

Executive Reward Strategy Gladstone Regional Council



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Introduction

Gladstone Regional Council has sought advice from Organisational Insights in relation to the following issues:

- Pay Range and Grading Structure for Managers - Salaries for Senior Officers in accordance with Council's Certified Agreement overlap the Managers' Pay Range raising issues of relativity. Council has recently recruited three new Managers and had to offer the maximum level of the Pay Range, or even the next level, to match or exceed existing remuneration packages.
- Private Use Motor Vehicle Policy proposed amendments - Council has reviewed the private use of vehicles for Executive Staff, with a novated lease option available to replace Council supplied vehicles when the vehicle is due to be replaced.

The predominant issue is in relation to the grading structure and pay range for Manager level positions. The original Manager grading structure and applicable pay ranges were developed and accepted by Council prior to the finalisation of the organisation's Enterprise Bargaining Agreement. Because of specific working arrangements agreed in that Agreement, the applicable rates of pay/packages for Level H under that Agreement exceed the package available to Level 3 Managers.

This has resulted in a range of issues including:

- Pay ranges for Level H the equivalent of and overlap with Manager Level 3 pay ranges.
- This creates a relatively problem where the work value of Manager Level 3 positions is higher than Agreement Level H however that work value differential is not reflected in reward.
- Incumbents of Level H positions are reluctant to apply and accept appointment to Manager Level 3 vacancies leading to not necessarily the best person for the job being appointed.
- This anomalous reward relativity impacts on appropriate reward strategy and framework conducive to an appropriate career pathway.

In relation to the advice being sought regarding the provision of motor vehicles, information sought is the appropriate valuation of motor vehicles in the executive packages.



Methodology

The consultant's approach in undertaking this consultancy is set out hereunder in summary form:

- Review of Council documentation.
- Review of Manager position documentation.
- Completion of Position Analysis Questionnaire by incumbents.
- Analysis of role accountabilities and relative work value.
- Design of grade structures, reward design and reward quantum and allocation of Manager roles to appropriate levels.
- Review of Director packages to maintain relativity with recommendations on Manager gradings and pay ranges.
- Review of Council documentation in relation to motor vehicle policy and research and development recommendations in terms of evaluation of the motor vehicle in executive packages.
- Preparation of this report and presentation to Council for discussion, review and endorsement.

The methodology utilised provided an appropriate level of information and data and informed the consultant of the requirements and demands of each of the Managers roles. This provided a sound basis to undertake a work value assessment of each of the individual roles and to develop a new grading structure and pay ranges. The applied methodology on this occasion differed from the original establishment of executive arrangements some two years ago in that interviews of individual incumbents was not undertaken on this occasion. Given this is the second time that these roles have been evaluated, this had no adverse effect or impact on the reliability of the outcomes of the review.



Work Value Assessment – Managers

A proven job evaluation methodology was applied in the assessment of the work value of Manager positions. The Argent Group Work Evaluation System has been designed to make the process of evaluating and classifying jobs easier, quicker, more efficient and more cost-effective, compared to existing job evaluation systems. Because this system is more straightforward it is easier to learn than others, and is more user-friendly for beginning and also advanced evaluators.

The AG work evaluation system follows a basic systems model of work. All jobs require a certain level of knowledge and skills for incumbents to be able to perform the work, which are really the *inputs* of the job. The application of this knowledge and skill in resolving problems and achieving the thinking challenges inherent in the role is really the *process* component of the job, which is called the Complexity factor in the AG system. Finally, all jobs are required to produce some sort of *outputs* or outcomes, which we refer to as Accountability. Accountability includes elements such as the level of responsibility, as well as the size/impact of the role and its authority with regard to making decisions.

Work value assessments were undertaken for each of the manager positions utilising the Argent job evaluation methodology. The work value assessments resulting from the evaluation were compared to the assessments undertaken on initial implementation of executive arrangements some two years ago to verify and ensure consistency of the outcomes.

