Review Body on Senior Salaries

Thirty-Sixth Annual Report on Senior Salaries 2014

REPORT No. 82

Chair: Bill Cockburn CBE TD

Cm 8822

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

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Foreword

Review Body on Senior Salaries

The Review Body on Top Salaries (TSRB) was appointed in May 1971 with terms of reference set by the Government. It was renamed the Review Body on Senior Salaries (SSRB) in July 1993, with revised terms of reference. The Government revised the terms of reference 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. In our 2013 report[1] we said that our terms of reference were out of date and in need of amendment to reflect the transfer of responsibility for MPs' pay, allowances and pensions to the Independent Parliamentary Standards Authority, and the addition of Police and Crime Commissioners, and later in 2014, senior police officers to our remit. We also explained why we think it is no longer practical nor desirable for us to have regard to the need to maintain broad linkage between the remuneration of the senior civil service, judiciary and senior military, as the terms of reference require us to do. However, our terms of reference have not been amended and remain as follows:

> *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 NHS;*[2] *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;*
>
> *the Government's inflation target.*

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[1] Paragraph 1.15. Review Body on Senior Salaries. *Thirty-Fifth Report on Senior Salaries 2013.* Cm 8569. TSO, 2013. Available at: https://www.gov.uk/government/organisations/review-body-on-senior-salaries.

[2] NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers.

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;

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 *Chair*
Professor Richard Disney
Margaret Edwards
Martin Fish
Professor Dame Hazel Genn DBE QC
Professor Sir David Metcalf CBE
John Steele
Bruce Warman

The Secretariat is provided by the Office of Manpower Economics (OME).

Summary and recommendations

Introduction

1. In our last report we said we were increasingly concerned that the Government was taking the loyalty and commitment of our remit groups for granted. Many have suffered disproportionately from the Government's policies to correct the fiscal deficit. We fear this treatment will damage, in the longer term, the ability to recruit and retain the key people required to undertake the senior leadership roles in the public sector. As the economy recovers, it will become increasingly difficult to recruit and retain high quality people while paying them much less than they could earn in the private sector.

2. It is therefore vital for the Government to demonstrate that it values leadership in the public sector. It can show its commitment both by short-term measures at little or no cost to remove petty restrictions affecting our remit groups, and by developing longer term workforce and reward strategies for these groups to ensure an adequate supply of suitably able and qualified people.

Senior civil service (SCS)

3. The Government has declined to follow our suggestion of adapting the new Northern Ireland SCS pay system for Great Britain. The current pay system is beset with problems. The Government needs to tackle them quickly and visibly, even if implementation has to be staged because of public sector pay policy.

Recommendation 1: We recommend that the Government add the following to its principles for the SCS reward system: a pay system which is able to recruit, retain and motivate sufficient suitably able and qualified people to exercise the different responsibilities of the SCS.

Recommendation 2: We recommend that the minima be increased from 1 April 2014 to: £62,000 for Pay Band 1, £85,000 for Pay Band 2 and £104,000 for Pay Band 3.

Recommendation 3: We recommend that departments apply a uniform percentage increase equivalent to 0.91 per cent of the paybill for all SCS members other than those in the bottom 10 per cent of the performance distribution.

Recommendation 4: We recommend that the Government restore the individual caps on non-consolidated, performance-related payments, namely £10,000 for Pay Bands 1 and 1A, £12,500 for Pay Band 2, £15,000 for Pay Band 3 and £17,500 for Permanent Secretaries, and that departments use the whole available budget for such payments.

Recommendation 5: We recommend that the Cabinet Office instruct departments to carry out exit interviews with all SCS members leaving before normal pension age, to find out the reasons for their departure and their destinations. This should be done using a standardised approach.

Recommendation 6: We recommend that the minima of the Permanent Secretary Tiers each be increased by £1,500, to £143,500 for Tier 3, £161,500 for Tier 2 and £181,500 for Tier 1.

Senior officers in the armed forces

4. We remain concerned that the best members of the feeder group, i.e. those in the two or three ranks immediately below our remit group, may perceive that the remuneration package for officers at 2-star is not sufficiently attractive for the level of responsibility and accountability, and that they can earn more outside the forces.

Recommendation 7: We recommend that for future pay rounds the MoD further develops its database on army officers with the potential to serve in the senior ranks and expands it to cover each of the services.

Recommendation 8: We recommend that the pay scales below apply for 2- and 3-star officers with effect from 1 April 2014.

2-star	2013-14 (£)	2014-15 (£)	3-star	2013-14 (£)	2014-15 (£)
6	120,492	121,697	6	154,254	155,797
5	118,179	119,361	5	149,834	151,332
4	115,911	117,070	4	145,542	146,998
3	113,687	114,824	3	140,041	141,441
2	111,506	112,621	2	133,491	134,826
1	109,369	110,463	1	127,253	128,526

Recommendation 9: We recommend that the pay scale below apply for 4-star officers with effect from 1 April 2014.

4-star	2013-14 (£)	2014-15 (£)
6	187,036	188,906
5	183,369	185,202
4	179,773	181,571
3	175,389	177,142
2	171,110	172,821
1	166,937	168,606

Recommendation 10: We recommend the following pay scale for Chief of the Defence Staff (CDS) with effect from 1 April 2014.

CDS	2013-14 (£)	2014-15 (£)
4	255,225	257,777
3	250,220	252,723
2	245,314	247,767
1	240,504	242,909

Recommendation 11: We recommend no change to current pay arrangements for Medical and Dental Officers (MODOs).

- **2-star MODOs should continue to be paid 10 per cent above the base pay at the top of the MODO 1-star scale plus X-Factor;**
- **3-star MODOs should continue to be paid 5 per cent above 2-star MODO base pay plus X-Factor.**

Judiciary

5. We remain deeply concerned that continuing pay restraint, coupled with changes to judicial pensions and their taxation, will mean that it is no longer possible to fill judicial vacancies, particularly at the higher levels, with candidates of sufficient quality.

Recommendation 12: We recommend that with effect from 1 April 2014 salaries for the judiciary be increased by 1 per cent.

Recommendation 13: We recommend that the Government address all the outstanding recommendations from the 2011 major review of the judicial salary structure by 2015, before the start of the next major review of the judicial salary structure.

Recommendation 14: We recommend that each salary group in the new judicial salary structure we proposed in 2011 be increased in line with any increase to the existing structure.

Very senior managers (VSMs) in the NHS

6. We welcome the announcement of a further review of our remit group's pay, but we doubt whether it is sustainable to set the pay of VSMs in our remit in isolation. They effectively form a single labour market with other senior managers in different parts of the NHS (e.g. Foundation Trusts) and private sector providers who are not subject to the same pay constraints. The best people will tend to move to where they can earn the most.

Recommendation 15: We recommend that with effect from 1 April 2014 VSM salaries are increased by 1 per cent.

Police and Crime Commissioners (PCCs)

7. This is the first year that PCCs have been included in our annual review. We do not recommend any increase this year because the roles are still evolving. We expect to carry out a thorough review of their pay before the next elections in 2016.

Recommendation 16: We recommend that the Home Office conduct a review of the rules and guidance relating to expenses incurred by PCCs while undertaking their duties.

Recommendation 17: We recommend that the current rates of pay of Police and Crime Commissioners should remain unchanged for 2014-15.

Contents

Chapter 1

Introduction

1.1 We have conducted this year's pay review against the background of the Government's continuing policy of severe public sector pay restraint as part of its financial deficit reduction programme. Most members of our remit groups understand and generally accept the need for this policy, even though it has had the effect of cutting their remuneration significantly in real terms. Most of the senior people in our remit groups have been subjected to a prolonged period of pay restraint which began before the current austerity programme. For example:

- Senior Civil Service (SCS) pay was frozen from 2009-10 to 2012-13[3] and the number of non-consolidated, performance-related payments was reduced by two-thirds from 2010;
- The judiciary has been denied the pay and grading changes recommended in our five-yearly review which reported in 2011, thereby perpetuating anomalies and unfairness.

Since the start of the recession in 2008 real earnings have fallen in both the private and public sectors and the effect has been compounded for higher earners by tax and National Insurance changes. Public sector pay restraint is likely to continue until the next general election and possibly beyond. This period of falling real-terms incomes is unprecedented in living memory.

1.2 In addition to the period of pay freeze followed by an increase well below the rate of inflation, our remit groups other than the senior military have faced increased pension contributions and some personnel in each of our groups are or will be hit by reductions in the annual and lifetime pension tax allowances. Of course most people in the public sector have been affected by the Government's austerity programme but in overall terms the impact on our remit groups has been relatively more severe. Many members of our remit groups have experienced real-terms falls in their earnings of 20 per cent or more over the past six years. Someone on median full-time earnings will have seen the real value of their earnings fall by 8 per cent after changes to income tax and National Insurance. As things stand there is little prospect of improvement in the near term and indeed there is likely to be further decline in real terms.

1.3 The public, the media and politicians have little sympathy for the situation facing senior public leaders. The Government argues that "those with the broadest shoulders should carry the greatest burden". In fairness, the vast majority of our remit group members do not argue for special treatment and accept the situation without reducing their commitment to public service or their leadership responsibility within it. We have seen no widespread evidence of difficulties with recruitment or retention so far. Surveys show that their job satisfaction remains high even though they are, unsurprisingly, increasingly dissatisfied with their pay. The fact is that on pay they are steadily losing ground in relation to both the private sector and the wider public sector and they increasingly perceive that they are not appreciated or trusted by Government.

[3] Moreover, according to the Cabinet Office, around 25 per cent of SCS members (including those in the bottom 10 per cent of the performance distribution) did not get a pay increase in 2013-14.

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1.4 The risk is that, if this situation persists, the standing and reputation of senior public sector roles will suffer and this will inevitably damage, in the long term, the ability to recruit and retain the key people required to undertake the senior leadership roles in the public sector. While senior public servants generally endure in silence, there is growing evidence that their potential successors, currently in the feeder groups, are disillusioned with the treatment of their superiors, and there is a real risk that they may look elsewhere for career advancement. There is also a risk that potential external recruits will be deterred from joining the public sector by its negative image and media reporting of Ministers' criticism. This is not scaremongering. It is important to recognise the value of the senior leadership contribution and not to take it for granted, while ensuring that any further demands are proportionate. The fact is that there are many highly competent and dedicated senior people in each of the remit groups tackling jobs of substantial national importance and complexity which are vital to society. They are by no means highly paid compared to senior people in the private sector. The Government should have the courage to defend senior public servants from unjustified criticism, to point out that they are paid less than comparators in the wider public and private sectors, and to explain why it is necessary and in the public interest to recruit and retain high quality staff for key posts who will be judged rigorously on their performance.

1.5 The scope for action in the short term is limited by the continuing need to reduce public spending, but there are things the Government could do at minimal or no cost to improve the morale of our remit groups such as revising petty and counter-productive controls on travel and expenses for the senior military and reviewing the SCS and VSM performance pay systems which are ineffective and demotivating. Good management should look to achieve some quick but tangible improvements which signal to the workforce that they are valued, even though more substantial changes, such as those discussed in subsequent chapters, may have to await a more flexible public sector pay policy.

1.6 However, given the length of the current period of pay restraint, it is even more important for Government to develop and communicate a direction of travel beyond the short term that:

- recognises and commits to the critical importance of senior public service leadership;
- is founded on a clear vision of the role of the public service and underpinned by clear workforce and reward strategies;
- gives priority to the recruitment and retention of outstanding people in the judiciary, the senior military, the civil service, the VSM cadre of the NHS and Police and Crime Commissioners, our newest remit group;
- ensures that the remuneration arrangements are sufficient to support the recruitment and retention policies on a sustainable basis; and
- anticipates the pressures on recruitment and retention which will arise as the economy begins to grow more strongly.

It will be too late to react when there is a crisis. Long-term workforce planning must be done now to head off problems in the future.

1.7 The following chapters cover in more detail the evidence and issues concerning our individual remit groups.

Chapter 2

The economic context

Summary

- GDP grew by 1.9 per cent in 2013, the strongest economic growth since 2007;
- GDP growth is expected to be around 2½ per cent in 2014;
- Inflation has fallen back (the CPI rate to 2.0 per cent, the RPI rate to 2.7 per cent in December 2013), as the October 2012 rise in tuition fees fell out of the 12-month increase. CPI inflation is forecast to be just above 2 per cent at the end of 2014, with RPI expected to be around 3 per cent;
- Employment levels are continuing to rise above record levels, and unemployment is falling, to 7.1 per cent in the three months to November, with an expectation of further gradual improvement;
- Average earnings growth remains low, at 0.9 per cent in the three months to November. Pay settlement medians were around 2.5 per cent in 2013 and are expected to remain at similar levels in 2014;
- The real take-home pay of our remit groups, after taking account of tax, National Insurance, CPI inflation and, where applicable, pension contributions, has now fallen by some 8 to 23 per cent since April 2009.

Economic growth outlook

2.1 The Bank of England published its latest inflation report and forecasts in November 2013. It revised up its GDP four-quarter growth forecast from 2.2 to 2.5 per cent for 2014. It considers the economy to be growing robustly, as reducing uncertainty and thawing credit conditions start to unlock pent up demand.

Table 2.1: **GDP annual growth forecasts**

	Office for Budget Responsibility, year on year (December 2013) (%)	**Bank of England central projection** for Q4 (November 2013) (%)	**Treasury independent average,** year on year (January 2014)[1] (%)
2014	2.4	2.5	2.4
2015	2.2	2.4	2.4
2016	2.6	2.4	2.4
2017	2.7	–	2.3

[1] 2015 to 2017 from November 2013.

2.2 The Office for Budget Responsibility (OBR) published its latest economic forecasts alongside the autumn statement in December 2013. It revised up its forecast for annual GDP growth in 2014 from 1.8 per cent to 2.4 per cent.

2.3 The OBR does not expect the pace of quarterly expansion seen during 2013 to be sustained in 2014 and assumes that growth slows to rates of around 0.5 per cent a quarter through 2014. The OBR pointed out that productivity and real earnings growth remained weak. The unexpected strength of private consumption in 2013 had come largely from lower saving, not higher income, while business investment and net trade continued to disappoint. The OBR said that productivity-driven growth in real earnings was necessary to sustain the recovery and raise living standards. It therefore expected quarterly GDP growth to slow into 2014, gradually strengthening thereafter as productivity picked up and real earnings growth provided the foundation for a stronger and more sustained improvement.

2.4 The Bank of England Monetary Policy Committee issued forward guidance in August stating that it would "maintain the current highly stimulative stance of monetary policy until economic slack has been substantially reduced, provided this does not entail material risks to either price stability or to financial stability". Using the Labour Force Survey unemployment rate as the measure of 'slack', it indicated that it did not intend to raise the bank rate from its current level of 0.5 per cent at least until the unemployment rate has fallen to 7.0 per cent, subject to various caveats. While the unemployment rate is fast approaching this level (7.1 per cent in the three months to November 2013), the latest minutes from the Monetary Policy Committee[4] suggest that equilibrium unemployment might be lower than previously thought and that members saw no immediate need to raise the bank rate even if the 7 per cent unemployment threshold were to be reached in the near future.

Inflation forecasts

2.5 The inflation forecasts (see Table 2.2) suggest that CPI inflation will remain at just above 2 per cent throughout 2014 although in fact it fell to 2 per cent in December 2013. The RPI rate is expected to remain close to 3 per cent during 2014, kept up by increasing house prices, with some forecasters expecting a rise in interest rates.

2.6 The Bank of England revised its inflation forecast down in its most recent report, in November 2013, reflecting unexpectedly low out-turns and the recent appreciation of sterling. The Bank reported that inflation is set to fall back to around the 2 per cent target over the next year or so as the impetus from past increases in import prices fades and a gradual revival in productivity growth, together with a persistent margin of spare capacity, curbs domestic price pressures.

2.7 The OBR expects a CPI inflation rate of 2.2 to 2.4 per cent through 2014, held above target by utility price increases. It forecasts RPI inflation at around 3 per cent through 2014, boosted above the CPI rate by house price increases. The Treasury panel of independent forecasters expects a CPI inflation rate of 2.3 per cent at the end of 2014, with the RPI rate at 3.0 per cent.

Table 2.2: **Inflation forecasts**

	OBR (December 2013) (%)		**Bank of England central projection** (November 2013) (%)	**Treasury independent average** (January 2014)[1] (%)	
	CPI	**RPI**	**CPI**	**CPI**	**RPI**
2014 Q4	2.3	3.0	2.1	2.3	3.0
2015 Q4	2.1	3.5	1.9	2.1	3.0
2016 Q4	2.0	3.5	2.0	2.0	3.2
2017 Q4	2.0	3.9	–	2.1	3.5

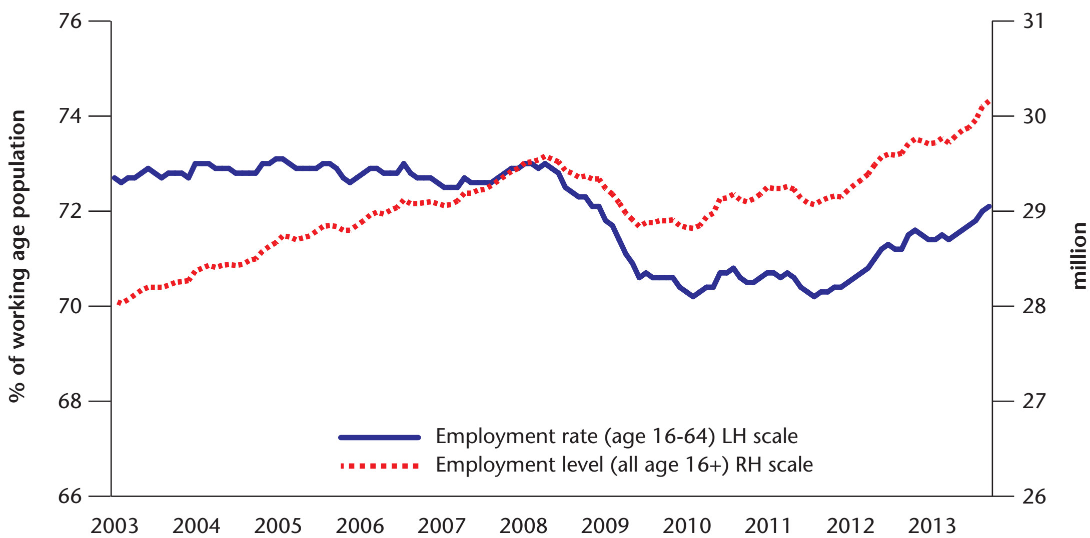
[1] 2015 to 2017 from November 2013.

[4] Minutes of the Monetary Policy Committee Meeting, 8 and 9 January 2014.

Employment

2.8 Employment reached a low point at the start of 2010, at 28.8 million, having fallen from a peak of 29.6 million in the spring of 2008. The employment level then rose gradually through 2010, but fell during 2011. Employment has continued to rise gradually since then, reaching 30.15 million in the three months to November 2013, over half a million higher than the pre-recession peak (see Figure 2.1). The record employment level partly reflects a growing labour force. The employment rate has risen over the last two years but remains below the rate in 2008. The absolute increase in employment over the last year was largely among those working full-time. The number of full-time employees rose by 1.9 per cent (349,000) over the year to November 2013, while the number of part-time employees fell by 0.5 per cent (30,000). This reverses some of the immediate post-recession trends which saw disproportionate growth in part-time working.

Figure 2.1: **Total employment, rate and level, UK, 2003 to 2013**



Source: Office for National Statistics (ONS).

Employment and unemployment forecasts

2.9 In its December report the OBR said it had tended to under-forecast employment over the past few years (and over-forecast earnings growth). Its latest forecast therefore indicated stronger employment growth, above that implied by the upward revision to the near-term GDP forecast. In December 2013 the OBR said it expected unemployment to continue to fall relatively quickly in the short term as spare capacity in the economy was taken up. Thereafter, it expected the decline in unemployment to slow as the current momentum in GDP growth eased and productivity growth picked up.

Table 2.3: **Labour market forecasts**

	OBR (December 2013)				Treasury independent average (January 2014)[1]
	employment	unemployment		claimant count	claimant count
	million	million	rate %	million	million
2014 Q4	30.3	2.3	7.1	1.30	1.18
2015 Q4	30.5	2.2	6.8	1.20	1.20
2016 Q4	30.8	2.1	6.4	1.20	1.13
2017 Q4	31.0	1.9	5.9	1.10	1.06

[1] 2015 to 2017 from November 2013.

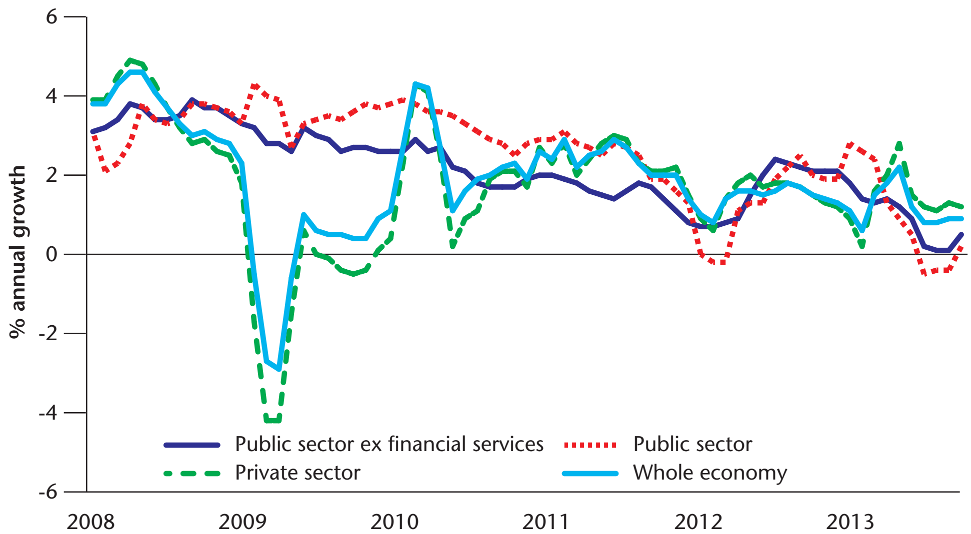
2.10 The Chartered Institute of Personnel and Development's (CIPD) latest quarterly Labour Market Outlook, published in November 2013, indicated a significant improvement in employment intentions. The net employment intentions balance, which measures the difference between the proportion of employers who expect to increase staff levels compared to those who expect to decrease staff levels in the next quarter, was +24 in autumn 2013, up from +14 in summer 2013. This is the highest level since the report was introduced in 2005.

