



Review Body on Senior Salaries

REPORT No. 74

Initial report on
Public Sector Senior
Remuneration 2010

Chairman: Bill Cockburn, CBE TD



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Presented to Parliament by the Prime Minister
by Command of Her Majesty

March 2010

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Foreword

Review Body on Senior Salaries

The Review Body on Top Salaries (TSRB) was appointed in May 1971 and renamed the Review Body on Senior Salaries (SSRB) in July 1993, with revised terms of reference. The terms of reference were revised again in 1998 as a consequence of the Government's Comprehensive Spending Review, in 2001 to allow the devolved bodies direct access to the Review Body's advice and in 2007 to add certain NHS managers to the remit.

The terms of reference are:

The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence and the Secretary of State for Health on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; very senior managers in the NHS¹; and other such public appointments as may from time to time be specified.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. If asked to do so by the Presiding Officer and the First Minister of the Scottish Parliament jointly; or by the Speaker of the Northern Ireland Assembly; or by the Presiding Officer of the National Assembly for Wales; or by the Mayor of London and the Chair of the Greater London Assembly jointly; the Review Body also from time to time advises those bodies on the pay, pensions and allowances of their members and office holders.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;

regional/local variations in labour markets and their effects on the recruitment and retention of staff;

Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;

the funds available to departments as set out in the Government's departmental expenditure limits; and

the Government's inflation target.

In making recommendations, the Review Body shall consider any factors that the Government and other witnesses may draw to its attention. In particular it shall have regard to:

differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;

changes in national pay systems, including flexibility and the reward of success; and job weight in differentiating the remuneration of particular posts;

¹ NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers with board level responsibility who report directly to the chief executive, in: Strategic Health Authorities, Special Health Authorities, Primary Care Trusts and Ambulance Trusts.

the need to maintain broad linkage between the remuneration of the three main remit groups, while allowing sufficient flexibility to take account of the circumstances of each group; and

the relevant legal obligations, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief and disability.

The Review Body may make other recommendations as it sees fit:

to ensure that, as appropriate, the remuneration of the remit groups relates coherently to that of their subordinates, encourages efficiency and effectiveness, and takes account of the different management and organisational structures that may be in place from time to time;

to relate reward to performance where appropriate;

to maintain the confidence of those covered by the Review Body's remit that its recommendations have been properly and fairly determined; and

to ensure that the remuneration of those covered by the remit is consistent with the Government's equal opportunities policy.

The Review Body will take account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Members of the Review Body are:

Bill Cockburn, CBE TD *Chairman*
Professor Richard Disney
Martin Fish
Professor David Greenaway
Mike Langley
Professor David Metcalf, CBE
Sir Peter North, CBE QC
Christopher Stephens
Bruce Warman
Paul Williams

The Secretariat is provided by the Office of Manpower Economics.

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Review of
Public Sector Senior
Remuneration

Part A
Action

Chapter 1

A new regime for top-level reward

- 1.1 The Prime Minister wrote on 23 December 2009 asking the Senior Salaries Review Body to lead a review of senior remuneration in the public sector. He did this against the background of Government concern about the perceived high level of senior pay in some parts of the public sector. We were asked for an interim report ahead of the 2010 Budget. The Prime Minister's letter is attached at Appendix A.
- 1.2 Whilst we have not been able in the time available to undertake a consultation exercise to inform our thinking, we have had the support of the Chairs of the other five Pay Review Bodies as well as the Chairmen of the Police Negotiating Board and the Audit Commission. We have met representatives of government departments and others with an involvement in public sector pay (including the Shareholder Executive). Our views and proposals are, accordingly, necessarily preliminary. If the Government wishes us to take this further, we would want to engage with a wider range of people and organisations with an interest in the subject.
- 1.3 It is critical to ensure public confidence in this area: confidence that high salaries are not being paid where they are not merited; and, where they are paid, confidence that they are justified by rigorous processes and evidence of sustained high performance. Our proposals are intended to make a significant contribution to providing reassurance.

Our conclusions

- 1.4 The following sections summarise our main conclusions.

The public sector is complex and so are the arrangements for pay

- 1.5 The public sector comprises a diverse range of organisations, strikingly varied in how they are constituted, where they sit in relation to central government, and the extent to which they are subject to ministerial control. This applies to pay as it does to other aspects of their activities. In some cases, Ministers are directly and personally involved in setting pay; in some cases it is a delegated responsibility; and in some cases arrangements for pay have deliberately been separated from direct ministerial engagement. The latter can reflect the desire for bodies to be independent of Government – the BBC, for example – and in others, such as foundation trusts, it may be policy that bodies should have responsibility for pay as well as other aspects of their administration.

The evidence is fragmented

- 1.6 We have made considerable efforts, through the Office of Manpower Economics, to secure comprehensive data on pay and remuneration more generally for the public sector. It has proved difficult to do so on a consistent basis across all of the organisations that constitute the public sector: the public sector is not a single body and there is no agreed definition of it. There is no obligation on the different parts of it to present information on senior pay in a consistent manner (or in some cases, apparently, at all). This situation makes public scrutiny difficult and may suggest that the question of senior pay has not previously received sufficient attention. We review the available data and their limitations in Chapter 3.

Current practice is not consistent

1.7 There is evidence of much good practice in pay determination in the public sector, but it lacks a framework of consistency and transparency and a rigorous discipline of application. We review current practice in Chapter 4. There are three broad areas that we see as important:

- **governance procedures** to allow delegated authority within an agreed framework of decision making;
- **remuneration policy and practice** that demonstrates value for money in seeking to recruit, retain and motivate suitably qualified staff; and
- **disclosure, transparency and audit** procedures that are rigorously implemented.

1.8 A key issue about current practice is whether those responsible have the skills, experience and authority to make sound decisions about pay. Government departments that look after larger numbers of organisations and that concentrate responsibility for providing advice on these issues seem able to develop greater consistency and competence in dealing with them.

Private sector experience is helpful – if adapted to context

1.9 Good practice in the private sector has been reinforced in recent years by the development of the various codes that have been consolidated in the Combined Code¹. There is much in the Combined Code that can inform public sector pay, but there is also a need for some specific public sector guidance.

Senior pay is a significant area of public expenditure

1.10 Despite the limitations of the data, our best assessment at this stage is that over 25,000 people working in the public sector earn more than £100,000 a year. We have also been able to establish that significant numbers of people are paid in excess of £150,000 a year. Front-line medical practitioners form a substantial proportion of the total. In England alone, information made available to us by the NHS Information Centre suggests that there may be in the region of 4,900 consultant medical staff with total NHS earnings of more than £150,000 per year².

1.11 Outside the medical sector, other – generally publicly available – sources identify public sector groups where some senior staff earn more than £150,000 a year: for example, around 200 senior members of the judiciary, some 120 local authority chief executives, and around 90 senior civil servants. We are unable to be precise about the overall number, but we are confident that it is at least 700.

1.12 In general, people in the public sector who are paid at these levels are carrying out highly responsible jobs, often delivering vital public services. But given the level of individual earnings and the total sum of money involved, the public is entitled to reassurance that pay at this level is fully justified and that it is being used to drive high levels of performance.

The first essential step – a Code of Practice for the public sector

1.13 The most critical requirement is for a clear set of rules. There is currently little to help decision makers in this area. We found examples of voluntary codes for specific sectors, but much of the other guidance we saw was at too high a level of generality. What is needed is a code for the whole public sector that sets out clearly and unambiguously the principles and standards that are required.

¹ Financial Reporting Council (2008) *The Combined Code on Corporate Governance*, June 2008. London, FRC. Described in Chapter 2, paragraphs 2.29-32.

² For more detail and the derivation of the figures, see Chapter 3.

1.14 We attach following this chapter a draft Code of Practice on top-level reward in the public sector. This provides a clear framework which should apply to all senior public sector executives and, in principle, to anyone earning more than £100,000 a year in the public sector. It has been drafted to be widely applicable but also to take account of the complexity of the sector noted above.

1.15 We foresee the following benefits if the Code is implemented:

- clear rules applying to all highly paid public sector workers – even organisations who manage pay well told us that this would be helpful;
- a clear framework of accountability – some organisations have more autonomy on pay than others but everyone has an obligation to use public money wisely and must use a clear, agreed framework for its senior pay;
- organisations will have to say what this framework is and how it will work in practice;
- if organisations need to make an exception, they will have to seek special approval and say why;
- organisations will have to disclose in full what they are paying their senior people – all aspects of the reward package, not just headline salary;
- senior pay will be determined by people independent of the organisation’s management;
- explicit checks to stop one-off or premium arrangements becoming the norm;
- reward packages will have to be properly approved before they are advertised or offered;
- an explicit move away from setting senior pay on the basis of what other people are being paid – the amount required to recruit and retain is what matters; and
- stricter criteria for the use of bonuses.

1.16 Success in achieving these benefits is dependent on two factors. One is firm management of the process by appropriately skilled people with the authority to require compliance. The other is disclosure – in the private sector this has been indispensable to greater shareholder activism in recent years.

The second essential step – finalising and implementing the Code

1.17 Since we have not been able to consult as we would have liked on the draft Code, we should next like to do so, seeking views on both the principles and on their application to individual parts of the public sector. Not all of the provisions can apply exactly as we have described them to all organisations because of their differing constitutional arrangements; smaller organisations will need to ensure they take a proportionate approach to the application of the Code; and in some cases there will need to be structural changes, perhaps requiring legislation, to enable organisations to comply.

1.18 As currently constituted, SSRB is not the appropriate body to conduct the detailed process of applying the Code to all parts of the public sector. Our view is that those responsible for specific sectors should bring forward proposals for applying it. The Government may have a view on those areas where it particularly wishes the Code to be applied first. Over time we would, however, expect the Code to be adopted by all organisations that are part of the public sector.

The third step – developing a structure of pay ranges for senior public sector pay

- 1.19 Having a set of principles and guidance in a Code will be a step forward but will not be sufficient. The draft Code requires the application of an appropriate remuneration framework – these exist for some parts of the public sector but not for all (Non-Departmental Public Bodies (NDPBs), for instance). Anecdotal evidence suggests that this can lead to decisions on senior pay being taken on an ad hoc basis or simply by reference to what other organisations are paying.
- 1.20 In addition to the Code, we therefore propose that there should be a set or sets of reference ranges for senior pay, with criteria for allocating organisations to specified ranges and for locating posts within those ranges. There would need to be rigour in the methodology for determining the pay ranges, having regard, for example, to the weight and responsibility of the post. In view of the variety and complexity of the public sector, our initial view is that a pay range approach is more promising than seeking to identify specific sectoral benchmarks. The Government would need to commission the development of these ranges as part of the next phase of work in this area. SSRB would be willing to oversee this work in conjunction with bodies with an interest in the sectors concerned.
- 1.21 A set of reference ranges would provide organisations or clusters of organisations with a pay framework which is currently lacking. Organisations would be able to pay outside these ranges, but would need to provide a sound justification and seek additional clearance. The discipline of an agreed framework covering what is normal and clear demarcation of exceptional cases should also help to reinforce public confidence in the levels of public sector pay.
- 1.22 Part C of this report sets out the progress we are making on our review of NDPB chief executive pay, which will report in July 2010. This work and the methodology underpinning it could be used as a test case to explore whether the principle of broad pay ranges works for this type of organisation and whether it might provide a more generally applicable remuneration framework for some categories of public sector body. This methodology could then be applied more widely.
- 1.23 In the meantime, work should begin on identifying whether there are any obvious clusters of public sector organisations that merit early attention.

Recommendations

- 1.24 We recommend that:
- SSRB undertake consultation on the principles set out in the draft Code of Practice on top-level reward in the public sector, and their application to particular sectors;
 - the consultation be conducted on a timetable that would lead to the publication of a Code of Practice on top-level reward in the public sector by the end of July 2010;
 - government departments and others be invited to bring forward, by the end of 2010 at the latest, proposals on the application of the Code to those bodies and sectors in which they have an interest; and
 - if the Government wishes pay frameworks to be developed for particular sectors, SSRB be commissioned to oversee this activity, working closely with bodies with an interest in the sectors concerned.

The Code

**Text of the
Code of Practice**

Draft Code of Practice on top-level reward in the public sector

Preamble

It is in the public interest that people of the right ability and experience can be recruited and retained by the public sector to lead and deliver the services and functions that are essential to the nation. They should be motivated to perform at the highest level and should be rewarded appropriately for their achievements. Their rewards should properly reflect the taxpayer's interest in value for money, high standards of governance and transparency.

This Code of Practice is to provide guidance to those responsible for setting senior pay on appointment and subsequently. The Code applies to chief executives and senior executive teams of public sector organisations, regardless of their level of pay, and to other employees receiving more than £100,000 a year in pensionable pay.

The principles, if applied properly and proportionately, will ensure that decisions are taken at the right level, are open to scrutiny, and can be publicly justified.

The Code is to apply widely across the public sector. Organisations vary greatly in terms of their size, governance and structure. For governance in particular, there are significant differences in the arrangements applying to public corporations, local authorities, Non-Departmental Public Bodies and others – some, for example, do not have external sponsors. Many will readily fit with the Code; others may need to adapt some of the specific provisions to their circumstances. But it is essential that the broad principles underlying the Code are embraced on a mandatory basis to ensure public confidence.

Glossary

Code: refers to this Code of Practice on top-level reward in the public sector

Governing body: is the body of elected or appointed persons at the top of an organisation that oversees its activities. Often this is a board (and can be variously named, for example council, board of trustees, board of governors, board of managers, or executive board). For local authorities it may be the Council itself, its cabinet or a senior committee. Some organisations may not have a formal governing body, either because they are too small or because of the manner in which they are constituted. In these cases, references to the governing body shall be taken as referring to whoever at the top of the organisation is charged with its policy and strategic oversight.

Independent representative: usually a member of the organisation's governing body who is independent of or external to its line management structure. Organisations that do not have such membership of their governing body may need to make alternative arrangements for external involvement in their senior remuneration processes.

Organisation: refers to any public sector organisation of any size or however constituted.

People earning more than £100,000: the Code applies to people working in the organisation who are outside the senior executive team but whose pensionable salary is more than £100,000 a year (though the disclosure requirements are less onerous than for senior executives). Pensionable salary will be considered on an annualised basis, to take into account part-time working. Once the salary criterion is met, the Code provisions apply to the individual's total remuneration package.