The work value outcomes are set out below as clusters of like (approximately the same) assessments. Set out below are the outcomes showing the highest work value positions first through to the lowest at the bottom:

- **Water and Sewerage, Construction Projects, Works Operations.**
- **Human and Social Services.**
- **Parks and Recreation, Development Works, Infrastructure Planning, Human Resources, Development Assessment, Projects Co-ordination, Information Technology.**
- **Airport, Sustainability and Waste Services, Projects, Assets, Environmental Health and Compliance, Fleet.**
- **Customer Service, Library, Sport and Recreation, Aquatic Centres.**
- **Business Improvement, Contracts and Procurement, Community Relations.**
- **Occupational Health and Safety, Records, Arts and Heritage, Performing Arts.**
- **IT Systems and Customer Service**



Grading Structures

In developing recommendations for grade structures the following considerations are taken into account:

- **Relative work value clusters.**
- **Narrow or broad bands.**
- **Context specific considerations (interim or final structure).**
- **Local government practice.**

There is currently a three grade structure for Managers. In reviewing the work value outcomes, the above considerations in relation to the development of grading structures, and in particular manager grading structures from councils of a similar size to Gladstone, Organisational Insights recommends the continuance of three grade structure for Manager level positions with however some variation to the work value ranges of each of the recommended grades.

Set out below is a three grade structure with the relevant positioning of manager roles within each grade:

Level 3	Level 2	Level 1
<p><i>CEO</i></p> <ul style="list-style-type: none"> • Business Improvement <p><i>Community Services</i></p> <ul style="list-style-type: none"> • Arts and Heritage • Community Relations • Library • Performing Arts <p><i>Corporate and Business</i></p> <ul style="list-style-type: none"> • Customer Service • IT Systems and Customer Service • Occupational Health and Safety • Records <p><i>Environment and Recreation</i></p> <ul style="list-style-type: none"> • Pools • Sports and Recreation <p><i>Finance</i></p> <ul style="list-style-type: none"> • Contracts and Procurement 	<p><i>CEO</i></p> <ul style="list-style-type: none"> • Projects <p><i>Corporate and Business</i></p> <ul style="list-style-type: none"> • Airport • Assets • Fleet Manager • Human Resources • Information Technology <p><i>Environment and Recreation</i></p> <ul style="list-style-type: none"> • Environment and Waste • Environmental Health • Parks and Recreation <p><i>Statutory Planning</i></p> <ul style="list-style-type: none"> • Development Assessment • Development Works <p><i>Strategic Planning</i></p> <ul style="list-style-type: none"> • Infrastructure Planning • Projects Co-ordination 	<p><i>Community Services</i></p> <ul style="list-style-type: none"> • Human and Social Services <p><i>Infrastructure Services</i></p> <ul style="list-style-type: none"> • Construction Projects • Water and Sewerage • Works Operations

Manager Design Services has not been reviewed at this stage pending changes to the Departmental structure.



Marketplace Alignment

One significant issue to determine in development of a reward strategy for Managers is the market against which Council will seek to align and be compared to. Options in this regard include:

- **Local Government.**
- **Public Service (National/Queensland for example).**
- **Statutory Authorities (such as Energex and Queensland Rail).**
- **General Market (includes all industries, sectors and occupational groups).**

The marketplace selected should be consistent as far as possible with that applied to the Chief Executive Officer and Directors i.e national and Queensland local government executive reward alignment to the 25th percentile of the general market.

This is consistent with the recommendations on initial establishment of executive reward arrangements some two years ago. It is also consistent with local government practice. The 25th percentile is recognized as the pay positioning for local government both nationally and in Queensland. Access to reliable and consistent market data is also relatively easy to obtain. An alternative is to utilise local government specific survey data. This has been a problem in the past and continues to be currently in that reliable and consistent survey data is not available for local government. The surveys that do exist usually have a very limited Council contribution, a poor methodology for framing the gathering of data, and an inadequate differentiation of provided reward data to match the appropriate size and profile of an individual Council.

The consultant therefore recommends continuation of the utilisation of the 25th percentile of the General Market for the benchmarking of Manager packages and pay ranges.



