

The 2021/22 audit of Glasgow City Council

Update on equal pay arrangements



ACCOUNTS COMMISSION 

Prepared by the Controller of Audit
August 2023

Contents

Commission findings	3
Introduction	4
Implementing equal pay	6
Conclusion	12
Appendix	13

Commission findings

- 1.** The Commission accepts the Controller of Audit's report on progress with equal pay arrangements in Glasgow City Council.
 - 2.** The Commission published findings on a statutory report in February 2020, that commended the council for good progress with delivering its equal pay programme but noted residual liabilities in relation to ongoing claims not covered by the 2018 settlement and possible further claims arising before the council implements a new pay and grading structure. In maintaining our close interest, we asked the Controller of Audit to update us on any further significant developments in the future. Due to the scale of the financial liability for equal pay in the 2021/22 financial statements, we have considered this report on the council's further progress on implementing a new pay and grading structure and funding of its equal pay liabilities.
 - 3.** We are pleased to again be advised by the Controller of Audit of the effective governance processes and arrangements in place for overseeing this programme of work and commend the council for this.
 - 4.** We note the revised timeline for the planned implementation of the new pay and grading structure of 2024/25, including the completion of the job evaluation process by April 2024. We urge all parties involved to continue to work at pace to conclude the recovery plan for job evaluation in accordance with this timetable and we encourage the council to ensure it has appropriate contingency plans, bearing in mind the risks identified in relation to the scale of the job evaluation process.
 - 5.** We also note that meeting the cost of the council's equal pay liability, through sale and leaseback of council properties, ultimately requires to be funded through the council's annual revenue budget alongside any additional costs of its new pay and grading arrangements. The Commission will maintain a close interest in how effectively the council addresses any service implications of this, particularly given the already challenging financial context all councils currently face.
 - 6.** We ask the appointed auditor to continue to monitor and assess the impact of the equal pay arrangements at the council through their annual audit work. We also ask the Controller of Audit to provide the Commission with a further update in 2024. If any significant issues arise before this, in relation to the planned implementation of the pay and grading structure, we ask the Controller to report this as a matter of urgency.
-

Introduction

Background

1. Glasgow City Council (the council) introduced its current Job Evaluation Scheme (JES) in 2006 to harmonise pay and employment terms and conditions and eliminate pay inequality. Glasgow was one of only three Scottish councils not to follow the Scottish Joint Council (SJC) national job evaluation scheme, adopting a more bespoke solution called the Workforce Pay and Benefits Review (WBPR) system. It has received many equal pay claims from employees relating to the validity and operation of the WBPR scheme. These claims were progressed through employment tribunals and the courts. In 2017, the Court of Session made two separate rulings against the council, in relation to the validity of its JES and its pay protection arrangements. In January 2018, in response to the Court of Session rulings, the council decided to address outstanding equal pay claims and its JES.

2. In 2019, the council settled more than 15,000 historic equal pay claims at a cost of £505 million. It funded this through the sale and leaseback of 11 council properties.

3. In February 2020, following the conclusion of the external audit of the 2018/19 financial statements, the Accounts Commission and Controller of Audit issued a [Section 102 report](#) on Glasgow City Council's equal pay arrangements. This report provided an update on the progress the council had made in funding and settling its historical and future equal pay obligations since the publication of the [Best Value Assurance Report](#) on Glasgow City Council in August 2018.

4. The Commission noted that the council had successfully delivered this challenging and complicated project within a relatively short period of time. Key to this were the governance and management arrangements that the council put in place around the project. The auditor concluded that they were satisfied with the reasonableness of the equal pay accounting estimates and disclosures in the council's 2018/19 Financial Statements. The equal pay settlement reflected claimants up to 1 April 2018.

5. The Section 102 report highlighted that there were approximately 150 equal pay settlements still outstanding that related to claims that had been difficult to finalise and approximately 480 claimants with existing equal pay claims, but whose representatives had not signed up to the settlement deal. As such, the equal pay settlement proposal did not fully extinguish the council's equal pay liability. There also remained a potential ongoing risk of further equal pay claims from 1 April 2018 up to the point at which the council implements a new pay and grading structure.

