



Dacorum Borough Council
Market Forces Supplements Policy and Procedure
(Appendix 1)

1 Purpose & Objectives for Market Forces Supplements

1.1 The Council is committed to the principles of equal pay for work of equal value and utilises job evaluation to measure the relative value of all jobs. The job size, and therefore the salary range, of all posts is determined by the outcome of job evaluation.

1.2 It is essential that Dacorum Borough Council is able to attract and retain staff with the skills, knowledge and experience to meet its corporate objectives and priorities. There are occasions when the base pay rate as determined by job evaluation results in an inability to successfully recruit to or retain staff in particular posts or specific occupational areas, due to fluctuations in the labour market supply. These recruitment and retention problems can affect ability to deliver services.

1.3 In such cases it may be appropriate to pay a market forces supplement in addition to the basic pay to ensure that such a post is filled and staff are retained. Such a supplement is lawful where there is evidence to justify that market factors are the “material reason” for the post attracting a higher rate of pay than other posts evaluated as being of same value.

1.4 This document sets out the Council’s approach to market forces supplements, when such supplements may be provided, the process by which material factors will be identified and approved, and the conditions applied to them in order to:

- enable the Council to maintain service delivery standards by supporting the ability to recruit and retain suitably qualified and experienced staff;
- promote a standard and transparent process for the administration of Market Forces Supplements based on a robust business case and detailed analyses to ensure equity and fairness in application;
- ensure a timely, responsive and cost effective approach to employee engagement;
- recognise that the supply and demand for employees in particular occupations is subject to change over time.

1.5 In cases where there is no head of service for the service team, it would be appropriate for the associated tasks within this policy to be undertaken by the relevant Assistant Director.

2 Scope

2.1 This policy applies to all Council posts on Band 1 to Band 23 within the Council’s NJC pay and grading structure.

3 Principles for Payment of Market Forces Supplements

3.1 Market Forces Supplements are paid to attract (recruitment) or retain (retention) employees where there is a clear and justified business case on the basis of a significant and relevant ‘material factor’, supported by strong objective evidence.

3.2 Market pay levels are recognised through the payment of a separate Market Forces Supplement rather than appointment to either a higher grade or higher spinal column points within the allocated grade.

3.3 Where justified, the market forces supplement should be paid to all employees within the same role. The managers pay should be a consideration when awarding a market forces supplement to avoid their direct line staff being paid more than their managers.

3.4 The Market Forces Supplement is paid as an additional fixed sum allowance (pro-rata for part time employees) and itemised separately as such on the employee's payslip. The supplement is subject to normal deductions for national insurance, pensions and taxation purposes.

3.5 The business case also determines the period for which the Market Forces Supplements will be in place. The business case for justification must be reviewed and updated at least every 2 years after the establishment of the last review. A review may be brought forward, where there is a significant or unexpected change in the market. As the value of the supplement is fixed until reviewed and is not subject to increases with cost of living.

3.6 If a review deems the market pay rate has reduced in response to changing labour market conditions, or the need for the supplement has discontinued due to changes in the internal evidence and justification. Any change to or removal of market forces supplement arrangements will be implemented with no less than 3 months' notice to individuals affected before supplements are reduced or withdrawn. There is no entitlement to protection of market forces supplements.

3.7 Where there is a change to the jobs base pay rate (e.g. if a job is re-graded to a higher grade), any market forces supplement will normally be reduced by an equivalent amount to the increase, or removed as appropriate to maintain payment at the market rate justified in the business case. For employees who receive pay protection, any market forces supplement added to the substantive grade will be abated by the element of protected salary.

3.8 In all cases where a market forces supplement is agreed, sufficient workforce management actions should be planned and agreed to address the originating material factor in the future. This will be step 3 in the process, see below.

3.9 Appointment to a post subject to a market forces supplement will be in line with normal pay practice with the Market Forces Supplement being applied in addition.

4 Responsibilities

4.1 Creating the Business Case for a Market Forces Supplement

The relevant Head of Service is responsible for outlining the business case, outlining the relevant material factors and pay comparison and its submission, on the Market Forces

Supplement Request Form, to the Assistant Director – People. Human Resources will be able to provide further advice on compiling the business case and how to research pay comparison information. Details and guidance on compiling this information is provided in the appendices.

