

AGENDA ITEM

COMMITTEE: ADMINISTRATION

DATE: 3RD APRIL, 2003

SUBJECT: REVIEW AND UPDATE OF FUNCTIONAL MARKET PREMIUM FOR IT STAFF

REPORT BY: DIRECTOR OF CORPORATE AND CUSTOMER SERVICES

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IMPLICATIONS:

LEGAL		COMMUNITY SAFETY	
EQUALITIES		ENVIRONMENT	
FINANCIAL	✓	CONSULTATIONS	✓
STAFFING	✓	OTHER	✓

WARDS AFFECTED: NONE

PURPOSE

1. To appraise the Committee of the results of the review of functional market premium (FMP) undertaken jointly by HR and IM and the options for implementation. This is in line with the existing agreement for a fundamental review after the 5 years period of the current arrangement which end in 31st March 2003.

RECOMMENDATION

2. Administration Committee is recommended to approve a revised arrangement for the payment of functional market premium (FMP) to IM staff with effect from the 1st April 2003 when the existing arrangements cease from the options below. The HR and IM recommendation is that Option 4 be adopted.

BACKGROUND

3. Since 1998 a scheme has been operating within the IM Division to retain and attract key technical IT professionals to Luton Borough Council. In 1998 there was significant demand for IT staff with reported 600,000 vacancies in the UK awaiting staff in anticipation of the demands for year 2000 reprogramming. The existing arrangements have been successful the surrounding authorities, Milton Keynes for example have experienced continued difficulties in recruiting and retaining staff and have been dependent on up to 30% contract staff with the associated higher costs. Luton have been fortunate that the planned FMP arrangements meant the numbers of staff arriving/leaving has been low when compared with the industry norm, Luton with around 3% per annum, the norm is around 15-20%.
4. A significant contributing factor to the low turnover has been the heavy investment in training and the continuing investment made in new technology at the council that has kept interest levels high and skills at a high level of readiness and application. The active deployment of young people as part of the prospect trainee arrangements and modern apprentice schemes in IM has also kept senior staff involved in skills transfers but also enable the authority to keep standards high by using home grown talent to fill vacant posts.
5. The FMP scheme ends on 31st March 2003. The scheme has met its purpose in its current form but needs to be updated to reflect the current market conditions.
6. During the period of the current scheme the infrastructure at Luton has increased from 1200 desktop PC's to 2800 and the servers from 40 to 88. The business systems running have also increased from 40 to 143. The staff levels up until 2002 had remained constant and the IT budget had been reduced year on year and is now £2m below its peak level of 1996/7.
7. FMP payments form a high proportion of IT staff salaries at Luton Borough Council 25 – 30% of gross at certain points in the grades. It is hoped in the future the basic pay levels will be closer to the market levels to reduce this imbalance. HR are dealing with this aspect of the terms and conditions as part of the work on single status and therefore these considerations are not part of this report. Any changes in the underlying salary line agreed by the council will not impact on the gross salaries paid to IM staff but the effect of any changes will be netted off against any base salary changes.

REPORT

8. The market for IT staff has significantly softened in the past year. The City jobs alone have been reduced by 40,000 posts. Business confidence is low and major projects are on hold until confidence is returned to the Business markets. The local government market is the only active market around driven by eGovernment and year 2005 demands and targets. The pressure has resulted in a 6.75% annualised rise in Local Government IT salaries in the past 12 months according to the main computer magazine surveys.

