating of ‘outstanding, obtaining the IIP Gold standard, becoming an IIP Champion and winning numerous other awards. ‘It is important to win these awards if we want to keep our profile high’, the HR director says. She also believes that college must pay competitive rates to recruit and retain staff. To date there has been no shortage of good job applicants, and no problems with retaining excellent staff.

Weston has a policy of ‘growing its own’ staff. Individuals who have studied at the college as apprentices and undergraduates will often be recruited for posts, and there is considerable in-house coaching, mentoring and training at all levels in the organisation. Most recently a six day course has been developed for newly recruited and less experienced middle managers. Such managers have often been exemplary practitioners before they move into management but are then expected to know how to do a different job with limited support. This course, taking six days spread throughout an academic year, seeks to provide that support.
5.7 Recognition

The college celebrates its successes at many events during the academic year, including the twice yearly ‘Principal's Address’ in December and July. Staff are informed about progress towards targets and any major achievements. Each head of faculty or department provides an analysis of its activities and individuals who have gone above and beyond their job responsibilities or been particularly effective, innovative or entrepreneurial will be recognised by the Principal and the college with a small gift. Examples of activities recognised in this way include supporting the bid for the offender learning contract and creating a bespoke college enrolment package. The person who has gone ‘over and above’ out of a recent intake of staff may be recognised too. Employees can be recommended for recognition by colleagues, or can put themselves forward. The Principal, who makes the final selection of recipients, will ensure that they represent a fair cross section of the college community.

5.8 Job redesign

When the current Principal was appointed in 2001 the college had problems with its finances and quality. Since then, there has been considerable restructuring. One aspect of this has been redesigning jobs so that teaching and managing are more effectively structured. The college has a formula whereby it plans its curriculum, analyses staffing requirements and anticipated income and then allocates the appropriate resources, which translates into job descriptions for the staff required.

5.9 Future challenges

The Principal is concerned about the impact of the increase in employers’ contributions to the Teachers’ Pension Scheme due from September 2015. He also has grave reservations about government plans for employers rather than colleges to receive funding for apprenticeships. ‘We will continue to drive down costs through greater efficiencies, though these changes will be hard to cope with. But the college has flourished during ongoing times of funding costs, ending the year graded Ofsted ‘Outstanding’ and is planning further growth. We will never stand still’.

5 TPS employer contributions are scheduled to rise from 14.1% to 16.4% from September 2015.
6.1 About the organisation

This college offers over 160 A-level and vocational courses, as well as degree-level qualifications, adult education programmes and employer training. Some 3,000 16-19 year old students and approximately 10,000 adult and commercial learners work with the college at present.

The college employs 400 permanent staff, 52 per cent of whom are lecturers or associate lecturers. It operates a single-table bargaining with the UCU and Unison.

6.2 Challenges and strategies

Funding cuts, and cuts to adult education funding in particular, have caused financial challenges for the college.

The focus for the college’s senior leadership team over the past five years has been to achieve significant efficiency savings. These have been delivered via a range of routes, which, together, have allowed the college to avoid compulsory redundancies entirely. The aim more broadly has been to identify ways in which savings can be made whilst minimising the effects for staff, or, where impact is inevitable, to do so with the involvement of trade unions and in conjunction with initiatives to improve staff morale in other ways.

New approaches to pay and HR taken by the college to date include:

- Reducing redundancy notice period on academic contracts
- Aligning annual incremental pay progression (outside of cost-of-living increases) to successful performance evaluation
- Non-consolidated bonuses linked to faculty-wide success rate targets
- Introduction of holiday buying without increasing college costs (e.g. via workload redistribution)
- Flexible employment contracts designed to allow alignment of working hours with enrolment levels
- Reductions to discretionary sick pay provision and an increase in all qualifying periods
- Contractual maternity pay moving to statutory is also at the planning stage.

The focus for this case study concerns the changes to incremental pay progression noted above, which has seen automatic annual progression replaced with a new link to a
performance appraisal scorecard, with student success rates at its centre. As well as providing scope for some efficiency savings, this approach, with its focus on improved learner outcomes, has cemented the relationship between pay policy and organisational performance.

6.3 New approaches to pay and benefits

6.3.1 Performance-related increments

The harmonisation of academic and support pay spines agreed and designed at national level provided the college with the opportunity to examine its existing pay arrangements for academic staff.

In the main academic pay operated on an incremental scale based on length of service, with automatic progression up along the pay spine each year until a lecturer reached the top of her/his grade, unless an individual was within a disciplinary or capability sanction. The academic spines had scope for successive automatic increments with parallel cost implications for the college.

In order to achieve the pay harmonisation called for at national level, the college felt that the local unions needed to agree to a more transparent and performance-related way of managing pay progression. The decision was therefore taken to use the harmonisation project as an opportunity to introduce performance-related progression for academic staff, with the annual performance appraisal the focus.

Legal advice confirmed the Director of HR's understanding that the academic contracts at the college provided sufficient flexibility to challenge the perceived expectation of an automatic increase each year.

Efforts to align pay more closely with performance were undertaken separately from pay negotiations for the annual cost-of-living increase, which remained separate from the performance project. In this way the college's approach to performance pay differs from some of the – sometimes controversial – performance-related pay arrangements IDS monitoring observes in the private sector.

6.3.2 Performance scorecard

The Director of HR introduced a scheme that placed the outcomes for learners at its centre, based on individual contribution from the teaching staff. A 'Single Central Record of Performance' (SCRP) was designed to identify and remedy performance concerns at an early stage, and allow individuals and managers to track progress against agreed action plans.

Each lecturer's success is understood through the self-completed scorecard, which is deliberately succinct, and has objective data at its core. Its criteria (set out in the table below) are weighted, with success rate(s) for students across any subjects taught by the lecturer in question contributing to 50 per cent of the final score.
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Success rates</strong></td>
<td>Measured via Pro-achieve software system, covering details of all courses the lecturer delivers. Includes number of starts, success rate of learners, whether this is plus or minus the national average for the course, student retention data and achievement data. If any areas sit below the national average, lecturers must provide 3-year trend details. Success rates cannot be completed until after the 1 August annual review date, but progression awards are backdated.</td>
</tr>
<tr>
<td><strong>Attendance (learner)</strong></td>
<td>Attendance by course, drawn from the attendance monitoring software.</td>
</tr>
<tr>
<td><strong>Achievements/quality improvements</strong></td>
<td>Improvements made by the lecturer on the previous year, often demonstrated through achievements and/or new approaches.</td>
</tr>
<tr>
<td><strong>Value-added</strong></td>
<td>Taken from the previous year's data and +/- on last year's grades.</td>
</tr>
<tr>
<td><strong>Learner voice</strong></td>
<td>Learner feedback collated from subject specific information and measured against benchmark/national average.</td>
</tr>
<tr>
<td><strong>Lesson observations</strong></td>
<td>These include both lesson and tutor observations and every lecturer must evidence minimum of 1 peer observation. This factor contributes 15% of the scorecard value.</td>
</tr>
<tr>
<td><strong>CPD undertaken</strong></td>
<td>This may include mentoring support given to colleagues, the sharing of best practice, and lesson observations carried out. The CPD programme also includes practical resource production days, and sessions dedicated to supporting staff to meet their Virtual Learning Environment thresholds (see below). Sessions attract high attendance levels.</td>
</tr>
<tr>
<td><strong>VLE (Virtual Learning Environment)</strong></td>
<td>Demonstrates how they have complied with the VLE threshold and what each individual has personally designed or contributed to the VLE. Evidence of % of course taught via an e-learning format.</td>
</tr>
<tr>
<td><strong>Line manager assessment</strong></td>
<td>A necessary element of the scorecard, but its impact on overall scorecard minimised by the heavy weighting on learner data. This helps counter concerns over subjectivity.</td>
</tr>
<tr>
<td><strong>Self assessment</strong></td>
<td>Allows lecturers to draw together the themes from the data and highlight the elements of which they are most proud, as well as their future focus and objectives.</td>
</tr>
</tbody>
</table>
Success rate data is taken from ProAchieve data, a software programme academic staff use throughout the year to record course and student data. Learner outcomes by subject are understood in relation to national averages (plus/minus). This eliminates any claim that scores are influenced by the relationship with a line manager; as the non-subjective data drives the performance score, with the learners’ experiences at the centre of everything. The HR Director has found that the uses of non-subjective data depersonalises the process in a positive way.

Where there are forecasted concerns about impending success rates, this is highlighted and actions to rectify are put in place in a timely way. Once the final success rate data is available, providing rates sit on or above national averages, and other elements of the scorecard are good or outstanding an increment is awarded, provided the individual is not already at the top of the band. Where there are serious concerns relating to success rates or other areas indicated on the scorecard, full consideration is given to the appropriateness of an increment, before the final decision is made.