4.2 *Assessing the Business case*

The Assistant Director – People will assess the business case to ensure that the primary material factors cited are the main and only potential cause of the difficulties. At this point further clarification, information may be required. Alternative options to a market forces supplement may also be proposed or recommended dependent on the assessment of the case.

4.3 *Approving the Business Case*

Where the assessment of the business case finds there is sufficient evidence to justify a market forces supplement, the Assistant Director – People and Head of Service will seek formal approval from the Strategic Leadership Team (SLT).

4.4 *Reviewing the Business Case*

The relevant Head of Service will be responsible for undertaking a review of the business case for Market Forces Supplements in their service area, every two years or earlier if sufficient evidence arises to suggest that it should be earlier.

4.5 *Trade Union Involvement in Establishing Market Forces Supplements*

Recognised Trade Unions will be informed of, and engaged in discussion about, the need and level of such a market supplement. This will include sight of relevant supporting evidence.

5. Documenting Market Forces Supplements

5.1 Recruitment advertisements for a post where a market forces supplement has been agreed will clearly state the basic grade salary (as determined by job evaluation) with the market forces supplement value shown separately, unless agreed otherwise for the purposes of supporting recruitment. Where alternative arrangements are agreed (i.e. pay values including the market forces supplement value), all communication must clearly state the values provided are “inclusive of market pay supplement of £xxxx”.

5.2 The offer letter and contract of employment will both clearly state that: In addition to basic pay of £xxxxx per annum (SCP YY, pro rata), the post is currently in receipt of a Market Forces Supplement of £xxx per annum pro rata to reflect a range of particular market circumstances associated with the post at this time. The market allowance will be paid monthly and is subject to deductions for pension, income tax and national insurance. This allowance is subject to review under the terms of Dacorum Borough Council’s Market Forces Supplement Policy.

6. Review of Market Forces Supplement

6.1 A review of the material factors business case and market forces supplement value should be undertaken by the relevant Head of Service and submitted to the Assistant Director – People at least every two years, or sooner as set out during establishment of the market forces supplement rate, or if there is evidence to indicate that a review is required. The relevant Head of Service should assess:

- the impact to date on recruitment and retention statistics;
- whether the rationale still exist to continue to operate the supplement;
- if the amount is still justified in light of any changes in the market;
- the impact of removing or reducing a supplement; and
- progress against workforce management actions.

7. Changing the Rate of a Market Forces Supplement

7.1 Where a market forces supplement is to be decreased, the relevant Head of Service is responsible for providing a full business case to outline rationale for the reduced rate and submitting this to the Assistant Director – People as with a normal review of the supplement.

7.2 Where a market forces supplement is reduced employees will receive three months' notice of any reduction in the market forces supplement payable.

7.3 Where a market forces supplement is to be increased, the relevant Head of Service is responsible for providing a full business case to outline rationale for the increased rate and submitting this to the Assistant Director – People as with a normal review of the supplement.

7.4 Where a market forces supplement is increased this will take place with effect from the agreed implementation date for all employees in the post.

8 Removing a Market Forces Supplement

8.1 Where a market forces supplement is to be removed employees will receive three months' notice of the removal of the market forces supplement. The relevant Head of Service is responsible for notifying the Assistant Director – People of the withdrawal, together with the rationale before any withdrawal has been made.

9 Monitoring and Reviewing of the Market Forces Policy

9.1 The Assistant Director – People will ensure the monitoring of the operation and effectiveness of this policy.

9.2 If at any time there is an increased level of business demand for market forces supplements, this may reflect more extensive difficulties with the Council's pay and reward practice (e.g. market value of pay scales). At such time the Council may consider a suspension of the agreement of new market forces supplement arrangements, to undertake a wider review of pay and reward practice.