9. The HR function together with the IM division have gathered statistics on the IT salaries market to determine the mean salary less 5% as a target to retain and attract IT staff who still form an essential part of any initiatives the Councils launches to deliver improved services to our citizens. This is in line with council HR salary policy. The details of the market salary ranges are in the appendix A.
10. There is a clear expectation from staff that the main components of the retention scheme will reduce in line with the market trends, for example there is no intention to replace the bonus scheme or to index the agreed FMP payments in future. The review period will be annually and adjustments take effect in the following years pay if there is a significant drop as in the current arrangements so that there is less disruption to the smooth running of the Division and allow staff to make the necessary adjustments to their financial arrangements.
11. The FMP scheme discussed in this paper applies only to the technical staff employed within the IM division and there are no plans to extend the staff covered by the scheme. The Best Value Review for Support Services will commission an external consultancy to recommend on the IT strategy and the way IT is to be delivered in the future and this report will be delivered in the summer.
12. The definition of what constitutes a technical post has been defined using an accepted International systems model called – The 7 layer ISO IT systems model. There is an explanation of this in the appendix B.
13. Prior to 1998 the division had in place an FMP scheme with payments of £2500 and £4000 with lease car payments to some key staff and these payments were on a personal basis. The scheme did not extend to any new staff starting before 1998. The current scheme then replaced the pre 1998 scheme and applies to all technical post employed within the IM division.
14. The current scheme that ends in March 2003 has three elements: -
 1. The retention bonus of £2000 each year of continuous services provided staff are employed by the IM division at 31st March 2003. This is being paid out in March and the final tranche for the current year plus interest in July 2003.
 2. The second element is a car or cash allowance in lieu for staff L5 or above up to M2 where this is not a standard part of the employment contract at a special rate of £2003 pa. It is proposed that this element will continue as a cash item once the current contracts for vehicles expire until the final contract is completed. At this stage, in about 2 years time, the benefit will be reviewed.
 3. The third element has been a cash sum added to salary at rated between £4000 and £6000 for staff on salaries between L5 and M7 grades.
15. The retention scheme prior to 1998 will be the fall back scheme in the event of members selecting the do nothing option and staff will have a personal payment of FMP at £2500 and £4000 levels. Lease cars will be stopped unless they were in the earlier scheme and personal to the individual. The way forward to stop the lease car scheme is to make

cash available until the final car lease has finished in 2005 and then all car lease cash payments and leases stop unless it is agreed they will form part of any new arrangements.

16. The annual assessments of the market resulting in reductions in the levels of FMP will be implemented in the following years planning and salary budgets. Where there is a rise associated with changing market conditions the management will be able to adjust the FMP where it is necessary to meet retention and recruitment targets.

PROPOSAL/OPTIONS

17. Jointly HR and IM believe that option 4 represents both the spirit of the FMP payments and the option with the minimum level of administration together with the flexibility to move staff between job types based on a balance between staff aspirations and business needs plus of course budget constraints. This is then the preferred option.

Option 1

Do nothing

The do nothing option means that staff revert to the pre1998 scheme and have a payment of £2500 at grades L5 to L6; payments of £4000 at grades L7 to M4; payments of £2500 at grades M5 to M7.

There will be no indexing of the payments and staff with personal lease cars will retain those lease cars until they change posts. The cars leased under the 1998 scheme will finish in 2005. There is no retention bonus payment.

In the worse case individuals will see their gross pay fall by £4700 in 2003-4 and by a further £2305 in 2005.

Pros There will be a reduction in the overall costs of the service in the short term.

Cons But it will result in a changing environment as the more senior staff find alternative employment and the total costs of the IM division will rise to compensate for the lack of experience in dealing with issues and problems through employing additional contract staff. Delays will be experienced in the delivery of eGovernment and the other major projects.

Option 2

Retain existing 1998 scheme less annual bonus

Retaining the existing 1998 scheme will keep the existing imbalance between the grades and keep salaries at up to £2000 above the market mean for IT salaries. At grades above M2 there is a significant dip below the mean of £2-3000 and this increases the further up the grade scale you go. (see appendix B for details).

The change would be the retention bonus would be deleted from the scheme. The funding has been used to partially extend the staff levels to meet demands of eGovernment and the additional 18 major applications being implemented during 2002 and 2004.

FMP would not be indexed in the future as the assessment would take place each year on a formal basis using the Hay salary online web data base service as the prime information source.

Pros Staff will see the minimum impact on their gross salaries.

Cons This option will severely test the current budget provision and may delay in the agreed growth budget additions for staffing to meet some of the challenges in 2003-4 and beyond.

