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Identifying & Addressing Pay Disparity

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Purpose

The purpose of this presentation is to:

- Establish the difference between pay setting as part of transformation and addressing pay disparity post transformation
- Clarify what pay disparity is and how it can be caused
- Set out the approach to identifying pay disparity
- Approach to addressing pay disparity

Pay setting as part of transformation and tackling pay disparity are two distinct issues and need to be managed as separate activities.

Pay Setting as part of Transformation:

The Restructuring & Staff Reductions Policy covers a number of scenarios that explicitly covers how pay is impacted during Transformation.

Promotional Increases as part of Transformation:

Where possible, promotional increases should be set in line with external benchmark guidance with the exception of the below scenarios:

- If this creates internal pay disparity i.e. by the promoted employee being paid significantly more than team members.

- If this creates a potential equality pay gap resulting in a risk of discrimination on the grounds of gender or ethnicity

Advertising Roles Internally & Externally:

The pay range being recruited to should be agreed with the business prior to advertising and be based on:

- External market guidance
- Internal pay relativities within immediate team and wider TfL
- Equality

What is Pay Disparity?

Pay disparity is defined as a significant pay differential between two or more employees carrying out a similar role. We recognise that pay disparity may be appropriate in some circumstances. The purpose of this Review is to ensure that the business is aware of any disparities and can seek to understand why they might exist. Pay disparity is a complex issue and may arise from a number of different causes.

It is not solely a phenomenon of a changing organisation and could therefore have existed across TfL prior to transformation. It can be formed and exist over many years as terms and conditions and pay frameworks become legacy and are replaced by new ones. However, as the organisation changes under transformation, the level of pay disparity for employees doing similar roles may increase as different business areas come together under one directorate.

Potential causes of pay disparity within TfL:

- **Organisational circumstance -** different organisations or parts of the same organisation with different pay frameworks, pay structures and pay bargaining arrangements coming together under one directorate or through TUPE situations

- **Intentional -** where disparity in pay is designed at a local level to recognise different levels of competence, or to recognise external market differences.

- **Unintentional –** different pay setting practices between different teams or simply occurring naturally within teams over a period of time due to different levels of individual performance.

Managing Business & Trades Unions Expectations

- The opportunity to address certain elements of pay disparity post transformation is not intended as a general review of salaries. This is a one-off activity to analyse the pay levels in the newly reorganised business areas and is to counter the most pressing cases to ensure we remain fair and can continue to operate effectively. HR Delivery teams must make the business aware that pay disparity is a complex issue and it is not a general pay review.

- Reward & Recognition will complete pay disparity analysis if requested by the Business following completion of the workstream.

- The process of looking at pay disparity following business reorganisation under transformation is broad so the analysis itself will look at all aspects of disparity, including:

    - Equality pay gaps
    - Fair pay
    - Market relativity
    - Internal relativities

- This analysis will then be used by the Business to identify cases where increases may be appropriate and put forward a Business Case for any proposed changes.

- Any adjustments to salary required need to be funded by the individual Business Areas therefore this needs to be factored in to overall budget targets and affordability.

Identifying pay disparity

Pay disparity and any potential remedy needs to be assessed post transformation by individual workstream. This will typically be once the new structure is live on SAP to enable accuracy of data.

Approach

Reward & Recognition will conduct detailed analysis using a consistent methodology in line with the principles set out below. A data capture template will be shared with HRBPs to collate the information required for the analysis. Reward will do a preliminary categorisation of potential disparity cases identified for the Business to investigate and determine where remedial action may be required.

Equality Pay Gaps	Fair Pay	External Market Relativity
• High (+/-15%) • Medium (5%-15%) • Low (within 5%)	• identifying significant pay disparity - (+/- 10%) between employees that are performing the same role	• Employees above or below the external market median (+/- 10%)

Data analysis can identify pay disparity in its various forms but it cannot identify ***why*** it exists or whether there is a justifiable reason for it. Reward will send the HRBP and the Legal Business Partner the findings of the analysis for HR to review any potential issues identified by the analysis, conduct further investigation with the business area before seeking advice from Reward and Legal on any potential remedial action.

Completing the review of the data

Business areas need to review the data provided and use the spreadsheet to identify and comment on any disparity cases where the business feels it is required to adjust individual pay.