100% performance reviews are carried out and an action plan accompanies all of these. For outstanding performers their action plan would be to provide mentoring, coaching or sharing good practice with others.

The scorecard is a central tool for the implementation of the college's HR policy - it links to pay and grading, it links to lesson observation, talent management, and to performance management and disciplinary policies. Any one of these sub policies can be triggered if there are indicators within the scorecard.

Taking performance across the faculty, there is a college-wide academic target success rate, which can see staff awarded an annual non-consolidated bonus. In two out of three of the past three years this success rate was met, resulting in 1% of salary payment being made. The current target is a 90% success rate across the college, moving from 86% in the first year the target was introduced; this has been increased gradually in subsequent years.

### 6.3.3 Additional pay points

Each lecturer has the potential to progress through the pay scales via an ‘excellence gateway’ which, if successful, sees academic staff at the top of the lecturer pay band move up to higher lecturer pay points on the pay spine. To access this part of the scale, lecturers must produce an electronic portfolio of evidence, with the performance scorecard a key component. In addition, wider contributions, such as their sharing of good practice are also considered, within a portfolio produced by the individual. The evidence is examined in an interview between the staff member in question, the HR Director and the college's Director of Curriculum, along with a presentation. The lecturer's past three years’ success rates are also reviewed before a decision is made on whether they can progress.

### 6.3.4 Trade union involvement

Early concerns from the trade unions were discussed and some changes were made; the performance scorecard was further developed and launched after full consultation with the local UCU trade union.

On making the UCU aware of the desire to align pay scales with performance outcomes, there was, unsurprisingly, early resistance, although the preservation of the cost-of-living budget as a separate pot, the agreement to harmonise academic pay scales with the nationally agreed AoC model, and the commitment to involve the unions in the design of the scorecard, helped
to overcome this.

The scorecard has retained this flexibility, allowing it to evolve each year as college priorities adjust and in response to lecturer, management and union feedback. This also permits the current focus at sector level to be reflected in the criteria, for instance, the recent maths and English drive directed by central government has led to the inclusion of an element reflecting the degree of retraining staff have undertaken in these subjects.

6.4 Outcomes

6.4.1 Alignment of performance to pay progression established

The link between pay progression and performance has now been firmly established, but this has not resulted in dramatic shifts in pay awards (or any resulting widespread disquiet). Just 8 academic staff members (of a faculty of 180) failed to meet standards required to receive their increment in 2012/13. On an even more positive note, of the 15 applications to access the higher pay points through the excellence gateway, 13 were successful.

The wider impact on the performance/increment alignment has been an increase in lecturers’ awareness of, and focus on, learner outcomes. More specifically, it focuses lecturers’ minds on the importance of dealing with performance and outcomes issues in the present, rather than looking back at the end of a year and rueing missed opportunities to improve outcomes for learners. The learner data allows lecturers to track outcomes, and to deal with an issue in month 3, for example, in order to see improvements by month 4 to ensure the best possible outcome for a student.

College-wide, learner outcome related success rates have been extremely positive. As noted above, a whole college performance bonus linked to these success rates has been paid in two of the past three years.

6.4.2 Improvements in lecturer learner-focus

Following the introduction of the scorecard, the Director of HR was shocked by how little many of the lecturers really knew about their learners. For instance, there appeared to be a fairly widespread inability to recall learner success rates among academic staff. This has changed following the introduction of the scorecard and the learner focused criteria. Staff now ‘own’ their data, and can recall it in detail. This has also resulted in improvements in administration – the desire to ensure the quality of data means that if there is a name on a lecturer’s register that shouldn’t be on there, lecturers now work immediately to update this with the college CIS team, not least because that misplaced name will impact upon their own learner and attendance data. The electronic system helps lecturers manage their role and their learners. The introduction of SCRP has also seen improvements in dealing with many low level performance issues in a timely way and before they get the chance to escalate into difficult disciplinary or capability cases.

6.4.3 Acceptance by staff

The change in approach has, quite naturally, not been without incident, but the scorecard has become part of daily academic life, and lecturers are increasingly aware of the usefulness of the data for their roles, as well as its importance in securing progression pay and their own professional development.
'Know thy learner' is now the college's motto, and data is key in ensuring teaching staff are enabled to do so. While a common initial response from lecturers was 'I got into teaching to teach, not to look at data', once staff have had time to interact with the data tools available to them, they appreciate their usefulness, and the speed with which they can access these tools. Internal training on ProAchieve and related software has been of paramount importance in allowing academic staff to make the transition. The scorecard is firmly established now; very much part of the furniture for lecturers, and also something that many staff are proud of on an individual level.

Naturally, each year the HR Director and the Director of Curriculum hears feedback from individuals who point to difficult personal circumstances among their student population that have had a bearing on learner outcome statistics, (pregnancy, relocation, sickness). However, the college has been keen to highlight that such issues occur across the country every year and within every cohort – hence the use of the national average in order to benchmark success rates. Where learner outcomes fall behind the national average, the college tends to find that something else is occurring, and when the data is analysed, this often becomes apparent quite quickly. For instance, the learner feedback may reveal that students are bored and/or frustrated by a course's delivery. At such a point, the college works with teaching staff to ensure the necessary improvements are made via an action plan.

The process has been tribunal-free, in spite of early accusations of ‘unlawful deduction of wages’ by some members of one department which had received poor success rates and therefore saw increments withheld. In the spirit of collaboration, however, in this first year of the scheme, the HR Director proposed that, should the staff in question be able to improve on their results by the middle of the academic year, they would receive their increment at this stage, not backdated, but from that point onwards. Happily, this was achieved and all 6 staff received the progression increase they had sought earlier in the year.

6.4.4 Continued focus on staff welfare

A crucial element across the efficiency savings programme has been a real and well-communicated commitment to listening to staff concerns and a continued focus on staff welfare.

For instance, lecturer feedback gathered most recently has reflected anxiety over lesson observation. While this criteria only makes up 15% of the Scorecard, the responses from academic staff suggests it causes significant angst. As a result, the HR Director is piloting ungraded lesson observations for one year in maths and English. Feedback guidance for observers will still ensure that observation reports contain very clear indications of lesson quality via criteria-based feedback, and this will ultimately translate to a score within the score sheet total, but individual observations will not be graded directly. Staff surveys will then provide an indication of whether/how much this has addressed staff concerns.

The sensitivity towards staff welfare has been reflected by the fact that in the midst of the efficiency savings programme, the college won recognition as one of the Sunday Times’ Best Companies to work for in the Public and Third Sector, and also received recognition at the 2012 FE HR awards. The college also operates ‘Staff Star’ awards internally, across 12 different categories.

The approach of the Director of HR, and others on the senior management team, is that efficiency savings need not result in a zero-sum game. It is possible to make changes to save money whilst keeping staff valued and motivated. Undeniably, there have been major challenges to tackle over the past five years, and there is a fine balance to be struck
between keeping people rewarded while saving money, but creative solutions and involvement of major stakeholders has helped the college to strike this balance wherever possible.

6.5 Union relations

Key in the battle for hearts and minds has been the HR Director’s relationship with the unions, Unison and the UCU. Both unions displayed a considerable degree of cynicism when initial review of staff contracts was undertaken. However, over the five years, significant trust has been won by the management team. The unions have been able to witness, that in spite of changes to terms and conditions, cost-of-living pay awards have continued, progression awards have continued, and – crucially – the college has not made any compulsory redundancies. The model arguably has similarities with trade union and employer partnerships forged among some manufacturers during the depths of the 2008-10 recession, with savings made in return for job preservation.

Challenges do remain, however. For instance, funding cuts and the continued deficit mean there may not be sufficient budget to pay an annual cost-of-living increase from 1 August 2014. However, increases above AoC recommendations in previous years will shelter staff from the impact of this decision, and trade unions have been appeased by reference to higher salaries paid to them than those set out in the recommended national scales. This has meant that at local level the college has not been in dispute with its unions.

6.5.1 Staff turnover

The Director of HR has found that lecturers tend to be very vocal when there are areas of the employment relationship with which they’re not happy. However, this does provide an opportunity to involve them in change. Turnover rates at the College arguably reflect this: at 12.5 per cent, teaching staff turnover is well below the AoC average of 17.5 per cent. Management and support staff turnover also lie at levels far below the national averages. Similarly, sickness absence rates have seen the college outperform both national and public sector benchmarks.

