HM TREASURY

Civil service pay guidance 2013-14

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1 Scope, roles and context for 2013-14

Scope

1.1 This guidance covers pay setting arrangements for civil servants throughout the civil service, including departments, non-ministerial departments and agencies, and for public sector workers in Non-Departmental Public Bodies. It provides a framework within which all departments will set pay for 2013-14 and departmental pay strategies and pay reporting will be taken forward.

Roles in the pay process

1.2 The Treasury has overall responsibility for the Government's public sector pay policy. This includes defining the overall parameters for civil service pay uplifts each year in the pay guidance, to ensure that civil service pay awards are consistent with the Government's overall objectives.

1.3 Cabinet Office has responsibility for civil service management. It works with departments and agencies on workforce and reward strategies to encourage greater consideration of workforce needs and properly tailored reward policies.

1.4 Departments have responsibility for implementing civil service pay policy for their workforce in a way that is consistent with the *Civil service pay guidance* but also reflects the needs of their business and their labour market position. All pay remits must be approved by a Secretary of State or responsible Minister, and each department, through its accounting officer, is responsible for the propriety of the pay award to staff.

Context for 2013-14

1.5 Following the June 2010 Budget, the Spending Review published in October 2010 set out the spending reductions required to deliver the Government's consolidation plans through to 2014-15. The public sector paybill makes up over half of departmental resource spending, so managing public sector pay within agreed departmental baselines and performance targets continues to be central to the Government's plans for fiscal consolidation and will help protect jobs and service.

1.6 In the 2011 Autumn Statement, the Chancellor of the Exchequer announced that:

- public sector pay awards will average at one per cent for the two years following the pay freeze;
- the Government will ask the independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets, and report back by July 2012;
- the Minister for the Cabinet Office will coordinate and assist Secretaries of State in exploring how local, market-facing pay can be introduced in civil service departments.

1.7 In the 2012 Autumn Statement, the Government published the reports of the independent Pay Review Bodies on local pay, and announced:

- that it would accept their recommendations, including that there should be no new centrally determined local pay rates or zones but that there should be greater use of existing flexibilities;
- that the School Teachers' Review Body recommended much greater freedom for individual schools to set pay in line with performance and, subject to consultation, the Government will implement these reforms;
- that there will be no centrally imposed changes to the geographical structure of pay in the civil service.

1.8 The Cabinet Office also published analysis by the independent Hay Group which sets out median comparable private sector salaries in illustrative pay zones. However, this is for information only; there will be no centrally imposed move to local pay in the civil service. Decisions on pay reform are for individual departments.

Signing off pay remits

1.9 All department, agency and NDPB pay remits will be approved by the relevant Secretary of State (or responsible Minister).They must comply with the *Civil service pay guidance* and associated guidance issued by Cabinet Office. No additional approval is required by the Treasury (subject always to the requirements of Managing Public Money). The only exceptions to this are those organisations that are the direct responsibility of Treasury Ministers and those for which there is no relevant Secretary of State, as set out in Annex A. Their remits will continue to require Treasury approval.

Pay data reporting

1.10 In return for the continued delegation of pay to Secretaries of State, departments are expected to provide data to the Treasury on their forecasts and outturns for the pay round. This is to enable the Treasury to confirm that departments are abiding by the parameters set in the annual pay guidance, to report overall priorities and risks to the Chief Secretary and to set overall civil service pay parameters for future years. Each department will be asked to submit data covering the department itself, any non-ministerial departments falling within the area of responsibility of their Secretary of State, any agency that they sponsor and any NDPBs they sponsor.

1.11 From 2013-14, departments are asked to submit this data using the Workforce and Pay Remit (WPR) application in OSCAR[1]. They are no longer required to do so using the template published with previous editions of the pay guidance. One submission of data will be required, timed to coincide with the department's remit year. Required data for each remit year includes revised outturn for 2011-12, outturn for the pay round for 2012-13, and a forecast for 2013-14 for relevant pay and workforce data and uplift factors. Departments should submit data on OSCAR for each remit as soon as they are approved, but in any case by 30 August 2013 (if necessary on a provisional basis in the first instance). Departments are asked to inform Treasury of their expected submission date by 30 April 2013. Detailed guidance and requirements are in Annex C and D, and information will also be available on the OSCAR website. Failure by a department to provide appropriate data may result in the Treasury re-imposing the requirement for Treasury approval of remits for that department in future years.