2.11 The positive net employment intentions continued to be driven by the private sector. The net balance for the private sector was +38 for autumn 2013, up from +26 in summer 2013. The net balance for the public sector was –19 in autumn 2013, nearly back to the level of autumn 2012 (–17) following a fall to –31 in spring 2013.

Average earnings growth

2.12 Average earnings growth in the economy has been subdued throughout 2012 and 2013 (see Figure 2.2). The three months to November 2013 saw whole economy annual average earnings growth of 0.9 per cent. Average earnings growth was 1.2 per cent in the private sector and 0.5 per cent in the public sector (the latter excluding financial services).

Figure 2.2: **Average weekly earnings growth (total pay), three-month average, GB, 2008 to 2013**



Source: ONS.

2.13 The ONS data on bonus pay for the first half of 2013, and consequently average earnings growth overall, are particularly misleading: the payment of bonuses was delayed in the early months of 2013 until April, to attract the lower income tax rate (45 rather than 50 per cent). The annual growth in bonus pay in the month of April alone was 62 per cent across the whole economy and 83 per cent in the finance and business services sector. This meant that total private sector average earnings growth fell to 0.2 per cent in the three months to March but bounced back to 2.8 per cent in June as the full effect of the delayed bonus payments was seen. Private sector earnings growth excluding bonuses was stable at around 1 per cent throughout 2013.

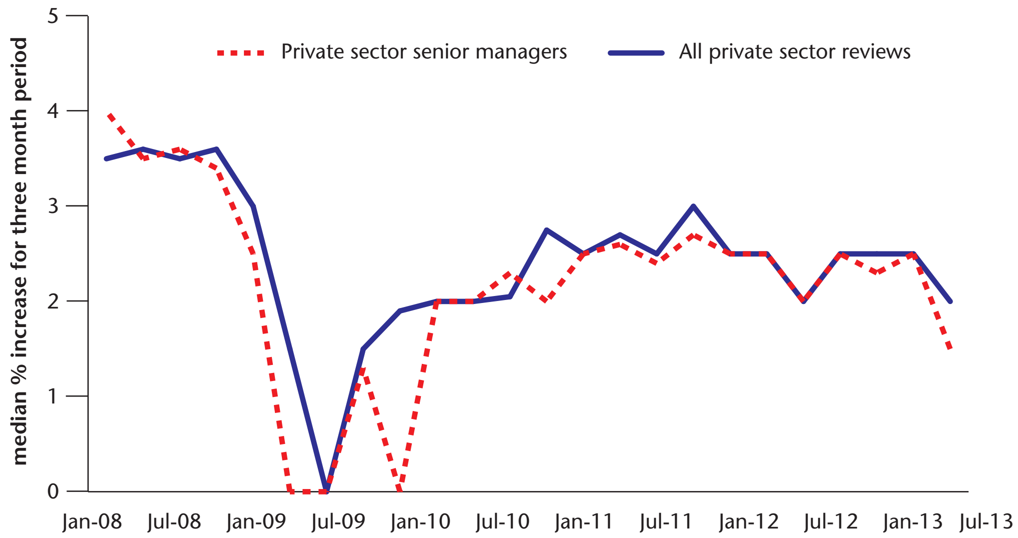
Pay trends for senior staff, 2013

2.14 Data from Incomes Data Services (IDS) show pay awards for senior private sector managers were broadly stable during 2013, at around the 2.5 per cent level for the first three quarters of 2013, with a fall to a 1.5 per cent median in the three months to October 2013.

2.15 This is similar to the pattern for all private sector pay settlements, which were around 2.5 per cent for most of 2013, with a fall to 2.0 per cent in the three months to October. That quarter included a number of pay reviews responding to the 1.9 per cent increase in the National Minimum Wage.

2.16 IDS also reported that 17 per cent of pay reviews for managerial and professional staff were freezes in 2013, compared to 16 per cent in 2012 and 12 per cent in 2011. Senior staff were more likely to experience a pay freeze than junior staff: the proportion of pay freezes for all staff groups was 8 per cent in 2013, down slightly from 10 per cent in 2012 and 9 per cent in 2011.

Figure 2.3: **Median pay awards for private sector senior managers and all private sector awards**



Source: IDS Executive Compensation Review, idspay.co.uk.

Forecasts

2.17 In 2014, private sector managers and professionals are forecast a median pay increase of 2.5 per cent (with an inter-quartile range of 2.0 to 3.0 per cent), according to a survey of HR practitioners undertaken by IDS.[5] The median expected increase for managers in the public sector in 2014 is 1.0 per cent.

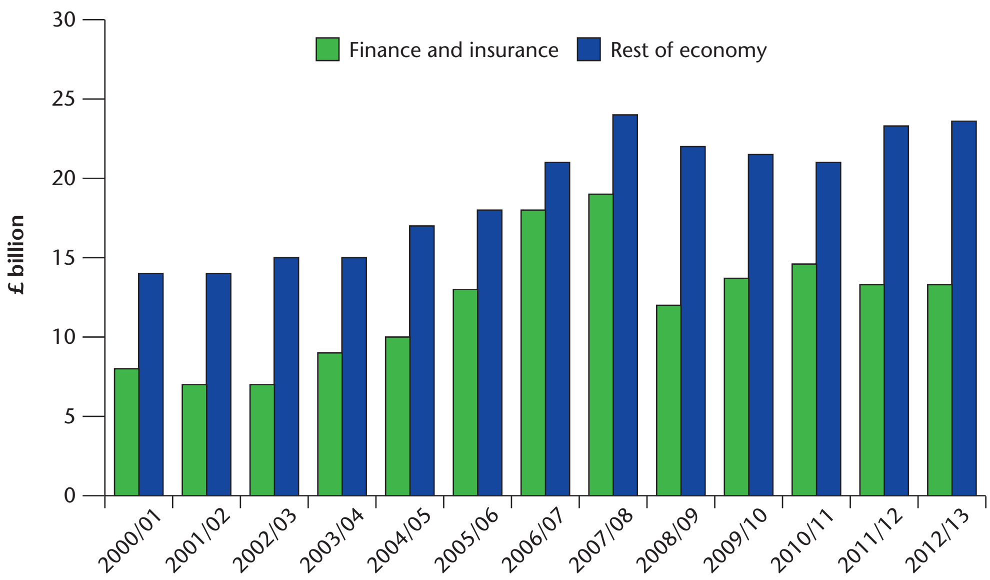
Bonus payments

2.18 The total amount of money paid in bonuses, measured by ONS, increased by 1 per cent in 2012-13 compared to the previous financial year. Bonus pay was flat in the finance sector, with the growth concentrated in other industries. However, this low growth may be due to the delay in the payment of bonuses to April 2013, to catch the lower income tax rate, rather than part of a longer-term trend.

2.19 Figure 2.4 shows the total amount of money paid out in bonuses each year. In the finance sector, the level of bonuses fell substantially in the recession, by over a third, recovered to an extent, then fell back again in 2011-12. This may have been a response to the criticism of the use of short-term individual incentives in the sector which led to a re-balancing of the reward package towards basic pay and long-term, share-based incentive plans. While the average bonus was £11,900 per person in the finance sector, the distribution is highly skewed, with a small minority receiving very large payments.

2.20 In the rest of the economy, the recession-driven fall in bonus pay was much less, below 10 per cent, and the recovery has been much stronger, so that bonuses were almost back at peak levels in 2012-13. The recession may have induced a shift towards linking pay and pay increases to profitability, to insure companies against further falls in demand. Average bonus payments remain at much lower levels per person outside the finance sector, however, at £1,700 across the whole private sector.

Figure 2.4: **Total bonus payments by financial year (April to March)**



Source: ONS Monthly Wages and Salaries Survey.

2.21 Bonus payments (monitored by IDS) for the 12 months to April 2013 are shown in Table 2.4. IDS report that the median bonus for senior managers was worth 22 per cent of salary between May 2012 and April 2013, up from 17 per cent in the previous year (in an unmatched sample). Bonus payouts also increased for other senior groups.

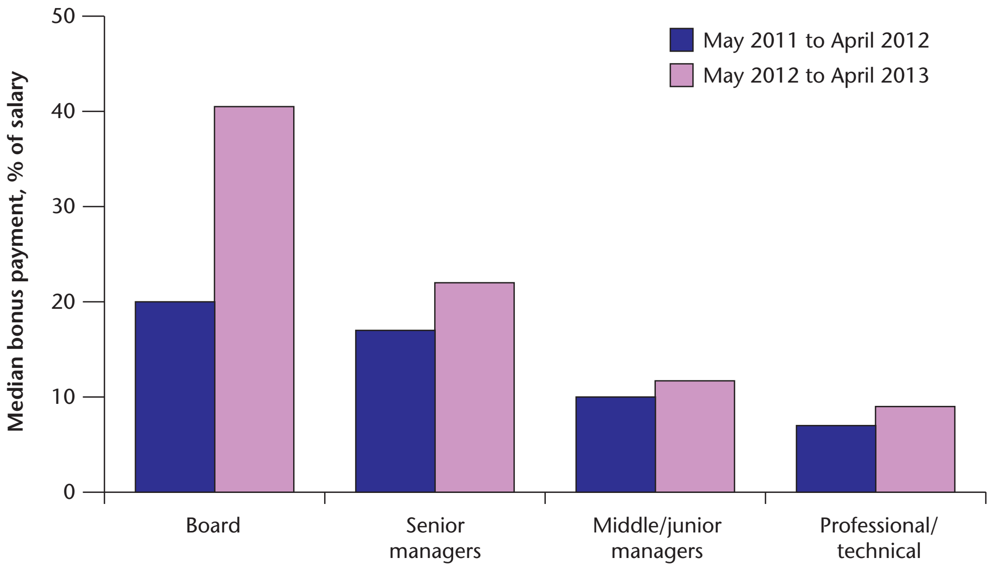
[5] Executive Compensation Review 382, December 2012/January 2013.

Table 2.4: **Bonus payments by managerial group between May 2012 and April 2013**

	Board	Senior managers	Middle/junior managers	Professional/ technical
	% of salary			
Number of schemes	29	51	46	40
Minimum	0	0	0	0
Lower quartile	20	10	7	4
Median	41	22	12	9
Upper quartile	76	40	19	14
Maximum	150	125	71	71
Average	53	28	14	11

Source: IDS Executive Pay Review, June 2013.

Figure 2.5: **Median bonus payments by managerial group**

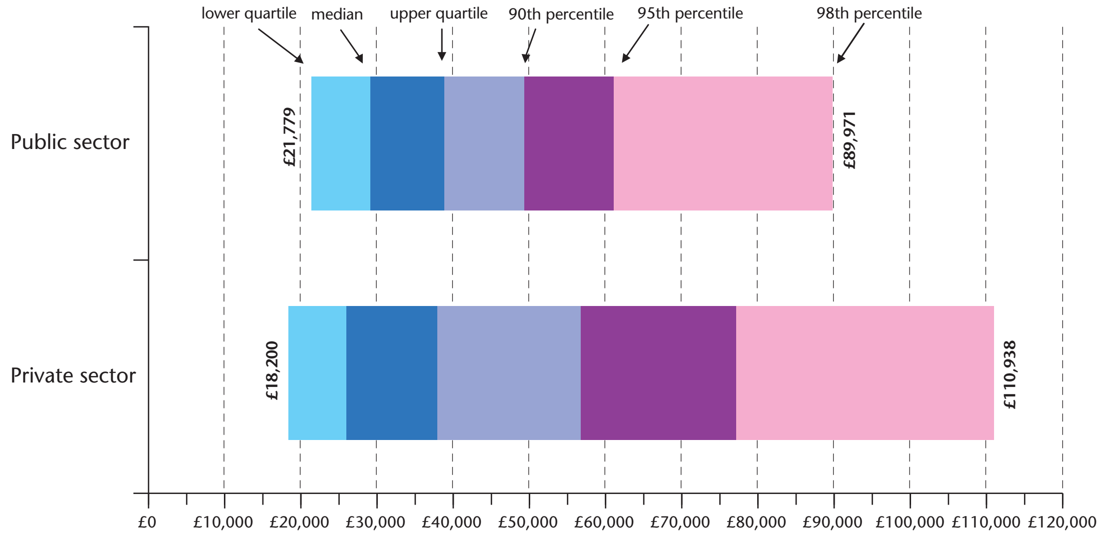


Source: IDS Executive Compensation Review.

Public and private sector earnings

2.22 Figures for the whole economy can mask significant differences between the public and private sectors. Earnings in the public sector are compressed compared to the private sector and while the lowest paid in the public sector typically earn more than those in the private sector, even after adjusting for differences in qualifications, the highest paid public sector workers are paid substantially less than their private sector analogues.

Figure 2.6: **Distribution of full-time gross employee pay in the public and private sectors, 2012-13, United Kingdom**



Source: ONS, Annual Survey of Hours and Earnings 2013.

Changes in real, take-home earnings

2.23 As in recent years, we have asked our secretariat to calculate the combined effects of income tax, National Insurance, pension contribution changes and inflation on typical members of our remit groups and these are shown in Table 2.5. Full details of the calculations are at Appendix F.

Table 2.5: **Representative changes in take-home pay 2009-10 to 2013-14 resulting from pay, income tax, National Insurance, pension contribution changes and inflation**

Remit group		Nominal change %	Real change (against CPI) %
SCS	Pay Band 1	–10.6	–22.8
Judiciary	Circuit Judge (Band 6.1)	–8.8	–21.3
Senior Military	2-star	+6.5	–8.0
Very Senior NHS Managers (VSMs)	Chief Executive	–9.3	–21.7

Source: Office of Manpower Economics.

2.24 Most of our remit group members have experienced a fall of around a fifth in their real-terms earnings since 2009. The senior military continue to be less affected than our other remit groups because they mostly still benefit from annual pay progression and their pensions are non-contributory. Looking at employees working full-time across the economy as a whole, someone on median earnings in each of the years in question has experienced a fall in real earnings of 8 per cent as a result of inflation, income tax and National Insurance changes.

Conclusion

2.25 The economy is at last recovering from the recession which began in 2008, although output is still below the pre-recession peak and productivity is still flat. The Government's policy of tight public sector pay restraint since 2010, coupled with increased pension contributions, has effectively cancelled out the earnings advantage which many public sector workers gained, compared to those in the private sector, as the economy went into recession. Now that the private sector is starting to grow again, the public sector will find it increasingly difficult to recruit and retain people with skills in demand in the private sector unless there is some relaxation of pay restraint.

Chapter 3

The Senior Civil Service (SCS)

Introduction

3.1 In its evidence this year the Government acknowledges a number of problems with the SCS pay system:

- Significant pay overlaps between delegated grades and SCS Pay Band 1 and across SCS pay bands;
- Externally appointed salaries well above those of internal appointees (not always with sufficient justification), creating a "two-tier" system;
- Long salary ranges with slow movement up the pay range for many staff at a time of pay restraint, exacerbating differences between internal and external hires;
- More women occupying the lower end of the SCS pay scales, thus impacting on gender disparity;
- Insufficient links between performance and reward.

To those we would add:

- Pay rates which vary widely according to when people entered the relevant pay band and what they were paid previously;
- Lack of correlation between job weight and pay;
- Rigidities in the performance management system and doubts about its objectivity;
- The ever-widening gap between SCS pay rates and those for comparable jobs in the wider public and private sectors, particularly at Pay Bands 2 and 3 and Permanent Secretary.

3.2 In our last report we again expressed our frustration at the Government's failure to pursue reform of the SCS pay system, despite its shortcomings. In an attempt to make progress, we recommended that the Government examine the revised SCS pay system in Northern Ireland, which was based on proposals from us, with a view to introduction of similar changes in Great Britain by April 2016. The Northern Ireland system is designed to:

- Eliminate pay overlaps whereby members of the SCS, particularly those recently promoted, may find they are paid significantly less than some of those who report to them;
- Shorten pay ranges, reducing maxima to levels which can actually be achieved, unlike the current system in Great Britain where, for example, the median Pay Band 1 salary, £73,049 is only 62 per cent of the theoretical range maximum of £117,800;
- Enable those who perform satisfactorily to progress towards the range maximum in a reasonable period.

Northern Ireland had already suspended non-consolidated, performance-related payments for the SCS and their abolition generated savings which we estimated were more than sufficient to pay for the introduction of the new system.

3.3 This year the Government responded that while it supported the elimination of pay overlaps, this was not affordable during a period of pay restraint. Instead it had commenced a long-term programme of raising minimum salaries for the SCS. It rejected other aspects of the Northern Ireland system because it claimed a step-based progression system would commit to long-term costs and would effectively result in automatic pay increases becoming contractual. This is despite the fact that the new Northern Ireland system explicitly makes progression subject to performance, linked to a forced distribution marking system to prevent abuse, and is identical to systems in many other parts of the public service where automatic, time-served progression has been replaced by conditional progression dependent on performance. The Government's opposition to the Northern Ireland system of performance-related progression is inconsistent with its own recognition that one of the failings of the Great Britain SCS pay system is "long salary ranges with slow movement up the pay range for many staff at a time of pay restraint, exacerbating differences between internal and external hires".

3.4 We have been calling on the Government since 2007 to draw up a workforce and reward strategy for the SCS as a precursor to overhauling the SCS pay system. There have been some false starts, notably the Normington review[6] which reported in 2008 but was not implemented. However, it is clear to us that the Government is unwilling to envisage reform of the SCS pay system during this period of public sector pay restraint, which is likely to last until the next general election and possibly longer. We therefore concentrate in the rest of this chapter on the developments affecting the remit group since our last report and the Government's limited proposals for changes to pay in 2014-15.

The SCS remit group

3.5 The number of SCS members grew by 2 per cent in 2013, reversing the downward trend of the previous two years. The Government explained that the increase in SCS numbers this year was a result of machinery of government changes reducing the number of arm's length bodies. These caused some senior staff to transfer from non-departmental public bodies to departments.

Table 3.1: **Total SCS staff in post by year**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SCS staff in post	3,507	3,700	3,893	3,906	4,031	4,072	4,212	4,271	4,353	3,912	3,616	3,695
% change since 2002	–	5.5	11.0	11.4	14.9	16.1	20.1	21.8	24.1	11.5	3.1	5.4

Source: Cabinet Office.

3.6 SCS numbers fell between 2010 and 2012 as a consequence of the Government's policy of reducing the overall civil service and cutting public spending in order to reduce the fiscal deficit. The ratio of SCS members to total civil servants fell steadily from 1:153 in 2002 to 1:120 in 2010. It then increased slightly, to 1:127 by 2012, but fell again in 2013 to 1:122. Meanwhile overall civil service numbers which peaked at 571,000 in 2005 have now fallen to 450,000.[7]

3.7 We would expect the mix of SCS to other civil servants to vary both by organisation and over time, depending on the nature of the work, but we would also expect the Government to have a view on the appropriate size of the SCS for management and workforce planning purposes, if not in precise numbers then at least in relation to the size of the civil service as a whole.

[6] A report on Senior Civil Service Workforce and Reward Strategy prepared by a group chaired by Sir David Normington.

[7] Source: ONS.

The current SCS pay system

3.8 We described the current SCS pay system in detail in our 2012 annual report.[8] SCS base pay was frozen from April 2010 until March 2013 and from 2010-11 non-consolidated, performance-related payments have been restricted to the highest performing 25 per cent of SCS members. The reduction in performance-related pay means that the average SCS member has had a nominal pay cut of 10.6 per cent since 2009. That cut is included in the figures discussed in paragraph 2.24 above and set out in Appendix F which show that, for example, a member of SCS Pay Band 1 who was paid £67,000 base pay plus £6,080 non-consolidated performance pay in April 2009 has now suffered a real-terms cut in take-home pay of 22.8 per cent, from the combined effects of inflation, income tax and National Insurance changes, the reduction in non-consolidated payments and increased pension contributions.

3.9 The distribution of SCS by Pay Band is shown in Table 3.2:

Table 3.2: **SCS pay ranges and median pay by Pay Band 2012-13**

Pay band	Number in Pay band	Pay band minimum (£)	Pay band maximum (£)	Median salary (£)
1	2,580	60,000	117,800	73,049
1A[9]	88	67,600	128,900	77,206
2	673	84,000	162,500	96,900
3	139	103,000	208,100	132,504
Total	3,480*			76,935

* This figure is lower than the total of SCS members in Table 3.1 because it excludes those on non-standard pay arrangements, e.g. those seconded from the NHS and paid on NHS rates.
Source: Cabinet Office.

SCS pay and the external markets

3.10 Each year the Government obtains data on how SCS pay compares with that in the wider public and private sectors. The data in Table 3.3 below show that on the whole the gap between SCS median base pay and that of comparators, particularly in the private sector, is growing year by year and also increases with seniority. It would be helpful to have the same information for Permanent Secretaries although there may be too few comparators, especially in the wider public sector, to draw valid conclusions.

8 *Review Body on Senior Salaries, Report No. 79,* Thirty-Fourth Report on Senior Salaries 2012, Cm 8297, TSO.

9 The Government's evidence says that Pay Band 1A is now effectively a closed grade, although the number of SCS members in it increased from 78 to 88 between 2011-12 and 2012-13. Existing staff will remain in the grade and may receive pay awards but departments should not recruit into it and it will eventually be removed as part of 'de-layering'. Consequently the Government has excluded Pay Band 1A from the proposed increases in pay band minima.

Table 3.3: **Median base pay of wider public and private sector comparators as percentage of SCS median, by Pay Band, 2009 – 2013**

		% of SCS median		
		Pay Band 1	**Pay Band 2**	**Pay Band 3**
National wider public sector median[1]	2009	107	123	–
	2010	114	134	–
	2011	113	146	–
	2012	114	139	–
	2013	112	142	–
National private sector median	2009	119	164	–
	2010	124	171	201
	2011	128	168	225
	2012	132	175	228
	2013	132	182	230

[1] There are too few jobs of the same weight as Pay Band 3 in the database for reliable figures to be cited.
Source: Cabinet Office citing The Hay Group Reward Benchmarking reports 2009–2013.

