

*From the Office of Sir David Nicholson KCB CBE  
Chief Executive of the NHS in England*



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Chairs of: Strategic Health Authorities  
Special Health Authorities  
Primary Care Trusts  
Ambulance Trusts

Copy to: Chief Executive of same  
Chairs and Chief Executives of Executive  
Non-Departmental Public Bodies

Gateway Reference: 16567

**Subject: 2010/11 Performance-related pay awards for staff covered by the Pay Framework for Very Senior Managers (VSMs).**

I wrote to you on 13 January 2011 regarding 2010/11 performance payments for VSMs, please find this letter attached your reference. The specifics are discussed within the letter, namely that no more than 25% of VSMs can receive a performance payment.

For the approval process, each organisation is required to submit their recommendations for pay awards to the grandparent organisation for review. If you have not already done so, could you submit this information to the grandparent organisation by 13 September 2011. The Department, who is the grandparent for strategic and special health authorities is seeking this information to process the performance awards for those organisations. Any queries relating to the grandparenting arrangements for SHAs should be directed to Ed Keelty ([edward.keelty@dh.gsi.gov.uk](mailto:edward.keelty@dh.gsi.gov.uk)) and any in relation to SpHA directed to Greg Gleeson ([greg.gleeson@dh.gsi.gov.uk](mailto:greg.gleeson@dh.gsi.gov.uk)).

To support the process please find in Annex A a Q&A regarding the performance-related pay awards for 2010/11 reporting year. The Q&A should be read in conjunction with the attached letter from 13 January 2011.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D Nicholson'.

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

## Annex A

### Pay Framework for Very Senior Managers

#### Performance-related pay awards for 2010/11 reporting year

**Q&A: These Q&A should be read in conjunction with Sir David Nicholson's letter to chairs of 13 January 2011.**

#### **Q1. Who is eligible to be considered for an award?**

- A. Those staff paid under the arrangements in the Pay Framework for Very Senior Managers who (during the period 1 April 2010 to 31 March 2011) were in post for three months or more, provided:
- individual performance is marked as A = outstanding or B = exceeds expectations; and
  - the organisation has met its financial control target.

Those who have been in post for the majority of the reporting period (over six months) are eligible to be considered for a full year performance-related payment. Those who have been in post for three to six months are eligible to be considered for 50% of the recommended performance-related payment.

#### **Q.2 How do individual organisations identify the top 25% of performers?**

- A. The performance of individual VSMS should be assessed as usual, in line with the organisation's objective setting and performance appraisal process; and the individual should be marked as an A, B, C or D performer in line with the categories in the VSM Pay Framework.

Within each organisation, eligible VSMS should then be ranked on an assessment of relative performance, and the top 25% should be identified.

The Remuneration Committee may then propose awards for no more than the top 25% of performers. **The exception** to this is organisations with three VSMS or fewer, where the Remuneration Committee will be able to propose one VSM for an award.

Where, across a group (see the groups listed in the letter), the total number of VSMS proposed for an award is 25% or less of the total number of eligible VSMS in the group, each of the organisations in the group may submit their proposals to the grandparent organisation.

Where, across a group, – due to the exception noted above – the total number of VSMS proposed for an award is higher than 25% of the total number of eligible VSMS, a Pay Committee must be convened. (See the letter for details).

The timetable for the awards process that was set out in the letter of 13 January has slipped. DH is now asking those SHA's that have not already done so to provide a return by 13 September 2011 to enable it to ascertain whether SHA award recommendations (in total) are (likely to be) within 25% limit. DH will also ask SHAs for early intelligence about Ambulance Trusts. In both cases, DH will determine whether a Pay Committee is needed.

**Q.3 Who is counted for the purposes of the baseline for the 25% quota?**

- A. All staff who were in post for three months or more during the reporting period, including those who have left by/before the end of the reporting year.

**Q.4 Do vacant posts count towards the baseline?**

Posts that have been vacant throughout the reporting year cannot be counted as though there had been staff in post. The requirement is that no more than 25% of VSMs receive an award. Counting vacant posts would inflate the baseline.

Posts that have been vacant for part of the year would not necessarily be 'discounted' as the staff who were employed in those posts will count provided they were in post for three months or more.

In some cases, more than one person may have been employed in a post during the reporting year, and both could be eligible.

**Q.5 What about staff who are on secondment?**

- A. Within the NHS those VSMs on outward secondment will not count as part of the home organisation's numbers for the purpose of the limit that no more than 25% of VSMs should receive an award. They will also not count as part of the home organisation's baseline.

Within the NHS the receiving organisation will include the VSM within their baseline and their procedures regarding the payment of awards.

Where the host organisation is meeting the cost of the pay, if seconded staff are eligible for a PRP award, the cost should be met by the host organisation.

**Q.6 What if a VSM opts not to take his/her award – can the organisation propose to award it to the next VSM in the ranking?**

- A. No. The Prime Minister stated that awards would be restricted to "the *top* 25% of performers" [emphasis added], not to 25% of staff. Only those who rank in the top 25% can be recommended for, and receive, an award.

**Q.7 How is the award calculated?**

A. As set out in Sir David Nicholson's letter of 13 January, the upper limit on individual awards is 5% of reckonable pay; Remuneration Committees may recommend variable awards within this limit. As set out in the Pay Framework, reckonable pay includes:

- basic pay
- long-term recruitment and retention premia
- additional pay for additional responsibilities paid where individuals have taken on additional responsibilities as part of their core role (usually referred to as broad portfolio or broad remit roles)

Reckonable pay does not include:

- short-term recruitment and retention premia
- additional pay for significant responsibilities outside the core role

Awards, whether payable for the full year or at 50% (see answer to Q.1), payable to staff who work part-time should be paid pro-rata according to the hours worked.

**Q.8 Will the DH be issuing a 2011 version of the VSM Pay Framework and/or a letter confirming that the pay freeze applies to VSMs and non-executives?**

No. The 2009 version of the Pay Framework remains the valid version. It was the decision of the previous Government, in its response to the Senior Salaries Review Body in March 2010, that there would be no increase to VSM pay rates in 2010/11; this applied to remuneration rates for non-executives also. The Coalition Government announced a two-year pay freeze for all public sector staff earning over £21,000, to apply from 2011/12 with the exception of any staff groups subject to a multi-year deal (in which case the two-year freeze will apply from the end of such deals). For VSMs employed on the VSM Pay Framework, this means that spot rate values will be frozen for two years (2011/12 and 2012/13). Remuneration rates for non-executive board members will also be frozen for two years from April 2011.