Remuneration committee: a committee established by the governing body of an organisation to make determinations on top-level remuneration. It typically comprises two or three independent representatives.

Senior executive team: those in a senior management position in the organisation, whether using this description or not – normally including at least the chief executive and his or her senior direct reports.

Senior executive: a member of the senior executive team. This term normally includes senior executives employed on an interim basis, unless the period of employment is less than six months.

Sponsor: the person or body that exercises oversight over an organisation and acts as guardian of the public interest in respect of its activities. Those carrying out this function include government departments, representative councils, regulators and independent trusts. Not all organisations have a sponsor: where the Code requires provision for escalation to a sponsor, such bodies will need to make appropriate arrangements to recognise the exceptional character of decisions falling outside the applicable pay framework.

Top-level reward: reward for those covered by this Code, namely the senior executive team and those earning more than £100,000 a year.

Principles of top-level reward in the public sector

Senior public sector remuneration must provide **value for money** for the taxpayer and not pay more than is necessary to **recruit, retain and motivate** suitably qualified staff. All aspects of pay determination should in principle be subject to: **independent governance** arrangements; **objective justification** of starting pay and subsequent changes; and appropriate **disclosure** of reward structures and all elements of reward received.

Governance

Delegated authority: top-level reward in public sector organisations must be positioned within a defined pay framework agreed by their sponsor or equivalent. Within that pay framework, governing bodies of organisations have primary responsibility and accountability for top-level reward in the organisation.

Independence: individual top-level reward should, where possible, be determined by skilled people of seniority and standing who are independent of management and constitute a free-standing remuneration committee.

Escalation: escalation procedures must apply where an organisation exceptionally needs to offer remuneration outside the bounds of its defined pay framework.

Contracts of employment: there must be comprehensive contracts of employment that protect the interests of the individual and the organisation.

Remuneration

Value for money: remuneration must demonstrably provide value for money in the use of public resources and be no more than is necessary to attract, retain and motivate able staff, on a sustainable basis, to deliver public functions.

Total reward: in determining top-level reward, organisations must consider separately the elements of a total reward package – base pay, incentives, pension contributions and any other material benefits. The composition of the reward package must be appropriate to the role and circumstances of the organisation.

Payment for performance: performance should normally be the basis of any progression or uplift in base pay. Other elements of performance-related or contingent pay may be used if appropriate to the organisation's public service mission and helpful in motivating and retaining senior staff.

Disclosure

Disclosure of procedures: organisations must demonstrate that their remuneration processes apply the spirit of this Code and its specific provisions as far as possible on a 'comply or explain' basis. Their policies, frameworks and governance arrangements for top-level reward should therefore be clearly described and publicly available.

Disclosure of remuneration: organisations must disclose annually the total remuneration of individual staff members covered by this Code, the basis of decisions on that remuneration, any exceptions made to established policies and frameworks and any significant changes to those policies and frameworks.

Audit: audit procedures must be established and documented that are independent of the remuneration process. A report on compliance with this Code must be included in the organisation's annual audit report.

1 Governance

1.1 Delegated authority

Top-level reward in public sector organisations must be positioned within a defined pay framework agreed by their sponsor or equivalent. Within that pay framework, governing bodies of organisations have primary responsibility and accountability for top-level reward in the organisation.

Guidance

- This Code or a comparable set of provisions is an integral part of any scheme of delegated authority.
- Delegation frameworks must be clear on the degree of delegation, whether national payscales or some form of indicative pay banding are to be used, whether performance-related pay is appropriate to the organisation, and the issues on which the approval of the sponsor (or equivalent) is required.
- Organisations independent of central government or who do not otherwise have an external sponsor must ensure a proper remuneration framework is in place. Because of the constitutional arrangements for the body, this may be specific to it. Equally, there may be scope for collaboration with similar organisations.
- Organisations must ensure that recruitment and renewal remuneration packages are considered and approved – within a clear scheme of authority levels – before they are advertised, offered or awarded.
- The independence and escalation principles below do not obviate the primary responsibility and accountability of the governing body for the organisation's approach to top-level reward and for the existence and effective operation of suitable procedures.

1.2 Independence

Individual top-level reward should, where possible, be determined by skilled people of seniority and standing who are independent of management and constitute a free-standing remuneration committee.

Guidance

- No-one should be involved in deciding his or her own remuneration.
- Subject to the escalation principle below, the remuneration committee will determine pay policies and processes, starting salary, the performance pay regime and, where relevant, conditions for payment of bonuses and agreement to bonuses paid in practice.
- The remuneration committee should operate independently of the organisation's management and should have access to administrative support and resources for independent research (including the ability to tender for and appoint consultants). The committee's terms of reference must be publicly available.
- Where an organisation does not have independent representatives on its governing body, an alternative method of securing independent involvement should be identified in the organisation's published remuneration policies.
- The remuneration committee should be chaired by a designated senior independent representative, whose appointment should be approved by the sponsor or equivalent. Ideally, at least one member of the committee should have expertise in the field of remuneration. The Chair of the governing body may not sit on the committee if he or she has an executive function in the organisation.
- Appointments to the remuneration committee should normally be for three years in the first instance, with provision for one further three-year term subject to satisfactory performance. Suitable refresher training should be provided for committee members at regular intervals to ensure that their understanding is up to date.
- For smaller organisations, it may be more effective for a remuneration committee to operate across a number of organisations at an appropriate level of aggregation.

1.3 Escalation

Escalation procedures must apply where an organisation exceptionally needs to offer remuneration outside the bounds of its defined pay framework.

Guidance

- The organisation's published remuneration policy should be clear on the criteria justifying an exception, the levels or types of remuneration for which escalation is required, and the hierarchy of escalation (particularly the point at which reference to the sponsor or equivalent is required).
- Escalation will also be required for changes of substance in governance arrangements or in remuneration policies and procedures.
- The process for activating individual requests for an exceptional remuneration offer must be thoroughly documented by the remuneration committee. There must be a full reasoned statement of the rationale for any such offer.
- The associated processes should be transacted as quickly as possible when the need for escalation is identified, either before the start of a recruitment campaign, on finding a preferred candidate, or where the need for an exceptional in-service award is identified. The escalation processes should conclude as soon as possible, ideally within 10 days.
- Organisations independent of government or that do not otherwise have an external sponsor must put in place appropriate arrangements to recognise the exceptional character of decisions falling outside the applicable pay framework.

1.4 Contracts of employment

There must be comprehensive contracts of employment that protect the interests of the individual and the organisation.

Guidance

- Contracts of employment must unambiguously set out full details of the total remuneration package and other terms. These must include the arrangements for making any uplift in the base salary or any material changes to other benefits during the lifetime of the contract.
- Contracts must take account of sound practice in specifying matters such as contract length, notice periods (not normally longer than six months), and arrangements for termination and any associated compensation.
- The remuneration committee should consider carefully any terms of settlement providing for compensation in the event of early termination (including cash compensation, pension contributions and other elements). Under certain circumstances, it may be more appropriate to pay any compensation in stages (either to a defined point or until the departing employee secures another source of income, whichever is shorter) rather than as a single lump sum.
- Rigorous performance management and appraisal systems must be in place to provide evidence for contract changes or extensions.
- The approval of the governing body is required for the principle and terms of any external role, paid or unpaid, carried out by a senior executive in working time. Considerations include the time required for the role and any potential for conflict of interest or detriment to the home organisation. For paid roles, the remuneration committee should determine the treatment of all fees or other income, with the presumption that these be remitted to the main employer unless there are exceptional reasons.
- The remuneration committee will monitor the organisation's application of this principle, particularly making sure that contracts do not offer excessive or inappropriate reward structures or leave the organisation open to allegations that it is willing to reward failure.
- Where contracts of employment are not appropriate (for office holders, for example) the items covered in this section should be reflected to the extent possible in letters of appointment, statements of terms and conditions or similar instruments.

2 Appropriate remuneration

2.1 Value for money

Remuneration must demonstrably provide value for money in the use of public resources and be no more than is necessary to attract, retain and motivate able staff, on a sustainable basis, to deliver public functions.

Guidance

- Public sector organisations should seek to recruit and retain the best person for the job, but they should also refuse to meet excessive demands, particularly at appointment or reappointment.
- Pay on appointment or reappointment must be decided following a rigorous assessment of the relevant market and the amount it is necessary and appropriate to pay for suitable staff. Pay benchmarks should normally be drawn from the wider public sector rather than the private sector (and based on a suitably broad range of public sector bodies). The level of pay offered should also take account of the other benefits offered. The remuneration package must additionally reflect affordability.
- The appropriate level of remuneration for a post must be considered afresh at each appointment: the salary of a previous incumbent is not an automatic benchmark as individual circumstances will be different and recruitment markets evolve. Similarly, there must be no assumption that remuneration for a candidate needs to be at the same level as in his or her previous role – some posts are inherently attractive and people may be willing to accept a lower salary.
- The remuneration committee must have regard to pay and employment conditions elsewhere in the department, organisation or the wider public sector, particularly when determining annual salary increases.
- Remuneration can decrease under the right contractual circumstances, such as where an exceptional temporary contract is made permanent or an exceptional role returns to normal.
- Public sector organisations should normally regard internal or sectoral talent as the primary source of their future leadership cadre. External recruitment will be an appropriate solution in the right circumstances, but this does not obviate the need to ensure appropriate succession planning and talent management policies are in place for key roles.

2.2 Total reward

In determining top-level reward, organisations must consider separately the elements of a total reward package – base pay, incentives, pension contributions and any other material benefits. The composition of the reward package must be appropriate to the role and circumstances of the organisation.

Guidance

- The elements of the total reward package must be identified separately in contracts and in all reporting on individual remuneration. The costs to the employer of the separate elements of the reward package, particularly pension contributions, need to be evaluated in a meticulous and consistent manner.

2.3 Payment for performance

Performance should normally be the basis of any progression or uplift in base pay. Other elements of performance-related or contingent pay may be used if appropriate to the organisation's public service mission and helpful in motivating and retaining senior staff.

Guidance

- A formal system of (at least) annual appraisal must be in place for all staff covered by this Code. The outcome of this evaluation must be reported to the remuneration committee and form the basis of any recommendation on remuneration for the executives in question.
- Awards should be demonstrably merited and never made in cases of poor performance.
- All progression and any uplift in base pay must be dependent on a positive recommendation based on performance, even where incremental paycales apply.
- Variable components of remuneration should only be used only where they can be linked to predetermined, objective and measurable performance criteria, which may include criteria of a non-financial nature. The less precise the terms in which success can be defined, generally the smaller an element this type of pay should be of the overall remuneration package.
- In its policies, the organisation must set defined limits on the variable components of remuneration. There may be circumstances in which it is appropriate to defer significant variable components of remuneration for a number of years to ensure that success is sustainably implemented.
- For some positions, particularly those related to the delivery of a large long-term project, it may be more appropriate for performance-related payments to be made on the basis of performance across the contract as a whole or in relation to specified milestones, not on an annual basis.
- Contractually guaranteed bonuses are rarely appropriate in the public sector. Exceptions will require the approval of the sponsor or equivalent.
- Payments actually made and the justification for them must be included in the annual remuneration report prescribed in section 3.1.

3 Disclosure

3.1 Disclosure of procedures

Organisations must demonstrate that their remuneration processes apply the spirit of this Code and its specific provisions as far as possible on a 'comply or explain' basis. Their policies, frameworks and governance arrangements for top-level reward should therefore be clearly described and publicly available.

Guidance

- Some provisions of this Code may not be fully applicable to some organisations. It may also be that the spirit of the Code could be more effectively observed through an alternative procedure to the one prescribed here. In such cases of non-compliance, the governing body must explain and justify the alternative procedure and agree it with its sponsor or equivalent.
- The remuneration committee must produce a clear and easily understandable annual remuneration report for publication by the governing body, covering the matters specified in the Code, and particularly in this section and section 3.2.
- Any changes made to relevant policies, frameworks or governance arrangements and any deviation from them in particular cases during the year must be specifically described and justified in the committee's annual remuneration report.
- It is acceptable for the current version of any relevant policies, frameworks and governance arrangements to be made available through the organisation's website, provided a clear reference and link are included in the remuneration committee's annual report.

3.2 Disclosure of remuneration

Organisations must disclose annually the total remuneration of individual staff members covered by this Code, the basis of decisions on that remuneration, any exceptions made to established policies and frameworks and any significant changes to those policies and frameworks.

Guidance

- The annual remuneration report prescribed in section 3.1 should also cover the matters required by this section.
- The report must disclose the cash value of each element of the remuneration of all senior executives, identifying them by name and job title.
- Outside the senior executive team, those earning more than £100,000 a year do not need to be identified by name, but the numbers of such staff and the cash value of their total reward should be disclosed in bands of five thousand pounds.
- The remuneration report must also comment on any appointments, re-appointments or changes to individual terms and conditions where there has been a departure from the defined remuneration framework for the organisation or from the provisions of this Code, together with a statement of the reasons for the departure.
- In cases of early termination of a contract, the process followed and any compensation awarded must be subject to full disclosure.
- The committee should also be prepared to provide ad hoc reports on the appointment of a new senior executive or any other significant event that involves changes to a senior remuneration package.

3.3 Audit

Audit procedures must be established and documented that are independent of the remuneration process. A report on compliance with this Code must be included in the organisation's annual audit report.

Guidance

- The remuneration committee will apply the necessary internal controls to allow it to comply with any audit enquiry.
- The governing body will monitor and review the effectiveness of the organisation's internal audit function in relation to remuneration matters.
- The terms of reference of the audit procedures should be made publicly available in accordance with section 3.1 above.

Review of
Public Sector Senior
Remuneration

Part B
Background

Chapter 2

Context

2.1 This chapter sets out briefly the origin of our review. It then looks at three aspects of senior remuneration that set the context for our report: how the public sector might be defined and segmented; the current state of thinking on senior remuneration in general; and how approaches to setting pay in the public sector have evolved in recent decades. The discussion of segmentation of the public sector is important to our views on how the proposed Code set out in Part A might be applied in practice.