Lecturing recruitment has only encountered difficulties within categories for which there exists a shortage nationally (Business, Physics, Maths, English, Travel & Tourism). This led to the college taking a flexible approach to starting salary, and the advertising media used for recruitment. Importantly, 20 per cent of college vacancies were filled by internal promotion, or sideways moves.

6.6 Future priorities

6.6.1 Further harmonisation

Work is already underway to incorporate Business Support and Management salary bands along with the current harmonised lecturing scale to one harmonised pay scale. Union consultation is currently taking place as part of the harmonisation process. In terms of efficiency savings, these two groups were less urgent to review and harmonise as all management were already on spot salaries and the business support scale consisted of fewer increments within its respective bands.
6.7 Performance management

The College aims to expand the look of the scorecard and work is underway to make this an electronic document for this year and further refining of the scorecard will continue each year.

6.8 Ongoing efficiency savings

The financial constraints the sector is undergoing means that work on efficiency gains must continue. At present, the College is exploring a number of measures that could be put in place to achieve savings, whilst minimising the risk of compulsory redundancies.

6.9 Staff welfare

Work on efficiency gains will continue to take place alongside efforts at increasing staff welfare. Areas of current focus include working and engaging with the local trade unions to continually improve employee relations, and staff training programmes, such as refresher training aimed to raise teaching standards in English and maths.

6.10 Case study - Appendix

6.10.1 Occupational groups

<table>
<thead>
<tr>
<th>Staff category</th>
<th>Number</th>
<th>% of staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>37</td>
<td>9</td>
</tr>
<tr>
<td>Lecturing staff*</td>
<td>182</td>
<td>47</td>
</tr>
<tr>
<td>Business support staff (including Learning Support Assistants)</td>
<td>175</td>
<td>44</td>
</tr>
</tbody>
</table>

*Lecturing staff: Full-time lecturers - 74: Associate lecturers - 108
Although it has experienced funding cuts in line with those experienced by other colleges, the main impetus for changes to employment policies at Middlesbrough College has been a commitment to growth. Prompted by the belief that ‘to grow the college needed fantastic staff, at the top of their game, rewarded appropriately’, the college carried out a review called ‘Workforce Reform’ in 2011/2012. This identified a widespread and shared perception that underperformance needed to be dealt with, so changes designed to improve performance were agreed with staff and the trade unions and implemented from 1 August 2012. These included opening up the lecturers’ pay spine to give more opportunity for progression, withholding increments from poor performers, reducing holidays and changing sickness, capability and disciplinary procedures.

7.1 Background

Middlesbrough College is located in the North East of England and has over 12,500 students and 1,101 staff (676 full-time equivalents). It recognises four trade unions for collective bargaining, UCU, Unison, ATL and AMiE. There is single table bargaining through the Joint Consultative Negotiating Committee (JCNC), which meets monthly to discuss a range of issues. Communication with staff is a priority with six Staff Conferences a year, on the Friday at the end of each half-term, and departmental meetings every term where the Principal/Chief Executive and fellow managers meet the whole team. Staff are also surveyed annually by QDP Services, with the latest staff survey in 2013 attracting over 544 responses, an increase of 200 on the previous year.

The college has received the Investors in People Gold Award with the assessor saying that the college demonstrated ‘world class people management and development’ and that the results were the best he had ever seen. Work is continuing to improve the organisation and build on this award.

Staff were involved throughout the Workforce Reform process through participation in focus groups. These provided a forum for staff to comment on options being proposed by the college leadership team and identified a number of issues. As part of the Workforce Reforms process, the college’s terms and conditions were benchmarked against five other local further education colleges with the findings shared with employees.
7.2 Challenges and strategies

One of the main challenges for the college was dealing with underperformance by a minority of academic and business support staff. Its ‘Workforce Reform’ programme set out to deal with this by examining all aspects of employment and performance at the college with a view to changing terms and conditions so that good performance was rewarded and poor performance was addressed. The Principal/Chief Executive says that it had tried incremental reform before, which hadn’t worked, so it sought in 2012, to look at anything which could impact on individual performance, including sickness absence, capability and disciplinary procedures.

Staff at all levels took part in focus groups, which identified that the typical manager was frustrated with the difficulty of dealing with underperforming staff, while the staff were annoyed that underperforming staff were not being dealt with. Both staff and managers therefore fully supported steps to improve performance which was useful in trade union negotiations when the college leadership team was able to say, ‘remember, it was staff that asked us to do this.’

7.3 Using pay to encourage good performance

One of the new approaches to rewarding performance was to open up the lecturers’ pay scale so that good performers could progress to much higher salaries than beforehand whilst at the same time withholding increments from poor performers. Before the changes, the college had a 10-point pay spine, split into three bands with progression from one band to another being possible only when a lecturer was promoted to a more senior post. The changes, effective from August 2012, involved removing the previous lecturer banding structure and replacing it with a single spine for lecturers with all full-time staff having the same teaching commitment of 850 hours per annum. This salary spine also introduced two new interim pay points (7.1 and 11.1 on the table below).

Lecturers who commence on the lowest part of the salary scale (point 5) can now progress through the pay spine providing they achieve consecutive ‘good’ or ‘outstanding’ appraisals and this means moving to point 7.1. Continuing with further consecutive ‘good’ or ‘outstanding’ appraisals can lead to point scale 11. At scale 11, lecturers are then encouraged to complete the ‘Advanced Practitioner Course’, which is an in-house development programme, and on successful completion of this course and having continued to receive ‘good’ or ‘outstanding’ appraisals, lecturers can then move to point 11.1. Further progression from point 11.1 to point 14 then depends on the lecturer carrying out at least three good practice forums, peer reviews or coaching sessions each year as well as maintaining their ‘good’ or ‘outstanding’ appraisals. As a result, a lecturer who performs well and is prepared to undergo the professional development of an Advanced Practitioner Course can now progress from a salary range of £23,697 to £33,801 rather than being stuck on a scale of £23,697 to £25,945 (as of 1 August 2013).

The Advanced Practitioner Course is an innovative coaching and mentoring programme developed by Middlesbrough College. It takes three full days to complete and involves a number of tests and assessments. Any lecturer can choose to complete it, though it is compulsory for those seeking progression beyond point 11.1. Once the course has been completed, ‘Advanced Practitioners’ then have to share good practice with colleagues and also meet a number of other criteria to demonstrate that high standards are being maintained. Keeping standards up relies on constant checking by managers and it remains to be seen whether this will always be forthcoming, the Principal/Chief Executive says.
There is no incremental progression for lecturers who receive a grade 3 in their staff appraisal otherwise known as ‘requires improvement’ or a grade 4. Any member of staff that is rated as ‘unsatisfactory’ will not be paid an annual cost of living increase and becomes subject to the capability procedure whereas under the previous arrangements, incremental progression was almost automatic.

Table 10  Pay for lecturers at Middlesbrough College at 1 August 2011 - 1 August 2013

<table>
<thead>
<tr>
<th>Previous pay structure</th>
<th>New pay structure, effective 1.8.12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Band</strong></td>
<td><strong>Increment point</strong></td>
</tr>
<tr>
<td><strong>Band 1 lecturer</strong></td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>7.1 (new point)</td>
</tr>
<tr>
<td><strong>Band 2 lecturer</strong></td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>

Lecturers must achieve two consecutive ‘good’ or ‘outstanding’ appraisals to move up the salary spine.
| Band 3 lecturer | 12 | 31,114 | 12 | 31,332 | 31,552 |
| 13 | 32,225 | 13 | 32,451 | 32,679 |
| 14 | 33,332 | 14 | 33,566 | 33,801 |

Once Lecturers have achieved this salary grade they must maintain grade good or outstanding in their staff appraisal as well as ensuring they carry out three good practice forums a year.

### 7.4 Managing performance

Opening up the lecturers’ pay scale to good performers and withholding increments from poor performers sends the right messages about encouraging good performance, the Principal/Chief Executive believes. All staff working for more than six hours a week are appraised each year, normally in the autumn term, with any increments being paid on 1 January. Previously, staff were on occasions appraised in August after they had received their increments, academic targets were mostly based on data and the appraisal process was largely mechanistic.

The teaching, learning and assessment observation process has also been changed from giving notice and awarding one of four grades in line with Ofsted grades to not giving notice and having a professional discussion about the outcome of the observation. There are now three outcomes – ‘desirable’, ‘advisable’ and ‘essential’ actions, and those staff that receive an ‘essential’ action are given an action plan over seven weeks, to improve. They are then re-observed and should they get another ‘essential’ action, this normally results in the capability procedure being invoked.