Option 3

Revised FMP based on Job type

Option three is based on the market details and would offer varying FMP to posts that are in demand in the market based on three basic job types: -

- 1 Support Posts, these posts deal with the desktop PC's and the customer issues. There is a range of technical skills required to resolve the problems but the market has shown a high turnover of support posts and a large number of staff available.
- 2 Infrastructure Posts, these posts are the technical back office staff who deal with the complex equipment and programmes creating and maintaining the business applications and servers. In the 7 layer IT model these staff deal at layers 1 to 6 and these include messaging, hardware, programming, operating systems and web security.
- 3 Project Management posts, these posts deal with the complex tasks of delivering new systems and systems updates on time and on budget to an operational readiness. They have to be conversant with the technologies, business and suppliers issues in moulding the disparate parts into a working system at an agreed cost and time. The market pays for these skills at the highest levels of any operational IT staff. The payments would be as follows: -

Job Type	Grade L5 toL6	Grade L7 to M4	Grade M5 to M7
Support	£3100	£4500	£4500
Infrastructure	£3100	£5000	£4500
Project Management	£3100	£5500	£4500

In the above scheme staff would see a reduction in gross salaries of a maximum of £1200 in 2003-2004.

Pros The scheme largely reflects the market conditions and tackles some of the senior staff salary gap exposed in the survey.

Cons The role based approach will cause some contention as project management forms a part of every IT role. 60% of productive time booked on the time recording system in on new systems and development working in 2002-3 which means all staff do some form of the role but not at the levels expected of a specialist. Managing the transition and disputes will take up more of managers time that currently.

Option 4

Revised FMP based on Grade

Option 4 spreads the FMP over grades and not specialisms allowing for a smoother transition between posts and skills than a role based scheme within the division. The grade breaks are more granular which represents the general trend of the higher graded posts falling the most behind the current market.

The payments would be as follows: -

Grade	FMP
L5 to L6	£3100
L7 to M1	£4500
M2 to M4	£5500
M5 to M7	£5000

In this option the lease car scheme would be discontinued in 2005 and subsequently follow the same route as the options above. The FMP rates would not be indexed and there would be no retention bonus.

In the worse case individuals would see a drop of £1200 in gross salaries in 2003–2004.

Pros The scheme is seen as the most fair to all staff and also reflects the market at the senior levels.

Cons The budget impact is greater as the staff have progressed through progression schemes and this weights the costs to the higher end but still contained within existing budget levels with some additional changes to structures and roles.

STAFFING IMPLICATIONS

The IM division has for the first time in 2002/2003 been able to attract senior staff bringing with them wider experiences and training than previously. The sections are benefiting from the

experience gained in other business areas and company approaches. It would be able to contain a level of change within staff levels attracting like for like replacements as long as the current situation prevails.

Differentiating FMP by post has the result in contention within teams particularly movement between teams. Reducing salary levels will in itself effect the morale of staff but reflects the market forces that we all operate within. Early resolution of the replacement scheme is a desirable out come as the investigation has taken longer than anticipated as it is also part of the wider review of single status and the council's steer on the underpinning salary line being adopted for the future.

FINANCIAL IMPLICATIONS

The arrangement contained within the report can be accommodated within the existing budgets and the required turnover provision with the restructuring that has been put into train to maximise resources. The medium term plan allows for full year impact of the arrangements including the NI and other added costs. The budget impact of each option is summarised below:

Grades -> Option	L5	L6	L7	M1	M2	M3	M4	M5- M7	Budgets
Technical Staff Covered	3	12	6	5	15	7	0	2	50
Budget 2003 – 2004 IM IT staff total is 65 plus 6 vacancies approved growth.									FMP £225,830
Option 1	7.5K	30K	24K	20K	60K	28K		5K	£174,500
Option 2	12K	144K	36K	30K	90K	42K		8K	£362,000
Option 3 Low Staff Medium Staff High Staff	9.3K	37.2K	13.5K (3) 15K (3) (0)	13.5K (3) 10K (2) (0)	4.5K (1) 60K (12) 11K (2)	9K (2) 20K (4) 5.5K (1)		9K	£217,500
Option 4	9.3K	37.2K	27K	22.5K	82.5K	38.5K		10K	£227,000
Max amount to be accommodated within budgets is on option 2									£136,170