6. The external auditor has continued to monitor the impact of the equal pay funding arrangements and potential future equal pay liabilities as part of the

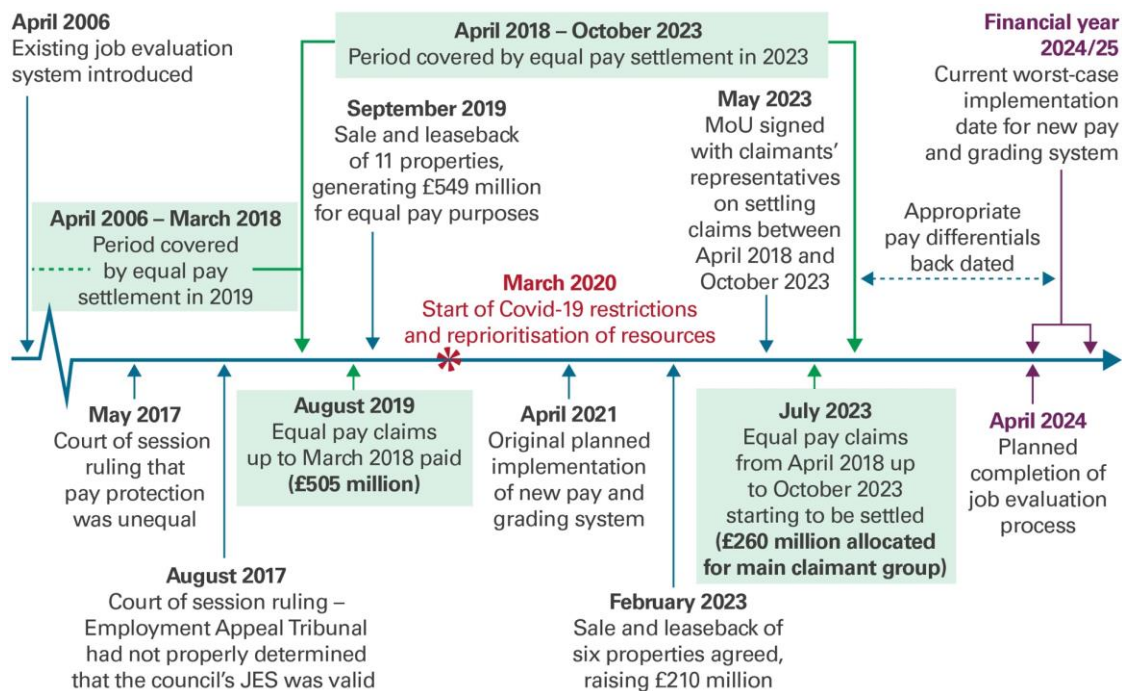
annual audit. Following the 2021/22 external audit, I draw the Commission's attention, under s102(1) of the Local Government (Scotland Act) 1973, to the council's progress on implementing a new equitable pay and grading structure and funding its equal pay liabilities since 1 April 2018. In particular, this report provides an update on the issues highlighted in the February 2020 Section 102 report and auditor's 2021/22 annual audit report, as well as wider developments within the council associated with resolving equal pay.

Implementing equal pay

Equal pay claims

7. The council's recent history in resolving equal pay claims, along with the timescale it is currently working towards in its equal pay programme, is summarised in [Exhibit 1](#).

Exhibit 1 Glasgow's equal pay timeline



Source: Audit Scotland

8. In May 2023, the council reached a new agreement with the main claimant representatives on settling its equal pay liability, with all relevant parties signing a Memorandum of Understanding (MoU). Through the MoU, all parties have agreed to broad terms for settling equal pay claims for all residual and ongoing equal pay liabilities up to October 2023. The claims being settled under the MoU include new claims and all updated claims from those claimants that previously received settlements in 2019 along with any of the previous 150 unresolved claims that missed the 2019 deadline, and which are still outstanding.

9. In parallel, the council conducted separate negotiations with representatives of smaller claimant groups. This resulted in two further MoUs being signed in

June 2023 and is in the process of settling these claims up to October 2023. The claims which will be settled under these two MOUs include the additional 480 claimants that were not being settled in 2019 and which we reported in the previous Section 102 report in February 2020. The council is also funding these settlements through its previous and current sale and leaseback arrangements.