[1] Online System for Central Reporting and Accounting.

Changes to this year's pay guidance

1.12 Main changes since the previous 2012-13 edition of the guidance are as follows:

1.12.1 By 2013-14 all departments will have exited the pay freeze and are expected to follow the guidance in chapter 2 reflecting the 2011 Autumn Statement announcement that public sector pay awards will average at one per cent (paragraph 2.2 et seq).

1.12.2 Departments are encouraged to include contractual progression increments to which there is a legal entitlement as part of the one per cent award.

1.12.3 Departments have the opportunity to submit proposals for removing contractual progression as part of their 2015-16 Spending Round proposals (paragraph 2.4 et seq). Additional guidance on the supporting business case is provided in Annex E.

1.12.4 This year's guidance includes a limited flexibility for departments to address specific recruitment and retention pressures by re-allocating non-consolidated performance-related pay funding within their overall paybill to fund targeted recruitment and retention incentives. Details of the flexibility are set out in paragraph 2.7 et seq and Annex F.

1.12.5 The guidance also includes the following clarifications and technical amendments:

- Departments are reminded that remit settlements are expected to be implemented from the remit settlement date, not deferred (Annex B);
- Workforce size is now required to be calculated as an average for the year rather than as a spot date figure (Annex C);
- From 2013-14 departments are required to submit pay data by end-August, using OSCAR.

2 Main factors affecting pay-setting for 2013-14

2.1 All departments and their sponsored bodies are expected to implement the one per cent pay policy announced in the 2011 Autumn Statement and follow the 2013 *Civil service pay guidance* when setting pay remits for 2013-14. Pay remits will need to take account of the following factors:

One per cent average annual award

2.2 There will be a limit of one per cent on the percentage increase in remuneration cost for staff covered by each departmental remit. All elements which increase paybill cost must be included, except employer National Insurance contributions and employer pension contributions. For example, the following must be included:

- Revalorisation;
- Progression increments;
- Introduction of new allowances;
- Increases to existing allowances;
- Cost of increases in the non-consolidated performance pot above its existing proportion of total paybill;
- Non-consolidated payments (except for payments related to performance from the non-consolidated performance pot);
- Buy-out of allowances or non-pay entitlements;
- Incentive payments relating to the implementation of pay reforms;
- Cost associated with changes in non-pay benefits (e.g. leave entitlements);
- Increases arising from pay restructuring (e.g. associated with machinery of government changes);
- Non-pay rewards;
- Salary sacrifice schemes[1]

For individual employees, the actual increase in pay will vary according to criteria determined by the department, including location and performance. Further guidance on the increase in remuneration cost is included in Annex D.

[1] A letter from the Financial Secretary to Secretaries of State on 3 November 2009 clarified the rules on salary sacrifice schemes in the public sector. Departments should refer to this if needed.

Progression pay

2.3 Increases arising from contractual progression pay increments will continue to be paid where such increments are a legal entitlement. Departments are encouraged to include contractual progression increments to which there is a legal entitlement as part of the one per cent award.

Reform of progression pay arrangements

2.4 Departments have the opportunity to put forward plans to remove automatic time-served progression pay. Treasury will consider proposals for flexibility in relation to the one per cent (see paragraph 2.2) if they are linked to substantive plans to do so. To qualify for consideration, departments must provide a robust and fully costed business case for their proposals that offers clear value for money for the taxpayer and includes the removal of legally binding progression arrangements. In order to assist Treasury's assessment of their business case, departments may wish to refer to the additional guidance set out in Annex E when drawing up proposals.

2.5 Any proposal should be included with other information provided to the Treasury as part of the 2015-16 Spending Round. The supporting business case should if possible be provided to the Cabinet Office at the same time and in any case by 6 May 2013 at the latest. Any well-developed case that would breach the one per cent policy should also be referred to the Treasury.

Non-consolidated performance pay

2.6 Non-consolidated performance pay will continue to be managed, as in previous years, with each department's non-consolidated performance pay "pot" calculated as a fixed percentage of paybill. Guidance on the operation of performance pots is included in Annex D. This year, departments may take advantage of a flexibility to reduce the size of their pot (where this would not jeopardise performance pay arrangements) to meet targeted recruitment and retention pressures – see paragraph 2.7.