Background to our review

2.2 The immediate trigger for this review was the Prime Minister's speech of 7 December 2009 on "Smarter Government", in which he expressed the Government's concern at the level of public sector pay. The Prime Minister said: "in the wider public sector, some senior pay and perks packages have ... lost touch with the reality of people's lives. Money which should be spent on health, on schools, on policing and on social services is in some cases going on excessive salaries and unjustified bonuses."¹

2.3 The current difficult economic circumstances have prompted understandable public concern at high levels of public sector pay, given perceptions of greater job security in the public sector. Questions have also been raised about the practice of making bonus payments in both public and private sectors. In most cases the payments that have drawn attention in the private sector, notably in banking, are very much larger than those available to even the highest paid public servants – bonuses in the public sector are generally modest at the individual level. Additionally, when bonus payments were introduced to the public sector, they were seen as a tool for driving up performance and for reducing costs (since they are generally unconsolidated and non-pensionable). Nevertheless, questions have been raised not only about the size of some individual bonuses but also whether bonuses are justified at all in the public sector.

2.4 Since the middle of 2008, public sector average earnings have increased at a faster rate than in the private sector². This has provoked public comment, even though it follows a long period during which private sector earnings growth exceeded that of the public sector. It is important to bear in mind when comparing average earnings growth in the public and private sectors that public sector earnings tend to be countercyclical, with periods of low growth followed by periods of catch-up³. Taking a slightly longer perspective, by the end of 2009 cumulative earnings growth since 1997 was slightly higher in the public sector than in the private sector for the first time. It should also be noted that many public sector workers' pay is currently subject to multi-year pay deals.

2.5 The impact of these economic changes has been to make employment in the public sector relatively more attractive for many people. This raises questions over the level of remuneration that is necessary to recruit and retain suitable people for public sector jobs, even at senior levels. And it invites examination of whether the remuneration packages continue to represent good value for the public who, as taxpayers, ultimately fund these posts.

¹ Available at <http://www.number10.gov.uk/Page21633>. Speech delivered in London on 7 December 2009.

² ONS (2010) *Labour Market Statistics February 2010*, Table 15 (series KAC6 and KAC9). See discussion in Appendix B.

³ Institute of Fiscal Studies (2010) *The IFS Green Budget: February 2010*, London, IFS; Chapter 9

2.6 Two recent reports by the Public Administration Select Committee (PASC) are highly relevant to our review. The first, on top pay in the public sector, sets out valuable background on public sector pay as a whole and outlines the different views that exist on this topic⁴. The second, on external appointments to the Senior Civil Service, looks amongst other things at the impact of outside appointments on pay in the SCS⁵.

Defining the public sector

2.7 There is no single, uniformly agreed and applied definition of the public sector and certainly not one that corresponds precisely to the range of bodies we have been asked to examine. Chapter 2 of the recent report from the PASC provides a good summary of some of the definitional problems in this area⁶.

2.8 In the light of this, it is not surprising that there is no definitive list of public sector bodies. Partly this reflects the fact that status issues have historically been determined on an ad hoc basis rather than using any systematic typology. Additionally, some bodies have been established with the express intention of straddling both sectors⁷.

2.9 Of the various definitions in use, the most important is the one used by the Office of National Statistics (ONS) as this underpins the most authoritative dataset. The ONS definition comprises three elements: central government, local government and public corporations, each of which is defined in more detail⁸. This definition does not include some sectors that have been placed within the terms of our present remit, notably higher education. There are other definitions in use within government and outside it. Definitions are generally either sectoral (based on areas of state activity) or functional (patterns of funding or accountability) or a combination of factors.

2.10 There is also a perceptual aspect: some organisations may not feel like the public sector to those working inside them, but this perception will not necessarily be shared by the general public or the media (particularly the case for public corporations such as the Met Office and National Air Traffic Control Services).

2.11 We note the absence of a single official definition, but do not regard it as our task to find one: it will ultimately be for the Government to determine the categories of organisation in which it wishes to exercise control over senior remuneration and the degree to which it wishes to do so. For working purposes, we consider that the relevant bodies are ones that display one or more of the following characteristics:

- the organisation is financed wholly or substantially by public funds;
- public funds ultimately support the body;
- the organisation is responsible for a public-purpose mission;
- its employees are civil or public servants;
- one or more senior posts are public appointments made by Ministers or the Crown.

⁴ PASC (2009) *Top Pay in the Public Sector: Sixth Report of Session 2009-10*, Volume I, London, TSO

⁵ PASC (2010) *Outsiders and Insiders: External Appointments to the Senior Civil Service. Seventh Report of Session 2009-10*, London, TSO

⁶ PASC (2009) *Top Pay in the Public Sector: Sixth Report of Session 2009-10*, Volume I, London, TSO

⁷ There is a helpful historical summary in Chapter 3 of Flinders (2009) *Delegated Governance and the British State*, Oxford, OUP

⁸ ONS (2009) *Public Sector Employment, Q3 2009*

Segmenting public sector organisations

- 2.12 Public sector bodies are strikingly diverse in how they are constituted, where they sit between the public and the private sector, and the degree of ministerial control⁹. This applies particularly to remuneration. In some areas, Ministers exercise direct control of remuneration, in some their influence is indirect, and in some they have no locus at all.
- 2.13 At times when there is a high level of public, media and political interest in public sector pay, it will always be tempting for the Government to seek to increase its direct control. In our view, this is neither desirable nor, in practice, achievable. The Government has rightly accepted that many aspects of the management of public sector bodies should be delegated, in the interests of good governance, effective delivery and, in some cases, the independence of the body concerned. The reality is that there will be differences in the level of control exercisable directly over bodies – steps to ensure effective management of top-level public sector reward should recognise this.
- 2.14 The value for our review of considering the segmentation of the public sector is to allow us to consider how our proposals might impact on the different categories of body and how our proposed Code might be implemented across the public sector.
- 2.15 One option is to segment on a sectoral basis, such as: central government, local government, education, healthcare or emergency services. This approach would be recognisable to the general public, but has some problems for this phase of our work. First, some sectors contain mixed public and private provision (medicine and dentistry for example). Secondly, once one moves beyond the obvious groupings, deciding what constitutes a separate sector would not necessarily be easy. Thirdly, and most importantly, a sectoral approach simply reflects what the organisations do, not how they are governed or how their remuneration works.
- 2.16 We therefore prefer to use what we term a ‘proximity scale’ approach and segment the public sector into five groupings based on the degree of central government control of remuneration. The figure overleaf illustrates this with examples of the types of organisations that might fit in each category. We emphasise the illustrative nature of this – it is not our task to determine the categorisation of public sector organisations.

⁹ Discussed in detail in op. cit. Flinders (2009) *Delegated Governance and the British State*.

Figure 1: Illustrative proximity chart of public sector organisations (examples in italics for some categories)

A	B	C	D	E
Controlled	Operational autonomy with pay framework	Operational autonomy	Arm's length	Remote
Government decides on remuneration	Mandatory payscales or sectoral pay framework	Makes own pay arrangements	Given freedoms to operate within a market – like private sector	Varied and difficult to define; the most independent
Central Government <i>Ministry of Defence, HM Treasury</i> Non-ministerial Departments <i>Food Standards Agency, Office of Fair Trading</i>	Review Body Groups <i>School Teachers, Senior Salaries</i> Police Executive Agencies <i>DVLA, Companies House</i>	NDPBs <i>English Heritage, Health Protection Agency</i> Local Authorities Trust hospitals Academy schools Further Education	Public Corporations <i>Ordnance Survey, The Tote</i> Public Interest Companies <i>Royal Mail, Post Office Ltd</i> Universities BBC & Channel 4	Public Private Partnerships Outsourced provision <i>Serco, Jarvis</i> 'Parastatal' companies <i>National Grid</i> Charities & Trusts <i>Delivering a public service contract</i>
Direct control		Influence		Conditional
Full compliance with the code			Another code may apply	

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2.17 The characteristics of the groupings, so far as remuneration is concerned, are as follows:

- A: directly controlled – central government making decisions about senior remuneration;
- B: public service operational autonomy with controlled remuneration framework – mandatory payscales, a review body regime or similar;
- C: public service operational autonomy – as for the foregoing, but freedom to make their own pay arrangements, either by constitutional position (local authorities) or by gaining additional freedoms from the previous category (academy schools, trust hospitals);
- D: arm's-length – bodies that trade or operate in a market (broadly defined) which have been intentionally given the freedom to behave in most respects like private companies;

- E: remote – peripheral bodies to government: there are particularly awkward issues of definition with these bodies and it is not clear to us how far they should be included in the framework we outline in this report.
- 2.18 As Figure 1 makes clear, it is our view that the entire public sector ought to observe the spirit of our proposed Code on top-level reward. The letter of the Code should certainly apply to all categories except category E unless there is an exceptional reason to the contrary. Government will be able to enforce the application of the Code in categories A and B, either directly or indirectly. For categories C and D, the organisations themselves will need to adopt the Code, and the government role will be one of influencing and persuading (unless it decides to take powers through legislation).
- 2.19 Category E raises many tricky issues, and is unlikely to be a top priority for the implementation of the Code. Private sector companies in that category may indeed already be subject to the Combined Code¹⁰ or a similar framework. If the Government wishes to insist on stricter conformity with the Code in this category, its main levers are contractual terms and procurement policy.

Remuneration for senior executives

- 2.20 In considering how best to manage top-level reward in the public sector, it is appropriate to take account of where thinking stands on senior reward more generally and the corporate governance framework that sits around it. Executive pay forms a chapter in all reward management textbooks, but discussion is overwhelmingly focused on the private sector: public sector senior executives are an afterthought at the end of the chapter at best. This summary reflects that situation. Chapter 4 considers which aspects of private sector practice may usefully be applied in the public sector.

The senior executive reward package

- 2.21 Much of the senior executive reward package for public limited companies is based on the principal-agent theory: that senior executives (agents) exercise considerable discretion over their input, effort and actions, which in turn have a substantial impact on the performance of the company as a whole; but that the shareholder or owner (principal) cannot directly control or measure this input or effort. Consequently, there is a desire to align the interests of the senior executive with those of the shareholder. Shareholders benefit through the design of senior executive pay arrangements that lead the management team, motivated by self-interest, to maximise shareholder value.
- 2.22 The five core elements of the senior executive remuneration package are: pensionable pay, bonuses, share-based plans, benefits, and the service contract. The key features of four of these are described below (share options being omitted on the grounds that this type of remuneration is not relevant to more than a handful of public corporations).
- 2.23 In principle, basic salary is intended to reflect the value of the role and the individual occupant, and to recognise skills and experience¹¹. In practice, companies typically set base pay by comparing their senior executives to those with a similar function in similar companies¹².
- 2.24 Bonus schemes may be short-term or long-term. A short-term scheme rewards senior executives on the basis of some measure of company and, often, individual performance.

¹⁰ The Combined Code is explained in the following section on remuneration for senior executives.

¹¹ Perkins and White (2008) *Employee Reward: Alternatives, consequences and contexts*. London, CIPD

¹² 'Executive rewards – 'don't you just give them loads of money?', Dymond and Murlis in Corby, Palmer and Lindop, eds (2009) *Rethinking Reward*, London, Palgrave Macmillan

- 2.25 Share-based incentive plans are offered over the longer term and typically require total shareholder return performance to outstrip that of a group of comparable companies, with varying amounts depending on relative position. Share-based incentives are arguably often mis-named as 'long-term incentives'; the 'long-term' being around three years, and the incentive often amounting to a retention package to remain at the organisation for a rolling three-year term.
- 2.26 The rationale for providing already well-paid senior executives with benefits is the need to be competitive in recruitment. Pension provision is typically better for senior executives than for the rest of a firm's employees.
- 2.27 Company directors generally have contracts that specify substantial notice periods on both sides, typically up to a year. The Committee on Corporate Governance said: "The fundamental problem lies in the fiction of the notice period. Neither party seriously expects the typical notice period required from the employer under a director's service contract to be worked out. It is merely a mechanism for the payment of money."¹³
- 2.28 There has been considerable public concern over "rewards for failure" where senior executives leave without being formally sacked for poor performance and consequently receive considerable compensation. There have been moves in recent years to limit notice periods to a year, down from two or three.

The corporate governance background

- 2.29 The current corporate governance framework in the private sector reflects a number of reviews and reports, each designed to strengthen it by bringing greater transparency. These governance prescriptions have not necessarily been intended to hold down pay levels, but to ensure that senior executive reward determination complies with sanctioned governance standards, or that decision making is accompanied by a detailed explanation for departures from best practice.
- 2.30 Key provisions introduced as a result of this series of reviews include:
- full and clear disclosure of directors' total emoluments (and those of the chair and highest-paid UK independent director), including pension contributions and share-based incentive plans;
 - executive directors' pay being subject to the approval of a remuneration committee made up of non-executive directors;
 - the inclusion in the remuneration committee report of statements on remuneration policy and the methods used to form that policy;
 - designing performance-related elements to align the interests of directors and shareholders;
 - reducing notice periods to a year or less and enforcing mitigation of contractual entitlements as compensation for the loss of office.
- 2.31 Particularly notable, however, in the context of the worldwide financial crisis has been the new emphasis on monitoring risk. The Association of British Insurers' new guidelines on executive remuneration now require that remuneration committees "should have oversight of all associated risks arising throughout the firm as a result of remuneration."¹⁴

¹³ Committee on Corporate Governance (1998) *Final Report*. (Hampel Committee report.) London, Gee.

¹⁴ Association of British Insurers (2009) *Executive Remuneration: ABI guidelines on policies and practices*, Section 1. London, ABI

2.32 The current statement of practice for the private sector is the 2008 Combined Code on Corporate Governance¹⁵. This is currently under review, and public consultation closed on 5 March 2010: some changes are recommended but these are not fundamental¹⁶. The revised Code will be known as the UK Corporate Governance Code and will apply, for new financial years, from 29 June 2010.

Remuneration committees

2.33 All the recent reports and codes on directors' pay emphasise the importance of a remuneration committee as the main process by which appropriate decisions will be made on executive pay.

2.34 The purpose of remuneration committees is to provide an independent basis for setting salary levels and the rules covering incentives, share options, benefit entitlements and contract provisions for executive directors. Such committees are accountable to shareholders for the decisions they take, and the non-executive directors who sit on them should have no personal financial interests at stake. Remuneration committees should be constituted as sub-committees of company boards, and boards should elect both the chair and their members. Sir Richard Greenbury recommended that remuneration committees in larger companies should consist of at least three members¹⁷.

2.35 According to one authority¹⁸, the role of the remuneration committee is to:

- set broad policy for executive remuneration as a whole, as well as the remuneration packages of executive directors and, sometimes, other senior executives;
- focus on encouraging corporate performance contribution, and to ensure that individuals are fairly but responsibly rewarded for their individual contribution;
- comply with the appropriate codes;
- report and account to shareholders for their decisions on behalf of the board;
- ensure that the relationship between boardroom remuneration and remuneration for employees below this level remains consistent and sensible;
- ensure that proper and professional advice is obtained to assist in its deliberations.