APPENDICES

Appendix A Salary Survey details

Appendix B Technical Staff Definition

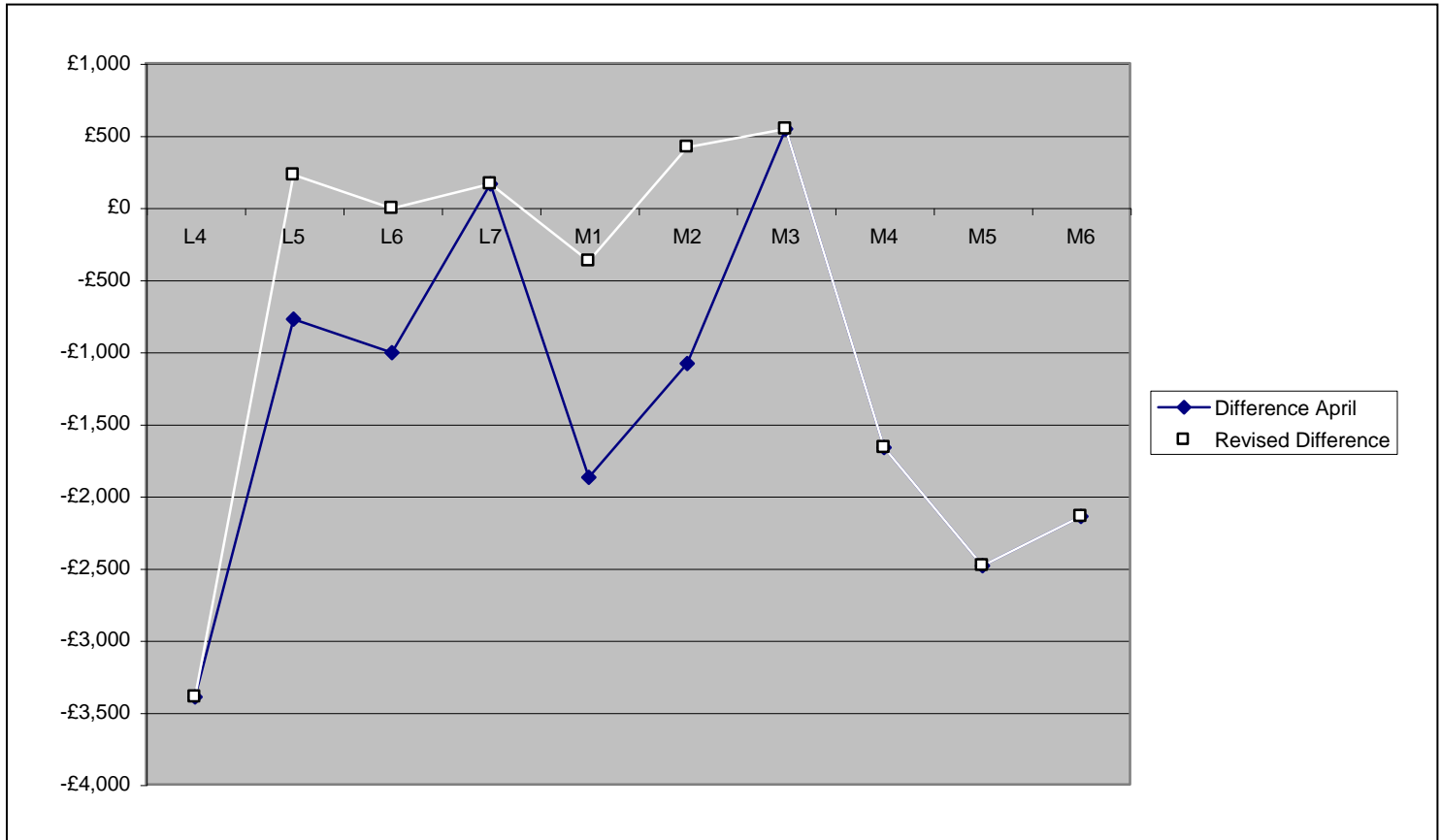
Appendix C Minute 1116 Original 1998 FMP details

