

13 January 2011

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Chairs of Strategic Health Authorities
Special Health Authorities
Primary Care Trusts
Ambulance Trusts
Copy to Chief Executives of same
Chairs and Chief Executives of Executive
Non-Departmental Public Bodies

Gateway Reference: 15427

Subject: Performance-related pay awards for staff covered by the Pay Framework for Very Senior Managers (VSMs).

I wrote to you on 24 May 2010, notifying you of the Prime Minister's announcement that, for the 2010/11 year, performance payments to VSMs will be restricted to the top 25% of performers. I asked you to bring this to the attention of senior NHS managers, and stated that more detail would follow.

We have, with SHAs, given some thought to the process. Our aims are to ensure that:

- staff who are eligible to be considered for an award have that opportunity (including those in organisations with fewer than four VSMs);
- the process is minimally prescriptive and bureaucratic; and
- local Remuneration Committees are involved in the decision-making so far as possible.

There is an absolute requirement that no more than 25% of all VSMs receive an award. Applying this at individual organisational level would prevent some organisations -those with three VSMs or fewer - proposing any VSMs for an award. The requirement will be, therefore, that the 25% limit should be applied to each of a number of groups, as follows:

- a 25% limit for each PCT cluster, comprising all the eligible¹ VSMs in the primary care trusts in that cluster (one group per PCT cluster)
- a 25% limit for all eligible VSMs in strategic health authorities (one group)
- a 25% limit for all eligible VSMs in ambulance trusts (one group)
- a 25% limit for all eligible VSMs in special health authorities (one group)

Process

As a first step, it will be for individual Remuneration Committees, operating in line with the Guidance to Remuneration Committees to make recommendations

¹ Eligible, here, means all those who have been in post for three months or more during the reporting year. All VSMs are subject to the performance management process, but only those who are marked as A or B performers (and have been in post sufficient time) can be considered for an award.

for no more than 25% of staff to receive an award. The exception will be organisations with three VSMS or fewer, in which case the Remuneration Committee will be able to recommend one VSM for an award, where appropriate (ie where merited by performance).

Where this process results in a total of no more than 25% of staff in the group being recommended for an award, the proposals may be submitted to the grandparent organisation for approval, in the usual way.

Where the process results in more than 25% of staff being proposed for a performance award, the Chairs of the Remuneration Committees in the group (the proposing organisations) must convene a Pay Committee to consider the proposals and agree a final set of recommendations within the 25% quota.

The Chairs of Remuneration Committees in the proposing organisations may also - if they wish and agree collectively - convene a Pay Committee if the total number of awards proposed is below 25%, to agree a final set of recommendations within the 25% quota.

I recognise that there is no existing mechanism for comparing the performance of staff in different organisations. I will look to Pay Committees, where these need to be convened, to agree the most appropriate method locally of arriving at their final recommendations.

As recognised in the Guidance to Remuneration Committees, the grandparent organisation does not have a formal role in the objective setting and performance appraisal process, but it is best practice that performance objectives should be informed by discussions between Remuneration Committees and the grandparent organisation. Where it is necessary for a Pay Committee to be convened, the Chair and members of that Committee may wish to engage with the grandparent organisation in arriving at their final recommendations.

For primary care trusts, where a Pay Committee needs to be convened, the SHA will nominate one Remuneration Committee Chair, from amongst those organisations, to chair the Pay Committee.

For ambulance trusts, if a Pay Committee needs to be convened, I will ask London SHA to nominate one Remuneration Committee Chair from amongst the ambulance trust chairs to chair the Pay Committee.

For strategic health authorities, I will ask the Chair of SHA Chairs (Kathryn Riddle) to chair the Pay Committee, if one is needed.

For special health authorities, the Department will identify a chair, if a Pay Committee is needed.

Levels of awards

In line with the public sector pay freeze for staff earning above £21,000, there will be no change to the ceiling on performance awards, with the upper limit on individual awards remaining at 5% of reckonable pay. I expect Remuneration

Committees to continue to make a distinction between the levels of awards for A and B performers.

In line with the Pay Framework, awards cannot be proposed for those VSMs marked as C or D performers, or for any VSMs in organisations that fail to meet their financial control target.

Timetable

It will be more important than ever that appraisals are completed as promptly as possible after the end of the reporting year on 31 March 2010, and **no later than mid-May**. This will allow time for local consideration of whether a Pay Committee needs to be convened.

I am asking organisations to ensure that, whatever the process locally, recommendations to pay awards to no more than 25% of staff in each group are **submitted to the grandparent organisation no later than the end of July**. To this end, I am asking SHA chairs to liaise with primary care trusts and ambulance trusts at as early a stage as possible – and by **the end of May at the latest** – to determine whether a Pay Committee needs to be convened. The Department, as grandparent, will liaise accordingly with strategic and special health authorities.

Yours sincerely

A handwritten signature in black ink, appearing to be 'D Nicholson', written in a cursive style.

Sir David Nicholson
NHS Chief Executive