Exceptional recruitment and retention pressures

2.7 For this year the Treasury will consider requests from departments for the flexibility to address specific recruitment and retention pressures by re-allocating funding within their overall paybill from the non-consolidated performance pay "pot" to fund targeted recruitment and retention incentives. For proposals approved (in advance) by the Treasury, departments may reduce their existing pot by up to 50 per cent to fund recruitment and retention proposals.

2.8 The pot adjustment is subject to an overall limit of 0.5 per cent of the baseline paybill, and would be available only where this would not jeopardise the operation, development or effectiveness of performance-related pay arrangements in the department. More details of the scheme are set out in Annex F.

3 Pay timetable, feedback and contacts

Pay timetable

3.1 It will be for departments to determine when they submit their remits to the relevant Minister and enter into negotiations with the Trades Unions. The Treasury will require departments to report pay data on OSCAR once Ministers have approved their remits (but in any case by 30 August 2013).

Feedback and contact details

3.2 Departments are invited to submit feedback to the Treasury and Cabinet Office on this year's guidance and on the remit process as a whole. This will help to identify any areas for further improvement in future remit rounds. Any queries in relation to this guidance, or the remit process in general, should be addressed to these contacts.

Workforce, Pay and Pensions Team – HM Treasury

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A Organisations requiring Treasury approval

A.1 All ministerial and non ministerial departments, agencies and NDPBs should submit their pay remit to their Secretary of State or responsible Minister for approval. They must comply with the *Civil service pay guidance* and associated guidance issued by Cabinet Office.

A.2 Two groups of organisation will continue to submit their remit to the Treasury for approval. The first group comprises those that are the direct responsibility of Treasury ministers, so will be signed off by Treasury Ministers in the same way that other organisations will be signed off by their own Secretary of State. These are set out in Box A.1 below.

Box A.1: Organisations that are the direct responsibility of Treasury ministers

HM Treasury

HM Revenue and Customs

Government Actuary's Department

National Savings and Investment

Valuation Office Agency

Debt Management Office

Office for Budget Responsibility

A.3 The second group comprises those for which there is no Secretary of State with the authority to determine pay. These are set out in Box A.2 below.

Box A.2: Organisations for which there is no Secretary of State with the authority to determine pay

Government Communication Headquarters

Secret Intelligence Service

The Security Service

B Pay remit process and approval

Remit process for departments

B.1 Departments[1] are required to set out their pay award proposals to the relevant Secretary of State in a short business case. Remit proposals must be assessed against the criteria for remit approval set out below. Information supplied by departments in their business cases must be robust in supporting the proposals, and departments may want to ensure that both relevant HR and Finance Directors have cleared the proposals, before being submitted to the relevant Secretary of State.

B.2 Departments should not enter into formal negotiations with Trades Unions until their remit has been agreed by the relevant Secretary of State. If organisations are uncertain about what constitutes 'formal negotiation' they should contact the Cabinet Office. Departments are encouraged to work constructively with the relevant Trades Unions on the development of their overall pay and reward strategies, prior to their remit being submitted to the relevant Minister.

B.3 It is Government policy not to reopen civil service pay remits, once the relevant Secretary of State has approved them. Pay remits are considered and approved on the basis of the proposals submitted in the supporting business case. If, during subsequent negotiations with Trades Unions, any significant deviations are made from those proposals, then these need to be reported to the Secretary of State, or the Treasury as appropriate, before any final agreement is reached. Any organisation that is uncertain as to whether what they are agreeing constitutes a significant difference from that agreed under the remit should contact the Treasury for advice.

B.4 Pay settlement changes are expected to apply from the settlement date (see paragraph D12) and not deferred.

Remit approval

B.5 The Secretary of State should assess the business cases submitted to them against the following factors:

- Departments need to demonstrate that their proposed pay remit is affordable within settlements agreed under the Spending Review process.
- The requirements in section 2 of this guidance must be met.
- The business case should cover, where relevant:
    - the workforce groups and grades that are affected, and the internal and external labour market in which they operate;
    - the relevant local labour market in which staff operate;
    - the recruitment and retention situation within the workforce;

[1] "Departments" includes all organisations (ministerial and non-ministerial departments, agencies and NDPBs) that come within the scope of this pay guidance.