3.11 The growing gap between SCS base pay and that of comparators is in part explained by the fall in SCS median pay over the last four years (see Table 3.4) as a result of the pay freeze, downward pressure on salaries for new appointments and retirements of higher paid SCS members.

Table 3.4: **SCS median base pay by Pay Band in 2009 and 2013**

Year	Pay Band 1 (£)	Pay Band 2 (£)	Pay Band 3 (£)
2009	73,699	102,005	135,150
2013	73,049	96,900	132,504

Source: Cabinet Office.

3.12 The data in Table 3.5 show that the gap between the SCS and the private sector is even greater when total remuneration rather than base pay is compared. The Cabinet Office does not provide a comparison between SCS and wider public sector total remuneration.

Table 3.5: **Median total remuneration of private sector comparators as percentage of SCS median, by Pay Band, 2013**

Pay Band 1 (%)	Pay Band 2 (%)	Pay Band 3 (%)
160	253	283

Source: Cabinet Office.

3.13 The pay gap also affects recruitment into the SCS. Those recruited from outside the civil service are typically paid significantly more than those promoted internally (the so-called 'dual market' or 'two-tier' problem). For example, only 0.6 per cent of internally promoted Pay Band 1 SCS are paid over £100,000 compared to 14.7 per cent of external recruits.

SCS pensions

3.14 The Government has confirmed that SCS members will pay increased pension contributions from April 2014 as follows:

Table 3.6: **SCS pension contribution rates in 2013-14 and 2014-15**

Pensionable earnings (£)	Classic scheme (%)		Classic Plus, Premium and Nuvos (%)	
	2013-14	2014-15	2013-14	2014-15
Over 60,000	6.25	6.85	8.25	8.85

Source: http://www.civilservice.gov.uk/pensions/reform/contribution-increases.

These rates are before tax relief. The increase will mean, for example, that a Pay Band 2 SCS member in the Classic Plus scheme on the median salary of £96,900 will pay some £349 more (0.36 per cent of salary) in pension contributions after tax relief in 2014-15. A new, career average pension scheme will start in 2015 for those who were more than ten years from their normal pension age on 1 April 2012.[10] This is similar to the current Nuvos scheme but with higher contributions and a slightly higher accrual rate. The Government has said that the *average* contribution rate will be 5.6 per cent but contributions will be stepped according to salary. The final rates have not yet been confirmed but the indicative rates are 7.35 per cent for those paid between £45,001 and £149,999 and 9 per cent for those paid £150,000 or more.

3.15 The Government maintains that public sector pensions will still be attractive. We expect that public sector pensions will continue both to be more valuable on average (when expressed as a percentage of salary) than those in the private sector and to constitute a significant proportion of total reward, albeit less than before the reforms. In our last report we said that we now intended to assess the effect of pension changes for all our remit groups as soon as we had sufficient information to do so. The Office of Manpower Economics has commissioned a study to establish both how the values of most of the review bodies' remit groups' pensions are changing and how they will compare in the future with typical private sector pensions for comparable workers. The results of that study should be available for our next annual report.

The Government's proposals on SCS pay

3.16 The Government's proposals to us this year differ little from those it made last year. In summary it argues for:

- Increases in the Pay Band minima of 3.3 per cent for Pay Band 1, 1.2 per cent for Pay Band 2, and 1 per cent for Pay Band 3 (with Pay Band 1A unchanged). This will cost 0.09 per cent of the SCS paybill;
- The balance of 0.91 per cent to be used by departments "for base pay increases that can be used for targeted salary repositioning reflecting the weight/challenge of role and general pay increases that take account of performance and other business needs";
- Non-consolidated awards to the top 25 per cent of performers, subject to a limit of 3.3 per cent of the SCS paybill; and
- Pivotal Role Allowances to address recruitment and retention issues for the most business critical roles, subject to a limit of 0.5 per cent of the SCS paybill.

[10] There is also tapered protection for those between 10 and 13.5 years from normal pension age on 1 April 2012.

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3.17 The Government's evidence repeats the principles for the SCS reward system which it set out last year:

- "improved value for money to the tax payer – including a better targeted and smaller SCS paybill;
- a stronger link between performance and reward – underpinned by rigorous performance management arrangements;
- a pay system that does not attempt to link to the market for most SCS – and which is clearer about exceptions where we are prepared to pay market rate;
- a pay system that is safe from widespread legal challenge – and based on sustained performance/competence, not primarily 'time-served'."

3.18 Our position on these principles or objectives remains exactly as we set out last year. We agree with the first, second and fourth principles but we believe a pay system which fails to take any account of the wider labour market except when recruiting to a small number of posts risks losing the ability in the longer term to recruit and retain suitably qualified people. It will also continue to lower morale of existing SCS members and runs the risk of failing to meet the fourth objective, since it may lead to equal pay claims when external recruits are paid much more than internally promoted civil servants doing work of equal value. We do not seek a firm linkage between SCS pay and that of market comparators. As the Government's own information shows, the gap between the SCS and the wider public and private sectors continues to grow. It cannot simply be ignored. There must come a point at which recruitment and retention suffer – in terms of the quality of people if not their numbers – if SCS pay continues to fall ever further behind the market. The Civil Service Commission already sees signs of this happening – see paragraph 3.27 below. We therefore recommend that the Government adopt an additional principle, echoing our own terms of reference:

- a pay system which is able to recruit, retain and motivate sufficient suitably able and qualified people to exercise the different responsibilities of the SCS.

Recommendation 1: We recommend that the Government add the following to its principles for the SCS reward system: a pay system which is able to recruit, retain and motivate sufficient suitably able and qualified people to exercise the different responsibilities of the SCS.

Evidence from the trade unions

3.19 The Government did not send its written evidence to us until 11 December, which meant that the FDA and Prospect provided their main written and oral evidence before having seen the Government's proposals. The FDA submitted a supplementary note in January 2014 commenting briefly on the Government's evidence.

3.20 The key proposals in the unions' evidence were that:

- SSRB should recommend a review of SCS pay to identify required changes to pay and reward;
- SSRB recommendations for 2014 should take account of SCS members' relative positions on the pay ranges (i.e. those towards the bottom of ranges should receive higher percentage increases than those paid more);
- SSRB should recommend an increase in the minimum of each pay band to ensure no SCS member is paid less than his or her subordinates;

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- The Government, FDA and Prospect should engage on the effectiveness of the SCS performance management framework;
- There should be a review of the treatment of external appointments, comparing reward of existing SCS members and incorporating a review of the remuneration of private sector leaders, in order to retain key skills and capabilities.

The FDA and Prospect also reinforced our recommendation last year that the Government should examine the SCS pay review conducted in Northern Ireland.

3.21 In oral evidence the FDA said that pressure from members for progress on SCS pay reform had been increasing, in particular to reduce the significant pay divide between external appointments and those promoted internally. The FDA and Prospect wanted to move the debate forward despite the Government refusing for years to devise a strategy to address the fundamental problems of the SCS pay system. There was no coherent Government vision of the future for the SCS.

3.22 The main priorities for the FDA and Prospect in the coming year were:

- Measures to ensure that those in SCS Pay Band 1 whose pay increased to more than £60,000 did not suffer a net loss because of the higher pension contributions triggered at that point;
- Genuine engagement with Government on reform of the performance management system: in spring 2014 the FDA would share with SSRB its research into reward methods;
- The need for the Government to focus on comparative pay indicators; and
- A long-term vision for the SCS that embraced the Northern Ireland pay model.

3.23 In its supplementary note on the Government's evidence the FDA:

- Highlighted the growing gap between the salaries of SCS members and those of comparators (see paragraph 3.10 above);
- Noted that only four pivotal role allowances had been approved in the last nine months;
- Drew attention to the increase in pension contributions and in particular how this would affect those paid just over £60,000;
- Took issue with the Government's objections to the new Northern Ireland SCS pay system, saying "this is not, as government describe it, an automatic pay rise; rather this is a measured way of addressing one of the central problems with the existing framework: lack of progression through pay ranges";
- Argued against the Government's refusal to use recyclable savings to increase SCS pay;
- Concluded that "continuation of this approach to SCS remuneration will further disillusion staff and inhibit both civil service reform and public service delivery over the longer term".

Civil Service People Survey

3.24 The scores for the SCS from the 2013 survey were again generally little changed or slightly improved, compared with the previous year. As would be expected, SCS attitudes are more positive than those of the civil service overall and the SCS scores very highly on job satisfaction, for example 96 per cent of respondents[11] say they are interested in their work. However, there are signs of growing pressure with only 59 per cent agreeing that they have an acceptable workload and 56 per cent that they achieve a good balance between work and private life.

3.25 Pay and benefits remain the area of greatest dissatisfaction but even here the scores are slightly higher than last year, reversing the declining trend of the previous three years. For example, 29 per cent of the SCS thought their pay was reasonable in 2013 compared to people doing similar jobs in other organisations, up from 25 per cent the previous year.

Civil Service Commission

3.26 This year we had written evidence from the Civil Service Commission (CSC). The main points from the CSC on competitions at SCS Pay Band 2 and above in 2012-13 were:

- There were 98 open competitions. This was a marked increase on 2011-12 when there were 69 (and 37 in 2010-11);
- 86 appointments were made but in 12 competitions (12 per cent of total posts advertised) no appointment was made: 1 Permanent Secretary, 2 SCS Pay Band 3, and 9 SCS Pay Band 2 competitions. In 2011-12 there had been 6 competitions where no appointment was made;
- There was often a problem in attracting a sufficient number of high quality applicants for the more senior roles, in contrast to 2011-12 when the CSC had told us that there was no evidence of a general problem in appointing suitable candidates to senior roles. There were weak fields in 10 of the 24 SCS Pay Band 3 and Permanent Secretary competitions (42 per cent) but only 13 of the 74 SCS Pay Band 2 competitions had a weak field;
- 38 successful candidates came from the civil service, 30 from the wider public sector, 17 from the private sector and 1 from the third sector;
- In information obtained for the first time this year on successful civil service candidates, 28 had been civil servants for at least 15 years or so. The other 10 (3 at SCS Pay Band 3 and 7 at Pay Band 2) had joined the civil service more recently;
- Starting salaries for existing civil servants successful in competitions continued to be significantly lower than for those appointed from the wider public and private sectors.

3.27 The CSC said that pay was usually one of the factors in failed competitions and weak fields:

- In at least two of the failed competitions pay was the determining factor (and in one of these, re-advertisement at a higher salary was successful);
- There were other cases where pay was the apparent reason for the most suitable candidate rejecting the job offer;
- In some of the competitions where no appointment was made it was known that appointable candidates had withdrawn after being offered private sector jobs at what were believed to be higher salaries;

[11] The precise SCS response rate to the survey is not known because the Cabinet Office is unable to distinguish between SCS members, senior diplomatic staff and senior military officers in SCS-level posts in MoD, all of whom can take part in the survey. The total number of respondents, 4,327, suggests the SCS response rate was very high.

- In another three cases the combination of a demanding role and a comparatively low salary may have put candidates off;
- The posts for which the field was described as weak or the competition failed tended to be specialist ones in IT, finance, social work, medicine, science and project and programme management. Pay was thought to be a factor in some of those and there was anecdotal evidence of particular difficulties in the health and social work fields which attract much higher rates of pay in the wider public sector.

3.28 The CSC expects it to become harder to recruit from the private sector as the economy improves and easier to recruit from the wider public sector as it continues to contract.

Head of the Home Civil Service

3.29 The Head of the Home Civil Service, Sir Bob Kerslake, gave oral evidence. He said that, given the continued period of fiscal constraint and the Government's public sector pay policy, its focus was on using the 1 per cent increase in consolidated pay to finance small increases to the minimum salaries in each pay band, and allowing departments discretion to construct a pay award to suit their individual circumstances. He said that increasing the minimum salaries, especially for Pay Band 1, showed Government was looking to address staff concerns despite the financial constraints and that giving discretion to departments gave them greater ownership of the resources they could allocate to the SCS.

Assessment

3.30 We shall not restate our concerns about the SCS pay system since the Government has made clear that it has no intention of tackling the many problems during the current period of pay restraint. We simply note the clear view from the CSC above that pay is beginning to impede recruitment, and that others such as the Government's lead non-executive director, Lord Browne of Madingley, have made the same point. Instead we concentrate this year on the Government's detailed proposals.

Raising the pay band minima

3.31 We proposed raising the Pay Band 1 minimum to £61,500 in our 2010 and 2012 reports, as a first step towards addressing the problem of overlap with Grades 6 and 7, but the Government rejected both those recommendations and increased the minimum to £60,000 in 2013. We therefore welcome the Government's proposal this year to increase the Pay Band 1 minimum to £62,000. Last year we recommended raising the Pay Band 2 and 3 minima to £84,000 and £103,000 respectively. The Government accepted those recommendations and this year proposes increasing each figure by a further £1,000. We support all those proposals, not least because the £2,000 increase in the Pay Band 1 minimum will ensure that those on the minimum receive a cash increase in take-home pay even after allowing for increased pension contributions.

Recommendation 2: We recommend that the minima be increased from 1 April 2014 to: £62,000 for Pay Band 1, £85,000 for Pay Band 2 and £104,000 for Pay Band 3.

3.32 The Government has costed its proposal to raise the minima for Pay Bands 1 to 3 at 0.09 per cent of the SCS paybill and estimates that it will benefit 181 staff at Pay Band 1 and 86 at Pay Bands 2 and 3. Raising the Pay Band 1 minimum to £62,000 will still leave 7,160 civil servants in grades below the SCS paid more than the SCS minimum.

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Base pay increase

3.33 In its pay proposals to us this year the Government has adopted different approaches for different remit groups, arguing that the judiciary and senior military should all receive a 1 per cent increase because of 'collegiality', while increases for the SCS should be differentiated and targeted at departments' discretion, meaning that some – not just the bottom 10 per cent of performers – will probably again receive no increase, and there should be no increases at all for NHS VSMs and Police and Crime Commissioners.

3.34 We note that the FDA and Prospect argued that the lower paid in each pay band should receive higher percentage increases than the higher paid, but the reality, with less than 1 per cent of the paybill available, is that if the lower paid receive increases above 1 per cent, the higher paid will again receive nothing. The effect of the Government's approach last year was that some 15 per cent of SCS members who were not in the bottom 10 per cent of the performance distribution received no increase at all, probably for the fourth consecutive year in many cases. To adopt the same policy this year would be potentially divisive and could seriously damage the morale and motivation of those whose pay is frozen for a fifth year. For those near to retirement, freezing their salaries again will mean their pensions are reduced for the rest of their lives.

3.35 We believe that in the current circumstances there is a strong case for giving a uniform increase of around 1 per cent to all SCS members other than the bottom 10 per cent of performers who should receive no increase. Moreover with only 0.91 per cent of the paybill available, we think it is unrealistic to suggest, as the Government does, that awards could be up to 9 per cent of salary. If one person receives a 9 per cent increase, ten must receive nothing. We consider that the argument in favour of a uniform increase on grounds of collegiality and fairness at a time of austerity and falling real incomes applies to the SCS in exactly the same way as the Government has itself put forward for the judiciary and senior military.

Recommendation 3: We recommend that departments apply a uniform percentage increase equivalent to 0.91 per cent of the paybill for all SCS members other than those in the bottom 10 per cent of the performance distribution.

Non-consolidated, performance-related payments

3.36 In our last report we set out again our deep reservations about the current arrangements for non-consolidated, performance-related pay and we opposed the Government's proposal to remove the cap on payments so that departments could choose to make fewer but larger awards. The Government did not accept our recommendation. It proposes the same arrangements for this year. We cannot support that proposal. Non-consolidated, performance-related payments were an integral part of the SCS pay system introduced in 2002. They were funded by holding down consolidated base pay. We believe it is unfair to remove or further restrict them without a much more thorough overhaul of the pay system.

Recommendation 4: We recommend that the Government restore the individual caps on non-consolidated, performance-related payments, namely £10,000 for Pay Bands 1 and 1A, £12,500 for Pay Band 2, £15,000 for Pay Band 3 and £17,500 for Permanent Secretaries, and that departments use the whole available budget for such payments.

Pivotal role allowance

3.37 In our last report we said that the proposal for a non-consolidated pivotal role allowance seemed to us to be an attempt to use pay to solve what was actually a management issue, namely a failure to insist on key individuals remaining in post for longer. However, in practice it seems the allowance may be used more for recruitment than retention and, as noted above, we understand that only four allowances were agreed in the first nine months of the scheme's operation. We are unable to comment further on this scheme without more information. We look forward to receiving a much fuller account of the use of these allowances in the Government's evidence next year.

Exit interviews

3.38 The Government's evidence says that it continues to promote exit interviews but departments' use of them "remains patchy". We believe it is essential that the Government understand why SCS members leave before normal pension age. This should be done using a standardised approach but need not be an onerous task.

Recommendation 5: We recommend that the Cabinet Office instruct departments to carry out exit interviews with all SCS members leaving before normal pension age, to find out the reasons for their departure and their destinations. This should be done using a standardised approach.

Fast stream

3.39 The fast stream recruitment scheme is the source of many SCS members. The scheme remains very popular, which is unsurprising in the current economic circumstances and with graduate unemployment relatively high. However, we think that, just as with the senior military, it is important to monitor the feeder group for the SCS and we ask the Cabinet Office to include in its evidence for next year relevant information about the quality of fast stream recruits and their retention. What proportion make it to the SCS? What proportion of current SCS members joined through the fast stream? Are there any discernible trends over time?

Permanent Secretaries

3.40 The 30 Permanent Secretaries excluding the Cabinet Secretary, the Head of the Civil Service and the Chief Medical Officer are paid in three bands:

- Tier 1 roles: paid between £180,000 and £200,000
- Tier 2 roles: paid between £160,000 and £180,000
- Tier 3 roles: paid between £142,000 and £160,000.

3.41 We make recommendations on the overall pay structure for Permanent Secretaries but the pay of individual officials is set on the advice of the Permanent Secretaries' Remuneration Committee.

3.42 Our Recommendation 3 above, for a uniform increase of approximately 1 per cent for all but the bottom 10 per cent of performers, applies to Permanent Secretaries in the same way as to the rest of the SCS. In addition, we think that the overall SCS pay structure should be maintained by increasing the pay band minima for Permanent Secretaries as for other pay bands.

Recommendation 6: We recommend that the minima of the Permanent Secretary Tiers each be increased by £1,500, to £143,500 for Tier 3, £161,500 for Tier 2 and £181,500 for Tier 1.

Cost of our recommendations

3.43 We estimate the cost of increasing the minima and base pay by a total of 1 per cent to be £3.9 million.

Conclusion

3.44 As far as the SCS is concerned we are now effectively marking time until an improvement in the public finances and a change in public sector pay policy allow a thorough and long-overdue revision of the SCS pay system. In the meantime there are risks. Inadequate pay is increasingly causing problems for senior level recruitment and it will become harder to recruit as the economy recovers. As we have argued many times, including in Chapter 1 above, we believe it is essential for the Government to draw up a long-term workforce and reward strategy for the SCS.

Chapter 4

Senior officers in the armed forces

Our remit group

4.1 There were 128 senior officers at 2-star rank and above on 1 July 2013.[12] A breakdown by rank since 2009 is at Table 4.1.

Table 4.1: **Number of senior officers as at 1 July, 2009 – 2013**

All services	2009	2010	2011	2012	2013	Net change 2012-2013
4-star	14	10	10	9	9	–
3-star	33	28	23	22	27	+5
2-star	89	93	95	94	92	–2
Total	136	131	128	125	128	+3

Source: Ministry of Defence (MoD).

4.2 In the 12 months to 30 June 2013, 24 officers were promoted into the remit group, three left prematurely and 18 retired. Since August 2013 the first two female officers have joined the senior military, at the rank of Air Vice-Marshal. At the end of 2013 there were six female 1-star officers, compared with seven in July 2012.

Pay in 2013-14

4.3 The Government accepted the recommendation in our 2013 report that with effect from 1 April 2013 the base pay of the senior military should be increased by 1 per cent, the first change to pay scales since April 2010. The pay of 2-star and 3-star officers further increased from 1 May 2013 as the Government implemented an Armed Forces' Pay Review Body (AFPRB) recommendation to increase X-Factor.[13]

Increments

4.4 A large majority of our remit group also received an incremental payment in 2013-14 of between 2 and 4.9 per cent of base pay. These increments are subject to satisfactory performance but in practice all officers received an increment except for 9 who were already at the top of their pay scale and 20 who had insufficient seniority to qualify. The senior military is our only remit group with incremental pay progression.

Take-home pay

4.5 Take-home pay for a typical 2-star officer has increased by almost £4,500 (6.5 per cent) since April 2009. However, after adjusting for the CPI measure of inflation, take-home pay fell over the period by 8 per cent.

[12] This total included two 4-star officers awaiting retirement.

[13] X-Factor is an addition to military pay that recognises the special conditions of service experienced by members of the armed forces compared with civilian employment. 2-star and 3-star officers currently receive £2,493, 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale.

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Strategic context – Transforming Defence

4.6 The MoD's 'Transforming Defence' programme is aimed at ensuring that the armed forces and those who provide them with support are fit and structured to face future challenges, while reducing the overall running costs of defence.

Defence Reform Review

4.7 Part of Transforming Defence was the Defence Reform Review (DRR). This was an independent review of the structure and management of the MoD chaired by Lord Levene and published in June 2011. The MoD told us that more than half of the DRR recommendations had been implemented. These include measures to increase the personal responsibility and accountability of senior officers for the effective delivery of financial and performance objectives and to increase the time spent in key roles.

Liability Review

4.8 The Liability Review of 2012 supported a reduction in the number of senior military posts at 1-star and above, from 500 in 2010 to 405 in 2020. The MoD told us that arrangements are in place for a report to be submitted to the Parliamentary Under-Secretary for Defence every six months to confirm that the number of posts is being reduced as planned. The latest estimate of the number of posts is 431 at 1 October 2013, compared with the target for 1 April 2015 of 429.

Joint Assured Model and Senior Appointments Committee

4.9 Other initiatives arising from the DRR affecting our remit group include the Joint Assured Model and an enhanced role for the Senior Appointments Committee in succession planning. Under the Joint Assured Model members of our remit group are being retained in key posts for longer, in particular those dealing with private sector businesses. In 2013 the Senior Appointments Committee conducted its second annual review of the most talented 2- and 3-star officers.