Staff are now appraised against a number of objectives and the focus is more on professional behaviour and standards than the achievement of numerical targets. This has made the changes more acceptable to staff. Staff appraisals are set against eleven sets of objectives (lecturers) or ten sets of objectives (business support staff); all but three are common to all employees and the final outcome is that staff receive one of four grades. The objectives were revised in January 2013 and academic and business support managers have an additional set of objectives, relating to people management and team leadership. Further modifications are planned from 1 August 2014, all of which have been agreed with the trade unions. They are subject to governing body approval as the governor set the overarching framework for staff as part of contracts of employment.
The staff appraisal grades are:

- Outstanding – always exceeds expectations against agreed objectives and professional standards.
- Good – meets and exceeds most performance expectations and objectives and meets professional standards.
- Requires improvement – meets some performance expectations and objectives and meets minimal professional standards.
- Unsatisfactory – does not meet performance expectations and/or professional standards.

The overall grade is calculated as the average of the individual grades, except that lecturing and teaching support staff cannot achieve a higher overall grade than they achieved in the sections called ‘impact on students’ and the ‘sickness’ and ‘disciplinary’ sections – these are known as ‘limiting grades’. Business support staff cannot achieve a higher overall grade than that achieved in ‘performance in role’ and the ‘sickness’ and ‘disciplinary’ sections – the ‘limiting grades’.

<table>
<thead>
<tr>
<th>Lecturers' objectives</th>
<th>Business support staff objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact on student</td>
<td>Contribution to student experience</td>
</tr>
<tr>
<td>Record keeping</td>
<td>Performance in role</td>
</tr>
<tr>
<td>Personal attributes</td>
<td>Personal attributes</td>
</tr>
<tr>
<td>Innovation/improvement suggestions</td>
<td>Innovation/improvement suggestions</td>
</tr>
<tr>
<td>Business generation</td>
<td>Business generation</td>
</tr>
<tr>
<td>‘Over and above contribution’</td>
<td>‘Over and above contribution’</td>
</tr>
<tr>
<td>CPD and professional updating</td>
<td>CPD and professional updating</td>
</tr>
<tr>
<td>Sickness record</td>
<td>Sickness record</td>
</tr>
<tr>
<td>Disciplinary record</td>
<td>Disciplinary record</td>
</tr>
<tr>
<td>Achievement of contractual hours</td>
<td></td>
</tr>
<tr>
<td>Personal objectives/targets/areas for improvement</td>
<td>Personal objectives/targets/areas for improvement</td>
</tr>
</tbody>
</table>

All staff also normally have their performance assessed again in the spring term as part of a mid-term review.

As well as having their increments withheld, those receiving a ‘requires improvement’ grade are assessed to see whether their performance has improved. If not, managers may put in place a performance improvement plan with targets and monthly monitoring as part of the informal stage of the capability procedure. If staff then receive a ‘requires improvement’ grade for a second year running, a personal improvement plan is set up again and staff are monitored through the informal stage of the capability procedure. If no improvement is seen at the end of this period, then the formal capability procedure can be invoked. This has a number of stages leading to possible dismissal. An employee who receives an ‘unsatisfactory’ grade goes straight into the formal capability procedure.

The first appraisal cycle was during the 2012 / 2013 academic year. This was a pilot and there was no impact on pay for those failing to receive an ‘outstanding’ or ‘good’ grade. The second cycle began in August 2013, with increments due to be paid or withheld in January 2014. Just over 10 per cent of lecturers received ‘merits attention’ or ‘unsatisfactory’ ratings in 2012/13.
Middlesbrough College is also strongly encouraging lecturers who were previously at the top of the old band 3 and are now earning £33,801 to complete the Advanced Practitioners’ Course. Failure to do so will mean that their salaries may be reduced to point 11 (£30,429) putting them on a par with lecturers who are still progressing up the pay spine and who have not completed the course. Pay is protected for a year.

7.5 Use of the capability procedure

Lecturers who get two ‘essential’ actions for their teaching and learning observations may also go into the capability procedure. The college’s teaching and learning mentors have stated that ‘this is the best thing the college has ever done.’ Staff understand what is expected of them and the possible consequences of not performing to the required standards. Most of the staff that were within the formal capability procedure in 2013/2014 were supported over a seven week period and most staff improved vastly, the college says, so that their ‘essential action(s) was/were removed. At the end of the 2013/14 academic year, one or two staff still had not improved even though support had been provided to help them complete their performance improvement plan. Work continues to support those staff through the next stages of the capability procedure.

7.6 Reducing sickness absence

As part of the Workforce Reforms in 2012, a new sickness policy was also agreed with the trade unions. This further formalised procedures for reporting and monitoring sickness absence and at the same time established new sickness trigger points for intervention. The policy included the ability to withhold occupational sick pay for those staff that were subject to a formal process, such as capability, disciplinary or redundancy. This has been effective as these processes have progressed within the normal timescales. Previously, some staff went off sick and therefore elongated the process for both staff and the college.

In March 2014, further changes, agreed with the trade unions, were made to the right to access sick pay. Employees not complying with sickness absence reporting procedures, refusing to attend occupational health meetings without a valid reason, refusing to allow the college to make meaningful contact or not providing Fit Notes can also lose this right. The final reason for withholding occupational sick pay is in relation to staff who hand in their notice then go on sick leave. To date, occupational sick pay has only been withheld from one person, but the college’s ability to do this has contributed to reduced sickness absence. In these instances all decisions are discretionary and are made by the Principal/Chief Executive following advice from Human Resources.

7.7 Recruitment and retention

Middlesbrough College, as with many other further education colleges, is finding it hard to recruit and retain ‘A’ Level science and maths lecturers because salaries in other sectors such as schools, engineering and the NHS are higher. In response, the college is introducing a ‘Golden Hello’ scheme, paying a lump sum of either £2,000 or £5,000 (depending on subject taught) at the start of the second year of employment for new teachers employed after 1 August 2013. A further tool to assist the college in recruiting key staff, if the ability to pay a ‘Market Rate Supplement’ which can be worth up £5,000 per annum. This is paid at the discretion of the Principal/Chief Executive.
The college has put a number of safeguards into both these schemes. The Golden Hello payment, for example, has to be paid back on a pro rata basis if the lecturer leaves within two years of starting work at Middlesbrough College.

7.8  Business support staff

The Workforce Reform process made few changes to the terms and conditions of business support staff, since the improvement of teaching (as distinct from business support) standards was seen as fundamental to the college’s growth strategy. But as a result of the process business support staff may now be able to join the management fast track, enabling them to progress up the salary scale through taking on extra responsibilities. The college believed that its business support staff performed well, worked efficiently based on benchmarks and were paid in line with the external market, so there was little need to change current salary levels. Business support staff are appraised in the same way as academic staff.

7.9  Other terms and conditions

The college considered harmonising terms and conditions back in 2012 but found that harmonising holiday entitlement was just not feasible. Instead, after benchmarking provision among seventeen other further education colleges, it reduced holidays for academic staff from 47 to 45 days. Business support staff holidays remained at 30 days (unchanged) and managers now receive 36 days (down from 37). Full-time lecturers are normally required to be in the building for 37 hours a week and to teach for 25 hours a week during term time, although line managers have discretion to allow academic staff to work from home. There was a great deal of working from home by a minority before the Workforce Reform programme, but this was unpopular as it meant that some staff were always having to cover colleagues working out of the building. Business support staff also work a 37 hour week.

Staff have been rewarded for exceptional performance several times over the last few years with a combination of vouchers and non-consolidated pay awards. The college has also introduced a “Star Award” system, whereby any member of staff can nominate a colleague for going ‘above and beyond’, with recipients being given a certificate and the winners going into a prize draw at the end of the year. In 2013/2014, the college further enhanced this offer by introducing a ‘Team of the Month’ award and this has been well received, especially by those who have been recognised for their efforts.

7.10  Future challenges

The college has made pay awards of 0.5 per cent in the last two years and is acutely aware that staff who are at the top of their pay scales have, together with many other staff in the sector experienced a cut in real pay. The college leadership team, through negotiations with the trade unions, Corporate Services Committee and governing body, has introduced a new pay strategy which looks to commit the college to the following, subject to affordability.

1. Meet or exceed the AoC nationally recommended pay award for all staff.
2. Consider any pay award and/or increment in line with the staff appraisal, incremental progression and management fast-track policy.
3. Consider by exception any non-consolidated pay award to staff based on the college’s financial health and its growth strategy.
4. Pay at or above the Living Wage for all staff.
5. Pay at or above the National Minimum Wage (Allowance) for all apprentices or trainees directly engaged with the college.
6. Be at the median or above for all Tees Valley FE Colleges in respect of pay and non-pay benefits.
7. Financially support, where appropriate, key suppliers i.e. cleaning, security to pay the Living Wage to all its employees directly working with the college.
8. Promote that all other suppliers to the college pay at or above the Living Wage. This will be built into the college's contract terms of conditions from 1 January 2015.