A brief history of approaches to reward in the public sector

2.36 In this section we summarise a number of approaches that have been used in the post-war period in setting reward in the public sector. We include this brief survey as it is background to an important point that has emerged from our work: that the setting of senior pay in the public sector is often based on a different premise from that used for other public sector employees.

Comparability

2.37 Between 1945 and 1970 the United Kingdom measured the appropriateness of public sector remuneration against similar roles in the combined public and private marketplace, with the aim of achieving equity in public sector remuneration. This approach is still used in the United States of America for federal employees.

¹⁵ Financial Reporting Council (2008) *The Combined Code on Corporate Governance*, June 2008. London, FRC.

¹⁶ Financial Reporting Council (2009) *Review of the Combined Code: Final Report*

¹⁷ Greenbury (1995) *Directors' Remuneration: Report of a Study Group chaired by Sir Richard Greenbury*. London, Gee.

¹⁸ Armstrong (2002) *Employee Reward*. London, CIPD

- 2.38 Comparisons were made not by job function but against factors such as budget, risk and overall complexity. The range of public sector organisations and their diverse, often highly specialised, functions often made comparisons with the private sector very difficult. At this stage, job security in the public sector was considered absolute and an explicit discount accordingly applied.

Recruitment, retention and motivation

- 2.39 From 1981 efficiency replaced equity as the key principle and government began to act more like a private sector employer, seeking to pay civil servants (for example) enough to recruit, retain and motivate them. This meant, in theory at least, a preparedness to pay more in areas of shortage and less in areas of surplus. It also meant, again in theory at least, a preparedness to tolerate regional differences in remuneration.
- 2.40 In this model there is often still a discount compared to the private sector but less explicitly tied to assumptions of absolute job security.

Affordability

- 2.41 Affordability became an important principle in remuneration when cash limits were introduced as a means of controlling public expenditure (through an overall budget figure rather than decisions on the number of employees in a given sector).

Performance and incentive

- 2.42 This is the most recent approach to be applied in the public sector and is based on incentives. The assumption is that employees are accountable for their performance and can later be rewarded against defined measures of personal success. It is based on the principal-agent theory described in paragraph 2.21 above and seeks to align the interests of the employee with those of the owners (shareholders in the private sector and taxpayers in the public sector).

Observations

- 2.43 The approaches set out above are not mutually exclusive. For most public sector employees, there are elements of affordability and performance in the pay policies applied to them, but the basis for determining overall levels of pay continues to be the need to recruit, reward and motivate.
- 2.44 Performance related pay has a part to play in the public sector, as in other parts of the economy. Public servants are motivated to perform at work by a range of factors, only one of which is pay. Nevertheless, pay and other aspects of remuneration are important elements in motivation and, if not handled properly, can have a negative effect on performance. The performance and incentive approach is not always easy to apply in the public sector – there may be difficulties in distinguishing the roles of individuals within teams or in designing a bonus regime that suits the activity it relates to. But recognising, through differential pay, the differing contributions of individuals should remain a key part of reward in the public sector.
- 2.45 For senior appointments, the need to recruit, retain and motivate remains at the heart of the approach to remuneration in the public sector. That said, the picture may be complicated by the need to strengthen some of the linkages between pay and behaviour, through the use of performance-related pay mechanisms.

- 2.46 In the private sector, it is standard practice to take account of external comparators when determining pay. It can be argued that this, combined with wider disclosure, has served to drive up pay at senior levels in the private sector. There have been changes over recent years that have been intended to improve the governance of private sector companies and the openness associated with top level remuneration. The recent history of senior private sector pay does not support an argument that those developments have resulted in downward pressures on senior pay. Good governance and disclosure are not panaceas. They have, however, created pressure for the alignment of senior remuneration packages with shareholder interest – and there do seem to be increasing numbers of cases where pay increases for senior executives are challenged by shareholders.
- 2.47 In the case of the public sector, it is, ultimately, the taxpayer whose interests need protection and whose interests need to be aligned with the approach to remuneration. In our view, that is best achieved by focusing on what it is necessary to pay to recruit, retain and motivate people with the skills that are needed to deliver the job, rather than focusing on external comparators with the associated risks of inflating salaries beyond what is needed.

Chapter 3

Review of statistical evidence

- 3.1 In this chapter we review the available data on senior pay across the public sector and comment on its quality. In the time available, we have sought to establish the size of the remit group, the types of organisations where they are employed as well as the amounts of public funds involved. We have also sought data on how senior pay in the public sector currently compares with that for similar roles in the private sector and how that relationship between the sectors has moved over time.
- 3.2 The first section discusses how the public sector is defined as well as commenting on data quality. The second section sets out numbers employed in the public sector and the distribution of pay relative to the private sector before going on to describe the available data from official statistics on higher paid occupations in the public sector. Data for two case studies are then presented to illustrate some of the information available. Finally, data comparing earnings of lead executives in the public and private sectors are presented followed by our conclusions. More detailed commentary on data quality, public sector employment and earnings is contained in Appendix B.

Availability of evidence

- 3.3 As stated earlier in Chapter 2, there is no single uniformly agreed and applied definition of the public sector and not one which corresponds precisely to the range of bodies we have been asked to examine. Of the various definitions in use the most important for statistical purposes is the one used by the Office for National Statistics (ONS) underpinning much of its data collection. Though the ONS definition has three main elements (central government, local government and public corporations), it excludes elements such as higher education which are part of our remit.
- 3.4 Comprehensive, consistent and high-quality data relating specifically to the remuneration of senior public sector employees are not available for all public sector bodies covered by our remit. There are a range of issues involved. Samples of highly-paid employees in national earnings surveys such as the *Annual Survey of Hours and Earnings* (ASHE) and the *Survey of Personal Income* (SPI) are not sufficiently large or differentiated¹ to allow reliable estimates to be made of the numbers and earnings of the most senior public sector staff. In the range of sources we have examined, data deal with basic pay and earnings but rarely the full value of the total remuneration package as specified in the remit – employers' pension contributions are not typically included. Other issues include variation in geographic coverage and timeliness. Our observations on the limitations (for our purposes) and inconsistencies of the various sources of data are outlined in Appendix B.

Overview of public sector employment and earnings

- 3.5 The public sector forms a significant part of the UK workforce, and the total payroll for the public sector is one of the largest elements of public expenditure. There were 6.1 million people employed in the public sector in 2009, about the same as in 1992, but this figure has fallen as a share of total employment from 23% to 21%². Median annual gross pay for full-time employees in the public sector in 2008/09 was £27,700; in the private sector the corresponding figure was £25,000³, though a direct comparison

¹ The Survey of Personal Income does not separately identify earnings from public and private sector employment.

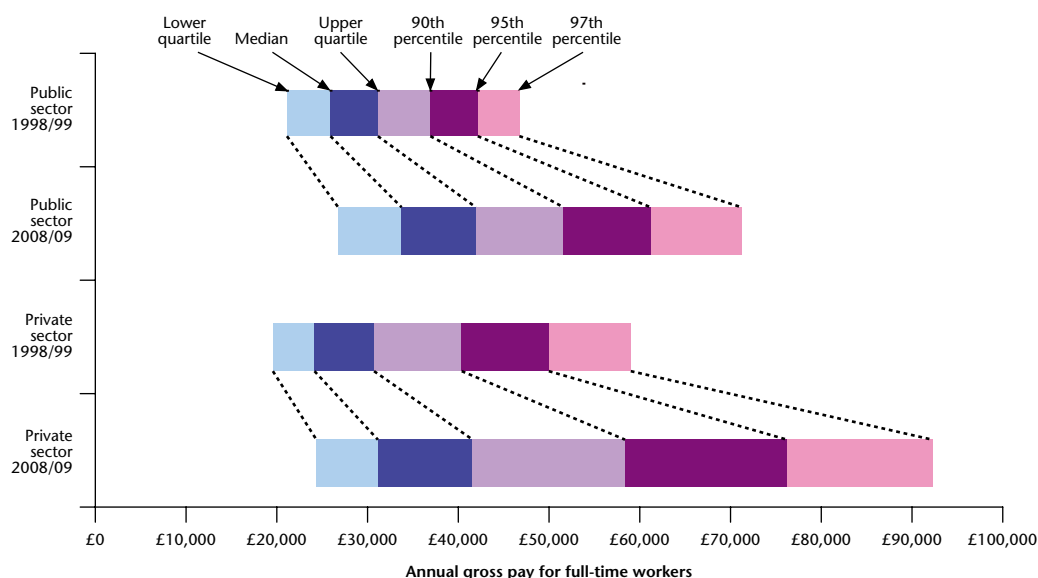
² ONS (2009) *Public Sector Employment, Q3 2009*

³ ONS (2009) *Annual Survey of Hours and Earnings*, Table 13.7a, Full-time

between these medians (or the highest percentiles, which are of interest for this remit) is misleading, as the two sectors are not alike⁴.

- 3.6 The public sector pay distribution is more compressed than that of the private sector: there are fewer high earners and fewer low earners in the public sector (Figure 3.1)⁵. A corollary of this is that the gap between the highest and lowest earners in the public sector is much smaller than in the private sector: data from the *ASHE* show that full-time public sector workers at the 95th percentile of the earnings distribution earned 3.7 times the amount earned by his/her colleague at the 10th percentile in 2008/09; the equivalent private sector relativity was 5.6 times⁶.
- 3.7 In both the public and private sectors, earnings growth has been more rapid over a 10-year period at the upper end of the distribution, and highest in the private sector. In the public sector, median annual gross pay grew by 44% between 1998/99 and 2008/09, with the 90th and 95th percentiles growing by 51% and 56% respectively; however, earnings growth in the private sector was higher at each percentile (except at the lower quartile)⁷.

Figure 3.1: National pay distribution in 1998/99 and 2008/09



Source: Office for National Statistics (Annual Survey of Hours and Earnings)

Estimating the number of senior public sector employees

- 3.8 Notwithstanding the limitations⁸ of the *ASHE* at the upper end of the earnings distribution, we have used this to estimate the percentages⁹ of full-time employees in broad earnings bands in 2008/09 (Table 3.1). This suggests that the percentage of public sector employees who are highly paid is relatively small compared with the private sector.

⁴ See Appendix B, paragraphs 5-7.

⁵ Note that the public sector in 2008/09 includes employees of nationalised banks, a disproportionate number of whom are at the upper end of the earnings distribution, compared with the wider public sector.

⁶ Source: OME analysis of *ASHE* microdata provided by ONS. The Institute for Fiscal Studies' calculations provide similar findings: using data from ONS's *Labour Force Survey 2006-2009*, and restricting the analysis to male workers only, they calculate that the full-time male public sector worker at the 95th percentile earned 3.8 times as much as his colleague at the 10th percentile, with the private sector relativity at 4.7 times. See IFS (2010) *The IFS Green Budget: February 2010*, pages 229-230

⁷ See Table B1 in Appendix B

⁸ Small sample sizes of high earning individuals, leading to potentially unreliable estimates.

⁹ Percentage of all full-time employees in the relevant sector.

Table 3.1: Estimated percentage¹⁰ of full-time employees¹¹ in selected earnings bands in 2008/09 (UK)

Annual gross pay (£)	Public sector %	Private sector %
Up to 50,000	91.7	87.8
50,001 - 75,000	5.9	7.4
75,001 - 100,000	1.2	2.4
100,001 - 150,000	0.9*	1.4*
Over 150,000	0.2*	1.0*
Total	100	100

Source: OME analysis of the ASHE dataset provided by the Office for National Statistics

*Figures in italics are subject to a high degree of variability and should be treated with caution

- 3.9 The estimates of the percentages of employees earning over £100,000 are less robust than for those earning less owing to small sample sizes; it is therefore not possible to use the *ASHE* to estimate with precision the associated *numbers* of employees.
- 3.10 Despite the limitations of the data, our best assessment at this stage, drawing on a range of sources, is that over 25,000 people working in the public sector earn more than £100,000 a year. We have also been able to establish that significant numbers of people working in the public sector are paid in excess of £150,000 per year. A substantial proportion of the total is to be found in the medical sector. In England alone, information made available to us by the NHS Information Centre suggests that there may be in the region of 4,900 consultant medical staff with total NHS earnings of more than £150,000 per year.
- 3.11 Outside the medical sector, other – generally publicly available – sources identify public sector groups where some senior staff earn more than £150,000 a year: for example, around 200 senior members of the judiciary, some 120 local authority chief executives¹², and about 90 senior civil servants. We are unable to be precise about the overall number but we are confident that it reaches at least 700.
- 3.12 As an illustration of what is available some specific detail is set out below for two case studies on earnings distributions of senior staff in two groups of public sector bodies. A bespoke data collection exercise would need to be conducted should comprehensive, consistent information on the number and total remuneration of senior public sector staff be required in the future. For any such exercise careful consideration of the methodology would be necessary to ensure that accurate and complete data were captured, while keeping the burden on respondents to a minimum.

Case studies: senior pay in two public sector groups

- 3.13 We highlight below the salary and earnings distributions of Further Education (FE) college principals and hospital consultants in England, where the available data are relatively robust. They are taken from different sources and are not comparable.

¹⁰ See footnote 9.

¹¹ We have followed the ONS's definition of full-time employees: full-time workers on adult rates, who had been in the same job for over a year on the date of the survey, and where information on annual gross pay for 2008/09 was recorded. This represents around 70% of all employee jobs in the UK. The sum of weights for the public sector was 3.9 million in 2008/09, and 9.1 million for the private sector.