10. The MoUs set out wider agreed principles that allow the council to mitigate and manage its ongoing equal pay risks during the period in which it aims to implement its new pay and grading system, including an agreement that no further equal pay claims will be pursued before 2027.

11. The council has provided £260 million in its 2021/22 financial statements for settling equal pay claims of the main claimant group. It plans to begin paying settlements to individual claimants from July 2023.

New pay and grading structure

12. Central to the council delivering equality in pay is replacing its current pay and grading structure with one that is equal pay compliant. The council had initially aimed to implement a new equal pay compliant pay and grading system by April 2021. However, implementation has been delayed, primarily because of Covid-19. The Covid-19 lockdown had a significant impact on the council's timescales, as it resulted in resources having to be reprioritised to more pressing pandemic-related work, required the council to adopt different ways of working, particularly in relation to evaluating jobs, and hindered the ability of relevant parties to continue ongoing negotiations. Having reviewed the impact of Covid-19, the council reset its ambition to implement a new pay and grading system with effect from October 2023. As outlined below, the implementation date continues to be reviewed and revised.

13. A pay and grading structure project (the PGS project) has been formed to implement the new pay and grading structure. The project is complex, with a range of inter-dependencies, including the completion of a comprehensive job evaluation exercise, PGS design, financial modelling, gender pay gap analysis and significant payroll revision. The project comprises HR, Legal, Finance, and Technical Workstreams, with participation from trade unions. It forms part of the council's wider governance structure around its equal pay programme, as shown in [Exhibit 2 \(page 8\)](#).

14. The new pay and grading system is to be informed by a comprehensive job evaluation exercise that evaluates jobs using the Scottish Joint Council's (SJC) latest Job Evaluation Scheme (the 3rd Edition), in line with many other Scottish local authorities.

15. In implementing the SJC job evaluation scheme, the council is striving to consistently adopt best practice, learning from its own experiences and those of other local authorities. It appointed an independent SJC job evaluation expert to assist in the project from the outset. It has also adopted a partnership approach with trades unions. For example, it has included local trades union officials within its job evaluation teams and has been transparent in opening up access to its job evaluation webpages, where developments are reported, to unions and to employees. The council has also provided unconscious bias training for

its job evaluation analysts to ensure that jobs are evaluated as fairly as possible.

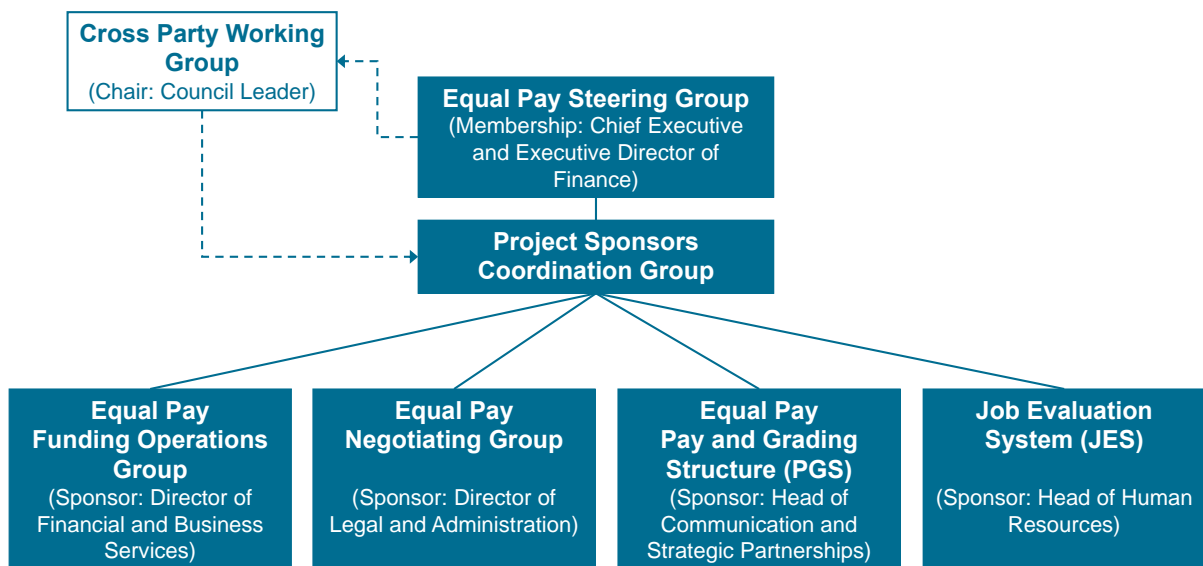
16. Once the council has implemented its new pay and grading structure it is preparing for a level of appropriate backdating of pay, depending on the results of job evaluation and the pay and grading structure for the period between October 2023 and implementation. Any changes to role gradings and pay levels and the cost of backdating pay will have potential implications for future affordability. The council aims to implement its new pay and grading structure within the constraints of its available resources. The council will consider options once the scale of the budgetary impact is known. This could involve additional savings in future years' budgets.

