

24 May 2010

To: Chairs

Strategic Health Authorities  
Special Health Authorities  
Primary Care Trusts  
Ambulance Trusts  
NHS Trusts  
Foundation Trusts  
Arms Length Bodies  
Executive Agencies  
Executive and Advisory Non-Departmental Public Bodies

cc: Chief Executives of same  
DH sponsors

Gateway reference: 14331

Dear Chair

### **VERY SENIOR MANAGERS**

I am writing to inform you that, for executive staff covered by the Very Senior Managers' Pay Framework:

- there will be no increase to basic pay from 1 April 2010;
- the performance-related pay pot (for 2009/10 performance) remains at 5% of VSM pay bill;
- the upper limit for individual performance awards for 2009/10 is reduced to 5%;

and that, for 2010/11:

- there will be no increase in remuneration for Chairs and other non-executive members of SHAs, PCTs, NHS Trusts, Special Health Authorities, Executive Agencies, Executive Non-Departmental Public Bodies and Advisory Non-Departmental Public Bodies; and

The Prime Minister intends that senior staff in the NHS (and the civil service) show leadership as the Government reduces the deficit whilst protecting vital public services. The best-paid hospital doctors, along with GPs and dentists, have also received no increases.

The Government expects to see all public sector organisations exercise restraint in the pay of their senior staff. I am therefore strongly encouraging Foundation Trusts and NHS Trusts to consider their approach to pay this year in the context of the Government's wider approach to senior pay in the public sector and in the light of decisions made for other NHS organisations.

The Prime Minister has announced that, for the 2010/11 year, performance payments to NHS managers and senior civil servants will be restricted to the top 25% of performers. The aim is to ensure that performance-related pay is awarded only to those NHS managers

and senior civil servants who have performed exceptionally well in achieving their organisation's objectives. This will not affect payments for performance over the past 12 months (2009/10). It will apply to performance payments for 2010/11, and more detail will follow. I am asking Chairs to ensure that this is brought to the attention of senior NHS managers.

The Government has also asked Will Hutton, executive vice-chair of The Work Foundation, to lead an independent review on pay fairness in the public sector, which will make recommendations on how to introduce a public sector pay multiple that would mean that no public sector manager can earn over 20 times more than the lowest paid person in their organisation. The full terms of the review are currently being finalised.

### **Performance-related pay awards for 2009/10 for executive staff covered by the VSM Pay Framework**

Guidance to remuneration committees<sup>1</sup> sets out the process for making recommendations on performance-related pay awards, including the approval process (the "grandparenting" rules). The conditions applying to these awards are set out in Annex A to this letter.

#### Submitting SHA recommendations for DH approval

The VSM Pay Team at DH will send an Excel proforma to each SHA VSM lead. This will show the information currently held (and approved) for the pay of each executive VSM. It will provide for details of performance-related pay proposals to be entered in a standard format, calculating the individual awards and ensuring these are within the overall limit.

We will ask that, once end of year appraisals have been completed, you complete these forms with details of your Remuneration Committee's recommendations on performance-related pay awards, and return to the VSM Pay Team so that I may consider them. Details of where to send your returns, and by when, will be included with the form.

#### Submitting SpHA recommendations for DH approval

The DH Pay and Performance Oversight Committee acts as grandparent for SpHA recommendations for performance-related pay awards. Further guidance on this year's approval process will be issued shortly.

VSMs in ENDPBs are governed by the HMT Pay Remit process.

#### Submitting PCT and Ambulance Trust recommendations for SHA approval.

SHAs should make local arrangements for PCTs and Ambulance Trusts to submit performance-related pay proposals to them for approval.

**Sir David Nicholson KCB CBE**  
**NHS Chief Executive**

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<sup>1</sup> [Guidance note for remuneration committees: pay framework for very senior managers in strategic and special health authorities, primary care trusts and ambulance trusts : Department of Health - Publications](#)

# **ANNEX A**

## **NHS VERY SENIOR MANAGERS PAY FRAMEWORK**

### **2010/11 PAY AWARD ARRANGEMENTS - FOR 2009/10 PERFORMANCE**

#### **Conditions**

Only VSMs in organisations that meet their agreed financial control targets are eligible for performance-related pay awards.

Performance-related pay awards are non-consolidated and non-pensionable.

#### **Eligibility for performance-related pay awards**

In terms of the period in post, eligibility for performance-related pay awards should mirror Senior Civil Service eligibility rules.

For the 2009/10 period: VSMs who have been in post for the majority of the reporting period will be eligible for a full year performance-related payment. Those who have been in post for three to six months shall be eligible for 50% of the recommended performance-related payment.

#### **Level of Awards**

The number of awards in each organisation is a matter for the relevant remuneration committee in consultation with the Chief Executive Officer. In organisations that have achieved their financial control targets, remuneration committees may recommend variable awards subject to an upper limit of **5%** on the award to any one individual. These awards are non-consolidated and non-pensionable. They are subject to affordability and an absolute ceiling that the total cost of performance-related pay awards must not exceed 5% of the reckonable pay bill for all VSMs within the relevant performance-related pay award pool.

Performance-related pay awards will be payable once approved by the VSM grandparent (see covering letter).

#### **Performance-related pay pot ceiling of 5% of VSM pay bill**

It is the responsibility of the grandparent to ensure that performance-related pay awards do not exceed 5% of the pay bill for that group.

The reckonable VSM pay bill is the total annual salaries (excluding any short-term recruitment and retention premia) of all grandparent-approved VSM posts for the year for which the award is being made (in this case, 2009/10).

Where staff who are normally paid under the Very Senior Managers' Pay Framework are seconded to a host organisation which is meeting the cost of their pay, any performance-related pay awarded will not count towards the home organisation's VSM performance-related pay award pool (equally, their salary will not count as part of the reckonable VSM pay bill for the home organisation). If such staff are eligible for a performance-related pay award, the cost should be met by the host organisation.

#### **Financial Implications**

All proposals for performance-related pay awards are subject to local affordability and must be paid out of existing budgets and settlements.