¹² Data for Local Authorities relate to the year 2007-8 and were obtained from the Taxpayers' Alliance Town Hall Rich List 2009 <http://www.taxpayersalliance.com/CSU2-richlist.pdf>

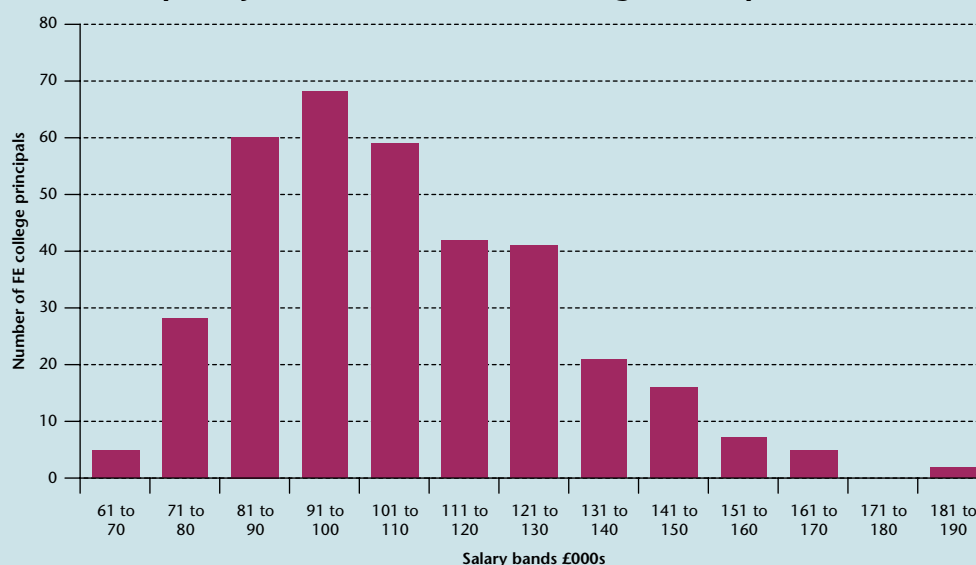
- The basic salaries of 354 FE college principals are fairly widely dispersed (Box 1), albeit with just over half earning between £81,000 and £110,000, and there appears to be a linear relationship¹³ with the numbers of students.
- The distribution of *basic salaries* of hospital consultants in England is narrow (Box 2), but many consultants earn considerably more on top of this, for example, through performing extra activities or holding Clinical Excellence Awards.

Box 1: FE college principals (England)

The Learning and Skills Council publishes detailed information drawn from the national accounts of over 360¹⁴ FE colleges in England, including data on the basic salary, benefits in kind and employer's pension contributions for college principals. The distribution of basic salaries is shown in Figure 3.2 below. This shows a broad distribution of salaries, albeit over half (53%) of principals earned between £81,000 and £110,000. It also demonstrates that not all college principals have very high salaries: just under half (45%) earned under £100,000.

Employers' pension contributions on average amounted to 13.9% of salary, and some college principals received additional benefits in kind ranging from £1,000 to £30,000, though over 60% received no additional benefits.

Figure 3.2: Frequency Distribution of FE College Principal Salaries 2007/08



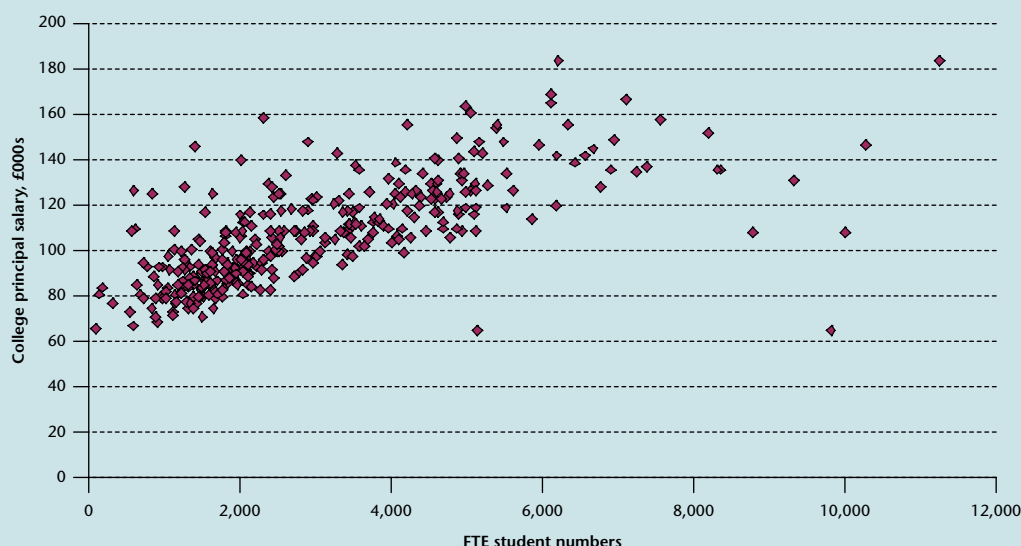
Source: Learning and Skills Council

Figure 3.3 below shows a linear relationship between salaries of principals of further education colleges and numbers of students. On average, college principals' salaries were £1,000 higher for each additional 119 FTE students.

¹³ This should not be taken to imply there is a *causal* relationship between student numbers and principal salaries.

¹⁴ Eight of the 362 records have been removed from this analysis due to known problems with the data, for example missing values for principal salary or student numbers.

Figure 3.3: FE Student Numbers vs. College Principal Basic Salary, 2007/08



Source: Learning and Skills Council

Box 2: Hospital consultants (England)¹⁵

In England, earnings data for NHS staff are collected using a single HR system, which is used by all NHS organisations except for two Foundation Trusts. Though there are slight problems with data quality¹⁶, and these data relate only to England, this HR system provides a good source of up-to-date information on the earnings of senior medical staff.

The distribution of basic salary¹⁷ and total NHS earnings¹⁸ of full-time¹⁹ consultants on the 2003 contract²⁰ is displayed in Figure 3.4 below. The data are based on payments made during July-September 2009, grossed up to annual figures, and, as such, may overstate the total. The distribution of *basic salaries* is compressed, reflecting a narrow pay scale for consultants, and most consultants' basic salaries were less than £100,000 (22,700 out of a total of 27,300²¹). The distribution of *total earnings* is much broader, and the majority of consultants on the 2003 contract had total earnings in excess of £100,000 (20,000, of whom 4,900 had total earnings in excess of £150,000).

The broader distribution, and higher levels, of total earnings compared to basic salary is due to a number of factors, not least that most consultants work more than the contracted number of programmed activities²², and that over half hold Clinical Excellence Awards (or awards under previous schemes)²³.

¹⁵ Equivalent earnings data for consultants in Scotland, Wales and Northern Ireland are not publicly available. Consultants in England comprised 32,680 of the UK total of 40,160 full-time equivalent staff in September 2008. Sources: NHS Information Centre Non-Medical Workforce Census; ISD Scotland; Welsh Assembly Government; Department for Health, Social Services and Public Safety in Northern Ireland.

¹⁶ For example, it is not generally possible to know which spine point consultants are paid on.

¹⁷ Basic salaries for consultants do not include Clinical Excellence Awards, which are pensionable, and which can be as high as £75,000.

¹⁸ Basic salary plus hours related pay, Clinical Excellence Awards, overtime, occupation payments, location payments and other payments including redundancy pay or payment of notice periods.

¹⁹ Defined for these purposes as consultants whose contracted full-time equivalence was between 0.9 and 1.2.

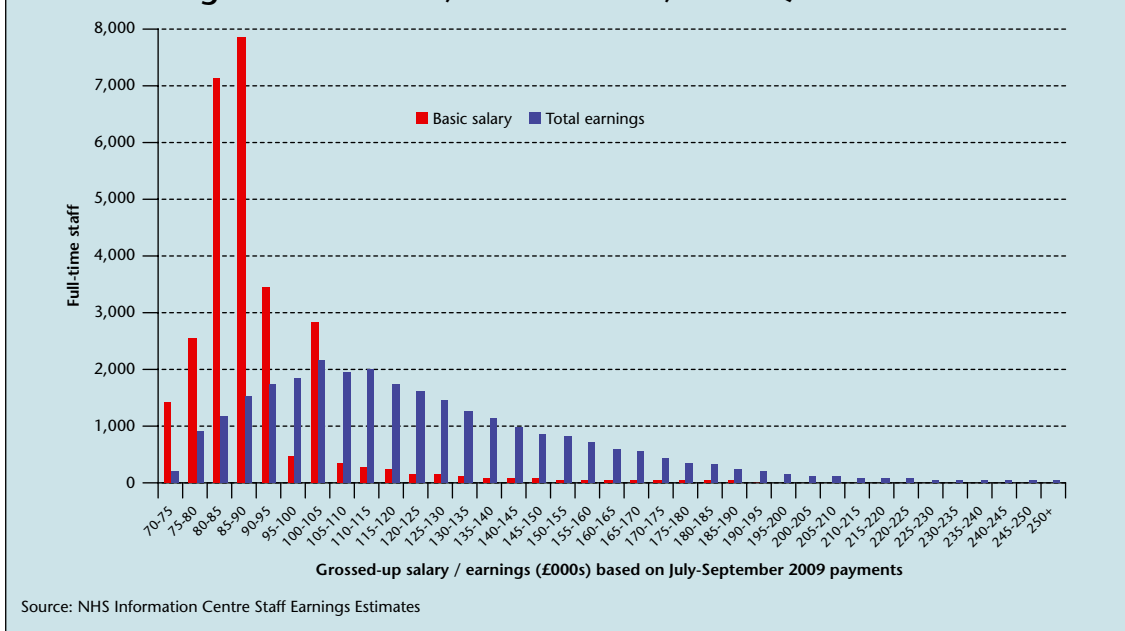
²⁰ 95% of surveyed consultants are on the 2003 contract.

²¹ Unlike NHS Census data, Earnings data are extracted from the payroll dimension of the Electronic Staff Record HR system, and undergo a different data manipulation process. As such staff numbers in this report will not match those in the NHS Census.

²² DDRB (2009) *Thirty-Eighth Report 2009*, TSO (Cm 7579), paragraphs 8.14-8.15

²³ *Ibid.* paragraph 8.21

Figure 3.4: Consultants (2003 contract) in NHS England Basic Salary and Total Earnings for NHS work, full-time staff, 2009 Q3



Pay for chief executives in the public and private sectors

3.14 Incomes Data Services (IDS) publishes data on the total earnings²⁴ of senior executives in public sector bodies²⁵, drawing on published accounts of 150 NDPBs²⁶, executive agencies²⁷, non-ministerial government departments (NMDs)²⁸ and public corporations²⁹. IDS obtained data on the total earnings of 114 lead executives as at March 2009; Table 3.2 provides summary information on the distribution of total remuneration for these individuals.

- The distribution of total earnings of lead executives in selected NDPBs was broadly spread, from £72,500 to £262,500, with a median of £157,000.
- Median total earnings for lead executives in executive agencies was lower than for those in NDPBs, whilst pay in NMDs and public corporations was higher.

²⁴ Comprising salary, benefits, bonus and "other pay".

²⁵ IDS (2009) *IDS Executive Compensation Review 346*

²⁶ IDS definition: National or regional public bodies, working independently of ministers to whom they are nevertheless accountable. More popularly known as "quangos".

²⁷ IDS definition: Public institutions that deliver government services. Executive agencies are normally directly accountable to government departments / Ministers, which oversee their policies.

²⁸ IDS definition: Part of central government, but not headed by a Minister.

²⁹ IDS definition: Part of the public sector, but either operating commercially or recovering some or all their costs from fees charged to customers.

Table 3.2: Total earnings of lead executives in 114 public bodies, March 2009, £000pa

Job title (No.)		Min	Lower quartile	Median	Upper quartile	Max	Average
NDPB (59)	Total earnings	72.5	127.2	157.0	185.0	262.5	157.5
Executive agency (32)	Total earnings	62.5	101.9	137.5	172.5	227.5	136.9
NMD (13)	Total earnings	82.5	162.5	187.5	232.5	272.5	193.1
Public corporation (10)	Total earnings	130.0	225.6	314.8	679.8	1,309.0	485.3

Source: IDS Executive Compensation Review 346

3.15 IDS also collects data on the basic salaries and total earnings³⁰ of lead executives of publicly-listed companies. Table 3.3 below presents summary data on the distribution of earnings of lead executives of smaller FTSE Mid-250 companies, separately for companies with an annual turnover of £0 - £250 million, and £0 - £500 million. Figure 3.5 shows the spread of earnings for lead executives in these companies, alongside the data from IDS' survey of published accounts of public bodies referred to above.

- The median total earnings for lead executives of smaller FTSE Mid-250 companies was well above that for public bodies; and, with the exception of public corporations, the lower quartile for smaller FTSE Mid-250 companies exceeded the upper quartile in the public sector.
- *Basic salary* on its own for lead executives in FTSE Mid-250 companies was, on average, substantially higher than the *total earnings* of those in public bodies.

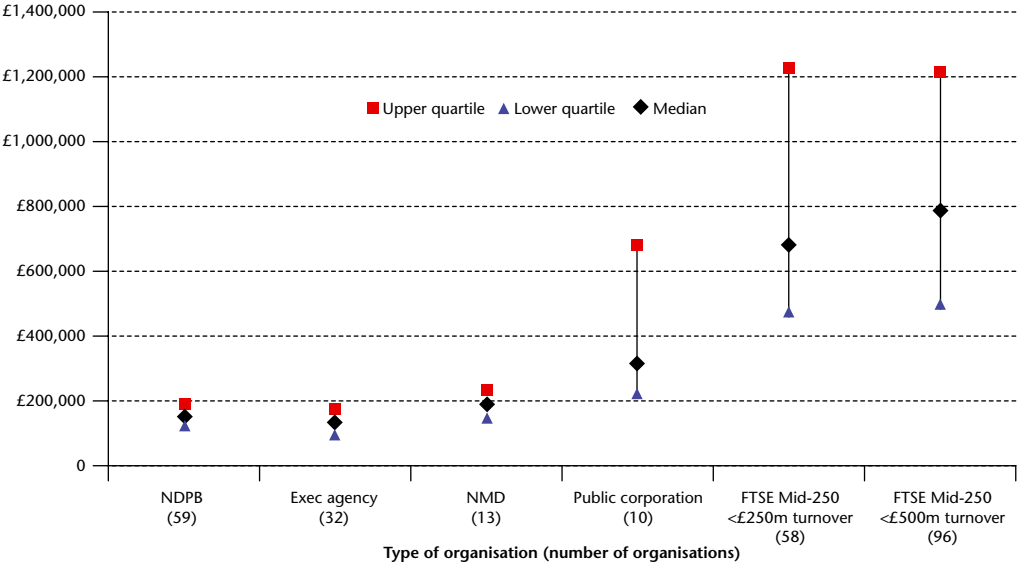
Table 3.3: Basic salary and total earnings of lead executives in smaller FTSE Mid-250 companies, £000pa

Job title (No.)		Min	Lower quartile	Median	Upper quartile	Max	Average
Lead executive of FTSE Mid-250, £0 - £250 million turnover (58)	Basic salary	100.0	274.9	325.0	423.8	808.7	351.1
	Total earnings	175.3	475.5	687.7	1,223.2	28,813.0	1,462.5
Lead executive of FTSE Mid-250, £0 - £500 million turnover (96)	Basic salary	100.0	299.8	348.5	416.3	808.7	358.2
	Total earnings	175.3	498.8	789.5	1,211.5	28,813.0	1,312.9

Source: OME analysis of IDSPay.co.uk (website accessed 19 February 2010)

³⁰ Comprising basic salary, benefits (excluding pension contributions), actual annual bonus, cash value of any long-term incentive payment awards vested during the year and the cash value of any share options exercised during the year. May also include some miscellaneous payments.