17. The council will only extinguish its equal pay liability by implementing an equal pay compliant pay and grading structure and ensuring that any pay protection arrangements under the new system are equal pay compliant.

Equal Pay governance arrangements

18. As shown in [Exhibit 2](#), the council has established comprehensive governance arrangements for taking forward its programme of work on equal pay. These arrangements cover its equal pay funding strategy, its negotiations with claimants' representatives and communications around equal pay as well as the implementation of its JES and new pay and grading system.

Exhibit 2 Equal pay programme governance structure



The equal pay cross party working group (a subgroup of the council's Workforce Board) provides political oversight of the PGS project. Elected members on this group are provided with regular (monthly) verbal briefings on progress in relation to equal pay claim negotiations, the pay and grading structure, funding and communications.

19. Each of the council's four constituent equal pay projects within its overall programme are chaired by either the project sponsor or a lead officer within the project. Meetings vary from twice weekly to fortnightly dependent on operational need. The project sponsors for each project meet collectively with programme and project managers through the Project Sponsor's Coordination Group. This allows them to discuss dependencies, risks and issues which face each of the projects and provide a level of tactical coordination.

20. The Equal Pay Steering Group (equivalent to the council's previous Equal Pay Board as referred to in the February 2020 Section 102 report) then provides a more strategic forum for project sponsors, relevant project leads and other officers to provide a steer on how key issues, risks and dependencies may be managed, mitigated and/or resolved as appropriate. The Chief Executive and Executive Director of Finance in their role as the Equal Pay Steering Group, also have authority to make decisions within specific delegations from the City Administration Committee.

21. The council's equal pay steering group receives regular monthly reports from its subgroups highlighting progress and risks to the pay and grading project. Reports to the steering group have highlighted that timescales for completing the job evaluation process and implementing the new pay and grading system continue to be affected by the scale and complexity of the PGS project and the council's continuing commitment to seek agreement through collective consultation with Trade Unions.

22. In May 2023, a report to the equal pay steering group highlighted a significant risk to achieving the council's latest deadline of April 2024 to fully complete the job evaluation process. This risk is based on discussions with Trades Unions on the scale of benchmark jobs to be evaluated, including evaluating around 2,000 identified unique jobs. The council is currently working through a job evaluation recovery plan to allow it to implement its new pay and grading structure during financial year 2024/25. The recovery plan is based around a range of steps to expedite job evaluation activity and resolve issues blocking the level of progress required. These include group interviews and job questionnaires where appropriate.

23. The council has established an equal pay cross party working group (a subgroup of its Workforce Board) to provide political oversight of the PGS project. Elected members on this group are provided with regular verbal briefings (at least four weekly) on progress in relation to equal pay claim negotiations, the pay and grading structure, funding and communications.

24. Outside of these governance arrangements, decisions around equal pay are made as and when required by the council and its City Administration Committee (CAC).