This has been a challenging and yet rewarding two years for the college and the changes made have been central to the progress being made to reward staff and to ensure that staff are performing at the top of their game, the Principal/Chief Executive says.
When a new Principal joined John Ruskin College in 2009 it had a £1 million deficit on a turnover of £7 million and was a failing institution with declining numbers of students. It was rated as ‘inadequate’ by Ofsted in 2010. In October 2013, Ofsted rated it as ‘outstanding’ and now student numbers are growing rapidly. Performance management and pay and reward policies played an important supporting role in this transformation, which was achieved through positive approaches to improving teaching and learning. Capability, disciplinary, sickness and redundancy policies were revised to send clear messages to staff about what was acceptable to and affordable by the college. All teachers at John Ruskin are expected to be grade 1; half have achieved this and the other half are working actively towards that level of performance. Some 88 per cent of teachers are now grade 1 or grade 2, around three times as many as in 2009.

8.1 Background

John Ruskin is a sixth form college with 1,300 students (expected to grow by around 20% in the coming year) and 160 permanent staff. It sets its own pay and conditions, having left the Sixth Form Colleges Forum (now known as Sixth Form Colleges Association), which negotiates national terms and conditions, in 2010. It consults with the NUT, UCU, ATL and Unison. The unions accepted that the college was at the risk of closing and could not afford national terms and conditions. They accepted changes such as a reduction in redundancy pay to statutory levels in return for incorporating teaching hours of 23 per week (828 a year) and 65 days' holiday into John Ruskin teaching contracts, which are based on AoC model contracts. In contrast, the teaching hours of teachers on sixth form college contracts can be varied at the discretion of their principals. Normal working hours at John Ruskin are 37 for all staff.

There is a staff briefing every Friday morning during term-time, at 8.45, which every employee is expected to attend, and staff surveys were carried out in 2012 and 2013. Whenever new policies are proposed these are circulated to all staff as well as the trade unions. The college is intending to apply for Investors in People Gold in the 2014/15 academic year.

8.2 Challenges and strategies

John Ruskin was a college with severe financial and quality problems. The new Principal’s strategy was to grow the college out of its financial difficulties by improving the standard of teaching and thus the quality of what it was offering students. In the five years between 2009 and 2014 student success rates have increased from 64 per cent to over 89 per cent, student
numbers have increased and are continuing to grow and college finances are under control.

8.3 Managing performance

Performance management and staff appraisal at John Ruskin is underpinned by a number of approaches:

- It builds on individual best practice, using solution focused coaching, a technique which seeks to find out what an individual does well so they can do more of it and what they don't do well, so they can do something else.
- Small steps, based on the individual's own best practice, are used to progress towards targets and college goals.
- The individual has to take responsibility for improving their own performance and seek out themselves any help they need to do it.
- Difficulties are defined as issues rather than problems.
- ‘Fierce conversations’, a practical way to have hard conversations without having an argument or getting personal. Rather than saying, ‘You are performing poorly when it comes to meeting college attendance targets,’ issues are defined objectively – ‘the attendance of a group of students for which you are responsible is not meeting college expectations.’ The next part of the appraisal conversation is: ‘How could you improve this?’

8.4 Appraisal

Staff are formally appraised annually, normally in the autumn term, and have at least one other review meeting each term. Appraisers are trained. Before staff are appraised, they rate their own performance (the self-assessment form), allocating a total of 100 points for their performance over the previous year between the following:

- Could have been better
- OK for now
- Really good
- Peak performance, me at my best.

The employee's analysis of their own performance is the vehicle for the appraisal discussion with the line manager. The discussion focuses in the first instance on the employee's successes rather than any failures. It then moves on to discuss how those skills can be used to improve performance in areas where things have not gone so well. The entire college staff took part in a training session on solution focused coaching, and some 20 members of staff have received additional training to help them provide informal coaching in the technique. Solution focused coaching is also used with students to help them improve performance.

The agenda for the appraisal meeting, which may be discussed beforehand, includes:

- the completed self-assessment form
- the previous year's action plan, with agreed targets
- the previous year's professional development plan
- for teachers, a performance data information form, pre-populated by the college and the outcome of a lesson observation
- any other evidence of performance and/or achievement.
During the appraisal meeting, or within two working days of it, the appraiser completes an action plan stating the agreed targets and the professional development needs relevant to achieving those targets. There are usually only four targets, which for teachers would be student attendance and success rates, the lesson observation grade, and one personal target. Business support staff targets are SMART; specific, measurable, achievable, realistic, and time based. Another meeting can be held within five working days to discuss the action plan. The appraisee must then sign the form within two working days. Their signature confirms that the process has been completed rather than whether they agree with the outcomes. If they disagree they can raise an appeal within five working days, with the appeal heard by the Vice Principal. If the action plan and targets are held to be unfair they will be amended.

Over the years various approaches have been used to help teachers improve. The first approach involved ‘supported experiments’, whereby staff experimented with different ideas, measured the impact and shared good practice, supported by trained coaches throughout. This had a dramatic effect on teacher performance, the Principal says. Supported experiments then evolved into learning communities, which consisted of groups of teachers and support staff that shared common values or beliefs actively engaging in learning together. These were popular though not quite so successful. In 2014, the Vice Principal has organised smaller groups and more directed activities. In all cases it is the responsibility of the teacher to join a group and use that resource to improve their performance.

8.5 Capability procedure

While John Ruskin seeks to use the appraisal process to encourage and help staff to achieve desired levels of performance, the capability policy sets out a clear multi-stage procedure, leading ultimately to dismissal, to ensure that poorly performing staff either improve or leave the college. The procedure is summarised below.

*Informal – stage 1*
Poor performance, which could be a teaching observation grade 3 or 4, prompts an informal discussion. Targets and agreed timescales for improvement are set. Help and support will be provided but it is the employee’s responsibility to seek and source that help and support. Failure to improve within two weeks to a month will result in moving to the next stage.

*Formal – stage 2*
The formal hearing sets out the issues to be addressed by the employee. An updated action plan with improvements, targets and timescales is agreed. The employee may be given a formal written warning that the job is at risk if improvements are not achieved, normally within one to two months.

*Formal – stage 3*
Failure to achieve the improvements set out in stage 2 results in a second formal hearing. This is chaired by a senior manager, who will decide what action is to be taken. The employee can give their interpretation of events and the college recognises that circumstances outside the individual’s control may have caused or contributed to reduced effectiveness. Further monitoring and assessment is agreed and the employee may be given a formal final written warning that the job is at risk if improvements are not achieved, normally within one month.

*Formal – stage 4*
Failure to achieve the improvements set out in stage 3 results in a third formal hearing. This
final review is chaired by a senior manager and may lead directly to stage 5.

**Formal – stage 5**
The Assistant Principal or Vice Principal will hear the case of the employee and the senior manager. If insufficient progress has been made the employee will be dismissed, with the right to appeal.

**Appeal**
The Principal will hear the employee’s appeal. This can cite new evidence not used in stage 5 and/or non-compliance with the procedure by the college. The Principal says that he encourages staff to appeal, recognising that the college can make mistakes. In practice staff do appeal and in some cases have had their appeals upheld.

If the employee makes sufficient progress and is taken out of the capability procedure the employee will have a written warning kept on file for 12 months and a final written warning kept on file for 18 months from the date of the meeting.

8.6 Capability and teaching observations

John Ruskin College requires grade 1 or grade 2 performance. Teachers given a grade 3 or 4 during a lesson observation will be monitored and supported to ensure improvement. If the next observation shows no improvement, the capability procedure is invoked. Teachers with an observed grade 3 or 4 performance are required to:

- attend weekly support sessions with a Teaching and Learning Mentor on a one-to-one basis for four teaching weeks following the observation. This usually involves four sessions.
- undertake peer observation and attend relevant bitesize/CPD sessions, as appropriate
- undertake a graded re-observation by the programme leader and senior member of the observation team after four weeks.
- If a teacher continually oscillates between grade 2 and grade 3 observations they will remain in the capability process until they deliver grade 2 performance consistently.

8.7 Pay and progression

Academic staff are paid on a six point incremental pay scale, ranging from £23,191 to £32,848, while support staff are on three point scales. All staff earn at least the London Living Wage of £8.80 per hour, £16,978 pa. The outer London allowance has been consolidated into these rates. There is no formal policy of withholding increments from poorly performing staff. The college considers this unnecessary because its other performance improvement policies are so rigorous that any member of staff with grade 3 or 4 performance will already be in the capability procedure, whereby a failure to improve can result in dismissal. There were no pay increases in 2012 and 2013. The college plans to increase pay in September 2014.