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

Minute 1116 1998 report

Salary Survey Results
All Groups Chart



Detailed HR salary survey results

IT Helpdesk/Support Posts

Grade	LBC max now	LBC max April	Market		Difference Now	Difference April
			Med less 5%	Difference		
L4	£16,851	£16,851	£20,244		-£3,393	-£3,393
L5	£27,098	£23,965	£22,083		£5,015	£1,882
L6	£29,864	£26,731	£27,330		£2,534	-£599
L7	£34,332	£30,199	£28,964		£5,368	£1,235
M1	£36,183	£32,050	£34,035		£2,148	-£1,985
M2	£39,270	£35,137	£35,894		£3,376	-£757
M3	£43,073	£38,940	£37,899		£5,174	£1,041
M4	£42,826	£39,693	£41,204		£1,622	-£1,511
M5	£45,010	£41,877	£44,248		£762	-£2,371
M6	£49,675	£46,542	£48,269		£1,406	-£1,727
M7	£51,892	£48,759				

Business Systems Development & Support

Grade	LBC max now	LBC max April	Market		Difference Now	Difference April
			Med less 5%	Difference		
L4	£16,851	£16,851				
L5	£27,098	£23,965	£22,776		£4,322	£1,189
L6	£29,864	£26,731	£27,200		£2,664	-£469
L7	£34,332	£30,199	£30,519		£3,813	-£320
M1	£36,183	£32,050	£33,051		£3,132	-£1,001
M2	£39,270	£35,137	£35,698		£3,572	-£561
M3	£43,073	£38,940	£38,298		£4,775	£642
M4	£42,826	£39,693	£41,707		£1,119	-£2,014
M5	£45,010	£41,877	£44,841		£169	-£2,964
M6	£49,675	£46,542	£48,689		£986	-£2,147
M7	£51,892	£48,759				

IT Project Management Roles

Grade	LBC max now	LBC max April	Market		Difference Now	Difference April
			Med less 5%	Difference		
L4						
L5						
L6	£29,864	£26,731	£28,680		£1,184	-£1,949
L7	£34,332	£30,199	£30,626		£3,706	-£427
M1	£36,183	£32,050	£34,680		£1,503	-£2,630
M2	£39,270	£35,137	£37,066		£2,204	-£1,929
M3	£43,073	£38,940	£38,992		£4,081	-£52
M4	£42,826	£39,693	£41,159		£1,667	-£1,466
M5	£45,010	£41,877	£43,991		£1,019	-£2,114
M6	£49,675	£46,542	£49,091		£584	-£2,549

Grouped roles		Market			Difference	Difference	Revised	Revised
Grade	LBC max now	LBC max April prop	Med less 5%	Now	April	"top-up"	Difference	
L4	£16,851	16851	£20,244		-£3,393	0	-£3,393	
L5	£27,098	21655	£22,430		-£775	1000	£226	
L6	£29,864	26731	£27,737		-£1,006	1000	-£6	
L7	£34,332	30199	£30,036		£163	0	£163	
M1	£36,183	32050	£33,922		-£1,872	1500	-£372	
M2	£39,270	35137	£36,219		-£1,082	1500	£418	
M3	£43,073	38940	£38,396		£544	0	£544	
M4	£42,826	39693	£41,357		-£1,664	0	-£1,664	
M5	£45,010	41877	£44,360		-£2,483	0	-£2,483	
M6	£49,675	46542	£48,683		-£2,141	0	-£2,141	
M7	£51,892				£0	0		

APPENDIX B

Definition of Technical IM Staff The definition of Technical Staff Roles for the purposes of FMP.