Funding and financial accounting of the equal pay arrangement

25. Since March 2022, the council has been developing a new funding strategy to settle its equal pay liability since April 2018, based on raising finance from generating capital receipts, as it did previously in 2019. It examined several potential assets from which it could generate capital receipts along with

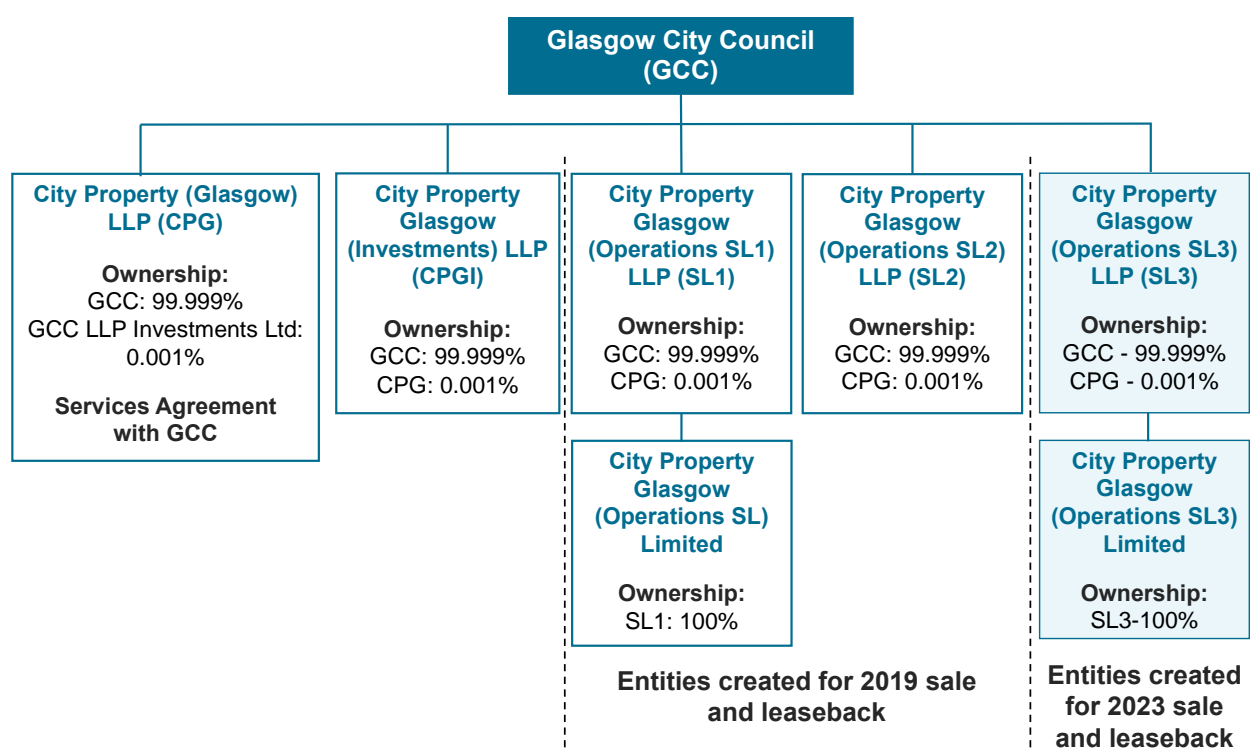
potential funders. Options and risks were frequently discussed by the council’s Equal Pay Steering Group before arriving at its preferred solutions.

26. In September 2022, the council’s CAC approved the funding strategy for settling its equal pay claims. This strategy involves the council generating capital receipts from selling and leasing back six council properties via a council subsidiary and an external funding provider ([Exhibit 3](#)).

Exhibit 3

Sale and leaseback structure

Glasgow City Council has established two new legal entities – a new limited liability partnership and limited company – for the purpose of the latest sale and leaseback arrangement.



Source: Glasgow City Council

27. The council sought to raise the funding required by encouraging bids from the three existing funders it used for the sale and leaseback arrangement in 2019. It initially received two funding proposals, which it fully evaluated. One funder subsequently withdrew from the process, leaving Assured Guaranty UK Limited as the council’s selected funder to provide the financial capital. To achieve separation from its existing loan arrangements and to meet the requirements of the funding agreement with Assured Guaranty UK, the council was required to establish two new legal entities – City Property Glasgow (Operations SL3) LLP and City Property Glasgow (Operations SL3) Limited. City Property Glasgow (Operations SL3) LLP follows the same structure and governance as the existing City Property LLPs and is 99.9999% owned by the council and 0.001% owned by City Property (Glasgow) LLP. Shares in the subsidiary limited company will be owned by SL3 LLP.