- the need to comply with age discrimination and equal pay legislation, and where appropriate the need for Departments to have due regard to their equality obligations and to record their findings on this (for example by way of equal pay audits or otherwise);
- the total reward of staff, including pensions and conditions of service.

Legal commitments

B.6 Departments are advised to take legal advice on the drafting of any pay commitments to ensure that these are affordable and consistent with this guidance.

B.7 Ministerial approval of pay remits is on the basis that an organisation does not enter into any legally binding agreements in Trades Unions negotiations that effectively commit it to automatic costs in the future.

Senior staff

B.8 Senior civil servants and NDPB equivalents are not included within the civil service pay guidance. However, senior staff have an important leadership role in demonstrating the need for pay decisions to follow public sector pay policy. Therefore any annual pay increase or decision to award performance-related pay to such staff must be considered alongside and according to the same principles as the pay remit of the rest of the organisation.

B.9 Pay award arrangements for all senior staff, including those in NDPBs, should be consistent with Government pay policy and the arrangements for senior staff in NDPBs should be in line with the arrangements for the Senior Civil Service.

C Pay reporting requirements

C.1 This annex summarises the data that departments are expected to report to the Treasury for the 2013-14 remit year. From 2013-14, departments are asked to provide updated data using the Workforce and Pay Remit (WPR) application in OSCAR. This includes formulae and drop-down lists where relevant, and indicates which cells need to be populated, to make completion more straightforward. It also includes validation checks to help reduce the likelihood of erroneous data being entered.

C.2 Each department should submit data covering the department itself, each non-ministerial departments falling within the area of responsibility of their Secretary of State, each agency that they sponsor and each NDPB. Departments should not in general combine data relating to separate remits, but aggregate data may be entered for NDPBs.

C.3 The data required is outturn for 2011-12 and 2012-13, and a forecast for 2013-14. Outturn data should be consistent with published resource accounts, (allowing for differences arising from the financial year basis of the latter) and forecasts, including any forecast changes to staff in post, should be consistent with the in-year expenditure forecasts that all central departments routinely provide to Treasury via OSCAR.

C.4 Data must be provided for the delegated civil service grades. The OSCAR system makes provision for the separate collection of data relating to the Senior Civil Service but departments are not currently required to submit SCS data. Data should be provided for the year of the pay remit, not the financial year.

C.5 If there are significant anomalies in the data, for example because it represents less than a full year of activity, departments should provide a brief explanation in the appropriate comments field of the OSCAR application or in an email to WPP team at the Treasury – contact details are in section 3.

Definition of pay data

C.6 This section explains the information that is required in each section of the pay data reporting template. Please contact the Treasury if you have any further queries.

Section A – all departments to complete

Total paybill (£m)

C.7 Total paybill. Includes all staff-related costs (excluding the cost of staff not on the formal civil service payroll), comprising direct wages and salaries, employer pension contributions and employer National Insurance contributions – and also staff paid from programme budgets. In the OSCAR application this will be calculated automatically as the sum of direct wages and salaries, pension contributions and national insurance contributions.

C.8 Direct wages and salaries. The direct wages and salaries line will include all the elements that go to employees on a current basis (as opposed to pension payments, for example, which are deferred). This will be calculated automatically from the sum of pay, allowances, non-consolidated performance (e.g. bonuses) and overtime entered in the OSCAR application.

C.9 Pension contributions. Enter the total cost to the department of pension contributions.

C.10 Employer National Insurance contributions. Enter the total cost to the department of employer National Insurance contributions.

Non-paybill staff costs (£m)

C.11 Consultants/interim/agency staff costs not included in the paybill. Enter the total cost of all staff who are not on the formal civil service payroll, including for example, consultants, interim and agency staff.

Paybill per head (£)

C.12 This section will be completed automatically in the OSCAR application.

C.13 Paybill per head. This will show the total paybill divided by the workforce size. Paybill per head – headcount is Total Paybill divided by Headcount; Paybill per head – FTE is Total paybill divided by FTE (Full-time equivalent).