Figure 3.5: Total remuneration for lead executives of public bodies and FTSE Mid-250 Companies



Sources: IDS Executive Compensation Review 348, OME analysis of IDSPay.co.uk

Key findings

- 3.16 The statistical data we required for our purposes are fragmented. Pay data for different groups of senior public sector employees are variable and inconsistent: high-quality official statistics are published for certain public sector groups; data for others are gathered through primary data collection exercises or Freedom of Information requests; and earnings data for some groups are not readily available. National surveys have not been designed with a view to reporting in detail on senior public sector pay.
- 3.17 Where data do exist, there is a range of practice on how remuneration is defined, recorded and reported. The lack of consistency across public sector groups makes it difficult to draw appropriate comparisons between the rewards for senior staff in these groups and with the private sector. A data collection exercise would need to be conducted if such comparisons were needed.
- 3.18 Notwithstanding the data limitations, we can conclude that although there are likely to be substantial numbers of highly paid individuals in the public sector there are relatively fewer of them than in the private sector. The available data do not suggest to us that earnings of those in senior public sector roles are, in general, high relative to similar roles in the private sector though there may be individual exceptions.

Chapter 4

The current landscape

4.1 Having considered the available data, we now review what we have established about current practice in managing senior remuneration in the public sector, looking mainly at governance and transparency. We also consider whether there are any aspects of private sector practice that might appropriately be applied in the public sector.

Structures of governance

4.2 The present governance arrangements for senior remuneration in the public sector can be summarised as follows:

- the Senior Civil Service (SCS) pay system, overseen by the Cabinet Office and Treasury, applies in government departments, non-ministerial departments and most government agencies;
- ministers oversee national pay systems or contracts for a number of groups of senior staff, for example in the NHS (some senior managers, doctors, dentists and the most senior non-medical staff), the military, schools and the police. They are advised on aspects of pay for these groups by the Pay Review Bodies and the Police Negotiating Board;
- some parts of the public sector have freedom to make arrangements without government involvement, such as local authorities, NHS hospital trusts, academy schools and public corporations; and
- for arms-length bodies, a “sponsor” government department is expected to exercise “meaningful oversight” of strategy and performance, pay arrangements and major financial transactions¹.

4.3 The Government’s execution of its role as sponsor of arms-length bodies is not uniform and seems to have evolved as different kinds of bodies with diverse functions have been established. This is reflected in the arrangements for the governance of remuneration.

- For some bodies, Ministers – and occasionally also the Chief Secretary to the Treasury – have a role laid down by law, for example in approving salaries on appointment, bonuses and pay increases. Organisations in this category include Royal Mail Group (a Companies Act company) and certain museums and art galleries (NDPBs)².
- Similar arrangements apply by custom and practice or following Treasury edict: for example, Ministers and HMT approve the remuneration of chief executives in many NDPBs. In some cases, Permanent Secretaries may take decisions instead of Ministers. We have not been able to establish if there is any clear rationale for why some decisions are ministerial and some official.
- In addition, the Treasury must approve financial activities of public bodies, including in relation to remuneration, “which appear novel, contentious or repercussive”;³ also specified types of expenses, severance payments in excess of employers’ contractual commitments and non-standard payments in kind.⁴

¹ HM Treasury (2007) *Managing Public Money*, TSO, paragraph 3.8.3

² In some cases, legislation establishing individual public bodies includes a requirement for Treasury approval of the remuneration of senior people.

³ Op.cit. HMT *Managing Public Money*, paragraph 3.8.3

⁴ Ibid. paragraph 4.11.3 and Annex 4.13

- In other cases, departments have a less formal role, perhaps providing ad hoc advice on remuneration matters upon request.
 - For a few bodies, for example the BBC and Channel 4, there has been a deliberate policy of non-involvement in remuneration matters, to help safeguard the bodies' independence. This is reflected in the organisations' establishing legislation, which gives no role to government with respect to remuneration.
- 4.4 Within government departments, senior officials with relevant policy responsibilities take the lead in managing day-to-day relationships with individual public bodies and handling remuneration matters, advised by HR and finance colleagues. These officials brief Ministers and, if necessary, involve HMT when decisions need to be made.
- 4.5 The Shareholder Executive – sometimes alone, sometimes in partnership with departments – supports Ministers in fulfilling the government's responsibilities as shareholder for a portfolio of 28 organisations, including Royal Mail Group, Bradford and Bingley and the Met Office (Companies Act companies). For some of these organisations, the Executive's work involves aspects of corporate governance, including senior remuneration.

Guidance

- 4.6 Cabinet Office and Treasury publish rules and guidance, largely for sponsor government departments, about establishing and managing public bodies. The focus of the Treasury publications is naturally on managing public money, whereas Cabinet Office guidance often relates to HR processes for specific situations such as appointments.
- 4.7 Remuneration is not the main focus of any of the guidance. We have not found overarching principles, codes of practice or requirements from government applying to senior remuneration in the public sector, other than general statements about public sector pay policy.
- 4.8 Where guidance does govern the remuneration of senior staff it is often in the form of detailed rules and qualifiers, subject to national pay systems or contracts. These cover matters such as the level and composition of remuneration, any performance-related pay arrangements and procedures for determining remuneration, such as remuneration committees.
- 4.9 For parts of the public sector with freedom to make arrangements without government involvement, advisory guidance on senior remuneration is sometimes published by other parties. The Local Government Employers and the Council of University Chairs, for example, do this for their sectors. This guidance is not binding, but it is detailed and pertinent, covering many issues we also address in our draft Code.
- 4.10 Public corporations generally appear to organise their corporate governance on the model of the Combined Code. Companies Act companies that have listed shares are obliged to follow the Combined Code.

Pre-Budget Report 2009

- 4.11 Last year's Pre-Budget Report announced a number of changes to the scrutiny and transparency of senior remuneration in the public sector⁵. These included a requirement for the Chief Secretary to the Treasury to approve pay above £150,000 and bonuses above £50,000 where these are under governmental control, and an expectation that

⁵ HM Treasury (2009) *Pre-Budget Report December 2009*, TSO (Cm 7747), Chapter 6

other public sector bodies would apply a similar approach. Guidance is currently being updated to reflect these changes.

Observations

- 4.12 In addition to reviewing the source documentation summarised above, we have also spoken to a number of people involved in administering and advising on senior reward in public sector bodies to understand how the governance arrangements work in practice. Whilst we do not claim this is a systematic survey of current practice – something not possible in the time available – it has provided helpful additional insight, which is reflected in our observations below.
- 4.13 Our investigations suggest that there is much good practice in place, and we have heard impressive examples of rigorous processes and effective negotiation. But this does not seem to be uniformly the case across the public sector.
- 4.14 Senior remuneration, in a reasonably large proportion of the public sector, is ultimately controlled by Ministers and their departments. We have not been able to evaluate systematically the *effectiveness of the control systems currently in place* but our impression is that it is patchy.
- 4.15 There seem to be three main issues. One is *expertise*. Departments sponsoring public bodies need to maintain a level of internal expertise that allows them to apply policies consistently, identify and analyse the appropriate labour markets with discernment, challenge where necessary, and secure appropriate talent without over-paying. Our impression is that this is more of a challenge for departments with smaller numbers of public bodies as it is harder for them to achieve economy of scale and continuity of expertise.
- 4.16 The second issue follows from the first and is about *consistency in decisions on senior remuneration*. Even departments with larger numbers of sponsored organisations run the risk of ad hoc decisions being taken in an atomised way by individual parts of the department. This links to our concerns about the lack of clear frameworks (see paragraphs 4.18-19 below).
- 4.17 The third issue concerns existing *guidance on remuneration*, which, as discussed above, is general and high-level in content for most of the public sector, with the exception of a few more detailed (and voluntary) codes. This lack of guidance at the right level of detail can only reinforce the foregoing points on departmental expertise and consistency in exercising effective oversight.
- 4.18 Our second main observation is that there is a lack of a *clear remuneration framework* for many organisations. Public bodies with freedom to determine their own pay can tailor senior remuneration to their individual circumstances, but may find it harder to gauge what remuneration packages are reasonable. Similar issues arise even where remuneration is controlled – there are no payscales for many senior NDPB positions, for example. And, as noted, guidance is very thin even on the general principles that should be applied in such cases.
- 4.19 In practice, pay for many senior public sector posts seems to be set either on the basis of comparability with similar posts, job-weight or attractiveness to particular individuals and not recruitment, retention and motivation⁶. Comparisons with remuneration in the private sector in such cases are not always applied as judiciously as they might be (see below).

⁶ Approaches to reward in the public sector are discussed in Chapter 2, paragraphs 2.36-47.

- 4.20 Our third main observation is the lack of *systematic escalation procedures for exceptional cases*. In instances where it is necessary to pay an individual more than a previous incumbent or more than permitted by any applicable framework or pay system, it is not always clear what rules apply to these decisions: how much discretion does the organisation itself have; when is it appropriate to refer a decision upwards; within departments, should a Minister or an official clear the package; and when should Treasury be involved?
- 4.21 We note, for example, that for headteachers there is a prescriptive formula to determine where on a national pay scale heads are placed, but that where circumstances require a school's governing body to pay an individual above the top of the scale, there is nothing that guides it in deciding how far above the scale it is reasonable to go and no requirement to clear its decision with anyone else.
- 4.22 Finally, there also seems to be variable use of *independent decision-making structures* for senior remuneration. Some parts of the public sector have remuneration committees that are independent of management, and others do not. Where they are not currently in place, it is not clear what alternative arrangements are in place to provide a demonstrably independent element in decision-making.

Aspects of remuneration practice

- 4.23 In addition to the formal arrangements for governance discussed above, we have also tried to identify any other aspects of current practice in managing senior public sector remuneration that stand out. Our timetable has not allowed us to gather primary data, so we cannot claim that the points we have identified are comprehensive. Some points might be refined in the light of further consideration. It is also important to emphasise that we are not claiming that these issues are universally prevalent, only that they appear to exist in some cases.

Observations

- 4.24 The evidence suggests that *external recruitment and the associated remuneration decisions* are not always optimally managed.
- 4.25 Most public sector recruitment, even when externally advertised, is from within the wider public sector. There is a balance to be struck between internal and external recruitment, but some organisations appear to have an over-reliance on level-transfer recruitment, seeking for senior posts people who have already established themselves at that level elsewhere. This can create upward pressure on pay, to persuade established executives to move to a new post in another organisation. It also suggests a lack of willingness to develop and promote internal talent. The Audit Commission has noted the tendency of local authorities to recruit chief executives almost exclusively from the ranks of existing local authority chief executives.⁷
- 4.26 We have also noted assertions that people moving within the public sector are reluctant to take a reduction in salary (or indeed perceived status), even where the posts to which they are moving are prestigious and influential. Candidates may be more willing to accept a lower salary in an initial move from the private sector to an attractive public sector role, because they see the merit of acquiring public sector experience and may see it adding further to their market value when they return to the private sector.

⁷ Audit Commission (2008) *Tougher at the Top: Changes in the labour market for single tier and county council chief executives – a discussion paper*. Audit Commission, London. Chapter 3.

- 4.27 There are also particular issues when recruiting from the private sector. Securing interchange between public and private sectors is a long-standing policy objective, for a number of reasons. The objective is sound but may not always be operated in the way it was intended. We have repeatedly commented on the unsatisfactory arrangements operating in the Senior Civil Service – particularly the fact that staff recruited externally for a specific post retain their differential pay when they move to other SCS posts⁸.
- 4.28 Our second observation is that *perceptions of how senior remuneration works*, or should work, are not always accurate. Remuneration specialists from PricewaterhouseCoopers flagged up a number of myths prevailing in this area:
- “If we have a pay system that can attract people from the private sector we will get better quality people and therefore better performance.”
 - “We have a private sector/commercial culture so we must pay private sector rates of pay.”
 - “We need our senior managers to work together as a team so we have to pay them all at a similar level.”
 - “If we pay people differently based on the market rate for their skills or individual performance we are at risk from Equal Pay claims.”⁹
- 4.29 We note that the BBC Trust’s recent review of executive remuneration expressly recommends that the BBC move away from parity of remuneration at a given level¹⁰.
- 4.30 Our third observation is that we are not convinced that the *framing of contract terms* always provides adequate protection of the taxpayer’s interests. Individual contracts that have attracted public attention seem to include features that are no longer current in good private sector employment contracts. The latter tend, for example, to be on a rolling basis rather than a term basis; and provisions on termination of a contract are more tightly drawn.
- 4.31 There is anecdotal evidence of instances of guaranteed bonuses for senior public sector posts. It is understandable that there would be public disquiet about such arrangements. If an organisation saw a need for such a provision, for example when recruiting an individual from a post where they had firm expectations of a bonus, the decision to do so should be subject to the escalation procedures we have proposed and the justification for it would have to be made public. We are firmly of the view that such arrangements would seldom be appropriate in the public sector.
- 4.32 Finally, we observe that approaches to *performance-related pay* have not been sufficiently differentiated. Reporting and debate on performance pay in the public sector has been frustrating. As the Public Administration Select Committee has noted: “Regardless of the arguments for and against a greater proportion of senior salaries being directly linked to performance it is clear that such a move would not be acceptable in the current political and economic climate. The word ‘bonus’ has acquired a toxic quality and become associated with unjustifiable reward – despite the fact that the eligibility for such payments is generally given instead of increases in base pay.”¹¹

⁸ See, for example, SSRB (2007) *Report No. 63: Twenty-Ninth Report on Senior Salaries 2007*, TSO (Cm 7030), paragraph 3.6

⁹ Source: PricewaterhouseCoopers LLP

¹⁰ BBC Trust (2009) *BBC Executive Remuneration*, 29 October 2009, recommendation 5.3. Available on the BBC Trust website.