New Employment Model

4.10 The MoD began developing the New Employment Model (NEM) – the most thorough review of terms and conditions for many years – in 2011. Covering four broad areas (terms of service, accommodation, training and education, and value and reward), the NEM is currently at the policy design stage. The MoD plans to start introducing the NEM from April 2015. We understand that the value and reward work-strand will focus on remuneration of the ranks below our remit group.

Recruitment and retention

4.11 The MoD reported this year that voluntary outflow for the SSRB remit group as a whole remained stable and had decreased for the feeder group (the ranks from which our remit group is drawn) compared with previous years. Three 2-star officers resigned from the remit group and 20 1-star OF6 officers from the rank immediately below it. Most of them gave the offer of civilian employment or outside opportunities and prospects as their reason for leaving.

Table 4.2: **Officers in SSRB senior military remit group (OF7-OF9) and the feeder grades (OF4-OF6) leaving the services voluntarily, July 2008 – June 2013**

Rank	July 2008 – June 2009	July 2009 – June 2010	July 2010 – June 2011	July 2011 – June 2012	July 2012 – June 2013
OF7-OF9	1 (1%)	2 (2%)	2 (2%)	2 (2%)	3 (3%)
OF6 (1-star)	22 (7%)	21 (7%)	23 (7%)	21 (6%)	20 (6%)
OF5 & OF4	262 (6%)	162 (3%)	209 (4%)	264 (5%)	191 (4%)

Source: MoD.

4.12 Last year we asked the MoD to identify a group of individuals within the feeder ranks with the potential to join the senior military, and to track over time how many of them left voluntarily. This year the MoD was able to provide some information for the army only. This tracked the top 10 per cent of OF5 and OF6 army officers eligible for consideration for promotion since 2007. Of nine OF6s identified in 2007, seven had been promoted into the remit group while the other two remained at OF6. Of the 14 OF5s, half had left the service and the rest had been promoted. Of those identified as being in the top 10 per cent each year since 2007, the MoD said that over half of those who had left gave the offer of civilian employment or opportunities and prospects outside as their reasons for leaving.

4.13 The MoD told us it was confident of retaining sufficient talented individuals for promotion to 2-star and above. However, anecdotal evidence was presented to us in our discussions with the members of our remit group that the attitude of officers in the ranks just below our remit seemed to have hardened recently, with a growing perception that the senior military ‘offer’ was no longer as attractive. We were told that feeder group members were actively searching for jobs, would leave when the right post was offered and that those with technical expertise among them were deliberately avoiding roles attracting a two-year bar on joining external organisations.

4.14 We accept that there is no hard evidence of recruitment or retention problems this year and that the loss of some feeder group members is inevitable. However, we also regard it as vitally important, particularly in an organisation unable to recruit externally, to anticipate retention problems before they actually arise. We ask MoD to develop further the information it provided tracking army officers with the potential to serve in the senior ranks and to expand it to cover each of the services.

Recommendation 7: We recommend that for future pay rounds the MoD further develops its database on army officers with the potential to serve in the senior ranks and expands it to cover each of the services.

Pensions

4.15 In 2012 we were pleased to learn from the MoD that uncertainty over pension changes affecting the senior military seemed to have lessened. However, in discussions with those in the remit group in 2013 we found that the impact of changes in the tax treatment of pensions[14] was an important issue. The MoD told us that it expected an additional 300 members of the armed forces to receive a tax charge under the new annual allowance limit in 2014 and that some officers at 1-star rank and above would exceed the new lifetime allowance. The prospect of a tax bill or a reduction in pension benefits made promotion less attractive and was damaging to morale as the system appeared to penalise the most able.

[14] From April 2014 the annual allowance will be reduced to £40,000 and the lifetime allowance to £1.25 million.

4.16 We know that the armed forces pension is one of the five most important factors in retaining senior officers and that even though it will become a career average rather than final salary scheme in April 2015 in line with other public sector pension schemes, it is the only non-contributory scheme among our remit groups. We will monitor the effect of pension changes on senior military recruitment and retention over the coming year, particularly as it was reported to us in 2013 that the feeder ranks perceive our remit group as becoming materially worse off.

Morale

4.17 As usual we held a discussion group with around 10 per cent of our remit group this year. They told us that fiscal retrenchment meant that 2-star roles carried significant burden, stress, demand and direct accountability. They saw support staff and other non-pay elements of the offer as vital to getting their work done as efficiently as possible. However, these had been reduced or removed, making the job more difficult. Six-day working weeks had become the norm and this was impacting on family life. Furthermore they reported that they did not feel valued or trusted by the Government and that the absence of support had led to a decline in the morale of the senior military.

The Armed Forces Continuous Attitude Survey (AFCAS)

4.18 The 2013 Armed Forces Continuous Attitude Survey (AFCAS) for the senior military showed a reduction in satisfaction levels with pay, X-Factor and pension compared to 2012. More positively, responses to questions on service life in general, job satisfaction, opportunities for promotion and morale improved. There was also a small increase, to 28 per cent, in the proportion of senior officers able to take all their annual leave in the last year. However, over 70 per cent were still unable to do so, with workload given as the main reason that prevented them from taking all their leave.

OME-run survey of the senior military

4.19 Each year since 2011 our secretariat has run an on-line survey containing questions complementary to the AFCAS. In 2013 the responses to questions on X-Factor and pay on promotion were more positive than in 2012 but less positive for non-pay benefits. Satisfaction with the overall remuneration package was unchanged. This survey also showed an increase in the average amount of annual leave taken between 2012 and 2013 and that the median number of hours worked per week in 2013 was in the range of 60-64 hours.

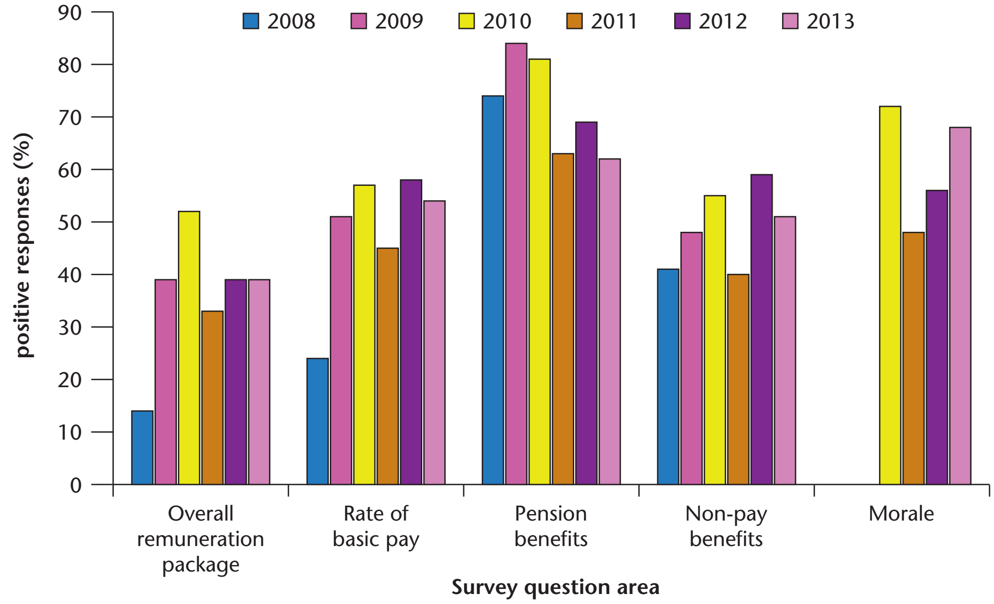
One-to-one interviews

4.20 In 2013 the MoD also conducted a series of one-to-one interviews with 18 senior military officers, covering service life and the remuneration package. One consistent view was that reductions in non-pay benefits such as travel and reduced support for hospitality, which officers were expected to provide as part of the job, were irritating and frustrating.

Summary

4.21 Overall the 2013 survey results are mixed. The data show that the senior military remain highly motivated and satisfied with their job and service life in general but that satisfaction with basic pay, pensions and non-pay benefits has declined. The survey data suggest that morale has improved in each of the last two years although this contrasts with what we heard directly from members of the senior military as set out in paragraph 4.17. Figure 4.1 shows changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale as recorded in both surveys from 2008 to 2013.

Figure 4.1: **Changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale 2008 to 2013**



Sources: MoD (questions on basic pay, pension benefits, morale) and OME (questions on overall remuneration package, non-pay benefits).

Pay in 2014-15

4.22 This year the MoD invited us to recommend the same increase to basic pay across all ranks and said that its budget for 2014-15 could fund a 1 per cent award but no more than that. The MoD also referred in its evidence to the letter to us from the Chief Secretary to the Treasury of 23 July 2013 (at Appendix C). This had emphasised that for 2014-15 the Government would, for the second consecutive year, propose an average public sector pay award of 1 per cent. In the absence of hard evidence of retention problems we support a general 1 per cent pay increase from 1 April 2014 for our military remit group and preservation of the 10 per cent base pay differential between 1-star and 2-star rank before X-Factor. Such an award would add £0.2 million to the paybill.

2- and 3-star pay scales

Recommendation 8: We recommend that the pay scales below apply for 2-and 3-star officers with effect from 1 April 2014.[1,2]

2-star	2013-14 (£)	2014-15 (£)	3-star	2013-14 (£)	2014-15 (£)
6	120,492	121,697	6	154,254	155,797
5	118,179	119,361	5	149,834	151,332
4	115,911	117,070	4	145,542	146,998
3	113,687	114,824	3	140,041	141,441
2	111,506	112,621	2	133,491	134,826
1	109,369	110,463	1	127,253	128,526

1 Figures are rounded to the nearest pound.

2 This includes X-Factor which is applied at the rate of £2,518, this sum being equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale as recommended by the Armed Forces' Pay Review Body (AFPRB) from 1 April 2014.

4-star pay scale

Recommendation 9: We recommend that the pay scale below apply for 4-star officers with effect from 1 April 2014.[1]

4-star	2013-14 (£)	2014-15 (£)
6	187,036	188,906
5	183,369	185,202
4	179,773	181,571
3	175,389	177,142
2	171,110	172,821
1	166,937	168,606

1 Figures are rounded to the nearest pound.

Chief of the Defence Staff (CDS)

Recommendation 10: We recommend the following pay scale for CDS with effect from 1 April 2014.[1]

CDS	2013-14 (£)	2014-15 (£)
4	255,225	257,777
3	250,220	252,723
2	245,314	247,767
1	240,504	242,909

1 Figures are rounded to the nearest pound.

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Medical and Dental Officers (MODOs)

4.23 In July 2013 there were five Medical and Dental Officers (MODOs). Four are 2-stars and one is a 3-star. The 2-star MODO rate of pay is 10 per cent above the base pay at the top of the MODO 1-star scale plus X-Factor, and the 3-star MODO is paid 5 per cent above 2-star MODO base pay plus X-Factor.

4.24 In March 2013 the Government accepted the recommendation by the AFPRB that the pay of Defence Medical Services up to 1-star be increased by 1 per cent. For 2014-15 we recommend that all 2- and 3-star MODOs receive a pay award of 1 per cent and maintain their current percentage differentials.

Recommendation 11: We recommend no change to current pay arrangements for MODOs.

- **2-star MODOs should continue to be paid 10 per cent above the base pay at the top of the MODO 1-star scale plus X-Factor;**
- **3-star MODOs should continue to be paid 5 per cent above 2-star MODO base pay plus X-Factor.**

Conclusion

4.25 We note that this year's AFCAS survey results recorded very high levels of job satisfaction and sense of achievement within our remit group. This and the stable rate of voluntary outflow are very encouraging at a time of continued pay restraint, pension changes and reductions in the size of the services. However, we are also concerned at the signs of disillusionment reported this year: senior officers told us they do not feel trusted to do their job, are unhappy with changes to the non-pay elements of their package and increasingly dissatisfied with various components of the pay and pensions offer. It was also worrying to hear this year that members of the feeder group regard the senior military package as deteriorating. Consequently, we welcome the MoD's commitment for next year to try to extend to all three services its project to track over time high potential feeder group officers to determine whether the armed forces are retaining sufficient numbers of the highest quality officers.

Chapter 5

The judiciary

Introduction

5.1 Our remit group comprises full-time and part-time salaried judicial office holders in the courts and tribunals of the United Kingdom. Fee-paid judicial office holders are not part of our standing remit. There were 2,188 salaried judicial office holders on 31 March 2013, a decrease of 31 (1.4 per cent) from a year earlier. The numbers are broken down by salary group in Table 5.1.

Table 5.1: **Judicial salaries and numbers in post**

Salary group[1]	Salary from 1 April 2013	Numbers in post[2]					Change between 2012 and 2013
		2009	2010	2011	2012	2013	
1	£242,243	1	1	1	1	1	0
1.1	£216,307	4	4	4	4	4	0
2	£208,926	15	15	15	15	14	–1
3	£198,674	49	49	47	48	44	–4
4	£174,481	143	140	141	140	141	+1
5	£139,933	88	96	96	96	97	+1
6.1	£129,579	824	860	831	823	812	–11
6.2	£121,993	20	36	37	41	40	–1
7	£103,950	1,007	1,039	1,036	1,041	1,024	–17
Salaried medical members[3]	£82,500	n/a	n/a	n/a	6	7	+1
Stipendiary magistrates[4]	£71,268	n/a	n/a	4	4	4	0
Total		2,151	2,240	2,212	2,219	2,188	–31

Sources: Ministry of Justice, Scottish Government and Northern Ireland Department of Justice.

Notes:

[1] A list of roles within each salary group is at Appendix K.

[2] Numbers as at 31 March.

[3] Salaried medical members were added to the remit group in October 2011.

[4] Stipendiary magistrates (in Glasgow) were added to the remit on 12 July 2011.

Our 2013 report

5.2 In our 2013 report we recommended that with effect from 1 April 2013 salaries for the judiciary be increased by 1 per cent. We also recommended that the Government address all the outstanding issues from the 2011 major review of the salary structure by 2015.

5.3 In its response to that report the Government accepted the recommendation that judicial salaries should be increased by 1 per cent with effect from 1 April 2013. However, it went on to say that, as a result of the current fiscal challenge and public sector pay policy, it was unable to respond to our recommendation about the major review.

Evidence

5.4 For this round we received written evidence from many sources including the Lord Chief Justice of England and Wales, the Lord President of the Court of Session, the Lord Chief Justice of Northern Ireland, the Ministry of Justice, the Scottish Government, the Judicial Appointments Commission (England and Wales), the Judicial Appointments Board for Scotland, the Northern Ireland Judicial Appointments Commission, the UK Judicial Salaries and Pensions Association, the District Judges of the Principal Registry of the Family Division, the Upper Tribunal Judges, the Costs Judges of the Senior Courts Costs Office, the Council of Appeal Tribunal Judges, the Council of HM Circuit Judges, the Council of Employment Judges, the Council of HM District Judges (Magistrates' Courts), the Association of HM District Judges and the Mental Health Judges' Association.

5.5 We heard oral evidence from the Lord Chancellor and Secretary of State for Justice, the Lord Chief Justice of England and Wales and the Judicial Appointments Commission (England and Wales). A full list of those who provided evidence is at Appendix A.

Affordability

5.6 The Ministry of Justice (MoJ) described its 2010 Comprehensive Spending Review settlement, covering the four years from 2011-12 to 2014-15, as extremely challenging, requiring it to reduce its annual spending by well over £2 billion by 2014-15. Moreover, it said it was required to find a further 10 per cent saving on its 2014-15 baseline in 2015-16, to which Her Majesty's Courts and Tribunals Service would contribute. The MoJ evidence said that judicial remuneration was expected to cost £461 million in 2013-14 of which 71 per cent (£328 million) was for the permanent, salaried judiciary in our remit group. The MoJ estimated that each extra 1 per cent on the paybill would cost £5 million a year.

5.7 In 2013 a Supreme Court judgment in the case of O'Brien v Ministry of Justice held that recorders should receive the same pension benefits as the full-time salaried judiciary. The case related to access to the judicial pension scheme but there are also claims from other judicial office holders for annual leave and training fees. MoJ said it was difficult at this stage to estimate the financial implications but, dependent on Employment Tribunal decisions about when entitlement begins, time limitation and the number of claimants, the liability could be as high as £2.2 billion. The Lord Chancellor said that the judgment itself and the costs arising will lead to changes in ways of working, possibly including a reduction in the use of fee-paid judges. This may have implications for future recruitment to salaried posts since it is generally expected that service as a part-time judge is a prerequisite for full-time appointment.

Major review

5.8 In paragraphs 5.2 - 5.3 above we explained that the Government had again said it was not able to respond to our recommendations on the major review given the current fiscal challenge and public sector pay policy. The Lord Chief Justice of England and Wales (LCJ) said that it was deeply regrettable that the recommendations were not being implemented and that there was a justifiable sense of real grievance among the judiciary. He also said that he agreed with the SSRB that the outstanding recommendations should be implemented before the start of the next major review. He pointed out that the roles and responsibilities of sections of the judiciary change over time and that the major review was an opportunity to account for these changes and to ensure that groups of judges were placed in the appropriate salary group and paid accordingly. The Lord President of the Court of Session (Lord President) described the decision not to implement the recommendations as most regrettable and one of a number of factors adversely affecting judicial morale. The Lord Chief Justice of Northern Ireland (LCJNI) said the decision not to implement the recommendations was disappointing and asked that we repeat the recommendation in this report. He said he was especially keen that the regrading of the post of Presiding District Judge (Magistrates' Courts) from salary group 7 to salary group 6.2 be proceeded with at the earliest possible date because of the appreciable burdens that the post carries. He also asked for the proposed regrading of salaried Employment Judges to be acted on.

5.9 The Upper Tribunal Judges asked for the recommendation that they be moved from salary group 6.1 to salary group 5 to be implemented. They quoted the Senior President of Tribunals' Annual Report 2013 saying that failure to implement the recommendation, coupled with an increasing workload, could adversely affect performance and the ability to recruit. They also said that three judges gave notice to retire early between April and September 2013 and that non-implementation of the recommendation was a significant factor in their choosing to retire. The Council of Employment Judges asked for the recommendation to move them from salary group 7 to salary group 6.2 to be implemented and argued that the cost of implementation could be achieved within the constraints of the public sector pay policy.

5.10 In our 2013 report we said that since the public sector pay freeze was now over we thought it should be a priority to implement the outstanding recommendations from the major review which could be done over two years at a cost of around 1 per cent of the paybill each year. The Lord Chancellor told us in both 2012 and 2013 that he thought those recommendations generally made good sense but that there was no money available to implement them. This year the Lord Chancellor also said that he would be interested to see the outcome of updating those recommendations if we felt it to be appropriate to do so. We continue to believe that further delay in implementing them will adversely affect the motivation of existing members of the judiciary and make it harder to recruit suitably able and qualified people.

Pay

5.11 Responsibility for judicial pay lies with the United Kingdom Government. In his 2011 Autumn Statement the Chancellor of the Exchequer set out the United Kingdom Government's public sector pay policy for awards to average 1 per cent in 2013-14 and 2014-15. In the 2012 Autumn Statement the Chancellor extended the policy by a further year, to 2015-16 and said that awards should be up to 1 per cent. In its evidence the MoJ said that a pay settlement of 1 per cent would be appropriate for the judiciary in 2014-15. The Scottish Government recognised that judicial pay and pensions are matters for the UK Government but highlighted that public sector pay policy in Scotland was for a 1 per cent cap on the cost of the increase in basic pay.

5.12 Judicial salaries were frozen for the three years from April 2010 and then increased by 1 per cent in April 2013. In our 2013 report we estimated that between 2009-10 and 2012-13 those in salary group 6.1 (including Circuit Judges) had seen their take-home pay decline by 7.2 per cent in nominal terms, or by 18.3 per cent in real terms (adjusting for price inflation as measured by the Consumer Prices Index (CPI)). We have updated this analysis to take account of the impact of the 2013 award and the further increase in pension contributions imposed in April 2013. Between April 2009 and December 2013 take-home pay for those in salary group 6.1 fell by 8.8 per cent in nominal terms and by 21.3 per cent in real terms (measured against changes in CPI).

5.13 This year we have considered whether we should make a recommendation that applied equally to all levels of the judiciary or recommend a differential award, for example giving priority to groups which were the subject of the outstanding 2011 major review recommendations. However, the LCJ said that it would be divisive to do other than make the same recommendation for all levels of the judiciary. In their written evidence both the Lord President and the LCJNI concurred that any increase should be applied equally to all members of the judiciary. In oral evidence the Lord Chancellor said that he did not want to treat some groups differently from others and that all members of the judiciary should get a 1 per cent award in 2014.

Judicial pensions

5.14 Although we have no role in determining judicial pensions, we do recognise that they are an important element of overall total reward. In common with pension schemes across the public sector, the Judicial Pension Scheme (JPS) is being reformed in line with the recommendations of the Independent Public Service Pensions Commission chaired by Lord Hutton. The reforms include changes to the existing JPS and the introduction of a new scheme from April 2015.

5.15 Members of the current JPS contributed 1.8 per cent of salary to their pension in 2011-12. In April 2012 contributions increased to 3.08 per cent of salary and increased again to 4.36 per cent of salary from April 2013. A further increase is expected in April 2014. Pension benefits associated with the existing scheme are now being uprated in line with the CPI rather than the Retail Prices Index (RPI).

5.16 The new JPS, to apply from 2015, will operate within the framework set out in the Public Service Pensions Act 2013. The judiciary will continue to have its own scheme for which the Lord Chancellor will be the responsible authority. As in other new schemes being introduced across the public sector, pension benefits will in future be based on the revalued average salary across a member's career as a whole rather than on final salary. MoJ said that contribution rates to the new scheme have yet to be confirmed but are expected to be between 7.35 per cent and 9 per cent, dependent on earnings.

5.17 Most of the existing judiciary will not be affected by the introduction of the new scheme. Those already holding judicial office on 1 April 2012 and within ten years of their Normal Pension Age on that date (that is some 75 per cent of judges then in post) will continue in the current scheme and on the same conditions apart from increasing contributions until their retirement. In addition those already holding judicial office on 1 April 2012 and aged between 51½ and 55 on that date will have the option to defer joining the new scheme for a period linked to their age. All benefits accrued up to and including 31 March 2015 in current schemes are fully protected.