9.3 The Trades Unions will be informed of, and engaged in discussion about any proposed changes to the policy.

Toolkit: Creating a Market Forces Supplement Business Case

The business case for market forces supplements consists of three elements:

STEP 1: Establishing a Genuine Occupational and Material Reason for a Market Forces Supplement

1.1 The business case should be based on a 'genuine and material reason' for the Council to pay a supplement that increases total pay for the job above that which is determined by job evaluation. It should be related to the job market in which the post or specialism operates, but not to individual circumstances or differences (e.g. performance).

1.2 The reason(s) must be relevant and significant in that without making changes, the Council's ability to provide or deliver services would otherwise be adversely and severely affected. Indications of the existence of a material factor may include:

- Evidence of inability to recruit employees to posts at the evaluated pay level;
- Evidence of inability to recruit employees with sufficient skills or experience;
- Evidence of difficulties retaining employees in particular professions, or roles, with indication to show that decisions to leave are based on pay.
- Evidence that the role has been advertised to a diverse audience.

1.3 A material reason cannot simply rely on information about pay in the market elsewhere. The business case must justify a clear rationale for the difference and be able to evidence this. Inability to demonstrate a material factor to substantiate any difference in pay outside of normal pay practice, has the potential to result in an equal pay claim and would have major financial consequences for the Council along with their reputation and employees trust in the fairness of the pay system.

1.4 Rationale for a material need may include:

- Evidence of recently unfilled vacancies following attempts to recruit to it at the salary level determined by job evaluation (normally at least two unsuccessful recruitment attempts in the preceding six months);
- Data to indicate turnover of skilled staff is higher than normal, and that the reasons for leaving provided and destinations of leavers indicate pay is the major factor in the decision to leave;
- Staff being approached, for similar jobs with higher pay elsewhere.

Note: Where existing arrangements have been agreed previously, the business case should provide evidence that removal of the market forces supplement would re-establish the circumstances that led to the original material need, or present new factors for consideration, alongside any need to increase the value.

1.5 One of the key challenges to the market forces pay business case will be for the Head of Service to certify that the salary level is the main cause resulting in the material factor. Prior to a business case being approved, the Head of Service will need to demonstrate that an assessment has been undertaken to ensure that other underlying circumstances that go beyond pay are not causing or contributing to the material factor and that implementing non-pay recruitment and retention initiatives will not be sufficient to secure the key skills in the short-term.

1.6 The main areas for review are normally recruitment and selection processes; the analysis of retention statistics and leaving reasons; review of the success of previous retention strategies; and the consideration of wider organisational and structural changes. The Head of Service will need to establish that there are no identified problems internally and that the main reason for staff leaving is for more pay (other than as part of the normal career/personal development process).

STEP 2: The Target Market in Which the Council will Compete for Talent and the Market Forces supplement Level Required

2.1 Once the need for market forces supplements have been justified, the business case must also present objective evidence of the pay rates (and total reward packages) offered for similar posts by competing employers, and provide an assessment of the main features of the labour market.

2.2 Obtaining relevant market pay data for the post requires a robust identification of the appropriate comparator market. For some jobs it is more appropriate to concentrate on localised pay information whereas for other jobs regional or even national data will be more appropriate. Likewise, it may be necessary to only look at public sector comparators, or a mixture of public, private and/or not for profit organisations. The business case must justify such rationale.

2.3 There are various potential sources of market data to identify the salary paid for similar posts in other organisations and inform the business case, these include:

- Salary values in job advertisements from comparator organisations;
- Relevant salary surveys on the job type (e.g. local government employers; specialist organisations), please contact HR about what is presently available;
- Direct requests to other sources (e.g. Regional Employer or local authorities);
- Details of the job applicants existing pay; details of leavers pay in next job.

2.4 Managers are responsible for ensuring this research is undertaken, but may involve Human Resources who have access to some relevant and appropriate pay market data tools. The key is to obtain a range of data that is reflective of the full scope of the relevant comparator market, not just the top or bottom end and inclusive of the wider employment package, benefits offered etc.; advertisements and job descriptions for comparator posts should be included.

2.5 There is no optimum level of comparator data, generally the more data the better in terms of establishing the normal market range. An absolute minimum of 5 comparators is

required to establish the range of the 'going rate' for the job, across a range of comparator organisations (e.g. surrounding district Council's). Where pay is compared to the private sector – assessment of the total package should be obtained if possible.

