



Review Body on  
Senior Salaries

Review Body on Senior Salaries Report No. 87 Thirty-Ninth Annual Report on Senior Salaries 2017

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REPORT No. 87

*Chair:* Dr Martin Read, CBE

Cm 9455

ISBN 978-1-4741-4845-0



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## Thirty-Ninth Annual Report on Senior Salaries 2017

*Chair:* Dr Martin Read, CBE

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

July 2017

Cm 9455



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Print ISBN 9781474148450

Web ISBN 9781474148467

ID 14071702 07/17 59251

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office.

# Review Body on Senior Salaries

## Terms of Reference

The Review Body on Senior Salaries (previously known as the Review Body on Top Salaries) was formed in 1971 and is appointed by the Government to provide it with independent advice.

The Government wrote to us in September 2014 to confirm changes to the SSRB's terms of reference to reflect:

- The transfer of responsibility for MPs' pay, allowances and pensions from the SSRB to the Independent Parliamentary Standards Authority following the 2009 Parliamentary Standards Act;
- The addition of Police and Crime Commissioners to the SSRB's remit in 2013;
- The addition of senior police officers in England, Wales and Northern Ireland to the SSRB's remit from 2014;
- The removal of the requirement to maintain broad linkage between the remuneration of the SCS, judiciary and senior military.

Our terms of reference are now as follows:

*The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Home Secretary, the Secretary of State for Defence, the Secretary of State for Health and the Minister of Justice for Northern Ireland on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; very senior managers in the NHS<sup>1</sup>; police and crime commissioners, chief police officers in England, Wales and Northern Ireland; and other such public appointments as may from time to time be specified.*

*The Review Body may, if requested, also advise the Prime Minister from time to time 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, motivate and, where relevant, promote suitably able and qualified people to exercise their different responsibilities;*
- *regional/local variations in labour markets and their effects on the recruitment, retention and, where relevant, promotion 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.*

*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;*

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<sup>1</sup> NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers. The SSRB's remit group is now called Executive and Senior Managers (ESMs) in the Department of Health's Arm's Length Bodies.

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

Dr Martin Read CBE, *Chair*  
 Margaret Edwards  
 Sir Adrian Johns KCB CBE DL  
 David Lebrecht<sup>2</sup>  
 John Steele<sup>3</sup>  
 Dr Peter Westaway  
 Sharon Witherspoon

The Secretariat is provided by the Office of Manpower Economics.

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<sup>2</sup> Ex Officio: Chair Police Remuneration Review Body.

<sup>3</sup> Ex Officio: Chair Armed Forces' Pay Review Body.

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## Summary

1. There is currently no evidence of widespread recruitment and retention problems in the remit groups reviewed in this report. However, we believe there is a risk that the recruitment and retention position could deteriorate rapidly. It therefore needs to be closely monitored, particularly in the feeder groups.
2. Our remit group members continue to believe that their jobs are important and worthwhile. However, many are frustrated and demotivated. One common cause relates to changes to pension tax, which are having adverse impacts on recruitment, retention and motivation. The remit groups also believe that they are undervalued. Frustration and demotivation could already be damaging workforce performance and be a warning sign of future recruitment and retention problems.
3. Given the recruitment and retention risks and fragile morale, we believe that the government should make full use of the 1 per cent of pay budget that has been made available for pay rises this year.
4. Last year, we highlighted a number of strategic areas in which departments need to take action in respect of their senior workforces. These are listed in the box on the next page. Generally, progress against these priorities has been disappointing.
5. We recognise the pressing need to improve the public finances. However, the manner in which the 1 per cent public sector pay policy is being implemented is holding back necessary workforce reform. We are seeing very little evidence of pay being linked to workforce strategy or outcomes. Instead, pay policy for our remit groups has been characterised by long periods of rigidity, followed by reactive responses to specific pressures. Moreover, some important pay and workforce decisions of this nature, covering the judiciary and Senior Civil Service, have been taken by the government without our independent advice being sought.
6. We believe employers need to develop innovative pay and workforce proposals, even within current budgetary constraints. These should be focused on long-term outcomes, rather than simply on limiting basic pay increases across the board and then reacting in an ad hoc manner when action becomes unavoidable.
7. In the current context, it is difficult for the SSRB to operate effectively. If the government continues to see value in having an independent body to advise on senior salaries, we believe that some serious reflection is required about how to make better use of it.

### Box 1.1: Strategic priorities

- **Total reward:** In making pay recommendations, the SSRB needs to consider a range of factors alongside basic pay and bonuses, including pensions, relative job security and the value of benefits in kind.
- **Pay and workforce strategy:** Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.
- **Focus on outcomes:** There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.
- **Action on poor performance:** Greater analysis is required of where value is being added and action taken where it is not.
- **Performance management and pay:** There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.
- **Better data:** Better decision-making requires better data, particularly in respect of recruitment, retention and attrition. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.
- **Feeder groups:** The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.
- **Targeting:** Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.
- **Central versus devolved tensions:** Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.
- **Diversity:** The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.