C.14 Average earnings per head. This will show direct wages and salaries (i.e. pensionable pay – i.e. excluding employer pensions and NICs) divided by the workforce size. Average earnings per head – headcount is direct wages and salaries divided by Headcount; Average earnings per head– FTE is direct wages and salaries divided by FTE (Full-time equivalent).

Workforce size

C.15 Headcount. Enter the total civil service workforce on a headcount basis, calculated as the average for the remit year of the workforce at the end of each month.

C.16 Full time equivalent. Enter the total civil service workforce on a full-time equivalent basis, calculated as an average for the remit year of the workforce at the end of each month.

C.17 Full time equivalent over £21,000 / under £21,000[1]. Enter the total civil service workforce who are earning over / under £21,000 respectively. The figures for each year should sum to the total.

Wastage and vacancies (%)

C.18 Staff wastage. Enter the proportion of employees leaving the organisation over the year (including performance related exits, and ill-health retirements, but excluding redundancies) as a per cent of total workforce. Excludes those employees moving between jobs within the organisation.

C.19 Vacancy rates. Enter the number of unfilled posts (or forecast vacancies) in the final month of the remit year in question, expressed as a percentage of (headcount at the end of the month plus vacancies). This figure should reflect the number of posts that are either unfilled or filled by contract staff, which will be advertised under civil service fair and open competition rules. This figure should not include vacant posts that will be removed as part of organisational restructuring or planned workforce reductions.

Change in pay from previous year (%)

C.20 Basic award (%)[1]. Enter the average per cent increase to the steps (for a step based pay system) or maxima/minima (for a non-step based pay system) of the pay ranges within an organisation. See section 6.2 of the *Civil service pay guidance 2011-12* for further details.

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[1] These figures are only required for the years in which the department was in the pay freeze.

C.21 Pay drift (%). For the purpose of these pay reporting requirements, pay drift is the difference between average earnings growth per cent and basic award per cent. This section will be completed automatically in the OSCAR application.

C.22 Average earnings growth (%). This is the change in average earnings per head (FTE) from the previous year, as a per cent of the previous year. It includes all changes in direct wages and salaries. This section will be completed automatically in the OSCAR application.

C.23 Increase for staff in post (ISP) (%)[2]. Enter the per cent increase in the average cost of pay for individual members of staff that remain at the same grade/responsibility level. This figure should include revalorisation, progression and any increase to the bonus pot.

C.24 Basic award for those under £21,000 (%)[2]. Enter the average basic award increase (%) for staff earning £21,000 per annum or less. Do not include staff earning more than £21,000. If **no award increase is recorded** for staff under £21,000 a comment should be provided in the Oscar application under Change in Pay (for example that the £250 payments has been made via a contractual entitlement to progression pay).

C.25 Percentage increase in remuneration cost (%). This is the difference between the projected remuneration cost and the baseline remuneration cost expressed as a percentage of the baseline remuneration cost (see Annex D). Departments are expected to distinguish the effects on their increase in remuneration cost of paying contractual progression increments and of any agreed switch in funding from the non-consolidated performance pay pot to fund recruitment and retention pressures (see Annex F).

Enter forecasts for 2013-14 for up to three versions of the metric as relevant:

- excluding the effect of legally binding progression increments and any PRP pot switch;
- including any PRP pot switch; and
- including any PRP pot switch and progression increments.

[2] These figures are only required for the years in which the department was in the pay freeze.

D Other pay definitions and notes

Baseline remuneration cost

D.1 The baseline remuneration cost is the cost to the Department, for the remit year, of the expected staff complement, excluding the costs of progression or revalorisation or any other increases. Baseline remuneration cost does not include employer national insurance and pension contributions.

Projected remuneration cost

D.2 The projected remuneration cost is calculated by adding the increase in remuneration cost arising from the remit proposals to the baseline remuneration cost.

Example: if the total costs of the remit proposals were £100,000 and the baseline costs were £2,000,000 the projected costs would be £2,100,000.

Increase in remuneration cost

D.3 As stated in chapter 2 the increase in remuneration cost includes all increases arising from the remit proposals, apart from employer National Insurance and pension contributions.

Non- consolidated performance payments

D.4 Non-consolidated performance payments met from the performance pot are excluded from the calculation of the one per cent average annual salary increase. However, the amount of any increase in the pot itself must be included in calculating the one per cent.