¹¹ PASC (2009) *Top Pay in the Public Sector: Sixth Report of Session 2009-10*, Volume II, London TSO, paragraph 83

- 4.33 It is likely that most people would agree that pay for senior public sector figures should have some relationship to whether or not they are effective in their role. We have argued consistently that the pay of our remit groups should reflect performance and we continue to hold this view – particularly as the basis of progression or uplift in base pay. It should be noted that bonuses are not the only form of performance-related pay, though alternatives tend to be more expensive. And most bonuses in the public sector are on a modest scale.
- 4.34 Where we have observed problems with performance pay, these have often occurred because bonus schemes have been applied across the board, regardless of context; because the size of the bonus has looked out of scale with the measurability of the outcome; or because the rationale for the award of the bonus and its level has not been made clear. Additionally the prevalence in some areas of the public sector of enforcing top-down appraisal distribution quotas ('tranching'), which over-ride individual performance outcomes, militates against motivation and perceived fairness.

Transparency

- 4.35 Some public bodies routinely publish the salaries and other aspects of remuneration of their most senior staff in their published accounts, for example NHS trusts, individual councils and the Scottish health sector.
- 4.36 For most senior staff who are paid in accordance with national pay systems or contracts, general salary scales or ranges are routinely published, but not details of individuals' salaries, bonuses, pensions, benefits or total remuneration. It is not always clear what elements of remuneration are – and are not – included in published figures.
- 4.37 Information on remuneration may be provided by public bodies in response to Freedom of Information requests. Guidance from the Information Commissioner's Office (ICO)¹² emphasises that senior staff should expect greater scrutiny of their pay than junior colleagues, and that, in deciding whether or not to disclose an individual's exact salary, the level of salary itself is not the determining issue. Factors to consider include:
- how senior the role is, including the level of accountability and personal responsibility;
 - whether the individual has a public profile or public-facing role; and
 - whether they are responsible for major policy decisions or expenditure of public funds.
- 4.38 The guidance also suggests that it would be more intrusive to release an exact salary in cases where this included a certain amount of performance-related pay (since this could reveal the outcome of the individual's performance review); or where it could have a detrimental effect on relationships between colleagues.

¹² Information Commissioner's Office (ICO) (2009) *Freedom of Information Act, Environmental Information Regulations, When Should Salaries be Disclosed?* February 2009

- 4.39 There are some potentially unhelpful impacts of transparency. For the organisation, disclosure of the salary of peers or previous incumbents could lead to candidates demanding similar levels of reward and hence to a ratcheting effect. For the individual, there have been claims by a number of local government organisations that press misrepresentation can lead to families suffering criticism or bullying when details of high earners' income are disclosed¹³. The Information Commissioner's Office notes the risks of distress to individuals as a consequence of disclosure, and underlines the need for care with privacy and data protection issues¹⁴.

Observations

- 4.40 There seems to us to be insufficient transparency on top-level reward in the public sector. Not all organisations publish information and for those that do it is not always clear what elements of remuneration are included. There is also a lack of transparency on remuneration policy, on the reasons for exceptional remuneration decisions in individual cases, and on the justification for performance-related awards.
- 4.41 Privacy considerations are cited more frequently than we would expect for this level of public service and remuneration. Whilst it may not be appropriate to disclose details of remuneration for junior staff, it is general policy in the private sector to disclose the remuneration of senior executives on the board. This should also be the case for similarly-placed senior executives in the public sector, exercising reasonable caution where warranted, and being mindful of the issues set out in paragraph 4.39.

Applicability of private sector practice

- 4.42 In considering the situation currently prevailing, we do not consider that the private sector is necessarily the source of all the solutions. In many cases the private sector is grappling with similar issues and is still seeking to find effective solutions. Also, some of the issues on expertise identified above are nothing to do with sector.
- 4.43 There are, however, three main areas where we believe that public sector practice could apply private sector experience more systematically.
- 4.44 The first is governance. It is now a long established principle of corporate governance that remuneration decisions should be made, and be seen to be made, independently of the executives concerned. Whilst private sector contracting practice is not above reproach, it seems to be ahead of public sector practice in protecting the interests of the organisation particularly where executives leave the company.
- 4.45 The second is how remuneration is set. The Combined Code¹⁵ stipulates that companies should pay no more than is necessary, and should be prepared to refuse excessive demands: different considerations on how much it is necessary to pay will apply in the public sector, but the broad principle is nonetheless transferrable. The concept of total reward is also much better established in the private sector. Payment for performance needs care in transposition – it can often be applied, but needs to be used judiciously in an appropriate context.

¹³ A number of organisations are quoted in: Daily Telegraph (2010) *Councils afraid to say how much they pay chiefs*, 5 March 2010. Available at <http://www.telegraph.co.uk/news/uknews/7259289/Councils-afraid-to-say-how-much-they-pay-chiefs.html>

¹⁴ Op.cit. ICO (2009) *When should salaries be disclosed?*

¹⁵ Explained in paragraphs 2.29-32 of Chapter 2.

4.46 The final area is transparency. It is more established practice in the private sector that remuneration policies and the full remuneration packages of senior executives are placed in the public domain. Public sector practice is well behind this, with less justification. It is sometimes argued that transparency in private sector reward has had a ratcheting effect, and this is likely to be the case. It has, however, also been an indispensable tool of greater shareholder and public activism, which has been an increasing feature of corporate life in recent years.

Concluding remarks

4.47 It is clear that the public sector landscape is extremely varied, not only in the types of organisation and the function that they perform but also in the remuneration frameworks that exist. This chapter has discussed the information that it has been possible to examine in the time available. A future phase would require more detailed examination, either by SSRB or by others.

4.48 The issues covered in this chapter have informed our conclusions and recommendations in Chapter 1, notably on the need for a public-sector wide code of practice. The observations here also underlie a number of specific provisions in our proposed Code.

Review of
Public Sector Senior
Remuneration

Part C
NDPB Progress Report

Chapter 5

Progress report on the review of the remuneration of the chief executives of Executive NDPBs

Relationship to the review of public sector senior remuneration

5.1 SSRB began work on our review of the remuneration of the chief executives of Executive NDPBs (henceforth the 'NDPB review') in late 2009. Since then, we have also been asked to look at the principles governing pay at senior levels in the public sector more widely, as set out in the Prime Minister's letter of 23 December 2009 (attached at Appendix A). The formal remit for the NDPB review was contained within this letter, and the SSRB has accordingly taken the approach that the NDPB review should embody the principles emerging from our review of the wider senior public sector (summarised in Part A of this report).

5.2 SSRB was asked to:

review the structure of reward packages for NDPB chief executives (the list of bodies to be agreed with the Treasury) and to report to the Government on a recommended pay structure by the end of July 2010. A progress report covering the principles to be adopted should be concluded by Budget 2010.

5.3 The NDPB review will, therefore, go further than the review of the wider public sector, in that its task is to advise not only on the principles which should underlie chief executive remuneration but also on the appropriate value of reward packages for chief executives in different types or groups of organisation. The outcome will be a remuneration framework for the role of chief executive in an Executive NDPB which has been derived according to the principles endorsed by the SSRB for setting senior pay in the public sector.

5.4 This progress report describes the objective, outputs and progress of the review to date, and outlines the next steps in the process.

Objective and outputs

5.5 This review is designed to provide a framework to support NDPBs and sponsor departments in calculating and assessing what is an appropriate remuneration package for the size and complexity of a given body. It will not recommend pay levels for individual posts; nor will it place any NDPB in a particular pay band.

5.6 The output of the review, when concluded, will provide a remuneration framework including:

- a hierarchy of a number of remuneration bands;
- descriptions of organisational characteristics appropriate to each band;
- recommended remuneration rates or scales for each band;
- a description of the typical chief executive role; and
- guidance on dealing with exceptional cases.

Defining the scope of the review

Organisations

- 5.7 Our remit letter stated that, with regard to the organisations to which our review would apply, ‘the list of bodies [is] to be agreed with the Treasury’. It has proved difficult to get an up-to-date and wholly accurate list of Executive NDPBs¹ and such a list would in any case rapidly need updating. Furthermore, we see our review as being at a population level, looking at Executive NDPBs as a class of organisation, rather than a review of specific, named organisations. Rather than circumscribe a list of specific NDPBs which are under review and to which our recommended remuneration structure should apply, we therefore believe that it is more appropriate to describe the population of organisations for which our recommendations will be valid.
- 5.8 We have therefore agreed with Treasury that alongside our recommended remuneration structure, we will provide a description of the class of organisations to which it should be applied and the role of a typical chief executive within those organisations.

Total reward

- 5.9 In defining the reward package, we are also mindful that our remit requests us to have regard to:

any discount to the market rate to reflect the value of delivering a public service mission; [and] the total value of the public sector package including variable pay, benefits in kind and pensions – as well as job security.

- 5.10 We believe that adopting the concept of total reward outlined in Part A in relation to the wider public sector will enable us to address this aspect of our remit and make appropriate recommendations.
- 5.11 In accordance with the principles outlined in the Code of Practice in Part A, we expect that the appropriate balance between base pay, bonuses and other elements of remuneration will vary between organisations. Our recommended remuneration framework will, therefore, focus on identifying an appropriate range for the total value of the reward package, recognising that, for very good reasons, the composition of that package may differ between organisations.

Information gathering

- 5.12 The bands to which we will eventually be assigning recommended pay scales will represent an organisational hierarchy. The hierarchy will be based on characteristics of organisations rather than individuals, to reflect the fact that this exercise is looking at just one role – that of the chief executive – and is making comparisons between, not within, organisations. The key factors used to assign organisations to positions within the hierarchy will be grouped under four headings: complexity; impact (including financial accountability); people; and decision-making.
- 5.13 In order to understand how to construct and define the bands within the hierarchy, we have explored how to measure and evaluate both quantitative and qualitative aspects of the key factors relevant to the organisational hierarchy. For the quantitative aspects – for example, size of budget and number of employees – we have gathered information on Executive NDPBs via sponsor departments. We have also gathered information on the remuneration package of the chief executives. This information has yet to be quality

¹ See *Public Bodies 2008*, published by the Cabinet Office, which lists all Executive NDPBs as at 31 March 2008. Well-known groups of Executive NDPBs include the research councils, national museums and the regional development agencies.

assured, but has been sufficient to enable us to appreciate the range of organisations which fall within our remit (which range from those employing fewer than 25 people to those employing over 10,000 people) and the range of base pay which chief executives in those organisations currently receive (from around £60,000 to more than £300,000 a year in a couple of rare cases).

- 5.14 In order to explore the less easily quantifiable factors, we have developed a questionnaire which we have piloted with a small number of chief executives. Following their feedback, a revised questionnaire has been distributed to a sample of chief executives of Executive NDPBs. The sample was guided by the need to understand the full range of sizes and types of NDPBs, including representatives of the obvious clusters or families of similar NDPBs such as national museums, research councils and regional development agencies.
- 5.15 We have also held discussions with a number of representatives of NDPBs, sponsoring departments and remuneration consultants who advise both private and public sector remuneration committees. These discussions, alongside the research carried out on existing governance arrangements for wider senior public sector pay (described in Chapter 4), have enabled us to start to identify examples of good practice in the sector, as well as any problems which may exist.

Emerging themes

5.16 From the information we have gathered so far, a number of themes have emerged:

- There are already robust corporate governance structures in place for determining the remuneration of chief executives in a good number of NDPBs. However, the degree of attention given to remuneration matters by NDPB sponsoring departments is varied, as is government oversight across the NDPB population as a whole and its various subsets (as discussed in Chapter 4).
- The pay of chief executives appears in general to have some positive correlation with the size of the NDPB. However, as this is not strongly established we can make no judgement as yet on the appropriateness of the size of the reward packages in place.
- There appear to be particular families of NDPBs (such as national museums and research councils) within which the relevant comparator groups for chief executive remuneration are narrower and closer to each other than they are to the comparator groups for the wider community of NDPBs.

Next steps

- 5.17 The responses from the questionnaires referred to in paragraph 5.14 are currently being collated and analysed. The data that we have so far indicate that it should be possible to create bands of organisations and to describe the characteristics (in terms of complexity, impact, people and decision-making) which are typical of organisations within those bands. If and when our recommended remuneration framework is implemented, NDPBs and their sponsoring departments will be invited to fit themselves into the proposed structure. We expect there to be an agreed validation process to be applied, possibly by the Cabinet Office or the Treasury, to ensure overall consistency between departments.
- 5.18 The next step in the review will be to commission a benchmarking study which looks at the total reward for comparable roles in the wider public sector. This information should enable us to establish a total reward framework for chief executives of NDPBs. The benchmarking will provide an objective underpinning for this work.

- 5.19 We have also undertaken to devise a process for dealing with chief executive roles that do not fit or are not perceived to fit into the standard remuneration framework. In such instances an evidence-based case will need to be made that exceptional circumstances apply, and authority will need to be sought from the sponsoring department to offer a remuneration package which is outside the standard framework.
- 5.20 In defining exceptional circumstances, we will take account of both external factors, such as the scarce supply of specific skills, and internal factors, such as there being an executive chairman or other atypical, but appropriate, governance structure. Benchmarking data should inform our definition of exceptional circumstances by highlighting which, if any, roles and market sectors might be considered to attract a premium or a discount. This, in turn, should indicate what kind of evidence would be needed to justify a departure from the recommended remuneration framework.

Final report

- 5.21 Our final NDPB report will be delivered by the end of July 2010, as requested in our remit.

Appendix A

Letter from the Prime Minister



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

23 December 2009

Dear Bill

As you know the Government has serious concerns about the high level of senior pay in some parts of the public sector.

I am writing therefore to request that the Senior Salaries Review Body (SSRB) lead a review of senior remuneration in the public sector, including making recommendations on a pay structure for NDPB chief executives. I attach the terms of reference for the review.

In carrying out this review I would be grateful if you work with the Chairs of the other public sector Pay Review Bodies and the Chair of the Police Negotiating Body. I think the review will also benefit from the direct involvement of someone with experience of local government. In addition you may wish to invite others to submit evidence or work with you on the principles that should apply to the determination of public sector remuneration.

I would be grateful for an interim report on the principles and methodology in time to inform Budget 2010.

I am copying this letter to Alistair Darling, Liam Byrne and Sir Gus O'Donnell.