5.18 MoJ said it had modified its plans for reform in a way that recognised issues raised by the judiciary and that the new arrangements continued to provide a good way of saving for retirement.

5.19 A number of organisations providing evidence to us this year have emphasised the negative effects of proposed changes to the JPS. The Costs Judges of the Senior Courts Costs Office said the reduction in their take-home pay was having an effect on recruitment, retention and motivation. They said that there were twice as many applicants for a recruitment competition in 2010 as when the exercise was repeated in 2012 and a number of Senior Costs Judges intend to retire early because of their demotivation and demoralisation. The Council of Appeal Tribunal Judges called for an increase in pay to compensate them for paying increased pension contributions. They said that pension changes were feeding through to recruitment as shown by a reduction in the number of candidates applying for the most recent recruitment competitions. The Council of HM District Judges (Magistrates' Courts) highlighted what it described as a significant reduction in the overall salary package resulting from changes to pension arrangements which it said SSRB must redress.

5.20 In his evidence the LCJ said that the benefits of the new scheme were far less advantageous than the existing scheme. In addition to the move to career average, he drew attention to the absence of an automatic lump sum on retirement, the less attractive accrual rate and financial disadvantage from the scheme being registered for tax purposes. He estimated that the reduction in value (over and above the contributions to the scheme) was likely to be worth more than 5 per cent of salary per year.

5.21 The Lord President accepted that many judicial office holders, being within ten years of retirement, benefitted from transitional arrangements and would not be affected by the introduction of the new pension scheme, but he said the planned changes had reduced judicial morale, especially for the younger members of the judiciary. The LCJNI also said that pension changes were having an adverse impact on morale but was unable to say whether this was feeding through to recruitment as the last appointment to the Northern Ireland High Court had been in September 2012.

Pensions and tax

5.22 Unlike other public sector pension schemes, the current JPS is not registered with Her Majesty's Revenue and Customs (HMRC) for tax purposes so judges do not qualify for tax relief on their pension contributions but are exempt from paying tax if the value of their pension savings exceeds the annual and lifetime allowances. The Government has announced that the new JPS to be introduced in April 2015 will be registered with HMRC for tax purposes, in line with other public sector schemes. This will allow individual judges to claim tax relief on the contributions they make but pension accrual will be subject to the annual and lifetime tax allowances. Although judges within ten years of pension age at 1 April 2012[15] will not be affected by this change, some younger judges who built up substantial pension savings before joining the judiciary could face large tax bills on their judicial pensions, especially after the annual and lifetime allowances are further reduced from April 2014.

5.23 The Government said it recognised that some members of the judiciary had concerns about the impact of moving to a tax-registered scheme. It said it proposed to address those concerns by allowing certain judges under 55 with substantial pension savings protected under tax legislation to opt out of the new JPS in 2015. Instead they would receive a Transitional Protection Allowance, estimated to be around 20 per cent of salary, but subject to income tax and National Insurance. This option would assist those who would otherwise incur a tax liability if they began to make contributions to a registered pension scheme. The Government said the allowance would be available to those judges who had had continuous membership of a judicial pension scheme since their appointment and were still active members at 31 March 2015, could provide proof of having registered with HMRC for either Enhanced Protection under the Finance Act 2004 or Fixed Protection under the Finance Act 2011 and had made no contributions to a tax registered scheme since either 5 April 2006 for those with Enhanced Protection or 5 April 2012 for those with Fixed Protection. The Government said it did not know how many individuals would be eligible for this allowance as it did not hold the information on judges' pre-judicial pension arrangements necessary to determine eligibility.

[15] Seventy-five per cent of judges in post at 1 April 2012 were within 10 years of pension age. Sixty-nine per cent of judges in post at 1 April 2013 were within 10 years of pension age at 1 April 2012.

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Effect of pension changes

5.24 The point has been made to us that the judges most affected by the changes to the pension arrangements, including the tax changes, are judges aged 50 or below who have no transitional protection. The basis on which they joined the judiciary has been changed unilaterally. Their retirement income will be substantially reduced from what they expected when they joined the judiciary and in addition they will pay higher contributions for the remainder of their judicial careers. The group of judges adversely affected contains proportionately more women and ethnic minority members than the judiciary as a whole.

5.25 In addition, the LCJ highlighted the importance of maintaining and accelerating recent improvements in judicial diversity. He wished to avoid a situation where only the highest earning barristers and solicitors could afford to become judges late in life because it did not matter to them that the judicial pay and pensions package was unattractive. He wanted young, dynamic candidates from a range of social backgrounds to have the opportunity to become judges and was concerned that continued pay restraint and the new pension arrangements were a serious disincentive to these groups.

Recruitment

5.26 An important part of our remit is to have regard to the need to recruit sufficient suitably able and qualified people for judicial office. We received evidence from those responsible for recruiting judges in England and Wales, Scotland and Northern Ireland.

5.27 In oral evidence the Judicial Appointments Commission for England and Wales (JAC) said that it received sufficient applications to recommend good quality candidates and that it was able to make high quality appointments for both fee-paid and salaried judges. It did not believe there was any evidence, at the moment, to say that pay and pensions were a barrier to receiving good and outstanding applications. It did concede that there was one large competition where the number of applications graded as either outstanding or strong was fewer than the number of vacancies it was looking to fill, but this was an exception.

5.28 In our 2013 report we expressed some concern about whether sufficient numbers of high quality candidates were coming forward at High Court level. The JAC said this year it had been able to fill 14 vacancies at High Court level with outstanding candidates. The JAC went on to say that it did have some concerns about its ability to recruit outstanding judges to the High Court in the future. While there were currently sufficient candidates of appropriate quality to fill vacancies, there was no margin to spare.

5.29 The JAC is also responsible for running competitions to appoint part-time, fee-paid judges. Although fee-paid judicial office holders are not within our remit, we are interested in them since it is generally expected that fee-paid service is a prerequisite for salaried appointment. The JAC said that in 2012-13 it was unable to recruit sufficient fee-paid Judges of the First-tier Tribunal, Social Entitlement Chamber. Nor could it recruit enough Deputy District Judges. In both instances the JAC attributed the outcome to changes in the number of vacancies to be filled after the competition had begun.

5.30 The JAC completed 20 selection exercises for salaried posts in 2012-13 and was able to make recommendations to fill 74 of 75 vacancies. The exception was a post for a Welsh speaker.

5.31 In Scotland the Judicial Appointments Board completed a recruitment exercise for Senators of the College of Justice in 2012-13, filling vacancies for two senators. It described the number and calibre of those applying as very high. It had expected to hold a shrieval recruitment exercise in the first half of 2013 but this was postponed because the number of vacancies becoming available was fewer than expected.

5.32 The Northern Ireland Judicial Appointments Commission (NIJAC) completed four judicial appointment exercises in 2012-13, appointing two High Court Judges, one Lands Tribunal Member, one Coroner and one Industrial Tribunal and Fair Employment Tribunal Chairman. The NIJAC reported that so far in 2013-14 it had been able to fill only one of two vacancies at the County Court level.

5.33 The LCJ said there were still high quality candidates available to the High Court bench but he believed there were fewer of them than before. He also said that the short-term position on recruitment of Circuit Judges looked strong, but this was distorted by cuts to legal aid which made judicial positions at that level more attractive to solicitors and criminal practitioners. He said that a recent recruitment exercise for the Queen's Bench had attracted a strong field although negotiations about changes to pension arrangements were still taking place when people were applying. The LCJ said he was concerned that now the broad thrust of the new pension arrangements was known, this might have a detrimental impact on the quality of applications in the future. There was a competition for the Family and Queen's Bench divisions currently taking place and the LCJ said he would be in a better position to judge the impact of pension changes on recruitment after this exercise had finished, but unfortunately that would be after we completed this report. The LCJ feared that, while judicial salaries continue to be constrained and the value of the pension was reduced, incomes in private sector law firms continued to grow. He thought that judicial pay had become unsustainably low relative to comparable jobs, but that the consequences might not be seen for another five to ten years.

5.34 The Lord Chancellor said that the number of suitable applicants exceeded the number of positions becoming available, the quality of those being appointed was being maintained and he had no worries about recruitment.

Retention

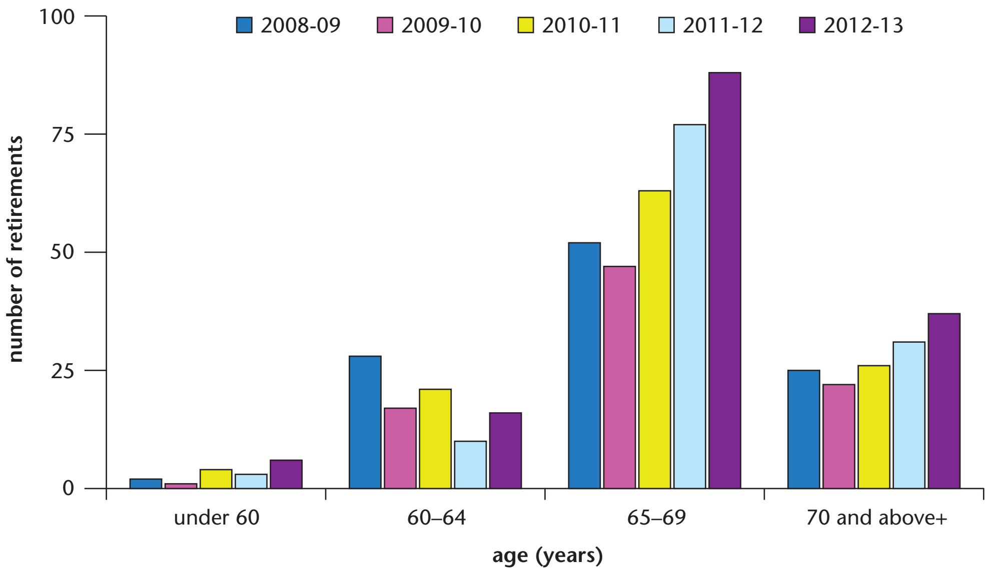
5.35 Since judges are not allowed to return to private practice after holding judicial office, it cannot be assumed that a low level of premature leavers indicates satisfaction with pay and conditions.

5.36 The LCJ did say that he thought there was a growing trend for judges to retire at 65 rather than their compulsory retirement age of 70. He also said that increasingly judges were taking up different, part-time work after retiring from the bench, for example teaching, arbitration and public speaking. Given the relatively late age at which many become judges, those who retire before 70 forgo a significant proportion of their potential judicial careers.

5.37 A number of those providing evidence, including the District Judges of the Principal Registry of the Family Division, the Upper Tribunal Judges and the Costs Judges of the Senior Courts Costs Office, said that judges had retired early or were considering doing so because of changes to the overall employment package.

5.38 MoJ supplied us with data covering the period from 2008-09 to 2012-13 which show that the number of retirements has increased in each of the last three years, although numbers retiring in their late 60s and 70s increased while those retiring at an earlier age decreased. MoJ accepted that the number of retirements had increased but as it did not conduct exit interviews, it was unable to say whether the reasons for the increase were related to pay and pensions or other factors. However, the Lord Chancellor did say that some judges wished to continue serving beyond their retirement age and he was regularly approving applications from judges asking to do so. MoJ data show that 221 judges (10 per cent of those in post at the start of the year) were allowed to extend for 12 months beyond their normal retirement age in 2012-13. A further 170 were extended in the first nine months of 2013-14.

Figure 5.1: **Judicial retirements, United Kingdom, 2008-09 to 2012-13, by age**



Source: MoJ.

Morale and motivation

5.39 The heads of the judiciary in each of the jurisdictions of the United Kingdom said that judicial morale was worsening and this was also emphasised in the evidence of the District Judges of the Principal Registry of the Family Division, the Costs Judges of the Senior Courts Costs Office, the Council of HM Circuit Judges and the UK Judicial Salaries and Pensions Association. The LCJ said that he did not have a systematic approach to measuring judicial attitudes but in his discussions with judges he had identified a combination of factors affecting morale: pay restraint; judicial pension changes; increased workload; a sense of disillusionment and a feeling that the judiciary was not valued by the Government. He also highlighted the reduction in support systems and staff in the courts and tribunals system and the increased number of litigants in person adding to the burden on judges. He said that many judges feel they have been singled out for harsh treatment. The 1,200 letters sent by judges to the Lord Chancellor about the planned changes to the Judicial Pension Scheme were an indicator of the strength of judicial feeling. Resignation was not a realistic option for those who were disillusioned because judges were unable to return to private practice. However, the LCJ believed that demotivation and loss of morale would be exacerbated by reduced remuneration, a reduction in support and a consequent increase in workload.

5.40 The LCJ said that it would be useful to know more about the factors affecting judicial morale and he would like to undertake a survey to do that but the time was not available this year. We encourage the collection of quantified and systematic information in this area and hope the LCJ is able to find the time and resources to support such a survey in the future. It would also be useful to conduct exit interviews with judges retiring before their expected retirement date.

5.41 The Lord President said that a combination of the failure to implement the recommendations of the 2011 major review, pension scheme changes and the real-terms fall in remuneration had led to a fall in the morale of the Scottish judiciary.

5.42 The LCJNI said that judicial morale had been damaged by pension changes and the decline in take-home pay, leaving judges with the perception that they are not valued as they once were.

5.43 The UK Judicial Salaries and Pensions Association re-submitted the results of a 2012 survey to which 172 judges had responded. Of those more than 10 years from normal pension age (40 per cent of respondents to the survey), over 90 per cent said changes to the judicial pension scheme lowered their motivation, 85 per cent said they would have been less likely to apply to be a judge if they had known their terms and conditions could be changed adversely after appointment, and over 50 per cent said that applying for a promotion would be less attractive if their pension were based on a career average salary.

Analysis

5.44 MoJ said that a pay settlement of 1 per cent for all judges would be appropriate in 2014-15. The LCJ proposed that all judges at all levels receive a 1 per cent award in 2014-15 and both the Lord President and the LCJNI said that any increase should be applied equally to all members of the judiciary.

5.45 Many of those who provided us with evidence were frustrated with the continued period of pay restraint, especially at a time when changes to income tax, National Insurance and judicial pensions meant real judicial incomes continued to fall. Given they are not allowed to return to private practice and are not in a position to take on other paid work while in a salaried post, judges find it particularly difficult to mitigate the fall in their incomes. Frustrations are particularly strong among holders of those posts recommended for reassignment to a higher salary group in our 2011 review and among those judges who are not sufficiently close to retirement to benefit from the transitional arrangements.

5.46 The appointments bodies all say they are still able to recruit suitable candidates to fill judicial vacancies although the LCJ did express some concern that the quality of those applying may fall once the broad thrust of the pension changes is known by those applying for positions. There is no evidence at the moment to confirm the LCJ's concerns but we shall examine the outcome of the competitions completed this year to try to establish whether the number or quality of recruits are being affected.

5.47 We have heard from many groups and individuals that judicial morale has declined. Although there is no single survey measuring the morale and motivation of the judiciary as a whole, the Council of HM Circuit Judges and the UK Judicial Salaries and Pensions Association both highlight surveys of their members showing a decline in judicial morale. The evidence cites a number of causes, including continued pay restraint, a reduction in the value of the pension, increased workload, reduced administrative support, and the inability to react to these changes by returning to private practice.

5.48 The key issue for us is ensuring that the overall remuneration package is sufficient to retain and motivate the existing judiciary and to attract sufficient highly talented individuals to become judges in the future. There is no sign of large numbers of resignations and early retirements from the existing judiciary as a result of pension changes, but this was always unlikely to happen given the restrictions on returning to private practice. Recruitment continues to be at least adequate other than for a few specialised posts. However, morale is clearly in decline and we are concerned that this will affect motivation. There is a danger that senior judicial appointments will become a less attractive career option for the most talented barristers and solicitors. Should this occur, the Government may need to look at more substantial changes such as reviewing the restrictions which prevent return to private practice.

Pay for 2014-15

5.49 Given the evidence discussed above on recruitment and retention, we do not consider that an increase above the 1 per cent level proposed by the Government would be justified this year and we therefore recommend that, with effect from 1 April 2014, salaries for the judiciary should be increased by 1 per cent. The resulting amounts are set out in Table 5.2. The cost of such an award is £3.7 million.

Recommendation 12: We recommend that with effect from 1 April 2014 salaries for the judiciary be increased by 1 per cent (see Table 5.2).

Table 5.2: **Recommended judicial salaries from 1 April 2014**

Salary group	Recommended judicial salaries from 1 April 2014
1	£244,665
1.1	£218,470
2	£211,015
3	£200,661
4	£176,226
5	£141,332
6.1	£130,875
6.2	£123,213
7	£104,990
Salaried medical members	£83,325
Stipendiary magistrates	£71,981

5.50 The major review of the judicial salary structure on which we reported in 2011 pointed to the need to adjust some judicial salary groups to ensure continued recruitment, retention and motivation of suitably able and qualified people at each level. In oral evidence this year the Lord Chancellor said that the recommendations generally made good sense but there was no money available to implement them.

5.51 In both our 2012 and 2013 reports we said that we recognised that during a period of public sector pay freeze the Government might not be able to implement the recommendations from the review immediately and in full. However, the pay freeze is now over and we believe that the Government should take steps to ensure the implementation of the outstanding recommendations before the start of the next major review. If the Government continues to insist that it is unable to respond to the review because of public sector pay policy, then this will mean it does not respond to the recommendations we made in 2011 before 2016 at the earliest, beyond the point at which we would normally expect to have started the next review. We reiterate our belief that any further delay will adversely affect the motivation of existing members of the judiciary and make it harder to recruit suitably able and qualified people at each level of the judiciary in the future, especially at High Court level and above.

Recommendation 13: We recommend that the Government address all the outstanding recommendations from the 2011 major review of the judicial salary structure by 2015, before the start of the next major review of the judicial salary structure.

5.52 Since our 2011 major review, judicial salaries have increased by 1 per cent in April 2013 and we have recommended a further 1 per cent increase from April 2014. The Government has said it is unable to consider the outstanding recommendations from our major review including the new judicial salary structure we proposed at that time but this year the Lord Chancellor said that he would be interested to see the outcome of updating those recommendations if we felt it to be appropriate to do so. We think that the salaries we recommended then should be uprated in line with judicial salaries as a whole, so we recommended in our 2013 report that the salaries contained in the recommended structure increase by 1 per cent. We make a similar recommendation this year. The resulting amounts are set out in Table 5.3.

Recommendation 14: We recommend that each salary group in the new judicial salary structure we proposed in 2011 be increased in line with any increase to the existing structure (see Table 5.3).

Table 5.3: **Recommended salary groups and rates from 1 April 2014**

Current salary group	New salary group	Salary
1	A	£249,925
1.1	B	£239,724
	C	£229,523
2	D	£219,322
3	E	£209,121
4	F	£183,618
5	G	£142,814
6.1	H	£132,613
6.2	I	£117,312
7	J	£105,070

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Chapter 6

Very Senior Managers in the National Health Service

Our remit group

6.1 Since 1 April 2013, following the reorganisation of the NHS under the Health and Social Care Act 2012, the main employer of Very Senior Managers (VSMs) in our remit has been NHS England.[16] All the organisations employing VSMs in our remit are listed in Appendix M. The Department of Health has estimated that there are 424 VSMs in our remit.

Our 2013 report

Pay award 2013-14

6.2 In our 2013 report we recommended that the VSMs in our remit group receive a 1 per cent pay increase. This was accepted by the Government in March 2013 and implemented from 1 April 2013.

Assimilation onto the new VSM pay framework

6.3 We also recommended that the Department of Health phase in the assimilation of all VSMs in our remit group onto the new VSM pay framework over a three year period from April 2013. We made this recommendation on the grounds that the differences in pay resulting from VSMs being on a number of different pay frameworks were unfair to individuals receiving unjustifiably lower pay than others and could trigger legal challenge, especially where the same organisation applied more than one pay framework.

6.4 The Government rejected our recommendation in March 2013 on cost grounds. In October 2013 the Department of Health confirmed that no VSMs had been moved from the old or non-standard pay frameworks and it had no plans to do so other than in the circumstances set out in the new pay framework.

The labour market for VSMs

6.5 Only a small proportion of VSMs in the NHS now have their pay set by Government nationally and are therefore covered by our remit. The majority who are not covered by our remit are employed mainly in the Trusts providing NHS services and also the newly created Clinical Commissioning Groups (CCGs). These organisations have discretion to set the remuneration of their senior managers subject to their own internal budget and are free from direct Government control. We understand that this arrangement has been driven by wider policy considerations. However, as we highlighted last year it creates an environment whereby one group of NHS managers has its remuneration constrained at national level while their employers have to compete for staff with other NHS organisations not subject to these constraints. We doubt whether this is sustainable in the long term.

6.6 This year Managers in Partnership (MiP), the trade union which represents VSMs, told us in their evidence that organisations employing VSMs in our remit were having to compete with their 'hands tied' against CCGs and Foundation Trusts because the latter had more flexibility on pay. When we visited NHS England, it too expressed concern that unless pay was also controlled across Foundation Trusts and CCGs it would face serious recruitment and retention problems in the near future particularly in areas such as finance, human resources and communications.

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[16] Formerly called the NHS Commissioning Board.

6.7 Both MiP and NHS England explained that some VSMs, for example those in finance roles, were reluctant to move from their current posts to organisations covered by our remit because the pay on offer was lower than in the Foundation Trusts. MiP also said posts in our remit were seen as less secure and were also more likely to be the subject of negative political and public comment.

6.8 When we visited the NHS Blood and Transplant Authority (NHSBT) this year it explained that it required VSMs with specialist skills and experience in sectors such as supply chain operation and management, business transformation and communications. However, the 2012 VSM pay framework was not flexible enough to allow it to offer competitive salaries. It told us that it had already had difficulty filling Programme and Project Manager posts.

6.9 NHS England said that it was also competing with organisations outside the NHS, in local government, the not-for-profit sector, and the private sector. MiP told us that NHS services were increasingly procured from the private health care sector which could in future play a greater role in setting market pay rates. If the private sector does play a greater role in the market, there is a risk that NHS employers with greater pay freedoms will follow that trend because they have the flexibility to do so but that will increase recruitment and retention problems for our remit group.

