

# **Ervia Pay Model Review 2017-2018**

## **Proposed Agreement between Ervia & the Ervia Group of Unions**

18<sup>th</sup> April 2018

## **Background**

Following discussions with the Group of Unions in 2013 Ervia agreed and introduced a market based performance related pay model.

As part of the pay progression process in 2016 the Labour Court recommended that the parties should engage in early 2017 to review the 2013 Pay Model Agreement.

The agreed pay model in Ervia is a market based performance related pay model comprising two distinct elements, those being pay for performance and an element of pay at risk known as a performance related award.

The parties sought my assistance with the review. As part of the agreed terms of reference for this review the parties agreed that the model would remain a market based performance related pay model.

The parties have engaged extensively throughout this process and I have met with them collectively on six occasions since October of 2017. During that time I have considered verbal and written submissions from both parties.

## **Company Position**

This model continues to be appropriate for our business allowing Ervia to achieve the objectives of:

- Recognising and rewarding performance.
- Maintaining Competitiveness and ensuring a sustainable business model.
- Establishment of a High Performing Utility.
- Ensuring that employees can share in the success of the organisation.
- Ensure that we follow best practice with respect to performance and reward across our sector and geography.

The Pay Model was externally endorsed and supported by the (Board recommended) AON/Ampersand report of 2015. This report did however contain a number of recommendations and observations with respect to the model including:

- How the proposed market move (X factor) is determined through bespoke benchmarking (The Basket of Companies)
- How the market move (or X factor) will be applied and in particular how pay movement will be distributed.
- The promotional increase (5%) for those employees who move into higher graded roles.
- The threshold below which no PRA should be paid.

Since 2015, significant progress has been made in respect of these recommendations which include the following:

- Pay Progression was paid in 2016 and in 2017
- The promotional increase was moved to 10% and was applied retrospectively for all employees who had been promoted during the reference period.
- The Performance Related Award was applied for all staff in 2017.
- Significant focus has been given to providing training and support to both manager and employees with respect to the performance appraisal process, performance ratings and pay for performance. This has been addressed through structured programs (such as Behaviours for Success) and individual sessions ( as in the case of Pay for Performance)

### **Union Position**

At the very minimum in the context of this review we believe the following changes need to be implemented:

1. Immediate ending of forced calibration
2. A consistent approach by management in the application of the model
3. The model should evaluate objective rather than relative performance.
4. Objectives need to be simplified and should be relevant to the job
5. The PRA matrix needs to be simplified and reduced to three columns:
  - Partially meets
  - Meets Expectation
  - Exceeds Expectation
6. The percentage differentiation between grades is no longer sustainable. The distribution of monies associated with the PRA needs to be more equitable.
7. The development plan & competencies component parts of the model need to be incorporated into annual objectives.
8. Performance rating
  - a. a minimum of X should apply to all staff
  - b. The model as currently constructed is extremely unbalanced and a percentage of monies associated with the PRA needs to be incorporated into base salary over time.
9. Grades - Percentage change in F & G for PRA

In order to ensure the cessation of forced calibration and that objective performance rather than relative performance is being measured, it will be necessary to establish a joint implementation group comprising of equal representation of GOU members and management. This group will also be charged with the simplification of the performance management system as outlined above.

## **Chairman's Proposal**

Having considered the submissions and positions put forward by the parties I am now outlining my Chairman's proposal to the parties. In summary this proposal meets the objectives as set out to me by the parties with the following elements achieved.

- A multi year deal
- Use of 3 surveys instead of the annual review of 26 comparator companies
- Base pay increase equal to market movement
- PRA increase for Grade F & Grade G
- Review of operation of the Performance Management process
- Increase in annual leave for Grades F & G to 24 days

### **(a) Market Movement**

The annual process of reviewing market movement to date involved determining the pay movement in a basket of comparator companies. This was conducted by way of a bespoke survey. It is now proposed that the basket of comparator companies method will be replaced by using an average of the following general market pay surveys to determine the annual market movement.

- Willis Towers Watson ( WTW) General Industry Survey
- IBEC Annual Survey
- CIPD Annual Survey

This results in a market movement of 2.5% for 2018.

These three market surveys will now become the basket of comparators for the duration of this agreement.

### **(b) Multi Year deal**

As part of this proposal Ervia will enter into a multi year deal as outlined below. The payment of pay progression will be paid in April of each year following the conclusion of performance reviews and will have an effective date of the 1<sup>st</sup> January in each of the respective years.

- a. 1<sup>st</sup> January 2018 – 31<sup>st</sup> December 2018 – 2.5%
- b. 1<sup>st</sup> January 2019 – 31<sup>st</sup> December 2019 – 2.5%
- c. 1<sup>st</sup> January 2020 – 31<sup>st</sup> March 2020 – 0.63% (i.e. 3/12 of 2.5% for the period)

In the context of a multi-year agreement market movement will be validated annually against the above named general market pay surveys. In the event that the actual pay movement is materially different (tolerance of +/- 0.1%) than that forecasted/agreed by the parties then this will be reflected fully in subsequent years (as in after March 2020). It is envisaged that this would be done at the end of the proposed agreement and would directly feed into the next pay progression process (post March 2020). This ensures the Company's pay remains in line with market. The pay progression process will continue to be subject to an annual affordability test.

### (c) Individual Pay Progression 2018

Individual pay will continue to be based on performance. The approach used to determine individual payments is based on the pay progression matrix as per Table 1 below. An individual's salary increase is based on the individual's position to the market and their performance:

- some will receive no increase
- some will receive an increase below 'x'
- some will receive an increase at 'x'
- some will receive an increase above 'x'

The key principle of the model is to balance paying individuals appropriately for their contribution whilst paying within the salary range. For example, a high performer who is paid low in the salary range will get a higher increase than a high performer who is already paid well within the salary range.