Reward Design Options

Consistent with the Chief Executive Officer, Director and current Manager pay model, Organisational Insights recommends adoption of a pay range model for all levels of executives (CEO, Directors, and Managers) applying the following model:

- **Maximum of Pay Range - Exceptional Performer**
- **Midpoint of Pay Range - Competent Performer**
- **Minimum of Pay Range - New Appointee**

It is important in the application of model, that the pay range is applied according to the above principles ie the pay range is not a progression where an individual appointee is placed at a particular pay point in the range and then progresses each year to the top of the range. Positioning on the pay range is based on performance and one would expect that the majority of Managers should attain the midpoint of the pay range (the pay-point for a competent performer). The range from the midpoint of the pay range to the maximum should be restricted to those Managers whose performance is above competent. The use of the intermediary pay points between the midpoint in the maximum should align the level of the performance delivered with an exceptional performer being able to achieve the maximum but performer whose range sits between competent and exceptional on an applicable pay-point between the midpoint in the maximum.



Recommended Pay Range - Managers

In redesigning the pay range for each of the three manager grades, the following considerations have been taken into account:

- Relativity of Manager pay scales to award-based staff (Level H ranges \$99,115 to \$111,342 (base plus super)
- Relativity to (lower Level) Directors packages (\$135600-\$187600).
- Relativity to other Local Government (National and Queensland) executive pay rates.
- The need for consistent internal relativities to provide a career structure/stream in relation to reward.

Suggested Adjustments:

- Adjust Directors Pay Zone 2 upwards. The lower-level pay points for Pay Zone 2 were included to facilitate transition from existing pay points for Directors to new pay scales developed two years ago. These lower-level pay points (having achieved their purpose) should now be deleted. In addition intermediary pay points be designed and included to provide the flexibility in reward provision to reflect performance.
- Adjust the existing pay range for Manager Level 1 upwards and compress the pay ranges for Managers increasing the minimum of Manager Level 3.
- An annual review be undertaken this year to be applied to the recommended rates from the first of July 2011.
- Additional intermediary pay points be applied to Manager's pay scales.

The recommended grading and pay range are set out below:



Level 3*	Level 2*	Level 1*
Max: \$144,000	Max: \$158,000	Max: \$172,500
\$141,500	\$155,500	\$168,500
\$138,000	\$151,000	\$165,000
\$135,500	\$148,500	\$161,500
\$132,000	\$145,000	\$157,500
\$129,500	\$141,500	\$153,500
Mid: \$126,000**	Mid: \$138,000**	Mid: \$150,000**
\$120,000	\$131,000	\$142,500
Min: \$113,000	Min: \$124,000	Min: \$135,000
\$107,000*	**Competent Level	**Competent Level
\$101,000*		
\$ 94,500*		

*Transition Paypoints

**Competent Level

CEO

- Business Improvement

Community Services

- Arts and Heritage
- Community Relations
- Customer Service
- Library
- Performing Arts

Corporate and Business

- IT Systems and Customer Service
- Occupational Health and Safety
- Records

Environment and Recreation

- Pools
- Sports and Recreation

Finance

- Contracts and Procurement

CEO

- Projects

Corporate and Business

- Airport*
- Assets
- Fleet Manager
- Human Resources
- Information Technology

Environment and Recreation

- Environment and Waste
- Environmental Health
- Parks and Recreation

Statutory Planning

- Development Assessment
- Development Works

Strategic Planning

- Infrastructure Planning
- Projects Co-ordination

Community Services

- Human and Social Services

Infrastructure Services

- Construction Projects
- Water and Sewerage
- Works Operations



*Whilst the work value of the position of Airport Manager places it at Manager Level 2, this position attracts a market premium. The airline and air industry positions at the median of the general market as opposed to local government aligning to the 25th percentile. Positioning at the median for the work value of this role would attract a package of \$149,000 (approximating the midpoint of a Manager Level 1). It would be appropriate to consider, in the special circumstances, that this role be positioned at Manager Level 1 given its unique market positioning.