6.10 Most of the VSMs covered by our remit are employed in national bodies, such as NHS England, but as we have said the labour market for these staff is the wider NHS (and private sector) market for senior health service managers. It is clear to us that the greater controls, constraints and bureaucracy applied to our remit group's pay and benefits will prove costly and disruptive to the VSM labour market as a whole and will make it increasingly difficult for our remit group's employers to recruit and retain high quality VSMs.

The current remuneration system for VSMs

6.11 We welcomed the general structure of the new VSM pay framework in 2012 as it linked pay closely to the results of job evaluation for posts below chief executive. It also corrected problems of unfairness under the 2006 pay framework, such as the arbitrary determination of VSMs' pay by reference to their chief executive's salary and the inability of an outstanding performer to qualify for a performance bonus if his or her organisation failed to achieve its financial targets.

6.12 We also referred last year to some problems with the operation of the new pay framework. This year we were told that these problems still existed. They are the:

- Lack of migration onto the 2012 pay framework;
- Lack of permitted flexibility in the use of recruitment and retention premia;
- Over-use of Development Pay;
- Inadequacy of the performance pay system; and
- Existence of overlaps at the bottom of the pay scale.

In addition, we received some comments that criticised the design of the 2012 pay framework. We comment on each of these issues in turn.

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Migration to the 2012 pay framework

6.13 In paragraph 6.4 we explained that the Government rejected our recommendation that VSMs should be assimilated onto the 2012 pay framework over a three year period from April 2013. MiP confirmed in its evidence to us this year that it was calling for the migration of all VSMs onto the new VSM pay framework as the flaws of the 2006 VSM pay framework made its continued use a cause for concern. We believe that the existence of multiple pay frameworks is damaging to recruitment, retention and motivation, risks challenges on equal pay grounds and is incompatible with the principles of good employment practice. However, as the Secretary of State has announced a review of the 2012 framework (see paragraph 6.29 below) we shall not repeat our recommendation that VSMs should be assimilated onto that framework until that review is complete. We continue to believe that all VSMs covered by our remit should be assimilated onto a single pay framework which links salary to job weight.

Recruitment and retention premia (RRP)

6.14 Department of Health data in 2013 showed that over 100 VSMs in our remit received recruitment and retention premia (RRPs) worth up to 33 per cent of base pay. Of these 57 had been awarded to VSMs in NHS England which employs around half of our remit group. NHS England said that this number included RRPs awarded during reorganisation to protect existing pay levels, reward staff on promotion or to retain expertise and that the maximum permitted RRP was now 10 per cent of basic pay.[17] They told us that this was insufficient to fill certain senior and specialist finance posts, particularly where there was competition from London NHS Trusts. In our view there is nothing inherently wrong with the concept of RRPs. It is very difficult for a general pay spine to be flexible enough to cater for those in specialist professions in short supply or in highly competitive labour markets. RRPs, provided they are flexible enough, enable employers to recruit and retain staff in such circumstances.

Development Pay

6.15 The 2012 VSM pay framework also contains arrangements for the application of Development Pay.[18] In its evidence for our 2013 report MiP told us of its concern that a number of VSMs in Commissioning Support Units (CSUs) were wrongly in receipt of Development Pay. At the same time the Department of Health told us it was not aware of any VSMs in our remit group receiving Development Pay. However, the Department's evidence this year showed that by autumn 2013 at least 40 VSMs were receiving it. In evidence MiP said that many of its members had raised concerns about Development Pay being used as a device to keep pay rates down for new appointees rather than to encourage and support new talent into leadership roles. In a survey of VSMs conducted by MiP in September 2013 only two of ten respondents who said they were on Development Pay reported that they had the required action plans to enable them to achieve the full rate of pay for their role in due course.

6.16 When we visited NHS England it told us that 43 VSMs employed there and in CSUs received Development Pay. It said it was being used appropriately and that both the organisation and individuals benefitted from the opportunities the mechanism provided for career development and for keeping pay costs down. A group of VSMs at NHS England also told us that recruitment, retention and morale problems had arisen when some applicants who had accepted posts at a particular advertised rate of pay had then been placed on Development Pay instead.

[17] The Department of Health said that the usual maximum permitted RRP was 10 per cent of basic pay, but it could seek approval from HM Treasury for payments of more than 10 per cent where necessary.

[18] Development Pay is set below the normal rate for the job and is intended to be paid only to newly promoted or appointed VSMs while they are learning the job and are not yet fully effective.

6.17 The Department of Health told us that it was surprised by the extent to which Development Pay was being used within our remit group but said that it was not part of a centrally-driven strategy to reduce cost pressures. We were pleased that the Department offered to draw MiP's concerns to the attention of the employing organisations. We should like the Department to comment specifically on the operation of the Development Pay system in its future evidence to us.

The performance pay system

6.18 Our third recommendation on VSMs in our 2013 report was that the VSM performance pay system should be suspended and then revised. This was because we had received evidence from a range of sources that it was unsatisfactory and needed review. In March 2013 the Government rejected our recommendation on the grounds that the system played a useful role in the recruitment, retention and motivation of VSMs.

6.19 In this round we have received further evidence of significant problems with the performance pay system in which bonuses are capped at 5 per cent of an individual's reckonable pay and are restricted to the top-performing 25 per cent in each organisational unit. We were told that VSMs were demotivated by the 25 per cent cap, especially in small teams of VSMs where only one or two of them at the most could be nominated for an award. We were also told that the value of the award was too low to make much practical difference to performance. MiP told us that VSMs were demotivated by frequent, often in-year changes to the system or by its sudden withdrawal. We also heard that there had been an 18-month delay between the start of the 2012-13 reporting year and the disclosure of performance pay arrangements for that period. MiP told us that because of these problems some organisations had rejected the use of performance payments and on our visits to organisations employing VSMs we have found this to be so.

6.20 MiP told us that, in its 2013 survey of VSMs, 60 per cent of respondents supported performance pay in principle but it also reported that the system was operating in a chaotic manner.

6.21 In our view, a performance pay system that is properly structured and managed and connects individual reward for performance clearly and firmly to organisational priorities can be a motivational tool. We believe that this should be a part of the total remuneration package for VSMs in our remit, particularly as some NHS employers with greater pay freedoms and the private health sector provide incentives in this way. We believe the current system needs a radical re-think.

Pay overlaps

6.22 The Department of Health, NHS England and the NHS Business Services Authority (NHS BSA) all expressed concern this year at the effect on recruitment of the pay overlap between VSMs and Agenda for Change Band 9. NHS England confirmed that 31 of its non-VSM staff were paid more than £100,000 and the Departmental data showed that a significant number of VSMs in our remit group were paid less than £100,000.

6.23 VSMs at NHS England also said that suitable Agenda for Change Band 9 candidates were tending not to apply for VSM positions because their maximum 37.5 hour working week and annual increments would be replaced by unlimited working hours and far higher levels of pressure, accountability and public exposure.

6.24 Our view is that basic pay overlaps are demotivating and that the review of the VSM pay framework should find a way to eliminate these. As a guiding principle we believe VSMs should not receive lower base pay than those reporting to them, other than those in specialist posts.

The 2012 pay framework

6.25 The Department told us that the 2012 VSM pay framework had been developed primarily to evaluate chief executive and executive board level roles but had since been applied to roles below executive board level. Most VSM posts, mainly at NHS England, were now below board level and the Department said there was a need to review the framework to ensure it remains fit for purpose in both design and application.

6.26 NHS England also told us that the 2012 VSM pay framework had too many spine points. It suggested moving to a framework with broader pay bands consistent with good practice in the private sector and more suitable for a young organisation where VSM roles were still evolving. These ideas and others should be considered as part of the review of the VSM pay framework.

The Department of Health Remuneration Committee (DHRC)

6.27 Again this year we heard complaints from organisations with VSMs in our remit group that the DHRC was bureaucratic, unresponsive and slow, and restricted the autonomy and discretion of their own remuneration committees. We therefore ask for the Secretary of State's review to include the scale and scope of the remit of the DHRC, particularly as he now intends to ask it to authorise every VSM post paid over £100,000 in addition to its existing activities.

Motivation and morale

6.28 The Department provided no evidence to us on motivation or morale within our remit group and said it saw this as a matter for the employing organisations. However, MiP conducted a survey of VSMs in September 2013 which received 109 responses from VSMs in our remit group of whom 70 worked for NHS England. MiP told us that VSMs responding to the survey had generally rated their job satisfaction and level of engagement quite highly, despite long working hours, but there was also a growing sense of disillusionment. According to MiP, VSMs were used to coping with frequent and significant changes to policy but were now detecting a fundamental, negative shift in the Government's attitude towards them. NHS England also shared the results of its VSM survey which recorded high rates of job satisfaction despite anecdotal reports of the impact of excessive working hours and stress on health and wellbeing.

Review of the VSM pay framework

6.29 In October 2013 the Secretary of State for Health wrote to the Chairs of the organisations that employ the VSMs in our remit saying there was a need to review the VSM pay framework to ensure that it was "fit for purpose". This letter is at Appendix E. Issues highlighted by the Secretary of State included:

- Whether the numbers employed on salaries over £100,000 were appropriate and publicly justifiable;
- Whether recruitment and retention premia (RRP) were being used appropriately; and
- His intention to reduce the salary level above which departmental approval is required for senior posts to £100,000.

6.30 We agree that a review is required, though it will be unsettling for VSMs. In our view it will not be sufficient for the review to consider absolute levels of pay and VSM numbers. It should consider all the current issues with the present scheme that we have referred to above. It should also examine all the different arrangements for the remuneration of VSMs both within our remit and in the rest of this labour market, to identify a sustainable and coherent policy solution. As we say above in paragraph 6.5, we doubt whether the VSM labour market structure in the NHS is sustainable in its current form.

6.31 The Secretary of State's letter also asked the organisations in our remit to agree to reduce the redundancy terms for the VSMs they employ. This has caused concern within our remit group. We think there needs to be consistent application of redundancy terms across the whole NHS to avoid recruitment and retention being damaged in the sector for which we have responsibility, particularly as it is perceived as providing a less stable employment environment.

Pay award 2014-15

6.32 When the Parliamentary Under Secretary of State wrote to SSRB in August 2013 about VSMs' pay in 2014-15 (this letter is at Appendix D), he emphasised the need for VSMs as system leaders to share in and support the policy of pay restraint elsewhere in the public sector. In its written evidence to us in September the Department repeated this message, said an award was not affordable and argued for the pay of VSMs to reflect the pay restraint experienced by other NHS staff. It also said that a 1 per cent pay award for VSMs in 2014 was not justified on recruitment and retention grounds, would not resolve the anomalies within VSM pay and was, therefore, unnecessary.

6.33 The Department also said that if SSRB was minded to recommend a pay increase, it suggested this could be non-consolidated. It also suggested that alternatively we could recommend an increase to the amount available for performance-related pay instead of a consolidated increase in base pay. We were surprised that the Department told us that no money was available to make a pay award and yet indicated how such an award might be structured. We considered these various options, as well as increasing the minima of the VSM pay scale to reduce the overlap with certain Agenda for Change staff, but concluded that because of the Secretary of State's review announcement we should not recommend minor amendments to the pay system at this time.

6.34 When the Secretary of State for Health wrote to the Chairs of the organisations with VSMs in our remit he said: "As a principle, very senior managers' pay should be subject to significantly greater restraint than that experienced by frontline NHS staff". This runs counter to one of our principles that the pay of SSRB's remit groups should be fair in comparison to other public sector groups and should not be held down for reasons such as 'setting an example'.[19] We also note that the Department's evidence to us this year showed that VSM pay increases between 2008-09 and 2010-11 had in any case been lower than for NHS staff on Agenda for Change pay scales.[20] We repeat that the Department needs to ensure that organisations employing VSMs in our remit are able to compete with the pay on offer to VSMs in the rest of the NHS if retention, recruitment and motivation are not to be increasing causes of concern.

6.35 The Department of Health told us that the organisations employing VSMs in our remit group would be required to make unspecified administrative savings in 2014-15. The last spending review reduced administration budgets by a third and it expects a

[19] Paragraph 1.23, page 17, Review Body on Senior Salaries. *Thirty-Fourth Report on Senior Salaries 2012*. Cm 8297. TSO, 2012.
The four principles which we believe should govern remuneration structures are:
(i) reward systems should be designed to support a workforce strategy which in turn aims to support the relevant organisation's strategy or objectives;
(ii) total reward should be enough to recruit, retain and motivate sufficient numbers of suitably able and qualified people to carry out the tasks of the remit groups;
(iii) the treatment of SSRB remit groups should be fair in comparison to other public sector groups; and
(iv) reward should be related to performance, where appropriate.

[20] Pay awards to VSMs and Agenda for Change staff 2008-2014 (%)

	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14
VSMs	2.20	1.50	0	0	0	1.00
NHS Agenda for Change	2.75	2.40	2.25	0[1]	0[1]	1.00

1. Or £250 to those earning £21,000 or less.
Source: Department of Health.

further reduction of at least 10 per cent in 2015-16. The Department added that it believed that the only justification for an increase in VSM pay in 2014-15 would be clear and compelling evidence of issues with recruitment, retention and motivation. The Department felt that there was insufficient evidence of a compelling case to support a requirement for a pay uplift at this time but acknowledged that the Government's stated policy for public sector pay for 2014-15 was that awards would average 1 per cent. We note too that the take-home pay of VSMs (along with other groups in our remit) has fallen sharply over the last four years.

6.36 The Department of Health told us that it estimated the paybill costs of VSMs in SSRB's remit on 1 August 2013 to be £59.6 million including employers' National Insurance and pension contributions.

6.37 MiP asked that we recommend a 1 per cent pay increase for VSMs to go some way to compensate for the increase in the cost of living.

6.38 We agree that there appear to be no generalised recruitment or retention problems in our remit group though some recruitment and retention issues are surfacing. We are concerned that these will increase in the near future, particularly for posts where specialist skills are required, as the economy improves. We are concerned too that staff below the level of VSM may be deterred from seeking promotion having seen the uncertainties and increasing pressures their managers face.

6.39 The NHS has undergone a fundamental reorganisation led by many members of our remit group and their roles continue to be highly challenging. Not to make an award would be an unhelpful signal to those considering a VSM role. As with other public servants VSM pay, in real terms, has diminished significantly in recent years. We believe that on these grounds and on the basis of fairness in comparison to other public sector groups, a 1 per cent pay increase for 2014-15 is appropriate. This will also signal to the remit group that the work they do is recognised and valued by Government. Adding 1 per cent to basic pay for all VSMs in our remit would add £600,000 to the paybill.

6.40 However, we recognise that our recommendations should ensure that the remuneration of our remit group relates coherently to that of their subordinates. If the pay of other groups in the NHS is increased by less than 1 per cent, we realise that the Government would wish to take this into account when considering our recommendation.

Recommendation 15: We recommend that with effect from 1 April 2014 VSM salaries are increased by 1 per cent.

SSRB's data requirements

6.41 In our 2013 report we expressed dissatisfaction with the data provided by the Department to support its evidence. We set out our data requirements in paragraph 6.21 of that report.[21] While the written evidence contained much improved information on VSM numbers and pay this year, the data on recruitment and retention were incomplete. In addition, there was no information from the Department itself on motivation and morale but it did send a survey to 13 organisations employing VSMs in our remit group and forwarded to us the returns from the 7 who replied. We ask the Department to encourage returns from all the organisations employing VSMs in our remit group next year.

6.42 The Department did not supply us with timely data on VSM pay in comparative NHS organisations. It said it is investigating ways of improving its information on VSM pay as a whole and we hope to see such data in next year's evidence.

[21] Review Body on Senior Salaries. *Thirty-Fifth Report on Senior Salaries 2013.* Cm 8569. TSO, 2013.

Chapter 7

Police and Crime Commissioners

Our remit

7.1 In 2011 the Home Secretary asked SSRB to recommend pay arrangements for Police and Crime Commissioners (PCCs) in England and Wales that were 'adequate to encourage, retain and motivate candidates of sufficient quality, bearing in mind the proposed duties, management responsibilities and budgets of PCCs'. In October of that year we produced a report[22] with the recommendations that:

- The pay of PCCs should be between £65,000 and £100,000 and broadly linked to the weighting (by size and complexity) of the respective police force;
- PCCs should not receive performance-related pay;
- Remuneration should be reduced pro-rata for any PCCs who do not carry out the role on a full-time basis;
- PCCs be added to our annual remit so that we can consider each year whether the evidence justifies a recommendation to increase their pay, and if so by how much;
- SSRB be asked to carry out a full review of the PCC roles and their remuneration in the third year of office in order to make pay recommendations to take effect from the second round of elections in 2016.

7.2 The Home Secretary accepted all the recommendations except that for remuneration to be reduced pro-rata for any PCCs who do not carry out the role on a full-time basis. This is the first year we have considered PCCs' pay as part of our annual remit.

Background

7.3 There are 41 directly elected PCCs, one for each geographical police force in England and Wales outside London. The first Commissioners were elected in November 2012, with subsequent elections due in May 2016 and at four-yearly intervals thereafter. They are responsible for holding the Chief Constables to account for their full range of responsibilities, setting and updating a police and crime plan, setting the force budget, engaging with the public and working with partners to find better ways to prevent crime.

Evidence

7.4 We received written evidence from the Home Office and the Association of Police and Crime Commissioners (APCC) and we also heard oral evidence from the Home Office. In September 2013 SSRB members visited the PCCs for Hampshire, Thames Valley, Warwickshire and West Midlands.

Home Office

7.5 In its evidence the Home Office described PCCs as undertaking a challenging and exciting opportunity to serve the public and contribute to the reduction in crime and disorder. It said that SSRB should pay attention to the following factors:

- PCCs have been in post for less than a year when the evidence was submitted and SSRB had only recently considered the overall PCC pay package;
- Current Government policy caps awards at 1 per cent;

[22] Review Body on Senior Salaries, Report No. 78, *Report on the pay of Police and Crime Commissioners 2011*.

- The Police Negotiating Board (PNB) agreed a 1 per cent increase for chief officers across the UK (except for Scotland). The force weightings used to govern chief officer pay provide a suitable mechanism to calibrate pay for PCCs;
- The next PCC elections will be held in May 2016 and future awards should be implemented from May of the relevant year.

7.6 The Home Office went on to say that in its view PCCs should receive no pay increase this year. In support of this proposal it said that, at the time of submitting evidence, PCCs had been in place for less than one year and that it would be inappropriate to change salaries after such a short period. It accepted that the PNB had agreed a 1 per cent increase for chief officers in England and Wales but argued that this had followed a period where their pay had been frozen.

7.7 The Home Office said that from October 2014 PCCs will take on responsibility for commissioning victims' services in addition to their existing duties. However, the Home Office suggested that we do not take account of this until our review for 2015.

7.8 When police authorities were replaced by PCCs, all staff became employees of the PCC although the Chief Constable retained direction and control of those staff employed to support the force. This was known as stage 1, a transitional arrangement to allow time to establish the best way to split staff and functions between the PCC and Chief Constable. Stage 2 will establish two separate bodies, the Office of PCC and the Office of the Chief Constable, with each having clear roles and responsibilities. The Home Office said that this would lead to a reduction in the numbers directly employed by the PCC but would have little real impact on PCCs' management responsibilities as most staff were already under the direction and control of the Chief Constable. The Home Office believed this had no effect on the statutory roles and responsibilities of PCCs and the number of staff they directly employ was not a factor that should affect salary.

7.9 In addition to their pay, PCCs have access to the local government pension scheme and are able to claim reimbursement of costs incurred while undertaking their duties. These reimbursements are to be monitored by the Chief Executive of the Office of the PCC and published quarterly. PCCs are required to declare any paid or unpaid interests that impact on their role as PCC. The Home Office does not believe it appropriate for PCCs to receive performance-related pay: judgement on their performance should be left to the electorate.

Association of Police and Crime Commissioners (APCC)

7.10 The APCC is the body representing PCCs. In its written evidence it pointed out that, on taking office in November 2012, PCCs became responsible for police force area budgets of £8 billion in England and Wales. The APCC described how PCCs 'hit the ground running' and displayed leadership from the start as they embarked on a period of upheaval and change. It highlighted the long hours required, with little support, to meet the demands of the job. It said that Commissioners had the ability to add local flavour to their roles by championing issues that are a priority for their constituents. It noted that as well as working within their local areas PCCs needed to contribute to over 30 national groups or committees.

7.11 The evidence listed a number of tasks undertaken by Commissioners in the first four months after taking office:

- Establishing relationships with the Chief Constable;
- Setting the Budget and Police and Crime Plan;
- Engaging with external stakeholders and partners;

- Managing the Office of the PCC – including appointment of Chief Executives, Finance Officers and Deputy Commissioners;
- Agreeing engagement plans with constituents;
- Recruiting a Chief Constable in a few cases.

7.12 This was followed in the spring and summer of 2013 by:

- Stage 2 transfers – allocation of staff, property, rights and liabilities from the PCC to the Chief Constable;
- Establishing 32 national boards, covering areas including Her Majesty's Inspectorate of Constabulary, Police Procurement, the National Police Air Service and the College of Policing;
- A review of the role and function of the Association of Chief Police Officers.

7.13 The APCC did survey its members on issues such as salary, work/life balance, expenses and the role in the future:

- Of the 16 Commissioners expressing a view, 11 said they were not paid enough while the other 5 felt pay was about right;
- 22 of 25 Commissioners did not feel they had a healthy work/life balance;
- Nine Commissioners said they spent significantly more than they could claim back on expenses and 11 said they spent slightly more;
- Two-thirds of respondents felt the workload would increase in the future.

7.14 The APCC evidence does not include a proposal for pay for 2014.

Visits to PCCs

7.15 In September 2013 SSRB members visited the PCCs of Hampshire, Thames Valley, Warwickshire and the West Midlands in order to understand their roles better and to hear their views on their pay. There was a mix of views on the role of PCCs, ranging from fully supporting the introduction of PCCs to believing PCCs had fewer powers than the previous police authority. Each took a different approach to the role based on the characteristics and needs of the populations served by the force in their area. At the time of our visits there had been some speculation that the role of the PCC might be expanded in the future to cover other services but the PCCs to whom we spoke were more concerned about establishing and making credible the role of PCC with its current responsibilities.

7.16 On the subject of pay levels there was no consistent view expressed. One Commissioner thought pay was higher than necessary while another said that, given the size and complexity of the role, PCC pay was too low. However, it was clear from the discussions that none of the PCCs we spoke to expected their pay to increase in 2014.