# Chapter 1

## Report overview and recommendations

### Introduction

- 1.1 Historically, the government's main expectation of the SSRB, and the SSRB's main focus, has been the production of annual recommendations on increases in basic pay. In our report last year, we took a more strategic approach, which aimed to lift everybody's sights above this single issue.
- 1.2 Last year's report highlighted a number of strategic priorities where departments need to take action in respect of their senior workforces. These are listed in the box at the beginning of this report. They remain the same this year.
- 1.3 Our remit groups, in common with the rest of the public sector, have now experienced an extended period of pay restraint. In July 2016, the Chief Secretary to the Treasury wrote to the Chair of the SSRB confirming continuation of the government's previous public sector pay policy. He confirmed that the government will 'fund public sector workforces for pay awards of an average of 1 per cent a year, up to 2019/20'. This would mean average real-terms pay falling further for our remit groups in 2017, and probably for the two following years.
- 1.4 Although there are no widespread recruitment and retention problems in the remit groups we have considered this year, nor in their feeder groups, problems do exist in specific areas. In particular, vacancy levels in the High Court are unprecedented and there is evidence that this is linked to pay and pensions. There are also signs of potential problems elsewhere, such as for Circuit judges and some specialists in the civil service.
- 1.5 Low motivation among remit groups could already be damaging workforce performance and could be a warning sign of future problems in filling senior posts. Remit group members continue to believe that their jobs are important and worthwhile. However, many are becoming frustrated and demotivated. Whilst individuals are increasingly dissatisfied with their basic pay and bonuses, these are often not the only driving factors affecting morale. One common concern across all our remit groups relates to changes to pension tax. The way the new system is being operated is seen as inflexible and there is tangible evidence that it is having adverse impacts on recruitment, retention and motivation. The remit groups also believe that they are undervalued. Further statistical analysis of morale and motivation-related factors for our remit groups is presented in Appendix N to this report.
- 1.6 There is also a widespread feeling that pay decisions are predetermined and focused exclusively on consistency with government pay policy. Much of the evidence we received simply accepted blunt application of the 1 per cent pay policy rather than demonstrating any serious consideration of individual or average pay awards of either above or below 1 per cent. We saw very little evidence of innovative propositions to use pay to improve the efficiency and effectiveness of public service delivery.
- 1.7 We, therefore, believe that the manner in which the 1 per cent pay policy is being implemented is holding back necessary workforce reform for our remit groups. Government departments, organisational leaders and remit group members themselves appear to have concluded that, given current pay restraints, it is very difficult to make anything other than piecemeal changes to the way senior people are rewarded. They are therefore resigned to a strategy of least resistance and damage limitation. Damage, thus

far, has indeed been generally contained, but so have the benefits that might come from thinking more radically.

- 1.8 The tacit acceptance by our remit groups of slow progress on workforce reform, constrained by a rigid pay policy, is likely to affect the performance of their wider organisations. It will also exacerbate the risks and impacts of demotivation and attrition. We believe this position is unsustainable in the medium-term.
- 1.9 We want to assist government in addressing these issues. We strongly encourage proposals that use pay as a vehicle for genuine reform to be put to us. However, we can make little meaningful progress until evidence-based propositions come to us that go beyond the year-on-year distribution of one per cent of the paybill to current workforces.

**Recommendation 1: We recommend that all employers of our remit groups give active consideration to developing genuinely innovative pay and workforce proposals that are focused on maximising outcomes for lowest cost rather than limiting basic pay increases across the board.**

- 1.10 We also welcome other associations and employee representatives considering the above issues. We encourage proposals to be put to the SSRB, following a two-way dialogue with employers on these matters.
- 1.11 In the meantime, we believe that the current recruitment, retention and motivation position generally justifies full use of the 1 per cent of pay budget that has been made available for pay rises this year. In the current environment, failure to use the full available budget would itself be demotivating. This applies to all the remit groups reviewed in this report.

**Recommendation 2: We recommend that the 1 per cent available for basic pay increases this year is used, in full unless there is a strong and explicit rationale to do otherwise.**

**This applies to:**

- the Senior Civil Service
- the senior military
- the judiciary; and
- Executive and Senior Managers in the Department of Health's Arm's Length Bodies.

- 1.12 Chief police officers will be reviewed in a separate SSRB report.