Transition from existing pay rates should be for an individual to the closest pay-point on the new scale above their current package value.

Recommended Pay Range - Directors

The adjusted pay ranges for Directors include adjustments for the deletion of temporary lower-level pay points initially included to assist transition on implementation some two years ago of executive arrangements, and the inclusion of intermediary pay points.

As for managers, the majority of Directors would most likely be positioned at the competent level pay-point with the pay ranges between the midpoint and the maximum restricted to those Directors whose performance is above competent.

Set out below other recommended new pay ranges for Directors:

Pay Zone 1	EC Range*	Pay Zone 2
Maximum	\$215,700	
	\$211,000	
	\$206,400	
	\$201,700	
	\$197,000	
	\$192,300	
Midpoint *	\$187,600	Maximum
	\$182,900	
	\$178,200	
	\$173,500	
Minimum	\$168,800	Midpoint*
	\$159,500	
	\$150,100	Minimum

*(Competent)



Treatment of Motor Vehicles

Current attributed package value for the private use of the motor vehicle is set out below

Vehicle	Package Value
Omega 6cyl	\$16,000
Berlina	\$18,000

The above values do not take into account the deduction of \$411 per annum (average) for fuel purchased by the executive from a non-depot location. This calculation has been provided by Gladstone Regional Council. The motor vehicle policy requests executives to provide information on non-depot purchases however there would be some doubt (because it does not advantage the executive to provide the information) that this is an accurate figure.

I also note the Council is currently providing fuel cards to certain executives that would negate purchases from non-depot stations being paid for by the executive. Council might like to consider providing fuel cards to all executives,

I also note from the policy, that the value attributed to the vehicle is to be recalculated each year and applied to the executive's package. Whilst it would be appropriate to monitor the valuation of the private use of the vehicle on an annual basis, it would appear to be more appropriate to adjust the salary sacrifice value on the change-over of the vehicle rather than on an annual basis. This provides some certainty in terms of reward impact for the executive at the point of making a decision on the selection of the vehicle and reduces administration.

In terms of executive vehicle selections other than the standard identified (Omega or Berlina) Council might like to consider in calculating the variation of the salary sacrifice component undertaking an internal "cost to Council" calculation for the provision of both the the Omega and Berlina annually to establish benchmark values. Utilising the same calculation model, Council can calculate a cost to Council of providing alternative models. The variation (both positive and negative) can then be calculated and applied as the new salary sacrifice value. An example is set out below:

Cost to Council to Provide Berlina (annually):	\$13,600
Cost to Council to Provide Suzuki Swift (annually):	\$9,100
Variation To Salary Sacrifice:	\$4500
Salary Sacrifice Calculation (\$18,000 - \$4500):	\$13,500



The value of a vehicle in a package can vary considerably from one year to the next due to fluctuations in vehicle pricing, interest rates, petrol prices etc. It is more appropriate, in valuing vehicles in executive packages, to not adjust the package value of the vehicle on an annual basis but to adjust it every four to five years based on an established trend in vehicle value. .

If Council accepts my recommendation to provide fuel cards to all executives, it might be appropriate to maintain the vehicle package value at their current amounts ie \$16,000 for Managers and \$18,000 for Directors. At some time in the future, a review of vehicle package values looking at a three to five-year trend analysis might be undertaken to adjust the values. If Council does not accept my recommendation in regard to fuel cards, those executives not provided with a fuel card should have their vehicle value reduced by approximately \$400.



Recommendations

- **Directors and Managers recommended pay scales be adopted by Council.**
- **Intermediary pay points be applied under the principles of a direct linkage between performance and reward.**
- **Transition to be to the next higher (and closest) pay-point on the reallocated grading and pay structure.**
- **Calculated standard vehicle package values be adopted and applied on the change-over of individual executives vehicles.**
- **The annual review be applied to the recommended pay scales to operate from 1 July 2011.**
- **Council should consider the appropriate implementation date of the new arrangements to coincide with the annual review to be implemented from the 1 July 2011.**