7.17 One issue raised by more than one Commissioner was the reimbursement of expenses. A majority felt that they were unable to claim back all the expenses they incurred in their role and that some of the regulations about how they travelled around the areas they were responsible for were not conducive to efficient working.

Conclusions

7.18 When SSRB reported on PCCs in 2011 the fifth recommendation was that 'PCCs be added to the annual remit so that we can consider each year whether the evidence justifies a recommendation to increase their pay, and if so by how much'. This is the first year that PCCs have been included in the annual remit.

7.19 The Home Office has proposed that as PCCs have only just been established, their pay should not be increased this year while the APCC made no proposal on pay. An APCC survey of PCCs found that a majority of those responding felt they were not paid enough although when we met PCCs views were mixed with some feeling their pay was higher than it needed to be and others that they were not paid enough, but most had assumed that their pay would not be changed ahead of a further full review by SSRB before the 2016 elections.

7.20 More Commissioners responded to questions on the APCC survey about work/life balance and their inability to recoup fully the expenses they incurred as part of their duties than the question on pay. We raised the issue of expenses with the Home Office in oral evidence and it said it thought the rules and guidance relating to expenses incurred by PCCs were clear but undertook to consider issuing further guidance to the Chief Executives managing the PCCs' offices. However, we think the Home Office should go further and conduct a review of the rules and guidance relating to expenses to ensure that they are both appropriate and understood by PCCs.

Recommendation 16: We recommend that the Home Office conduct a review of the rules and guidance relating to expenses incurred by PCCs while undertaking their duties.

7.21 We recommended the current PCC pay rates in 2011, before PCCs had been elected or taken office and based on an expectation of what the job was to involve. As the first people to fill these roles the newly elected Commissioners, without predecessors to measure themselves against, are by their actions defining the role. In its evidence the APCC said that 11 months was not sufficient to draw conclusions about how the role is developing.

7.22 The role of the Commissioner continues to evolve, and individual Commissioners use a mix of approaches in discharging their duties. We are reluctant to make a recommendation while it is still unclear if the current pay rates adequately reflect the nature and weight of the jobs. We therefore recommend no change to PCCs' pay from 2014. Nevertheless, we still believe it is important that we look again at PCCs' pay next year and ask both the Home Office and the APCC to submit evidence to us again in 2014. As we explained in our original report on PCCs in 2011, it may be better to review PCCs' pay each year, reducing the risk of recommending a large, presentationally difficult increase every four years.

Recommendation 17: We recommend that the current rates of pay of Police and Crime Commissioners should remain unchanged for 2014-15.

7.23 The Home Office asked that any future award be implemented from May, rather than April, to help ensure appropriate budgetary planning. Our recommendation leaves pay unchanged for the coming year but we are content that any future recommendations should take effect from May rather than April of the year in question.

Appendix A

List of those who gave evidence and information to the SSRB

The senior civil service

Head of the Home Civil Service
Cabinet Office
FDA and Prospect
The Civil Service Commission

Senior officers of the armed forces

Ministry of Defence
Chief of the Defence Staff
Chief of General Staff
Chief of Naval Staff
Chief of Air Staff
Chief of Defence Personnel
Senior military discussion group (12 2-star and 3-star officers)

The judiciary

The Lord Chancellor and Secretary of State for Justice
The Right Honourable the Lord Thomas of Cwmgiedd, Lord Chief Justice of England and Wales and The Right Honourable Lord Justice Vos
Judicial Appointments Commission (England and Wales)
Judicial Appointments Board for Scotland
Northern Ireland Judicial Appointments Commission
Lord President of the Court of Session
Lord Chief Justice of Northern Ireland
Ministry of Justice (included information from the Northern Ireland Courts and Tribunals Service)
Scottish Government
District Judges of the Principal Registry of the Family Division
Upper Tribunal Judges
Costs Judges of the Senior Courts Costs Office
Council of Appeal Tribunal Judges
Council of HM Circuit Judges
Council of Employment Judges
UK Judicial Salaries and Pensions Association
Council of HM District Judges (Magistrates' Courts)
Mental Health Judges' Association
Association of HM District Judges
Judge Advocate General
Written evidence from two individual judicial post holders

Very Senior Managers in the National Health Service

Department of Health
Managers in Partnership
NHS England
NHS Blood and Transplant Authority
Guy's and St Thomas' NHS Foundation Trust

Police and Crime Commissioners

Home Office
Association of Police and Crime Commissioners
Police and Crime Commissioners for Hampshire, Thames Valley, Warwickshire and West Midlands

Appendix B

Website references for publications

This SSRB report can be found at:
https://www.gov.uk/government/organisations/review-body-on-senior-salaries

Evidence submitted to the SSRB by the Cabinet Office:
http://resources.civilservice.gov.uk/wp-content/uploads/2011/07/SCS-Pay-Govt-Evidence-2013-FINAL-December.pdf

Evidence submitted to the SSRB by the FDA/Prospect:
http://www.fda.org.uk/home/FDA-SSRB-evidence-2013-14.aspx

Evidence submitted to the SSRB by the Ministry of Justice:
https://www.gov.uk/government/publications/senior-salaries-review-body-moj-annual-written-evidence-2013

Evidence submitted to the SSRB by the Department of Health:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/246136/evidence_to_ssrb.pdf

Evidence submitted to the SSRB by Managers in Partnership:
http://www.miphealth.org.uk/home/EmploymentIssues.aspx

Evidence submitted to the SSRB by the Home Office:
https://www.gov.uk/government/collections/police-and-crime-commissioners-publications

Evidence submitted to the SSRB by the Association of Police and Crime Commissioners:
http://apccs.police.uk/

Appendix C

Letter from the Chief Secretary to the Treasury to the Chair of the Senior Salaries Review Body of 23 July 2013

UNCLASSIFIED

CHIEF SECRETARY TO THE TREASURY

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mr Bill Cockburn CBE TB
Senior Salaries Review Body
Office of Manpower Economics
Victoria House
Southampton Row
London
WC1B 4AD

23 July 2013

Dear Bill,

PUBLIC SECTOR PAY 2014-15

1. I would like to thank you for your work on the 2013-14 pay round. The Government greatly values the contribution of the SSRB in delivering robust, evidence-based pay outcomes for public sector workers.

2. At the 2011 Autumn Statement, the Government announced its policy that public sector pay awards will average 1 per cent for the two years following the pay freeze. The Government also asked certain Review Bodies to consider how to make public sector pay more responsive to local labour markets in their remit groups. The Government published these reports at the 2012 Autumn Statement and has accepted the key recommendations, including that there should be no new centrally determined local pay rates or zones but that there should be greater use of existing flexibilities.

3. The Government believes that the case for continued pay restraint across the public sector remains strong. Detailed evidence will be set out in the pay round, but at the highest level, reasons for this include:

a. Recruitment and retention: While recognising some variation between remit groups, the evidence so far is that, given the current labour market position, there are unlikely to be significant recruitment and retention issues for the majority of public sector workforces over the next year.

b. Affordability: Pay restraint remains a crucial part of the consolidation plans that will help to put the UK back onto the path of fiscal sustainability – and continued restraint in relation to public sector pay will help to protect jobs in the public sector and support the quality of public services.

4. The Review Bodies will want to consider the evidence carefully in producing their report. In particular, what award is justified and whether there is a case for a higher award to particular groups of staff, relative to the rest of the workforce, due to particular recruitment and retention difficulties.

5. Pay awards should be applied to the basic salary based on the normal interpretation of basic salary in each workforce. This definition does not include overtime or any regular payments such as London weighting, recruitment or retention premia or other allowances.

6. A number of Review Bodies will be considering additional elements of reward such as non-pay terms and conditions and specific allowances. These recommendations form an important part of managing the total reward package of public sector workers, and the Government welcomes the contribution of the Review Bodies in these areas.

7. Finally, in the 2013 Spending Review, the Government announced that substantial reforms to progression pay will be taken forward or are already underway across the public sector. The Review Body is therefore invited to consider the impact of their remit group's progression structure and its distribution among staff in recommending annual pay awards.

I look forward to continued dialogue with you in the future.

Best wishes

DANNY ALEXANDER

Appendix D

Letter from the Parliamentary Under Secretary of State for Health to the Chair of the Senior Salaries Review Body of 22 August 2013

Department of Health

From Dr Dan Poulter MP
Parliamentary Under Secretary of State for Health

Mr Bill Cockburn CBE TB
Chair
Senior Salaries Review Body
Office of Manpower Economics
Victoria House
Southampton Row
London
WC1B 4AD

Richmond House
79 Whitehall
London
SW1A 2NS

Tel: 020 7210 4850

22 AUG 2013

Dear Bill,

VERY SENIOR MANAGERS' PAY 2014-15

I am writing to you as a follow-up to the Chief Secretary to the Treasury's letter of 23 July which set out the Government's approach to the 2014/15 pay round.

I would like to thank you and your colleagues for the vital and independent expert work undertaken by the Senior Salaries Review Body (SSRB) in considering remuneration for the small but key group of very senior managers (VSMs) employed by the Department's arms-length bodies (ALBs), together with those NHS Ambulance Trusts that have not achieved foundation trust status.

As the Chief Secretary set out, the case for continued pay restraint across the public sector remains strong. The Government is clear that it is for each Pay Review Body to consider the evidence and affordability for each workforce. The Chief Secretary's letter also observes that:

"... there are unlikely to be significant recruitment and retention issues for the majority of public sector workforces over the next year".

" Affordability: Pay restraint remains a crucial part of the consolidation plans that will help to put the UK back onto the path of fiscal sustainability – and continued restraint in relation to public sector pay will help to protect jobs in the public sector and support the quality of public services".

"The Review Bodies will want to consider the evidence carefully in producing their report. In particular, what award is justified and whether there is a case for a higher award to particular groups of staff, relative to the rest of the workforce, due to particular recruitment and retention difficulties".

For the NHS, affordability, alongside recruitment and retention pressures, will be a critical element as the Review Body determines whether any award is justified.

I should be grateful if you would make recommendations for the basic pay of VSMs falling within your remit. In doing so, you should consider evidence in respect of:

- the need to recruit, retain and motivate suitably able and qualified staff;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- the funds available to the DH, as set out in the Government's Departmental Expenditure Limits;
- the Government's inflation target;
- the principle of equal pay for work of equal value in the NHS; and
- the overall strategy that the NHS should place patients at the heart of all it does and the mechanisms by which that is to be achieved.

Although the cost of the VSM paybill is significantly less in total than that of other staff groups in the NHS, I am sure you will be aware of the need for system leaders to share in and support the policy of pay restraint elsewhere in the public sector.

The Department looks forward to working closely with the SSRB members and secretariat to ensure that the evidence we submit fully meets your needs.

I look forward to receiving your report on 2014/15 pay for your remit group in due course.

DR DAN POULTER

Appendix E

Letter from the Secretary of State for Health to the Chairs of Arm's Length Bodies of 25 October 2013

Department of Health

From the Rt Hon Jeremy Hunt MP
Secretary of State for Health

Richmond House
79 Whitehall
London
SW1A 2NS

Mb-sofs@dh.gsi.gov.uk

Dr David Bennett, Chair Monitor
Sir Peter D Carr, Chair NHS TDA
Professor Sir Malcolm Grant, Chair NHS England
Kingsley Manning, Chair HSCIC
John Pattullo, Chair NHSBT
Sir Keith S Pearson, Chair HEE
David Prior, Chair CQC

25 October 2013

Dear colleague,

As you know, the health and care system faces a tough financial climate. Hospitals across the country are working hard to make efficiency savings to enable us to maintain and increase frontline staffing levels.

Together, we have already delivered a huge amount. We are freeing up £5.5 billion efficiency savings this Parliament through our reform programme which placed power in the hands of frontline clinicians, as well as £1.5 billion every year after that. The number of managers has reduced by nearly 8,000 whilst the number of clinicians has increased by over 4,000. I want to thank all of you for your hard work to secure this remarkable achievement.

However, as system leaders, it is vital that we stay in tune with the public mood at a time when there is unprecedented pressure on the pay of frontline staff. I don't want to see our good work on reducing bureaucracy undone by a few excessive salaries or payoffs. I am encouraged by the shared commitment you have expressed to getting this right.

From the Rt Hon Jeremy Hunt MP
Secretary of State for Health

Department of Health

Senior pay

We must show leadership by controlling pay amongst our most senior managers. As a principle, very senior managers' pay should be subject to significantly greater restraint than that experienced by frontline NHS staff.

Whilst I understand there are occasions where high salaries are justified, particularly when seeking to attract clinicians to managerial positions, this must be the exception not the rule. I am concerned that the number of people on salaries higher than the Prime Minister has become too high across the NHS. This is unacceptable and unjustified at a time when significantly lower-paid frontline staff are faced with below inflation pay increases.

I believe that it is time for a collective reality check; we must not develop a culture where very high pay is normalised. I do not want the NHS to make the same mistakes as the BBC, where a culture of excessive pay and payoffs was tolerated for too long and damaged public confidence in one of our great national institutions.

I respect that these are independent decisions for you and your boards, but you will understand that I am accountable for the use of taxpayers' money in our health service.

That is why we have already made it clear in our Senior Salaries Review Body evidence that we need to review the VSM pay framework for ALBs to ensure it is fit for purpose and we will be seeking your help and cooperation in taking this forward. To support this, I am asking you, as a matter of urgency, to assess and review whether the numbers of people in your organisation that command salaries over £100,000 is appropriate and publicly justifiable. This should include systematically reviewing the use of Recruitment and Retention Premia (RRP) as you are required to do on a regular basis. Based on this review, I will consider whether we should set a limit on the overall numbers of posts paid over £100,000. I also intend to lower the level for DH approval of senior posts to those over £100,000.

It will also be important that you are able to satisfy yourselves that pay restraint is also embedded in the performance review process in your organisations, with

Department of Health

From the Rt Hon Jeremy Hunt MP
Secretary of State for Health

proper independent input, for deciding on Performance Related Pay, in the first instance, for staff with salaries over £100,000.

I would be grateful if you would review and send me your policy on senior pay to make sure there is appropriate pay restraint at the highest levels of your organisation. I would like to receive this by 11 November.

Finally, I would ask you to take this opportunity to conduct a wider pay audit on your salary levels, your skill mix and your overall staff numbers to make sure they are reasonable and affordable and stand up to public scrutiny at a time of financial challenge for the rest of the system . This will be essential in ensuring that ALB pay bills are affordable beyond 2014-15. Officials will be in touch to discuss this further.

Redundancy Payments

In this context it is also critical that large redundancy payments in ALBs are tightly controlled and only given where absolutely necessary in line with minimum contractual terms. As such, I am writing to confirm your agreement to proposals for tough, new rules on redundancy payments. These are that:

- regardless of actual salary, the very maximum pay level used to calculate redundancy payments should be capped at £80,000;
- the circumstances in which redundancy is offered are significantly tightened;
- redundancy terms are tapered as a manager moves towards the end of their career;
- a proportionate part of payments are clawed back where people return to the NHS within one year of being made redundant; and,
- employer top up for pensions on redundancy will be limited to a maximum of the redundancy payment

This shows real leadership for the rest of the NHS. I am also grateful to David Bennett and Peter Carr for agreeing to write to governors of FTs and Trusts asking that they also follow the lead you are taking in applying such restraint on redundancy payments for their most senior managers.

Department of Health

From the Rt Hon Jeremy Hunt MP
Secretary of State for Health

I welcome your continued leadership and support on these challenging issues.

Yours sincerely,

Jery

JEREMY HUNT

Appendix F:

Take-home pay – full calculations

Example 1 – VSMs

A Chief Executive in an Arm's Length Body paid £155,000 in 2009-10. Pay was unchanged until April 2013 when it increased by 1 per cent. He/she is a member of the NHS pension scheme making a personal contribution of 8.5 per cent in 2009-10, increased to 10.9 per cent in 2012–13 and 13.3 per cent in 2013–14.

	2009–10		2013–14	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	155,000		156,550	
Performance Pay				
Total Pay	**155,000**		**156,550**	
Pension Contribution	***13,175***	***£155,000 x 8.5%***	***20,821***	***£156,550 x 13.3%***
Personal Allowance	6,475		0	*the Personal Allowance of £9,440 reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit*
Taxable Pay	135,350	£155,000 – £6,475 – £13,175	135,729	£156,550 – £20,821
Income Tax	***46,660***	***(£37,400 x 20%) + (£97,950 x 40%)***	***47,890***	***(£34,370 x 20%) + (£101,359 x 40%)***
National Insurance	***4,747***	***(£5,715 x 0%) + (£38,160 x 11%) + (£111,125 x 1%) – (£35,100 x 1.6%)***	***5,864***	***(£7,605 x 0%) + (£34,870 x 12%) + (£114,075 x 2%) – (£34,476 x 1.4%)***
Take-home Pay	**90,418**	**£155,000 – £13,175 – £46,660 – £4,747**	**81,975**	**£156,550 – £20,821 – £47,890 – £5,864**

Change in take–home pay between 2009–10 and 2013–14	£	(%)	Calculations (between April 2009 and December 2013)
Nominal	**–8,443**	(–9.3)	
Real (based on RPI)	**–21,997**	(–24.3)	***RPI increased by 19.8%*** *£81,975/1.198 = £68,420*
Real (based on CPI)	**–19,630**	(–21.7)	***CPI increased by 15.8%*** *£81,975/1.158 = £70,788*
Real (based on CPIH)	**–18,714**	(–20.7)	***CPIH increased by 14.3%*** *£81,975/1.143 = £71,704*
Real (based on RPIJ)	**–20,138**	(–22.3)	***RPIJ increased by 16.6%*** *£81,975/1.166 = £70,279*

Example 2 – SCS

A senior civil servant in Pay Band 1 was paid £67,000 (placed in the 36th percentile for performance against objectives – ie for eligibility for non-consolidated, performance-related pay (NCPRP)). Pay was then frozen for three years and increased by 1 per cent in 2013–14. In 2013–14 NCPRP was only available to the best performing 25 per cent and so he/she is no longer eligible. He/she is a member of the Principal Civil Service Pension Scheme making personal contributions of 1.5 per cent in 2009–10, increased to 3.9 per cent in 2012-13 and 6.25 per cent in 2013–14.

	2009–10		2013–14	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	67,000		67,670	
Performance Pay	6,080		0	
Total Pay	**73,080**		**67,670**	
Pension Contribution	***1,005***	***£67,000 x 1.5%***	***4,229***	***£67,670 x 6.25%***
Personal Allowance	6,475		9,440	
Taxable Pay	65,600	£73,080 – £6,475 – £1,005	54,001	£67,670 – £9,440 – £4,229
Income Tax	***18,760***	***(£37,400 x 20%) + (£28,200 x 40%)***	***15,198***	***(£32,010 x 20%) + (£21,991 x 40%)***
National Insurance	***3,928***	***(£5,715 x 0%) + (£38,160 x 11%) + (£29,205 x 1%) – (£35,100 x 1.6%)***	***4,087***	***(£7,755 x 0%) + (£33,695 x 12%) + (£26,220 x 2%) – (£34,372 x 1.4%)***
Take-home Pay	**49,387**	**£73,080 – £1,005 – £18,760 – £3,928**	**44,156**	**£67,670 – £4,229 – £15,198 – £4,087**

Change in take-home pay between 2009–10 and 2013-14	£	(%)	Calculations (between April 2009 and December 2013)
Nominal	**–5,231**	**(–10.6)**	
Real (based on RPI)	**–12,532**	**(–25.4)**	***RPI increased by 19.8%*** *£44,156/1.198 = £36,855*
Real (based on CPI)	**–11,257**	**(–22.8)**	***CPI increased by 15.8%*** *£44,156/1.158 = £38,130*
Real (based on CPIH)	**–10,764**	**(–21.8)**	***CPIH increased by 14.3%*** *£44,156/1.143 = £38,623*
Real (based on RPIJ)	**–11,531**	**(–23.3)**	***RPIJ increased by 16.6%*** *£44,156/1.166 = £37,856*

Example 3 – Judiciary (Circuit Judge Salary Group 6.1)

He/she was paid £128,296 in 2009-10. Pay was then frozen for three years and increased by 1 per cent in 2013–14. He/she is a member of the Judicial Pension Scheme (JPS) making contributions of 1.8 per cent in 2009-10, increased to 3.08 per cent in 2012–13 and 4.36 per cent in 2013–14. As the JPS is a non-registered scheme, members do not qualify for tax relief on their contributions.

	2009–10		2013–14	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	128,296		129,579	
Performance Pay				
Total Pay	**128,296**		**129,579**	
Pension Contribution	*2,309*	*£128,296 x 1.8%*	*5,650*	*£129,579 x 4.36%*
Personal Allowance	6,475		0	*the Personal Allowance of £9,440 reduces where income is above £100, 000 - by £1 for every £2 of income above the £100,000 limit*
Taxable Pay	121,821	£128,296 – £6,475	129,579	
Income Tax	*41,248*	*(£37,400 x 20%) + (£84,421 x 40%)*	*45,430*	*(£32,010 x 20%) + (£97,569 x 40%)*
National Insurance	*4,480*	*(£5,715 x 0%) + (£38,160 x 11%) + (£84,421 x 1%) – (£35,100 x 1.6%)*	*5,325*	*(£7,755 x 0%) + (£33,695 x 12%) + (£88,129 x 2%) – (£34,372 x 1.4%)*
Take-home Pay	**80,258**	**£128,296 – £2,309 – £41,248 – £4,480**	**73,175**	**£129,579 – £5,650 – £45,430 – £5,325**

Change in take-home pay between 2009–10 and 2013–14	£	(%)	Calculations (between April 2009 and December 2013)
Nominal	**–7,083**	**(–8.8)**	
Real (based on RPI)	**–19,183**	**(–23.9)**	***RPI increased by 19.8%*** *£73,175/1.198 = £61,075*
Real (based on CPI)	**–17,069**	**(–21.3)**	***CPI increased by 15.8%*** *£73,175/1.158 = £63,189*
Real (based on CPIH)	**–16,252**	**(–20.2)**	***CPIH increased by 14.3%*** *£73,175/1.143 = £64,006*
Real (based on RPIJ)	**–17,523**	**(–21.8)**	***RPIJ increased by 16.6%*** *£73,175/1.166 = £62,735*

Example 4 – Senior military

He was a 2-star on the 2nd point on the scale in 2009–10, paid £105,400. The pay scale was increased by 1 per cent in 2013–14, but he continued to benefit from incremental progression each year. He is a member of the Armed Forces Pension Scheme, a non-contributory scheme.