28. The council considered a range of cultural and sporting venues, primary schools and care homes for sale and lease back to raise capital. It has taken independent advice in relation to the value of the properties and annual lease rentals. The six properties to be included in this sale and leaseback arrangement are listed in [Appendix 1 \(page 13\)](#). All operational activity carried out at these six properties will continue as normal and will not be affected by the sale and leaseback arrangements.

29. In February 2023, City Property Glasgow (Operations SL3) LLP purchased six property assets from the council at a cost of £210 million and leased them back over a period of 32 years. The annual rent payable to City Property by the council for these six properties is expected to be £11.7 million plus annual inflation. This takes the council's total annual rent payable to City Property for all 17 properties to £32.1 million plus annual inflation. This must be met from the council's available annual revenue resources.

30. The council has been in discussion with Scottish Government around the accounting treatment of equal pay provision. Scottish Government issued a [Local government finance circular 2/2023 - accounting guidance: accounting for equal pay](#), which allows the council to defer the charge of the equal pay provision in the 2021/22 financial statements. The deferred charge will be removed when the equal pay payments are made or the provision is reduced. The external auditor is satisfied with the reasonableness of the equal pay accounting estimates and disclosures in the council's 2021/22 financial statements.

Conclusion

31. The council's delivery of its challenging and complicated pay and grading project has been delayed. Delivery has not unexpectedly been impacted by the Covid-19 pandemic and the scale and complexity of the exercise, for which the council has sought to engage with claimant representatives and trade unions throughout to ensure a robust solution is put in place. Delays in implementing an equal pay compliant pay and grading system risks continuing inequality for groups of Glasgow City Council's employees and increases the risk to the council of future equal pay claims. However, the council has put in place governance arrangements and adopted an approach to implementing its new pay and grading system to mitigate these risks.

32. I am satisfied that the council has put effective arrangements in place to manage its equal pay programme in line with its revised planned timescales and minimise the risk of any further delays in implementing its new pay and grading system. These include appropriate governance arrangements that coordinate individual aspects of the programme and include elected members, effective risk identification and management process and adopting a partnership approach to working with claimants' representatives.

33. Having recently reached an agreement with claimants' representatives, the council is now settling existing equal pay claims that have accrued since April 2018. To settle its current equal pay liability, the council has generated £210 million through the sale and leaseback of additional council properties. It will need to meet the ongoing annual costs of this over the life of the leases, as well as any additional costs from implementing its new pay and grading system from its available future resources.

34. The auditor has concluded that they are satisfied with the reasonableness of the equal pay accounting estimates and disclosures in the council's 2021/22 Financial Statements.

35. EY has been appointed as the council's external auditor for a period of five years, starting from financial year 2022/23. As Controller of Audit, I will discuss with EY how it will continue to monitor and report on developments on the council's equal pay programme through its annual audit work at the council.

Appendix

Since 2019, the council has entered into sale and leaseback contracts of 17 of its properties

In 2023, Glasgow City Council entered into sale and leaseback contracts with City Property for the six properties listed below:

Asset	Type
Kelvingrove Art Gallery	Cultural / sporting venue
Kelvin Hall	Cultural / sporting venue
Gallery of Modern Art	Cultural / sporting venue
City Chambers	Cultural / sporting venue
Sighthill School Campus	Primary school
Gowanbank School Campus	Primary school

The 11 properties previously included in the sale and leaseback agreement in 2019 are listed below:

Asset	Type
SEC Armadillo	Cultural / sporting venue
City Halls	Cultural / sporting venue
Glasgow Museums Resource Centre	Cultural / sporting venue
Emirates Arena	Cultural / sporting venue
Scotstoun Leisure Centre	Cultural / sporting venue
Bellahouston Leisure Centre	Cultural / sporting venue
Riverside Museum	Cultural / sporting venue
Tollcross International Swimming Centre	Cultural / sporting venue
Glasgow Royal Concert Hall	Cultural / sporting venue
Gorbals Leisure Centre	Cultural / sporting venue
Toryglen Football Centre	Cultural / sporting venue

The 2021/22 audit of Glasgow City Council

Update on equal pay arrangements



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk
ISBN 978 1 915839 19 0