When John Ruskin College broke away from national bargaining by the Sixth Form Colleges Forum in 2010 it abandoned the three additional scale points for teachers known as Professional Standards Payments, worth up to an additional £5,000 a year. It considered the criteria woolly and the payments unsustainable in the then financial climate. It introduced instead a non-consolidated Advanced Excellent Teacher bonus worth £3,739. This is paid to those who meet very high student attendance, punctuality and success rates and has received grade 1 or grade 2 in teaching observations over the previous two years. This
scheme has become a victim of the college’s success, the Principal says. In addition, a number of different teachers may contribute to a student’s performance. Everyone is expected to meet these targets now and the college does not feel it appropriate to pay additional sums for what is seen as doing the basic job. The bonus will therefore be withdrawn from 1 September 2014. Instead, the number of permanent curriculum coordinator posts, paying £35,255 pa, will be increased.

The college is still looking for a way to reward excellent teachers at the top of their pay scale who don’t want to be managers, and is considering introducing a bonus for those who share best practice with colleagues.

8.8 Sickness and redundancy policies

When the college broke away from national bargaining of the SFCF it changed its staff sickness and redundancy policies. From July 2013, staff have received only Statutory Sick Pay for the first nine months’ service, and one week’s sick pay for the remaining three months of the first year’s service. Entitlement then rises steadily to six months’ full pay and six months’ half pay for those with five years’ service.

A counselling interview involving the employee, their line manager and Human Resources is triggered by employee absences of six working days or three occasions within a six-month period, even if these occur during the first nine months of service when the employee is not receiving occupational sick pay. A further absence within the same six-month period or if an employee repeatedly falls just short of the trigger point in consecutive years may result in the college’s capability or disciplinary policies being applied.

The previously applied Sixth Form Colleges national terms and conditions provided that notice of redundancy could only be given at the end of a term. Now three months’ notice can be given at any time, with payments based on the statutory provision of one week’s pay for each year of service between the ages of 22 and 40 and one and a half weeks’ pay for each year of service from the age of 41.

8.9 Recruitment and retention

Along with most other colleges John Ruskin finds it challenging to recruit maths, science and English teachers, but it has not found it necessary to introduce any additional payments. It has improved the quality of appointees by requiring interviewees to produce a short lesson plan and deliver the lesson to students, without knowing the subject in advance. ‘This really identifies highly skilled, quality teachers who can deliver an outstanding lesson’, the HR manager says.

8.10 Recognition

The college has a reward and recognition policy and procedure designed to recognise exceptional staff performance. There is ad hoc recognition with small gifts at team level and formal awards for outstanding teaching and learning, excellent leadership and initiative, outstanding client service and exceptional team work. Budgets are relatively small - £200 a year per department and £2,000 a year for all formal awards – but the Principal says that this is the most profitable and effective use of college funds. A typical award would be a meal with drinks at a local restaurant for all grade 1 teachers.
8.11 Future challenges

Being unable to remunerate the staff as they deserve has been difficult, the Principal, says, but this is about to change. High levels of student applications for 2014/15 mean that the college can now plan to award a percentage increase on 1 September 2014, together with an additional lump sum to try to bring business support staff pay up to competitive levels. It is also hoping to award a further percentage pay increase in February 2015. Some 20 per cent of posts are being re-evaluated with a view to increasing salaries. The college’s three yearplan is that by September 2017 John Ruskin employees will be the best paid college staff in the region.
As the preceding chapters show, the case study colleges have dealt with financial challenges facing the sector in a number of ways but all share a common theme which can be summarised under the expression ‘how to do more with less’. It is particularly telling, also, that a majority of the case study colleges explicitly state that they view the current climate as an opportunity rather than a problem and as the ‘Objective’ column in Table 12 on page 66 shows, colleges’ objectives ranged from increasing quality in an environment of reduced funding, encouraging excellent performance while making significant efficiency savings, and a commitment to growth in the face of funding cuts.

There are shared approaches, too, in the way colleges have met their objectives, and all the case study colleges we interviewed said that their overriding aim was to strengthen the link between performance and reward. Given that this is a common theme among the case study companies, and, as the AoC’s latest annual survey of the sector shows, as with trends in wider public and private sectors highlighted in section 2.3.4, non-automatic progression is now utilised by more than half of the respondents, this section brings together some ‘best practice’, drawing on existing IDS research and linked to the case study organisations featured.

9.1 Why can performance-related pay prompt debate?

Performance-related pay has featured in a number of recent disputes, with some employers deciding to delay or moderate plans to introduce or increase the use of performance pay. In the section below we examine why paying for performance can produce as many questions for employers as it aims to provide solutions.

Reward professionals have long been faced with the challenge of ensuring pay is sufficient to recruit, retain and motivate while simultaneously managing paybill costs. Proponents of performance-related pay argue that those who provide a greater contribution should be rewarded accordingly. Conversely, they believe that poor performers should not benefit unfairly from pay and progression arrangements.

In principle employees sometimes support the idea of performance-related pay. Individuals may be attracted to the prospect of receiving higher rewards in light of their output,

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6 For example, a ballot for industrial action at the Atomic Weapons Establishment in 2011 resulted in the organisation agreeing to review its system of performance appraisals which were criticised for a lack of transparency. See IDS Pay Report, 1065, p.3
especially where they feel they consistently produce work of a high standard.

However, in practice, performance-related pay has proved problematic in many cases and come under great scrutiny. Below we examine some of the key reasons for this. One of the main criticisms of performance-related pay is that, while it attempts to reward individuals’ performance, in reality, this can be very hard to measure.

9.1.1 How measured?

The Institute of Public Policy Research examined employee opinions on pay in June 2011, partly through the use of focus groups. The research saw participants question the extent to which individual performance can be judged with any precision.

One group, made up of ‘high earners’ (individuals earning over £80,000 a year) were asked for their views on performance pay. This cohort was, as a whole, supportive of performance-related pay in theory, not least because of the rewards they felt might potentially be available to workers within their income bracket via such a mechanism. However, the group members ‘quickly conceded that the processes supporting the setting and monitoring of performance-related pay are often flawed’.

Many schemes rely on being able to measure performance when this just may not be possible to assess in any meaningful or accurate way. For example, performance may be relatively easy to assess for piece-workers or operatives, in terms of quantities of a good produced to a required standard within a certain time. However, for multi-faceted white-collar roles that require myriad qualitative judgements about what successful performance looks like, the process can be far more complex and vulnerable to error and inconsistency.

Furthermore, individual contribution to a team – or the wider organisation’s success – can often be hard to pinpoint. Many jobs aren’t characterised by isolated output. Far more common are roles where fellow colleagues, high-level decision-makers, and workplace-wide systems affect an individual’s chances of securing successful outcomes against their own aims. Advocate of performance pay, reward academic John Lockett, has argued a key concept for successful systems is leverage – the capacity of the individual or team to really influence company performance.

Even for sales staff – whose output we might suppose would be relatively easy to measure (via sales), problems can arise. According to a group of American academics, Myron Glassman, Aaron Glassman, Paul Champagne and Michael Zugelder, even sales staff are an example of an employee group where control is limited. Salespeople may be limited in their role by the employer’s capacity to produce desirable goods or services, and adversely affected by marketing strategies determined higher up the organisational structure.

Reviewing a wide range of research on performance related pay, the above authors argued that performance related pay is most effective in cases where there exists ‘a narrow range of job tasks and people who perform different jobs are not in the same merit pool’. Where this is not the case, it can be difficult to establish the individual factors contributing to ‘success’

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7 Institute for Public Policy Research ‘Attitudes to Pay, Reward and Desert’ Interim Report (2011)
8 Lockett, J. Effective Performance Management (1992), e.g. The concept of ‘leverage’ is, for Lockett, ‘the capacity of the individual or team to really influence…performance…the individual or team need to be clear about targets which they have been set.’
and determine the relative value and importance accordingly.

### 9.1.2 Whose performance?

Even if the problem of measurement were overcome, for some staff groups in particular the concept of paying for performance can come into conflict with other reward values, and potentially be an inappropriate fit.

Reward academic Vicky Wright\(^{10}\) has cautioned that too close a focus on the areas of a job where performance is easiest to measure can undermine the importance of crucial aspects of the job for which performance is harder to assess. This can serve to undermine the very behaviour or objectives that an employee is employed to achieve. For instance, where there is too close a focus on test scores or waiting time results to the detriment of broader goals, or where concentration on output sees quality suffer.