It is proposed to incorporate the following changes in respect of individual pay progression:

- Market movement (2.5% in 2018) will become the base pay increase (X in the matrix) subject to annual performance objectives being achieved. i.e. there will be no deduction from market movement to cater for the performance matrix below.

**Table 1: New Pay Performance Matrix**

<b>Market Position</b>	<b>Does not meet expectations</b>	<b>Partially meets</b>	<b>Fully Meets Expectations</b>	<b>Consistently Exceeds Expectations</b>	<b>Far Exceeds Expectations</b>
<b>80% - 90%</b>	0%	50% of X%*	X+1%	X+2%	X+3%
<b>90% - 110% (aligned with Market Median)</b>	0%	0%	X%	X+1%	X+2%
<b>110% - 120%</b>	0%	0%	50% of X%*	X%	X+1%
<b>Above 120% (aligned with market max)</b>	0%	0%	0%	0%	0%

\*50% of X or X-1 in the matrix whichever is the greater.

Opt out and out of range remain as per the Labour Court agreement in 2016.

#### **(d) Range Refresh**

The Range Refresh process will cease for the period of the agreement. A range refresh was completed in mid-2017 and applied as part of the 2017 pay progression process.

A review of the market indicates that it is more appropriate to review the market over a defined reference period of longer than one year. This ensures a more balanced review of market salaries applicable to anchor roles and their movement versus the general market. A range refresh will be conducted at the end of this agreement and feed into the next.

#### **(e) Payment in Advance**

The Company will transition from payment in advance for permanent personnel to payment in arrears. This transition for employees will be administered by an advance payment of base pay which will then be recouped over the subsequent 26 pay periods. This advance will take place on the 1<sup>st</sup> July 2018. In the event that an employee leaves Ervia before the end date, the balance will be recouped from the final pay.

<b>Annual Payment (Gross)</b>	<b>Current Fortnightly Gross Payment</b>	<b>Gross Fortnight during transition period (26 pay periods)</b>	<b>Gross fortnightly pay post transition period</b>
€25,000	€962	€906	€962
€50,000	€1,923	€1,812	€1,923
€75,000	€2,885	€2,718	€2,885
€100,000	€3,846	€3,624	€3,846

Note: Advance payment covers Base pay/shift allowance/Car allowance  
All other payments (e.g. Overtime, Standby) will continue to be paid in arrears as is currently the case.

#### **(f) Cheque Payments**

The payment of cheques to employees relating to base pay, allowances or expenses will cease as of 1<sup>st</sup> July 2018. These payments will transfer to standard Electronic Fund Transfer Payments. Ervia will provide suitable communications and support to employees as part of this process.

### **(g) Performance Related Award (PRA) – Grade F & G**

As part of the Pay Model Review it is proposed to increase the Performance Related Awards for Grades F & G to 5% for fully meets expectations in 2019.

It is proposed that the following changes would take effect with respect to the Performance Year 2018 (with the adjusted PRA Target % to be paid in 2019, based on 2018 performance year)

<b>Range</b>	<b>Does not meet expectations</b>	<b>Partially meets</b>	<b>Fully Meets Expectations</b>	<b>Consistently Exceeds Expectations</b>	<b>Far Exceeds Expectations</b>
<b>F &amp; G</b>	0%	0 - 3.75%	5%	5.75%	6.25%

### **(h) Performance Management**

The parties accept that the operation of any Performance management process can be reviewed and improved. The Company is committed to making improvements to the process.

In that regard the Company will conduct an audit of the performance management process in Q2 of 2018 to include a review of individual performance management plans to ensure issues such as consistency of application, relevance to role, meaningful discussions, objective setting, and the inclusion of competency and development plans is reviewed. As part of that process the GoU can advance any specific cases they deem relevant to the audit process.

The parties will bring together a joint consultative group to review the operation of the performance management system with a view to improving it's application across Ervia, taking into consideration the aforementioned Union concerns.

Performance Management will continue with two reviews (mid year, annual year end) The Company will continue to use the Ervia Behaviours for Success and Performance Rating Processes.

The Company will commit to enhanced training programmes to ensure that both managers and employees are provided with adequate supports in the area of performance discussions, development and appraisals.

In the event of a disagreement with respect to a performance appraisal discussion an employee may as a matter of course have this appraisal reviewed in accordance with the normal Company Procedures.

### **(I) Annual leave**

Annual leave will be increased for Grades F & G to 24 days per annum (pro rata). The increase in annual leave will be effective from 1<sup>st</sup> day of the month following formal

confirmation of acceptance of the proposal. i.e. if acceptance in May, employees will receive the revised leave on a pro rata basis with effect from 1<sup>st</sup> June.

**(J) Review**

The Parties will review the model in Q4 of 2019 in advance of the ending of this agreement.

**Recommendations**

I am satisfied that this is the best outcome that can be achieved by me at this time, therefore I strongly recommend that the Company and the Group of Unions accept the proposal.

In addition I strongly recommend that the parties reconvene following acceptance of the proposal to discuss the outstanding issue of the operational effectiveness of the performance management process so as to ensure the system is operating in a consistent, transparent and fair manner across the organization. This review should commence following the conclusion of the audit in Q2 as outlined above.

I further recommend that following formal acceptance by the Unions that the Company arrange immediate payment of the pay increases for 2018.

**Joe McDermott**

**Chairman**

18th April 2018