Yours sincerely

Mr Bill Cockburn CBE TD

Review of Public Sector Senior Remuneration

The terms of reference of the review are to consider senior remuneration across the public sector and before Budget 2010 make recommendations on:

- the principles that should govern senior remuneration across the public sector; and
- the methodology that could underpin a set of sector-by-sector benchmarks for senior remuneration in public sector organisations and that could provide a clear upper bound for pay and bonus levels.

The Government after considering those recommendations may ask the review to make further recommendations about the benchmarks and the value of upper bounds for pay and bonuses.

The recommended principles and benchmarks should reflect and take account of the level of remuneration necessary to attract, retain and motivate staff of the quality required, the prevailing macroeconomic circumstances and the need to secure value for money from the senior public sector paybill, as well as the need to promote fairness and respect the legitimate expectations of taxpayers. The review will need to have regard to:

- the labour market for roles in each sector;
- any discount to the market rate to reflect the value of delivering a public service mission;
- the total value of the public sector package including variable pay, benefits in kind and pensions – as well as job security;
- comparable benchmarks in the public sector – particularly comparable roles in the senior civil service; and
- the need for senior public sector staff to show leadership through pay restraint.

The benchmarks will need to be flexible and allow for exceptions if justified, but should cover the vast majority of organisations in each category. They would need to comprise the full value of the remuneration package, including base pay, variable pay, bonus, pension and any other elements of the package.

The scope of the review should be the whole of the public sector. For the purposes of this review, this covers those staff covered by the Senior Salaries Review Body (senior civil servants, NHS very senior managers, senior military and judges), senior staff in non-departmental public bodies, local government, schools, higher and further education (reliant on significant public funding), the NHS, police authorities and forces, regulatory bodies, public corporations and the BBC. It should not cover senior staff in publicly-owned banks, which are subject to different arrangements.

As part of this review, the Government wishes the SSRB to review the structure of reward packages for NDPB chief executives (the list of bodies to be agreed with the Treasury) and to report to the Government on a recommended pay structure by the end of July 2010. A progress report covering the principles to be adopted should be concluded by Budget 2010.

The Government will work with the review to determine what legislative and non-statutory means are most appropriate to enforce compliance across the wider public sector.

Appendix B

Further evidence

1. This appendix provides further background information to support our conclusions in Chapter 3, and discusses issues with the quality of available data which relate specifically to senior remuneration in the public sector.

Quality of data on the remuneration of senior public sector employees

2. As noted in Chapter 3, comprehensive, consistent and high-quality data relating specifically to the remuneration of senior public sector employees are not available for all public sector bodies covered by our remit. Our secretariat has investigated the data that were readily available which has revealed the following issues:
 - *definition of senior*: seniority can be determined using some data sources by reference to job role (e.g. lead executive or director), but for others (such as ASHE) an earnings threshold could instead be applied. In neither case does it mean we can be certain of comparing like with like;
 - *availability*: “official statistics” are published for certain public sector groups¹, data for others have been gathered from annual accounts², through primary research³ or Freedom of Information requests⁴, and earnings data for some groups are not readily available⁵;
 - *definition of pay and remuneration*: in most cases, the data give an indication of *basic pay*; sometimes *total earnings* are also presented, but rarely *the full value of the remuneration package* as referred to in the Prime Minister’s letter; further, these terms may not be applied consistently across sources;
 - *detail*: for some public sector groups, an indication only of the average salary of senior staff is available; for others (for example the NHS) a detailed database of earnings and other information is maintained while the annual accounts of public corporations provide information on each element of the remuneration packages of certain named individuals. While quite detailed information on senior remuneration is available from the HMRC’s Survey of Personal Income (SPI), this does not separately identify earnings from public sector employment;
 - *geography*: data can relate to individual countries (e.g. England only), Great Britain or the United Kingdom;
 - *reliability*: variation in the coverage can affect the accuracy of reported data (data available for all staff, or a sample). If a sample is used, e.g. in ASHE, this may not be adequate to provide reliable data at senior levels in the public sector; and
 - *timing and timeliness*: whilst for example data relating to NHS earnings in England are published three months in arrears, the latest available data on the earnings of independent NHS contractors – GPs and dentists – are derived from HMRC returns

¹ For example, data from the NHS Information Centre in respect of hospital consultants.

² For example, data on salaries of Further Education college principals, and IDS (2009) *Executive Compensation Review 346*, pages 16-21 (“Top Pay in the Public Sector”).

³ For example, OME’s survey of earnings of NDPB Chief Executives.

⁴ For example, Taxpayers’ Alliance (2009) *Public Sector Rich List 2009* (Research Note 50).

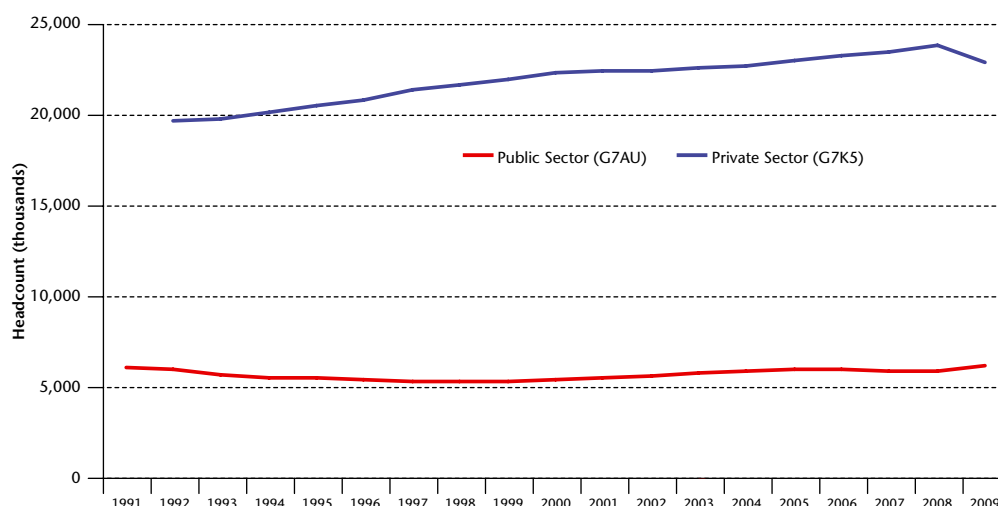
⁵ For example, some data on pay are available in published accounts of individual public sector bodies and a collation exercise would be needed to extract, analyse and present this in a usable format.

for the 2006/07 financial year and do not differentiate between earnings from public sector and private sector employment. The data sources we have examined cover a variety of time periods and thus estimated aggregate figures derived from them may not reflect any particular time period.

Public sector employment⁶

3. There were 6.1 million people employed in the public sector in 2009, comprising 21% of total UK employment. Of these, 2.9 million were employed in local government, 2.6 million in central government and 0.6 million in public corporations. Following a decline between 1992 and 1997, public sector employment has since increased and in 2009 was roughly the same level as in 1992 (Figure B1). Employment in the private sector rose from 19.6 million in 1992 to 23.7 million in 2008, falling back to 22.8 million in 2009. Public sector employment as a percentage of total employment has fallen from 23.1% to 21.0% over the same period.
4. Since 1999⁷, growth in public sector employment has been most rapid in the NHS, the police (including civilians), education and – mainly due to the reclassification of some nationalised banks from the private sector in 2009 – the “other” public sector (see Figure B2).

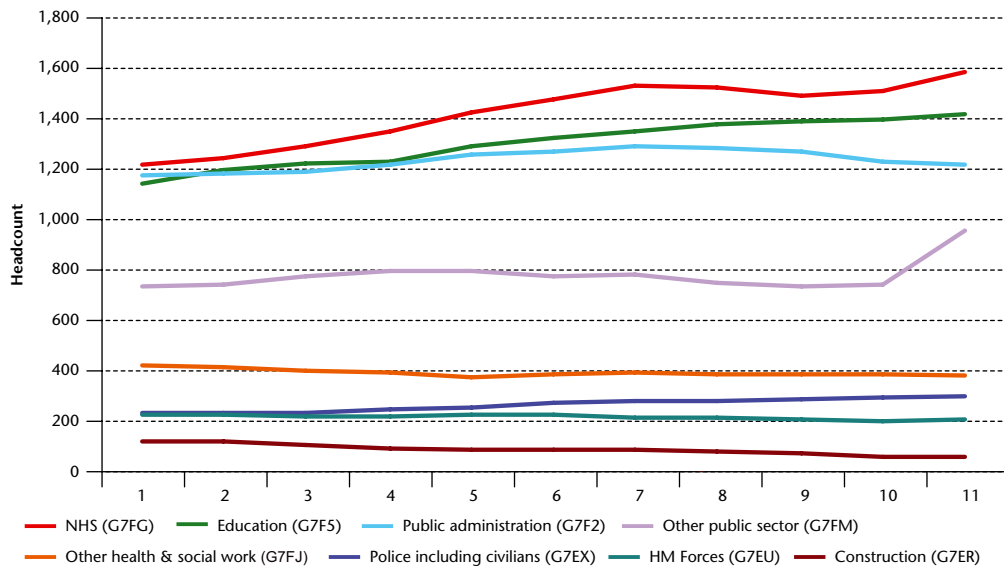
Figure B1: UK employment headcount since 1991 (seasonally adjusted)



⁶ ONS (2009) *Public Sector Employment, Q3 2009*

⁷ The earliest year for which data are available.

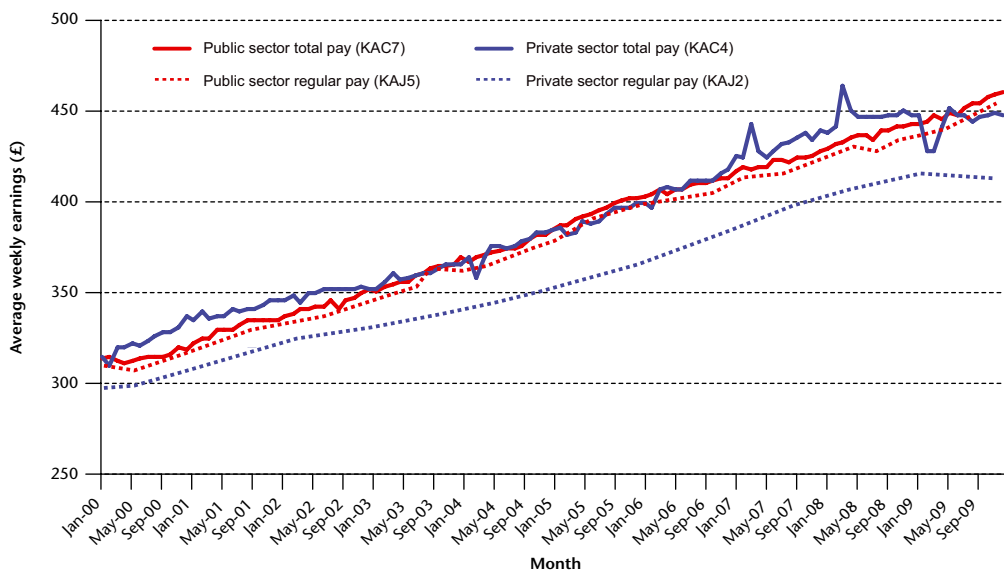
Figure B2: UK public sector employment headcount since 1999, by industry, seasonally adjusted



Average pay

5. The Office for National Statistics’ (ONS’s) series on *Average Weekly Earnings* (Figure B3) provides the most regular and timely estimates of average pay in the public and private sectors. Since 2000, growth in average regular pay⁸ (excluding bonuses) and total pay (including bonuses) in the public sector⁹ has been fairly steady. Growth in average regular pay in the private sector was also steady until late-2008; however, since then growth has been negligible. Figure B3 demonstrates that bonuses form a larger share of total pay in the private sector when compared with the public sector: on average between 6%–9% of average weekly earnings in the private sector consists of bonuses, whilst in the public sector bonuses generally make up less than 1% of total pay.

Figure B3: Average weekly earnings in the public and private sectors, 2000-2009 (GB, seasonally adjusted)



Source: Office for National Statistics

⁸ All elements of pay except bonuses.

⁹ Public sector includes publicly-owned financial corporations: Northern Rock is included in the public sector from December 2007 onwards; Royal Bank of Scotland Group plc and Lloyds Banking Group plc are included in the public sector from December 2008 onwards. This has the effect of slightly increasing the average weekly earnings for the public sector.

6. However, comparison based solely on average pay levels is overly simplistic: the gap in *average earnings* between the public and private sectors is influenced to a great extent by differences in the characteristics of the workforces; for example, more public sector employees work part-time, and nearly two-thirds of full-time public sector employees work in managerial, professional or technical occupations, compared to less than half of private sector employees.
7. In-depth analyses of detailed data on earnings and employee characteristics^{10,11,12}, show that, when workers in the public and private sectors *with similar characteristics*¹³ are compared, the earnings gap narrows significantly. When further analysed by region, the earnings gap disappears in London and the South East of England, while public sector workers elsewhere in the UK earn a wage premium when compared with their private sector counterparts¹⁴.

Growth in pay

8. In Chapter 3, we noted that the earnings distribution in the public sector was more compressed than the private sector, and that earnings growth had been more rapid in the private sector. Table B1 below provides further information.

Table B1: Growth in annual gross pay for full-time employees

	Public sector			Private sector		
	1998/99 £	2008/09 £	Increase %	1998/99 £	2008/09 £	Increase %
Lower quartile	14,000	20,080	43.4	12,250	17,500	42.9
Median	19,290	27,690	43.5	17,250	24,970	44.8
Upper quartile	24,920	36,790	47.6	24,530	36,220	47.7
90th percentile	31,290	47,180	50.8	35,060	54,680	55.9
95th percentile	36,950	57,590	55.9	45,420	74,100	63.1
97th percentile	41,950	68,540	63.4	55,340	91,510	65.3

Source: Office for National Statistics (Annual Survey of Hours and Earnings)

¹⁰ Makepeace. G, Marcenaro-Gutierrez.O (2006) *The Earnings of Workers Covered by Pay Review Bodies: Evidence from the Labour Force Survey*, OME

¹¹ Chatterji. M, Mumford. K (2007) *Public-Private Wage Gaps for British Full-Time Male Employees: Across Occupations and Workplaces*, OME

¹² Disney. R, Gosling. A (2008) *Changing Public Sector Wage Differentials in the UK*, IFS (Working Paper WP08/02)

¹³ For example, the same age, gender and level of qualifications.

¹⁴ IFS (2010) *The IFS Green Budget: February 2010*, page 226



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