### 9.1.3 Who measures?

Training of line managers is essential to try to ensure objectivity. Academic Michael Armstrong\(^{11}\) argues that the success of performance-related pay schemes depends heavily on the behaviour of line managers. Managers, he says, ‘have to believe in it as something that will help them as well as the organisation. They must also be good at practising the crucial skills of agreeing targets, measuring performance fairly and consistently, and providing feedback to their staff on the outcome of performance management and its impact on pay’. Achieving this can be difficult, and the impartiality of line managers can frequently be questioned by their staff.

Research carried out in 1998 by the Centre for Economic Performance found evidence that while many staff in the public sector supported the principle of performance-related pay, they had major objections to its practice; in part because it was believed that line managers used it as a way to reward ‘favourites’\(^{12}\).

Managers also need to be cautioned against rewarding only that performance that feeds into the manager’s own performance rating.

### 9.1.4 Winners and losers

Performance-related pay affords companies the opportunity to reward and retain the highest performers and most vital staff – those crucial to a company’s innovation efforts, for instance. However, in reality, there can be losers. Such imbalances can have potentially far-reaching consequences.

Applying performance ratings can help ensure employees have a clear understanding of their levels of performance. An employee rated as ‘exceptional’ can have no misapprehensions about his or her performance; nor can an employee rated ‘below expectations’. In this way, ratings allow employers to clearly differentiate between high performers and those underperformers who they may ultimately seek to manage out of the company.

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The case study organisations in this report show how this can be avoided, with the use of clear, objective performance data benchmarked, where relevant, against clear comparators. E.g. national average exam results.
Some organisations believe that giving an overall rating has a negative impact on employee motivation and correspondingly on performance. Employees may feel demotivated if they are only classified as ‘effective’, particularly if a colleague has been rated ‘outstanding’. This is likely to be exacerbated if the employee feels his or her targets for the year were unrealistic or the final rating has not taken account of his or her wider contribution. Whatever approach an organisation takes to rating, it needs to avoid a situation in which employees and line managers are overly focused on the mark achieved at the expense of developing capability and supporting overall business performance. The focus should be on line managers coaching their employees and fostering an environment in which staff feel confident to give open and honest feedback as a matter of course.

Evidence also suggests that performance-related pay systems can lead to employees doing the same or similar work being paid markedly different pay rates over time. In such cases companies could be vulnerable to equal pay claims (unless differences can be objectively justified). Research carried out by the Equality and Human Rights Commission in the autumn of 2009 found this was particularly true in the finance sector, where bonuses can exacerbate the trend. A short time earlier that year, consumer manufacturing giant Unilever revised its highly-individualised performance-related salary band system to a ‘rate for the job’ based on job evaluation and market pay rates. A new progression system was also developed, to allow reward for competency accrued over time. The change was partly prompted by concerns that equal pay claims could be brought against it.

9.1.5 The budget for merit-pay

While pay increases are in theory determined by performance, in many cases the pot for pay increases is constrained by a tightly controlled central budget. This budget can often be set at levels very similar to general increases awarded for other groups within large businesses, often because factors such as affordability and inflation determine both budget figures. As such, a large proportion of staff may end up receiving the same award, undermining the idea of paying for performance. In addition, it may be easier for a line manager to award low but equal performance increases to staff than be forced to freeze pay for the bulk of staff because a small pay pot would only afford 5 per cent-plus increases for a very small section of his or her workforce, potentially resulting in conflict.

Employers need to be careful to design performance related pay systems in ways that aren’t interpreted as attempts to squeeze the company paybill. Staff may be particularly suspicious in this respect in the aftermath of recession-induced pay freezes and/or during periods of high inflation.

9.1.6 Refinements

Employers have not been blind to the criticisms levelled against performance-related pay. As well as ensuring a clear line between general increases and merit increases, compared with the more rudimentary systems of the 1980s, many companies have refined their performance-related pay systems or have combined performance-related pay with other reward mechanisms (such as bonuses) to encourage other values, such as teamwork.

A significant proportion of companies with merit-based pay systems that IDS monitors over the course of each year appear to have been careful over the past decade in particular to create hybrid performance-related pay systems. These tend to take one of two main forms.

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In some cases this has involved marrying market pay rates with performance matrices and transparency. At John Lewis for example, all staff – or ‘partners’ – receive the market rate, as determined by HR departmental research from a range of sources. Merit increases are then paid on top of this, in line with performance and responsibilities. Moreover, all partners can find out the range of pay for their job or type of work, where they sit within the range and what would be required of them to produce an improvement to their pay.

Some companies have broadened their understanding of performance to try to give a more rounded view in the hope of achieving more balanced performance measurement. In some cases this is examined in terms of behaviours and performance, or relating pay to competency and skills. National Australia Group distinguishes between performance and behaviour – recognising both in its employees. For instance, staff rated as ‘needing improvement’ can still be seen as demonstrating ‘exceptional behaviours’, although they would not receive as high an increase as competent performers and above.

‘Contribution-related’ pay is advocated by reward academics Duncan Brown and Michael Armstrong14, in which performance is understood as output driven but where competence is also factored in. However, the duo concedes that for many, reservations about this approach remain because of the continued issue of achieving accurate measurement consistently.

Following an extensive study into the effectiveness of performance-related pay, they found that the practice could not be declared as either universally successful or unsuccessful. They concluded ‘the research does show that the effectiveness of pay-for-performance schemes is highly context and situation-specific’ but that it also regularly revealed problems when schemes were put into practice.

9.2   Key features for ‘best practice’ progression system

While progression systems vary, IDS research shows that there are a number of key features of progression systems that can be considered ‘best practice’. This section identifies those features with reference, where relevant, to the case studies featured in the report:

**Communication of organisational aims**
Central to any attempt to more closely align pay policies with an organisation’s aim is communication – both in terms of clearly communicating strategy to staff and listening to employees.

One aspect all the case study organisations have in common is clear, two-way communication carried out via a number of mediums including weekly staff briefings at Weston College, six Staff Conferences a year, on the Friday at the end of each half-term, and departmental meetings every term at Middlesbrough College. Both Weston and Middlesbrough College as well as the college that chose to remain anonymous mention the use of staff surveys as important in understanding staff concerns.

**Structured and clear career paths**
Structured and clear career paths are key to providing pay transparency. This may involve an incremental pay structure or clearly defined grades, or a combination of these.

All the case study organisations featured very clear career paths, with pay either based on AoC recommended pay scale or tailored to suit a college’s individual requirements.

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**Clarity about the requirements**
Clarity about the requirements for progression ensures employees fully understand the opportunities open to them and what they need to do in order to progress. Each case study college featured in the report emphasises the importance of clear and objective targets and action plans, and in all cases these are based on a number of different areas including learner outcomes benchmarked against national averages, use of technology, such as e-learning, lesson observations and evidence of continuing professional development undertaken. A number of colleges emphasise the importance of software such as ProAcheive and iTrent to capture and store performance data.

**Regular reviews and appraisals**
Regular appraisals and development reviews ensure employees understand how they are progressing against their objectives and regular feedback provides the opportunity to address any shortcomings.

Further individual communication, in the form of regular meetings and appraisals, is key for all case study organisations featured. From regular 1-2-1 meetings, mid-year appraisals and formal, year-end appraisals at Weston College, to more general forums such as staff meetings and surveys are highlighted as crucial in listening to and understanding staff concerns.