	2009–10		2013–14	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	105,400		120,492	(assumes four annual increments from April of each year)
Performance Pay				
Total Pay	**105,400**		**120,492**	
Pension Contribution	***0***		***0***	
Personal Allowance	6,475		0	*the Personal Allowance of £9,440 reduces where income is above £100, 000 – by £1 for every £2 of income above the £100,000 limit*
Taxable Pay	98,925	£105,400 – £6,475	120,492	
Income Tax	***32,090***	***(£37,400 x 20%) + (£61,525 x 40%)***	***41,795***	***(£32,010 x 20%) + (£88,482 x 40%)***
National Insurance	***4,251***	***(£5,715 x 0%) + (£38,160 x 11%) + (£61,525 x 1%) – (£35,100 x 1.6%)***	***5,143***	***(£7,755 x 0%) + (£33,695 x 12%) + (£79,042 x 2%) – (£34,372 x 1.4%)***
Take-home Pay	**69,059**	**£105,400 – £32,090 – £4,251**	**73,554**	**£120,492 – £41,795 – £5,143**

Change in take-home pay between 2009–10 and 2013–14	£	(%)	Calculations (between April 2009 and December 2013)
Nominal	+4,495	(+6.5)	
Real (based on RPI)	–7,667	(–11.1)	***RPI increased by 19.8%*** *£73,554/1.198 = £61,392*
Real (based on CPI)	–5,543	(–8.0)	***CPI increased by 15.8%*** *£73,554/1.158 = £63,516*
Real (based on CPIH)	–4,721	(–6.8)	***CPIH increased by 14.3%*** *£73,554/1.143 = £64,338*
Real (based on RPIJ)	–5,999	(–8.7)	***RPIJ increased by 16.6%*** *£73,554/1.166 = £63,060*

Appendix G

Existing salaries for the five remit groups

Senior civil servants in pay bands, median salaries and pay ranges, 2013

Pay band	Pay range	Median salary	Number in band
Permanent Secretaries	£142,000 – £200,000[1]	£160,000 – £164,999	33
3	£103,000 – £208,100	£132,500	139
2	£84,000 – £162,500	£96,900	673
1A	£67,600 – £128,900	£77,200	88
1	£60,000 – £117,800	£73,000	2,580
Total		£76,900	3,513[2]

Source: Cabinet Office.

[1] In addition some roles are not assigned to a specific salary band but may attract a skills or market premium.

[2] The total of SCS members is lower than the total staff currently in post (3,695). The difference consists of SCS members in non-standard pay bands and with non-standard contracts, e.g. those paid at NHS rates.

Senior officers of the armed forces

Scale point	Value of scale points (from 1 May 2013)			
	Chief of the Defence Staff	4–star	3–star[2]	2–star[2]
6		£187,036	£154,254	£120,492
5		£183,369	£149,834	£118,179
4	£255,225	£179,773	£145,542	£115,911
3	£250,220	£175,389	£140,041	£113,687
2	£245,314	£171,110	£133,491	£111,506
1 (Minimum)	£240,504	£166,937	£127,253	£109,369
Numbers in post[1]	1	8	27	92

Source: Ministry of Defence.

[1] Numbers in post supplied by the MOD, and relate to numbers in post as of 1 July 2013.

[2] This includes X-Factor which is applied at the rate of £2,493, this sum being equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale from 1 May 2013.

Police and Crime Commissioners (PCCs)

Force	PCC Salary
Greater Manchester, West Midlands, West Yorkshire	£100,000
Avon & Somerset, Devon & Cornwall, Essex, Hampshire, Kent, Lancashire, Merseyside, Northumbria, South Wales, South Yorkshire, Sussex, Thames Valley	£85,000
Cheshire, Derbyshire, Hertfordshire, Humberside, Leicestershire, Nottinghamshire, Staffordshire, West Mercia	£75,000
Bedfordshire, Cambridgeshire, Cleveland, Dorset, Durham, Gwent, Norfolk, Northamptonshire, North Wales, North Yorkshire, Suffolk, Surrey, Wiltshire	£70,000
Cumbria, Dyfed-Powys, Gloucestershire, Lincolnshire, Warwickshire	£65,000

Source: Home Office.

Police and Crime Commissioners for England and Wales were elected in November 2012 and salaries are those paid from that date.

Members of the judiciary

Salary group	Salary from 1 April 2013 (£)	Number in post on 31 March 2013
1	242,243	1
1.1	216,307	4
2	208,926	14
3	198,674	44
4	174,481	141
5	139,933	97
6.1	129,579	812
6.2	121,993	40
7	103,950	1,024
Salaried medical members	82,500	7
Stipendiary magistrates	71,268	4
Total		2,188

Sources: Ministry of Justice and Scottish Government.

The 2012 VSM pay framework – salary bands for the organisations' chief executives 1 April 2013

Organisation	SSRB Band	Floor £	Ceiling £
Care Quality Commission Monitor NHS England	F	175,000	225,000
Health Education England National Institute for Health and Clinical Excellence NHS Blood and Transplant Authority NHS Business Services Authority NHS Litigation Authority NHS Health and Social Care Information Centre NHS Trust Development Authority	E	150,000	200,000
Human Fertilisation and Embryology Authority	D	125,000	175,000
Health Research Authority Human Tissue Authority	C	100,000	150,000

Source: Department of Health.

The 2006 VSM pay framework
Pay for VSMs in Special Health Authorities (SpHAs) 2013–14

		Group 1 (£)	Group 2 (£)	Group 3 (£)
SpHA Chief Executive (CE)		**164,507 –185,733**	**143,280 –164,507**	**100,827 –143,280**
	Mid-point	175,120	153,893	122,053
SpHA Directors				
Finance	75% of CE	131,340	115,420	91,540
HR and Workforce Development	70% of CE	122,584	107,725	85,437
Information Management and Technology	60% of CE	105,072	92,336	73,232

Source: Department of Health.

Pay for VSMs in Ambulance Trusts (ATs) 2013-14

		AT Band 1 (£)	AT Band 2 (£)	AT Band 3 (£)	AT Band 4 (£)
AT Chief Executive		113,892	122,569	130,162	151,855
AT Directors					
Finance	75% of CE	85,419	91,927	97,621	113,891
Operations	70% of CE	79,724	85,798	91,113	106,298
Human Resources	60% of CE	68,335	73,541	78,097	91,113

Source: Department of Health.

Appendix H

Existing base salaries of Permanent Secretaries in £5,000 bands (as at October 2013)

Band £	Number in Band	Office Holder
200,000 – 204,999	1	Chief Medical Officer
195,000 – 199,999	–	
190,000 – 194,999	2	Cabinet Secretary
		Head of the Civil Service and Permanent Secretary, Department for Communities and Local Government
185,000 – 189,999	–	
180,000 – 184,999	7	Permanent Secretaries:
		– Home Office
		– Ministry of Justice
		– HM Revenue and Customs
		– HM Treasury
		– Department for Work and Pensions
		– Ministry of Defence
		– Foreign and Commonwealth Office
175,000 – 179,999	3	Permanent Secretary:
		– Scottish Government
		National Security Adviser
		Chief Scientific Adviser – Business, Innovation and Skills
170,000 – 174,999	1	Permanent Secretary:
		– Secret Intelligence Service
165,000 – 169,999	2	Permanent Secretaries:
		– Dept Energy and Climate Change
		– Transport

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Band £	Number in Band	Office Holder
160,000 – 164,999	10	Permanent Secretaries:
		– Business, Innovation and Skills
		– Department of Health
		– Department for International Development
		– Environment, Food and Rural Affairs
		– Welsh Government
		– Government Communications HQ
		– Department for Education
		– Security Service
		Treasury Solicitor
		First Parliamentary Counsel and Permanent Secretary, Cabinet Office
155,000 - 159,999	1	Second Permanent Secretary, HM Treasury
150,000 – 154,999	4	Permanent Secretaries:
		– Department for Culture, Media and Sport
		– Office for National Statistics
		Second Permanent Secretaries:
		– HM Treasury
		– HM Revenue and Customs
145,000 – 149,999	–	
140,000 – 144,999	2	Chair of the Joint Intelligence Committee
		Prime Minister's Adviser on Europe and Global Issues, Cabinet Office

Source: Cabinet Office.

Appendix J

NATO rank codes and UK service ranks – officers

NATO code	UK Stars	Royal Navy	Royal Marines	Army	Royal Air Force
OF-9[1]	**4**	**Admiral**	**General**	**General**	**Air Chief Marshal**
OF-8[1]	**3**	**Vice Admiral**	**Lieutenant General**	**Lieutenant General**	**Air Marshal**
OF-7[1]	**2**	**Rear Admiral**	**Major General**	**Major General**	**Air Vice-Marshal**
OF-6	1	Commodore	Brigadier	Brigadier	Air Commodore
OF-5		Captain	Colonel	Colonel	Group Captain
OF-4		Commander	Lieutenant Colonel	Lieutenant Colonel	Wing Commander
OF-3		Lieutenant Commander	Major	Major	Squadron Leader
OF-2		Lieutenant	Captain	Captain	Flight Lieutenant
OF-1		Sub-Lieutenant	Lieutenant	Lieutenant	Flying Officer
OF(D)		Midshipman	–	Officer Designate	Officer Designate

Source: Ministry of Defence.

[1] These officers belong to our remit group.

Appendix K

Judicial salary structure at 1 April 2013[23]

Group 1

Lord Chief Justice

Group 1.1

Lord Chief Justice of Northern Ireland
Lord President of the Court of Session
Master of the Rolls
President of the Supreme Court

Group 2

Chancellor of the High Court
Deputy President of the Supreme Court
Justices of the Supreme Court
Lord Justice Clerk
President of the Family Division
President of the Queen's Bench Division
Senior President of Tribunals

Group 3

Inner House Judges of the Court of Session
Lords/Lady Justices of Appeal
Lords/Lady Justices of Appeal (Northern Ireland)

Group 4

High Court Judges[24]
High Court Judges (Northern Ireland)[25]
Outer House Judges of the Court of Session
Vice-Chancellor of the County Palatine of Lancaster[26]

Group 5

Chairman, Scottish Land Court / President, Lands Tribunal for Scotland
Chamber Presidents of First-tier Tribunals, Immigration and Asylum Chamber, General Regulatory Chamber, Health, Education & Social Care Chamber and Social Entitlement Chamber
Chief Social Security Commissioner and Child Support Commissioner (Northern Ireland)
Circuit Judges at the Central Criminal Court in London (Old Bailey Judges)
Judge Advocate General
Judge of the First-tier Tribunal, Health Education and Social Care Chamber and Deputy Judge of the Upper Tribunal (former President, Care Standards Tribunal)
Judge of the First-tier Tribunal, Social Entitlement Chamber and deputy Judge of the Upper Tribunal (former Chief Asylum Support Adjudicator, Asylum Support Tribunal)
Permanent Circuit Judges, Employment Appeals Tribunal
President, Employment Tribunals (England & Wales)
President, Employment Tribunals (Scotland)

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[23] Alphabetical order within salary group.

[24] Includes the posts of President, Asylum and Immigration Tribunal and President, Employment Appeals Tribunal, both of whom are High Court Judges.

[25] High Court Judges in Northern Ireland are also known as Puisne Judges.

[26] Post currently held by a High Court Judge.

President, First-tier Tax Chamber
President, Lands Chamber of the Upper Tribunal
President, Lands Tribunal (Scotland)
Recorder of Belfast[27]
Recorder of Liverpool
Recorder of Manchester
Senior Circuit Judges
Senior District Judge (Chief Magistrate)
Sheriffs Principal
Specialist Circuit Judges, Chancery, Mercantile, Patents & Business List
Specialist Circuit Judges, Technology & Construction Court
Vice Presidents of the Upper Tribunal (Immigration and Asylum Chamber) (former Deputy Presidents, Asylum and Immigration Tribunal)

Group 6.1

Chief Bankruptcy Registrar
Senior and Chief Chancery Masters
Circuit Judges
County Court Judges (Northern Ireland)[28]
Deputy Presidents of the First-tier Tribunal (Health, Education & Social Care Chamber)
Former Deputy President, Care Standards Tribunal
Former President, Gambling Appeals Tribunal
Judge of the First-tier Tribunal and Deputy Judge of the Upper Tribunal (former President, Charity Tribunal)
Judge of the First-tier Tribunal and Deputy Judge of the Upper Tribunal (former President, Consumer Credit and Estate Agent Appeals Tribunals)
Judges of First-tier Tribunal Social Entitlement Chamber (Former Regional Chairmen, Appeals Tribunals)
President, Appeals Tribunal (Northern Ireland)
President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
President, Lands Tribunal (Northern Ireland)[29]
Regional Employment Judges (formerly Regional Chairmen, Employment Tribunal)
Registrar of Criminal Appeals
Senior Costs Judge
Senior District Judge, Principal Registry of the Family Division
Senior Judge of the Court of Protection
Sheriffs
Social Security and Child Support Commissioner (Northern Ireland)
Upper Tribunal Judges, Administrative Appeals Chamber, Immigration and Asylum Chamber[30] and Tax and Chancery Chamber
Vice-President, Employment Tribunal (Scotland)

Group 6.2

Adjudicator, HM Land Registry
Chairman, Mental Health Review Tribunal (Wales)[31]
Former Deputy Principal Judge of the First-tier Tribunal, Social Entitlement Chamber (Asylum Support)
Deputy Senior District Judge (Magistrates' Courts)

[27] Current post holder receives a salary of 108 per cent of Group 5 rate under arrangement established from 1 April 2002.

[28] Post holders are paid the salary for Group 5 so long as they are required to carry out significantly different work from their counterparts elsewhere in the UK.

[29] This role is currently carried out by a Lord Justice of Appeal.

[30] These judges are also called Senior Immigration Judges.

[31] The Chairman of the Mental Health Review Tribunal (Wales) also falls in the group, but the Welsh Assembly Government is responsible for this post.

Designated Immigration Judges
Former Regional Chairmen, Mental Health Review Tribunals (England)
Members, Claims Management Services Tribunal
Surveyor Members, Lands Tribunal (Northern Ireland)
Surveyor Members, Lands Tribunal (Scotland)
Surveyor Members, Upper Tribunal (Lands)
President, War Pensions and Armed Forces Compensation Chamber
Vice-Judge Advocate General
Vice-President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)

Group 7[32]

Assistant Judge Advocates General
Chairmen, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
Chief Medical Member, First-tier Tribunal, Social Entitlement Chamber and Health, Education & Social Care Chamber
Coroners, Northern Ireland
Costs Judges
District Judges
District Judges of the Principal Registry of the Family Division
District Judges (County Court) (Northern Ireland)
District Judges (Magistrates' Courts)
District Judges (Magistrates' Courts) (Northern Ireland)
Employment Judges (England and Wales and Scotland)
First-tier Tribunal Judges
First-tier Tribunal Judge, Property Chamber (former Vice President of the Residential Property Tribunal)
High Court Masters (Northern Ireland)
Judge of the First-tier Tribunal, War Pensions and Armed Forces Chamber (former Deputy President, Pensions Appeal Tribunal)
Judges of the First-tier Tribunal, Social Entitlement Chamber (former Asylum Support Adjudicators)
Judges of the First-tier Tribunal (Health, Education & Social Care Chamber, Immigration and Asylum Chamber,[33] Social Entitlement Chamber and Tax Chamber)
Masters and Registrars of the Supreme Court
Masters of the Supreme Court (Northern Ireland)
Member of the First-tier Tribunal Property Chamber (former Vice President of the Residential Property Tribunal)
Presiding District Judge (Magistrates' Courts) (Northern Ireland)[34]
Queen's Bench Masters
Senior Coroner, Northern Ireland[35]

Other

Salaried Medical Members, Social Entitlement Chamber[36]
Stipendiary Magistrates

[32] Group 7 post holders in London are paid an additional £2,000 salary lead and an additional £2,000 London allowance.

[33] These judges are also called Immigration Judges.

[34] This post is paid at 108 per cent of the Group 7 salary.

[35] This post is paid at 110 per cent of the Group 7 salary.

[36] This post is paid £82,500.

Appendix L

Recommendations on the judiciary – SSRB's Thirty-Third Report

Recommendation 2: We recommend the following changes:

- The role of Judge of the Upper Tribunal be moved from salary group 6.1 to salary group 5.
- The post of President of the Lands Chamber be given a salary lead of 5 per cent over salary group 5.
- The post of Chairman of the Mental Health Tribunal for Wales be moved from salary group 6.2 to salary group 6.1.
- The role of salaried Chairman of the Industrial Tribunals and Fair Employment Tribunal in Northern Ireland and the role of salaried Employment Judge within the Tribunals Service be moved from salary group 7 to salary group 6.2.
- The post of Vice President of the Industrial Tribunals and Fair Employment Tribunal in Northern Ireland be given a salary lead over salary group 6.2.
- The post of Presiding District Judge (Magistrates Court) in Northern Ireland be moved from 108 per cent of salary group 7 to salary group 6.2.

Recommendation 3: We recommend that the post of County Court Judge in Northern Ireland continue to be placed in salary group 6.1 but that it be paid at the rate of salary group 5 while the non-jury trial provisions remain in force.

Recommendation 4: We recommend that the role of the Recorder of Belfast / Presiding County Court Judge in Northern Ireland be paid a salary lead over salary group 5 while County Court Judges continue to be paid at salary group 5.

Recommendation 5: We recommend that all salaried judicial office holders in the United Kingdom be covered by our recommendations in future.

Recommendation 6: We recommend that the salary lead and the allowance continue to be paid to existing group 7 judiciary in the London area who currently receive these payments, while they remain in post, but these payments should not apply to new appointments.

Recommendation 7: We recommend that management salary leads be standardised at 5 per cent. Judges who are currently paid a larger salary lead should continue to receive the larger lead while they remain in those roles.

Recommendation 8: We recommend that the issues of additional reward for fraud work and of an allowance for Resident Judges be considered by the Lord Chief Justice. We will consider further evidence on these issues as part of our next annual report.

Recommendation 9: We recommend that the proposed new salary structure be implemented once that is consistent with public sector pay policy.

Recommendation 10: We recommend that from 1 April 2011 newly appointed judges should be paid at the lower of the proposed new rate and the old rate for the salary group to which the post is now allocated from 1 April 2011. Those appointed to London posts in group 7 should not receive the London salary lead and allowance and salary leads for newly appointed judges should be 5 per cent.

Appendix M

NHS Very Senior Managers (VSMs) – organisations and numbers in SSRB's remit on 1 August 2013

Organisations	**Estimated number of VSMs on 1 August 2013**
NHS England[37]	208
NHS Business Services Authority[38]	89
Ambulance Trusts[39]	30
NHS Trust Development Authority	27
Health Education England[40]	19
NHS Blood and Transplant Authority	9
Monitor	8
National Institute for Health and Clinical Excellence	7
NHS Health and Social Care Information Centre	7
Care Quality Commission	6
Human Tissue Authority	5
NHS Litigation Authority	5
Human Fertilisation and Embryology Authority	3
Health Research Authority	1
TOTAL	424

Source: Department of Health.

[37] NHS England includes 1 VSM in the NHS Leadership Academy and 5 VSMs in the National Improvement Body.

[38] The VSMs employed in NHS Commissioning Support Units, which are hosted by the NHS Business Services Authority, are in SSRB's remit. There are 5 VSMs in the Business Services Authority and 84 in the 18 Commissioning Support Units.

[39] East Midlands; East of England; London; North West and Yorkshire are the five Ambulance Service NHS Trusts still in SSRB's remit.

[40] Includes 13 VSMs employed in the Local Education and Training Boards.

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Appendix N

Glossary of terms and abbreviations

General	
Accrual rate	The rate at which future benefits in a defined-benefit pension scheme accumulate
Bank of England Monetary Policy Committee	Sets an interest rate it judges will enable the Government's inflation target to be met
Base pay	Basic salary, excluding non-consolidated bonuses, allowances, value of pensions, etc
CSR	Comprehensive Spending Review
CIPD	Chartered Institute of Personnel and Development
CPI	Consumer Prices Index
CPIH	Consumer Prices Index including owner-occupiers' housing costs
GDP	Gross Domestic Product
IDS	Incomes Data Services
Independent Public Service Pensions Commission (IPSPC)	Chaired by Lord John Hutton, a review of the future of pension provision in the public sector
Office for Budget Responsibility	Created in 2010 to provide independent and authoritative analysis of the UK's public finances
Pay Band	A salary range with a minimum and maximum within which posts are allocated
RPI	Retail Prices Index
RPIJ	Retail Prices Index (calculated using the Jevons formula)
SSRB	Senior Salaries Review Body
Take-home pay	Basic salary and any performance-related pay less income tax, National Insurance and, where appropriate, pension contributions
Senior civil service	
Civil Service Commission	Oversees appointments to senior positions within the SCS to ensure fair and open competition for jobs
SCS	Senior civil service/servants
Senior officers in the armed forces	
AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
CDS	Chief of the Defence Staff
MoD	Ministry of Defence
MODOs	Medical and dental officers
X-Factor	The X-Factor is an addition to military pay that recognises the special conditions of service experienced by members of the armed forces compared with civilian employment

The judiciary

HMCTS	Her Majesty's Courts and Tribunals Service
JAC	Judicial Appointments Commission (England and Wales)
LCJ	Lord Chief Justice of England and Wales
LCJNI	Lord Chief Justice of Northern Ireland
Lord President	Lord President of the Court of Session
MoJ	Ministry of Justice
Spot rate	Judges are all paid a standard amount in each salary group. This contrasts with senior civil servants whose base pay can be any amount within a specified pay band.
NIJAC	Northern Ireland Judicial Appointments Commission
Salary group	The grouping of judicial posts, for pay purposes, according to job weight. See Appendix K.

NHS Very Senior Managers

MiP	Managers in Partnership
SpHA	Special Health Authority
VSMs	Very Senior Managers

Police and Crime Commissioners

PCCs	Police and Crime Commissioners
APCC	Association of Police and Crime Commissioners