Below are the prioritised tiers and categories for classifying potential disparity cases.

Tier 1 – Significant pay disparity that may compromise TfL's commitment to equality

- TfL is committed to Fair Pay
- Failure to act on the disparity identified could result in litigation under equality legislation

Tier 2 – Pay disparity that if left unmanaged may compromise our ability to retain *critical* individuals or greatly damage morale and therefore adversely impact operational performance

- Significant disparity (i.e. >10%) versus peers performing the same or a very similar role where there is no reasonable justification (e.g. such as performance or competence)
- Significantly below (c. -10%) the normal market median range for the Payband (as a guide: below £29,450 at Payband 2 and below £44,365 at Payband 3)

Tier 3 – Pay adjustments that are required for optimal positioning of pay for the role relative to both peers and market

- Other pay adjustments that the business consider necessary to address in order to optimise pay positioning relative to market taking into account performance, competence and size of role
- Balance salaries to internal relativities such as addressing existing employees being paid lower than new joiners

Where potential cases are identified, the Business Area must document the research undertaken and rationale as to why either no action is required or why pay adjustments are being proposed.

Setting out the business case

Using the analysis, the business areas will need to produce a business case outlining different options and costs to address pay disparity that are identified as part of the analysis. The options should ensure that the three different priority actions are costed separately and as a whole to understand the full impact of differing approaches to addressing pay disparity.

Any proposed changes must be capable of being entirely self-funded by the savings made from within the business area (there is no central pot of money for this). i.e. the business area has to deliver the savings target given to it as part of the transformation plan and hence will need to outperform that target in order to deliver the desired increases to pay.

When making recommendations for effective dates of salary reviews, please note backdating of increases is not recommended. However, if it is felt this is appropriate, the earliest effective date can be the go live date of the new structure.

Stakeholders

- HR Delivery will work with the Business to propose increases
- Finance to produce costings and financial impact commentary as well as confirm budget for proposed changes.
- Reward & Recognition can support HR Delivery with the interpretation of the analysis and will review the business case before approval.
- Legal must provide guidance and advice on recommendations made in the Business Case.

Setting out the business case – things to consider

- Sense check the data, e.g capacity utilisation, as we are reliant on information collated from the business and SAP which may not always be accurate
- Do you still have vacancies within your structure? If so, what salary ranges are you advertising and how do these compare to the salaries of existing employees within the roles and any proposed changes you are making?
- Consider setting principles or specific criteria for pay adjustments within the workstream to ensure consistency and fairness.
- The Pay Setting Guidance Tool is available for further guidance on market ranges.

Approvals & Processing

Below lists the approvers for the Business Case in the order as well as defines who is responsible for each activity:

Order	Approver	Who responsible
1	Workstream Director	HRBP
2	MD	Workstream Director/HRBP
3	Director, Pensions & Reward	Reward
4	Chief People Officer	HRBP

Once the Business Case has been approved then the HRBP needs to liaise with HRS Senior Advisor Team regarding the timings for processing the changes.

It is advisable to engage with HRS before the Business Case is approved to schedule this work to understand cut-offs and team availability.

HRS will update SAP and produce letters for line managers to give to employees.

If the effective date of the change has an impact on PfP/SMRF/PRP reviews (due to backdate) then you will need to liaise with Reward to recalculate as necessary.

Timelines

There is no fixed timeline, however as a guide:

12 to 16 weeks

1. Business to submit data to Reward within 4 weeks of Go Live
2. Reward to review data, complete analysis & paper within 4 weeks, allow up to 6 weeks for larger workstreams
3. Business to review analysis sheet & compile business case over the next 4-6 weeks

Impact on annual pay reviews

The prevailing business rules around cut-off dates for eligibility for a base pay review under the relevant pay framework will still apply to any adjustments made to salaries as part of the pay disparity review.

Therefore, any adjustments with an effective date between 1 January and 31 March will mean that employees will not be eligible for a base pay review effective 1 April under PfP/PRP/SMRF. Under SMRF and PfP Payband 2 and 3 employees will retain their eligibility for a performance award.

As a result any increases proposed will need to factor in any potential base pay award the employee may have received otherwise. Employees will not be losing out on their opportunity for a review of pay in this circumstance, their review is still happening and they are benefitting from it being brought forward and applied from an earlier date.