To be considered a technical member of the IT staff the role carried out must: -

1. Operate at the OSI 7 level model at layers 1 to 6
2. Have a recognised technical qualification relevant to the operating environment at Luton Borough Council
 - a. MCSE the Microsoft technical qualification by examination current year number i.e. 2002
 - b. Cisco Engineer qualification
 - c. BT/NTL Engineering qualification
 - d. Solaris Administrator
 - e. MCP in Messaging
 - f. Oracle and or SQL Database Administrator
3. Qualified by experience in Security and or Programming languages
 - a. Visual Basic and Visual studio
 - b. Web Security – SSL; encryption
 - c. C# or C++

The IT staff excluded are those staff dealing and working only at the application level, OSI Model Layer 7.

The 7 layer model is listed below with the Luton examples

Layer Reference	Description	Examples
Layer 7	Application	Word, FTP, Mail SMTP
Layer 6	Presentation – Encryption & packaging	Windows 2000; NT4; Graphics expansion
Layer 5	Session – eCommerce	2 way sessions between data sets; shopping basket
Layer 4	Transport	IP Addressing
Layer 3	Networking	
Layer 2	Data Link – MAC Address	NT4 and Solaris and Windows 2000
Layer 1	Hardware and PCI Components	Card plug in software, Firmware

APPENDIX C

The 1998 Minute Approving the Previous FMP Arrangement

INFORMATION MANAGEMENT STAFF AND CONDITIONS (REF: J2)

1116 The Director of Central Services sought approval for adjustments in the pay service contracts of Central Services Department Information Management Division staff receiving a Functional Market Premium (FMP) for the current year.

He pointed out that these proposals were driven by the major difficulties currently being experienced in the Information Management Division surrounding recruitment and retention of technical and operational computer specialists.

The Director of Central Services also referred Members to paragraph 5 of the report which detailed proposals under the retention scheme for deferred payment arrangements for a five year period. He emphasised that although consultation with trade unions had commenced, these had yet to be completed.

Resolved: (i) that the FMP for the 1998/99 financial year be raised to £6000 from £4000 for Senior Technical Staff, and to £3500 from £2500 for Junior technical staff. Operations staff to have the level of FMP raised to £2000 pa from £1600 pa. To or brought pack in to FMP conditions. That the option to a lease car or the cash alternative. That in future, the FMP to be indexed linked to the pay awards. This will be monitored to ensure that it keeps track of the market trends both up and down. The effective date being 1st April, 1998. These FMP's will expire on 31st March 2003.

(ii) That a retention scheme be introduced with effect from April, 1998 to remunerate those staff receiving FMP with an additional sum redeemable for those still in post in 5 years time plus accrued compound interest. For 1998/99 this sum is set at £2000 per person. The interest will be that obtained for normal Authority investments. The details to ensure a tax efficient solution for the Council and the staff covered are to be agreed by the trade unions and the HR Division. This retention scheme will expire on 31st March, 2003.

(iii) That a revised set of conditions of service to incorporate pay rates for the out of hours working, call out, flexible working home working to regularise the situation currently being worked by Information Management Division staff on a good will basis, be approved. The rates set will be to agreed standards already in place for the Authorities staff pay and conditions. The conditions will allow the retention of monies due to be repaid if staff leave within 2 years of special training and technical assistance courses.

(iv) To assist those staff electing to support systems and applications out of hours by providing a Luton Borough Council standard PC, Modem and an additional telephone line with Internet access through Luton Borough Councils secure and protected environment remote access service (RAS) connection.

(v) That the Director of Central Services submit a further report to the Committee concerning the impact on Information Management Division staff and structure to meet the Council's increased demand for 7 day working during 1998 and onwards.

(vi) That consultation with the trade unions continue to take place regarding (i) to (v) above, the outcome of which will be reported to the Chair and Vice Chair of this Committee.

(Note: the above item was considered inn private by virtue of paragraph 1 of part 1 of Schedule 12A to the Act).