D.5 Non-consolidated performance payments are awarded to staff based on performance either at an individual, team or organisational level. They are re-earnable and do not have associated future costs. Types of payment include:

- Performance related payments based on individual contributions to the organisation and assessed by the Departments performance management system; and
- Special bonus schemes for individual payments for special projects or outstanding pieces of work that are not covered by the normal performance management system.

Calculating the performance pot

D.6 The organisation's existing non-consolidated performance pot is a cash value derived from a percentage of the consolidated baseline paybill, and not a fixed cash amount.

Example: In 2011-12 an organisation has a consolidated paybill of £20 million and has built up a non-consolidated performance pot of 3 per cent. The cash value of the non-consolidated pot is 3 per cent of £20 million = £600,000. In 2012-13, because of staff reductions, the consolidated baseline paybill is reduced to £19 million. While the non-consolidated pot as a proportion of consolidated paybill remains unchanged at 3 per cent, the cash value is reduced (3 per cent of £19 million = £570,000).

Other non-consolidated payments

D.7 Non-consolidated payments other than those related to performance must be included in the calculation of the increase in remuneration costs.

Progression

D.8 Progression is the cost of moving someone through the pay range and in spine point or step based system relates to the costs of incremental steps. In milestone- and reference-point based systems, progression means the cost of moving staff within the pay range.

Revalorisation

D.9 Revalorisation relates exclusively to spine point or step based systems and is the value by which all points on the pay spine are increased. This may be different for different grades.

Non-pay rewards / benefits

D.10 These are increases in annual leave entitlements, reduction in working hours, etc. These changes should be costed and included in the calculation of the increase in remuneration cost.

Non-paybill staff costs

D.11 This covers consultants/interim/agency staff costs not included in the paybill. It includes the total cost of all staff that are not on the formal civil service payroll, including for example, consultants, interim and agency staff.

Remit year

D.12 The dates between which the approved pay remit applies. Remits apply for one year, but commencement dates vary from one body to another. The settlement date is the date on which the remit year commences.

Recyclable savings

D.13 Recyclable savings are generated when staff leave the organisation and are replaced by entrants with a lower salary cost. The difference between the leaver's salary costs and the entrant's salary costs is the saving to the paybill. These savings should not be applied to reduce the percentage increase in remuneration, and should therefore be netted out of the calculation.

D.14 Vacant posts do not generate recyclable saving, because until the post is filled the salary cost to the paybill cannot be determined.

E Pay reform proposals

E.1 Treasury will consider proposals for flexibility in relation to the one per cent if they are linked to substantive plans to remove automatic time-served progression pay. To qualify for consideration, departments must provide a robust and fully costed business case for their proposals that offers clear value for money for the taxpayer and includes the removal of legally binding progression arrangements.

E.2 In order to assist Treasury's assessment of their plans, departments should identify and include all relevant information in the business case. In doing so they are asked to refer to the factors set out below:

- Timing of progression removal: Whether (contractual right to) progression pay for all staff would be abolished from year one of the deal.
- Coverage: whether the agreement would apply to all staff (eg via the collective bargaining process).
- Savings: business case to set out cash-flow forecasts demonstrating costs and savings against a realistic baseline and forecast of the counterfactuals; to show for example whether in-year savings are generated within two years, and "pay-back" of the original up-front costs provided within five years.
- Maximum payments: whether business case clearly sets out the maximum payments, both consolidated and non-consolidated, to individuals, and the number and proportion of individuals who receive these payments.
- Non-consolidation: whether buy-outs will be non-consolidated, rather than a permanent pay increase.

E.3 As with business cases generally, proposals are expected to follow best practice as set out in the Green Book[1] and provide relevant and clear information. They are expected to focus on the removal of automatic time-served progression rather than other pay and workforce reforms. The case might also set out, for example, how reformed pay arrangements will incentivise performance and any legacy pay arrangements, and will clearly distinguish costs and savings directly relevant to the removal of progression pay.

E.4 Any proposal should be included with other information provided to Treasury as part of the 2015-16 Spending Round. The supporting business case should if possible be provided to the Cabinet Office at the same time and in any case by 6 May 2013 at the latest. Any well-developed case that would breach the one per cent policy should also be referred to the Treasury.