2.6 The value of the proposed market forces supplement will be determined through an assessment of the market pay range for comparable roles against the pay range of the job as evaluated, and whether market forces account for all or a proportion of the difference in pay ranges taking into account the wider employment benefits,. This will then be applied using the difference between the median of maximum salary rates for comparator roles, and the maximum salary of the evaluated grade.

STEP 3: Actions to Help Reduce or Remove Future Need for Market Factor Supplements

3.1 Market forces supplements provide, and should only be considered as, a temporary measure to address the Council's staffing problems at a point in time. Acceptance of the material factors business case is subject to the service identifying other measures to manage the future skills demand and availability of resources. The business case should set out a realistic plan to implement these in order to reduce and eventually remove the need for market forces supplements.

3.2 The analysis undertaken in evidencing the need for the business case can often be used to inform such measures. For example:

- Improved job design, structure and better staff management;
- Developing the non-financial benefits package to match/exceed comparators;
- Process re-engineering to reduce unnecessary tasks within the role, to improve the content of the job and flexibility for individuals.
- Establishing workforce arrangements (e.g. trainee/apprentice schemes; or succession planning activity;) to ensure future provision of skills.

STEP 4: Approval of the Business Case

4.1 The finalised business case should be submitted to the Assistant Director – People. The Assistant Director – People has responsibility for scrutiny of the case and for assessing the reliability of the justification and evidence presented. The Assistant Director – People and Head of Service will make a final recommendation to SLT on the sufficiency of the business case to justify a market forces supplement. The Head of Financial Services will be required to submit financial information on the business case form in relation to the proposals affordability and appropriate budget to use.

Market Forces Business Case Form

Market Forces Supplement Request

Role / Job Information

Job Title			
Directorate			
Service			
Evaluated Grade	Band		
Grade Minimum (£)	£	Grade Maximum (£)	£
Service Establishment FTE		<u>Current Headcount</u>	
		Vacant Posts	

STEP 1: Market Forces Business Case

Please set-out why a market forces supplement is necessary for this role, providing any evidence for the existence of the material factor to back this up:

Material Reasons: e.g. <ul style="list-style-type: none"> • leaver reasons and other employee feedback • unsuccessful recruitment • quality of candidates for selection • where people have moved to. • Impact of removal of current market forces 			
Number of recruitment campaigns undertaken in the last two years for this job.		Length of time over which vacancies for the post have been advertised	

Number of employees appointed in the last two years		Number of offers refused at the evaluated grade rate	
Number of employees leaving the job during the last two years		Number of leavers in the year as percentage of total in the job	

STEP 2: Determining the Market

Please outline the comparator market you have used and the justification for why this is relevant for this post.

Market Rationale:	
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Geographic (select one)	Local (Dacorum) Local (Hertfordshire) Regional National (UK)	Please detail reason for choice in market rationale section.	
Sector (select one or more)	Public Private Third Sector Other Sector: <state>	Please detail reason for choice in market rationale section.	
Industry (state one or more)	<detail as appropriate>	Please detail reason for choice in market rationale section.	
<u>Alternative Roles</u> (other jobs used as a comparator)		Please detail reason for choice in market rationale section.	
Median Average of Basic Pay of comparator jobs		Median Average of Maximum Pay of all comparator jobs	
Difference between Median Maximum pay and Median Average of Pay		Proposed Market Forces Supplement to be Paid	
Proposed Duration of the Supplement and			

Reason for that duration	
Additional market evidence provided to support business case:	

STEP 3: Identifying Measures to Reduce/Remove Material Reason

Please explain the actions you will take to keep the need for a market forces supplement under review and to reduce or remove the future need for it in the medium or long-term.

Review Process and/or Actions Planned		
Identify any other options considered but not progressed to address retention or recruitment for this post and why these were not appropriate.		
Additional Information:		

STEP 4: Authorisation Process

Prepared By:		Date	
Head of Service:		Date	
Head of Financial Services	<i>Comments</i>	Date	
AD – People Approval:	<i>Comments</i>	Date	

SLT Approval:		Date	
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