**Active role for employees**
Employees should also play an active role in the appraisal process, for instance, through setting their objectives and by documenting evidence on competencies/skills achieved.
<table>
<thead>
<tr>
<th>ID</th>
<th>College</th>
<th>Objective</th>
<th>Focus</th>
<th>Pay/performance strategy</th>
<th>Benefits</th>
<th>Other measures</th>
<th>Communication</th>
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<td>Reduce costs, preserve jobs</td>
<td>Cost management</td>
<td>Reduction of above market pay for lecturers and managers. New performance management strategy instead of automatic increments. Use of hourly paid academic staff (instead of agency staff) and flexible hours contracts. Some management redundancies</td>
<td>Reducing holidays, staged over 3 years</td>
<td>Benchmarking vs other colleges.</td>
<td>Road shows 4 x per day for 4 weeks to communicate changes</td>
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<td>2</td>
<td>Weston College</td>
<td>Increase quality in an environment of reduced funding</td>
<td>Employment policies geared to obtaining and rewarding excellent performance. Wider focus on being an ‘employer of choice’</td>
<td>College only employs curriculum staff whose performance is graded ‘outstanding’ or ‘good’. Capability procedure invoked for staff failing to meet required performance. Staff receive a non-consolidated award in addition to a consolidated award, provided the college has a financial surplus. Incremental progression available to staff who meet targets</td>
<td>Benchmarking pay vs other colleges. Focus on recruitment from within</td>
<td>Regular one to one meetings, mid-year appraisal, formal year-end appraisal. Twice yearly address from Principal and updates from heads of faculty/departments</td>
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<tr>
<td>3</td>
<td>Case study 3 - anon</td>
<td>Significant efficiency savings while avoiding compulsory redundancies. Encouraging excellent performance</td>
<td>New approaches to pay and HR policies</td>
<td>Aligning pay progression to successful performance evaluation with student success the focus. Higher lecturer paypoints for excellent performance. Non-consolidated bonuses linked to faculty-wide success rates</td>
<td>Introduction of holiday buying. Reductions to discretionary sick pay provision and increase in qualifying periods</td>
<td>Work underway to harmonise management and business support to single pay scale</td>
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<td>ID</td>
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<td>4</td>
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<td>More opportunity for progression dependent on performance, no incremental/cost of living progression for poor unsatisfactory performance</td>
<td>Reducing holidays</td>
<td>Changes to sickness, capability and disciplinary procedures. Benchmarking vs other colleges. Advanced Practitioner Course. ‘Golden Hello’ to attract staff</td>
<td>6 staff conferences a year, annual staff survey, focus groups</td>
</tr>
<tr>
<td>5</td>
<td>John Ruskin College</td>
<td>2013 onwards - ‘Outstanding’ rating awarded by OFSTED - aim for all teaching staff to be rated Grade 1 for performance</td>
<td>Revision of capability, disciplinary, sickness and redundancy policies to send clear messages to staff about what was acceptable to and affordable by the college</td>
<td>Robust performance management. Targets based on student attendance, success rates, lesson observation grade, and one personal target. Introduction of non-consolidated Advanced Excellent Teacher bonus worth £3,739</td>
<td>Changes to sickness and redundancy policies</td>
<td>Reward and recognition policy and procedure designed to recognise exceptional staff performance</td>
<td>At least two appraisal/performance review meetings each year. Staff briefing every Friday morning during term-time, at 8.45, which every employee is expected to attend, and staff surveys carried out in 2012 and 2013</td>
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</table>
While a key focus for the case study colleges was the ambition to strengthen the link between pay and organisation performance through an emphasis on managing pay progression, this was just one of a number of other measures that were implemented by the case study organisations in ongoing efforts to manage costs and drive up quality. The remaining measures are summarised in Table 12 and include the following:

**Constructive engagement with Unions – seeking a collaborative approach to problems facing the sector**

It is imperative that organisations considering or undergoing change need to foster a collaboration relationship with employees and employee representatives. As IDS research shows[^15], based on 6 case study interviews of organisations facing budget cuts and challenging market conditions, employee engagement has become more important than ever. Engaged employees, the case study organisations argue, are more likely to support their employers’ efforts to cut costs and manage with fewer resources. Such employees are also less likely to look for employment elsewhere. At the heart of constructive engagement is effective communication.

**Use of market intelligence to ensure salaries are in line with market rates – one organisation refers to AoC surveys and other surveys undertaken through the JISC HR Network and JISC Fin Directors Network**

Effective pay benchmarking is one of the building blocks of reward and most organisations need to carry out pay benchmarking exercises from time to time to compare their salary levels to those paid at other companies for similar jobs. While pay benchmarking is not an exact science there are a number of approaches that can help ensure the accuracy and usefulness of the benchmark data. For example, to ensure that the data being used for a pay benchmarking exercise is reliable, it is often prudent to ‘triangulate’, and look across at least three different sources for comparisons. Different types of salary survey are available from a range of providers. The most common are general commercial surveys which focus on a business sector or specific job roles. These are sometimes limited to participants, or sometimes available to non-participants at a higher price. Other surveys include club surveys, in which information is gathered from members of a salary club; membership surveys, conducted by professional associations; and specialist recruitment surveys undertaken by reward professionals, such as IDS.

**A focus on recruitment from within**

The aim of any effective talent management programme is to improve the capability of an organisation’s employees and, ultimately, the business itself; at the heart of such a

[^15]: Developing an Engagement Strategy, IDS HR Studies 946, June 2011
programme is an organisation's ability to recognise and develop potential employees to progress within the organisation. While formal programmes offer structured development, many organisations place great emphasis on developing high potential employees into ‘rounded’ talent by providing them with relevant practical experience. This may take the form of project work, secondments, external assignments, planned deputising or work shadowing.

**Recognition – such as non-consolidated awards to award excellent performance.** Employee recognition schemes provide a means of acknowledging employees who have ‘gone the extra mile’ – and of encouraging others to follow suit. As part of a holistic approach to employee engagement, such schemes can help to motivate employees and promote company values. However, schemes need to be managed carefully – in particular, the judging process must be fair and transparent – or there is a strong risk they will become divisive and actually de-motivate staff.

**Clear recruitment and retention strategy – e.g. to become an employer of choice.** To attract the best candidates, organisations need to differentiate themselves from their competitors. Offering a high salary or a ‘golden hello’ is one tried and trusted way of standing out from the crowd – but many employers now think beyond financial sweeteners, to the full employee proposition that they offer. Factors such as opportunities for personal development, scope for career progression and a good work-life balance are becoming increasingly important to job seekers. By considering and promoting these less tangible aspects of working life alongside the financial rewards, many companies now aspire to become an ‘employer of choice’.

‘Golden hellos’ to attract staff for hard to recruit subjects

The remaining measures are straightforward management/cost saving initiatives and include:

- Reduction of holidays
- Better management of sickness absence procedures
- Recruiting hourly paid academic staff directly, rather than use an agency
- Reduction of redundancy notice period on academic contracts.

While there are a whole range of options available to any organisation considering change and improvement, what should hopefully be clear from the preceding section(s) is that there is no single measure that can result in a closer alignment between pay strategy and an organisation’s performance. Indeed, it is very clear from the case study organisations that any initiatives undertaken should be embarked upon as part of a wider strategy to increase performance and manage costs, and that a large part of this is to help ensure that employees have a clear sight of and belief in, the organisation’s overall goals.
Appendix

IDS/AOC RESEARCH MAY-JUNE 2014
CASE STUDIES AND GUIDANCE ON NEW APPROACHES TO PAY IN FE COLLEGES

1. College interviewee(s)
2. Interviewee(s)' contact details

A. About the organisation

3. College
4. Location
5. Occupational groups and number of employees in each?
6. Which unions are recognised for consultation and/or collective bargaining?
7. Do you have single table bargaining or does each union negotiate separately?

B. Challenges and strategies

8. What funding, paybill or recruitment (as in student numbers) challenges is the college facing?
9. What overall strategies are you adopting to help deal with these challenges?
10. What new approaches to pay/reward have you adopted or are planning to adopt to help meet funding and other challenges?
11. Is the desire to ensure equal treatment of staff an important factor in your pay policy?
12. Is pay policy used to drive organisational performance? If so, how?

C. Current pay arrangements and what has changed, broken down into:

Pay structures
13. Do/did you have a single harmonised pay structure in your organisation, or separate structures for academic and support staff?
14. What are/were the characteristics of each structure?
   • Incremental scale(s), and if so, how many steps are/were there in each grade?
   • Salary range(s)
   • Spot/market salaries

Pay progression
15. Do/did employees receive a pay increase each year? If yes, is pay progression based on:
• Cost of living
• Length of service (incremental)
• Performance
• Competencies
• Skills acquisitions/development
• Contribution
• Market rates/pay benchmarking
• Other

16. Do/did you have separate budgets for cost of living and/or performance increases?
17. Is/was incremental progression automatic? If not, on what basis are increments awarded? Is there automatic progression to a certain point, then discretionary progression thereafter?
18. How frequently are/were increments awarded?
19. Is there an appraisal process linked/not linked to pay increases?
20. Please explain how progression works/worked, for example
   • If based on length of service, please explain
   • If based on performance, how is performance measured?
   • If competencies, what are they and how are they measured?
   • If based on market rates, how are these established?

**Recruitment and retention issues**
21. Does/did the college have concerns as to its ability to recruit and retain staff?
22. Are/were there special arrangements/payments for new/hard-to-recruit staff? Please explain. Are any payments permanent or temporary, and if temporary, how often are they reviewed?

**D. Outcomes**

23. Are you experiencing any problems with your current or planned approaches to pay?
24. Is the effectiveness of current pay arrangements evaluated, and if so, how?
25. Do you have any other comments on the challenges the college has faced, its response, and the outcome of any changes you have made