[1] The Green Book: Evaluation and Appraisal in Central Government

F Meeting recruitment and retention pressures

F.1 The Treasury will consider requests from departments for the flexibility to address specific recruitment and retention pressures by re-allocating funding within their overall paybill from the non-consolidated performance-related pay "pot" (PRP pot) to fund targeted recruitment and retention incentives. (See paragraphs D4 – D7 of Annex D for an explanation of non-consolidated performance pay and the calculation of the pot.) Key features of this flexibility are:

- **Recruitment and retention:** departments are expected to provide evidence of exceptional recruitment and retention needs which will be addressed in a targeted way.
- **Permanence:** any agreed reduction of the PRP pot will be permanent, to avoid the creation of ongoing increases in paybill costs.
- **Limit on conversion:** departments cannot convert an amount exceeding 50 per cent of the PRP pot (or 0.5 per cent of baseline paybill if less).

A more detailed exposition is provided below.

Reduction in PRP pot

F.1.1 Departments and NDPBs are permitted to reduce their PRP pot as a percentage of consolidated paybill only to offset agreed increases in paybill costs applied to meet targeted recruitment or retention pressures ("PRP-related funding").

F.1.2 The permitted reduction in the PRP pot is capped at an amount equivalent to 50 per cent of the pot, or 0.5 per cent of the baseline paybill if smaller, in order to ensure that departments maintain sufficient resource to continue to fund non-consolidated performance arrangements.

F.1.3 PRP pots may not be reduced to provide additional funding for the consolidated paybill generally (for example to fund an across-the board increase in excess of one per cent), but must be targeted to address recruitment and retention pressures.

F.1.4 Funding remaining within the ring-fenced PRP pot following an agreed reduction is expected to be applied to performance-related payments in accordance with the Civil Service Employee Policy best practice model.

F.1.5 To avoid this flexibility resulting in subsequent paybill increase, the reduction in the PRP pot will be permanent once the pot as a percentage of paybill has been reduced.

F.1.6 Departments must be satisfied that their proposed reduction will not jeopardise the operation, development or effectiveness of their performance-related pay arrangements.

Funding increases in pay

F.1.7 PRP-related funding must only be applied to specific targeted recruitment and retention pressures.

F.1.8 Treasury will exceptionally consider proposals for targeted consolidated increases, if supported by a sufficiently robust case.

F.1.9 For proposals which will result in changes to employer superannuation and ERNIC costs (or are likely to do so), for example arising from a switch of funding from non-consolidated pay to consolidated pay, PRP-related funding will be 85 per cent of the reduction in the PRP pot.

F.1.10 The agreed increase in paybill excluding the PRP pot and offsetting PRP pot reduction will come within the scope of the percentage increase in remuneration cost (see Annex C), but will be in addition to the one per cent limit set in paragraph 2.2.

Business case requirements

F.2 Departments wishing to take advantage of this flexibility are required to submit a business case to the Cabinet Office in the first instance in support of the proposal. The flexibility is also available to NDPBs who should submit business cases through their sponsor department. The business case will be expected to include all relevant information and financial data, including:

- details of the recruitment or retention pressure to be addressed, including supporting evidence;
- metrics relevant to the proposed increase in (non-PRP pot) paybill, including: the number and nature of posts involved; existing and proposed pay rates and payments; whether increases are consolidated or non-consolidated; the total number of posts covered by the remit; and the impact of the proposal on the remit paybill excluding the PRP pot (amount and percentage);
- the amount of the existing PRP pot calculated as a percentage of the 2013-14 baseline paybill, and the percentage;
- evidence to confirm that the proposal complies with the limits of the scheme set out above: the amount of the proposed reduction to the existing PRP pot, also expressed as a percentage of the pot and of the baseline paybill; and that the proposed paybill increase is offset by the PRP pot reduction, taking account of any adjustment for employer superannuation and ERNIC costs (see para F1.9);
- an explanation as to how the proposal will not jeopardise the operation, development or effectiveness of existing performance-related pay arrangements.

F.3 Treasury will also take into consideration whether rates of pay relevant to the applicant’s remit are already high compared with the rest of Whitehall, although this would not rule out higher-paying departments taking advantage of this flexibility.

HM Treasury contacts

This document can be found in full on our website: http://www.hm-treasury.gov.uk

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