### **The SSRB's strategic approach**

- 1.13 Our strategic priorities were set out last year and are reproduced at the front of this report. They were intended to help government move beyond some of its self-imposed constraints and to ensure that we received the evidence we needed to offer sound advice. A summary of their status for each of the SSRB's remit groups is provided in Table 1.1 at the end of this chapter. Progress has been generally disappointing.

#### *Total reward*

- 1.14 In making pay recommendations, the SSRB needs to consider a range of factors alongside basic pay and bonuses, including pensions, relative job security and the value of benefits in kind.

- 1.15 In recent years, there have been significant changes to public sector pension schemes and to the taxation of both public and private sector pensions. These have, in many cases, reduced the value of the wider reward package for our remit groups.
- 1.16 It is important to recognise that, for our remit groups, pension benefits remain generally more attractive than their private sector comparators. Moreover, the Defined Benefit schemes for our remit groups provide certainty about future retirement benefits, with a predictable and guaranteed pension. In these schemes, at retirement, benefits are actuarially valued at 20 times the annual pension entitlement. For most private sector employees in Defined Contribution schemes, it is not possible to purchase an annuity at such a favourable rate, meaning that each pound of pension accrued yields lower retirement benefits.
- 1.17 Nevertheless, the changes to pension taxation can produce high effective marginal tax rates for our remit groups. Large increases in pensionable income, can, in fact, lead to little change in net income. A rational response in some cases could be a decision to work less by either seeking early retirement or moving to part-time work. Alternatively, remit group members may decide not to apply for new positions. We are hearing that some employees are wishing to reduce their hours, or leaving our remit groups or the feeder groups earlier. Specific issues, documented further in Chapter 2, include the following:
- For some individuals, there is virtually no additional take-home pay benefit from working full-time, compared to working fewer hours.
  - Individuals with final-salary pensions can be affected differently, in terms of tax, from those with similar pay but in receipt of average-salary pensions.
  - A person in a more senior position can end their career with a less valuable pension than someone in a more junior post. This is predominantly an issue, at present, for the judiciary.
  - The impacts of taxation depend on factors including age, previously accrued pension benefits and career earnings profile. Therefore, calculating the personal net financial impact of promotion or career progression is a highly complex process. This complexity may, in itself, affect decisions to apply for, and remain in, senior posts.
- 1.18 It is beyond our remit to make recommendations on pension taxation but where it affects the recruitment, retention and motivation of public sector workers, it is a matter of concern to us. We raised this issue in our report last year. There is no evidence of a strategic response so far, despite this being a major issue.

**Recommendation 3: Public sector employers should closely examine the options for making pension packages more flexible and take action where appropriate.**

### *Pay and workforce strategy*

- 1.19 Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.
- 1.20 Employers for most of our remit groups are undertaking some form of pay or workforce reform. For example:
- the Ministry of Defence (MoD) appears to have a relatively clear view of the senior military workforce needed and a plan to achieve it; and

- a large-scale courts reform programme is underway and the Ministry of Justice (MoJ) has recently commissioned the SSRB to carry out a major review of the judicial salary and grading structure, which will consider how different judicial roles are changing over time.

1.21 Nonetheless, **employers of our remit groups need to do much more to ensure pay strategy is being linked to workforce strategy in a meaningful manner.**

#### *Focus on outcomes*

- 1.22 Our terms of reference say we may make recommendations, as we see fit, to ensure that the remuneration of our remit groups encourages efficiency and effectiveness. We feel strongly that there should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. Where departments can deliver the required, or better, standard of public service with a smaller workforce, serious consideration should be given to allowing flexibility to reallocate some savings to average pay increases above 1 per cent.
- 1.23 We were disappointed to receive no specific proposals or plans on this issue this year. As highlighted earlier in this chapter, **we encourage departments to consider the scope for taking innovative action over pay to improve the efficiency and effectiveness of the public services they deliver.** This could be done through piloting innovative approaches to pay in certain areas, where appropriate cost controls can be put in place, such as in parts of the civil service.

#### *Action on poor performance*

- 1.24 Greater analysis is required of where value is being added and action taken where it is not. An efficient and effective approach to remuneration means departments should be able to set out what steps are being taken to identify those employees who are relatively well paid, but whose contribution is more limited, and what action is being implemented to rectify the situation. There was very little discussion of this issue in the evidence submitted to us by government departments this year and we are concerned this issue may not be receiving the attention it deserves. **We request more information on the action being taken in respect of the identification and remuneration of relatively poor performers in the evidence submitted to us next year.**

#### *Performance management and pay*

- 1.25 Our terms of reference ask us to make recommendations that relate reward to performance where appropriate. Last year, we said that a renewed focus on staff and career management is required, particularly in respect of performance management and career development. There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.
- 1.26 In the private sector, there has been increased emphasis on performance pay systems in recent years, as shown in Box 1.2. In contrast, only two of our remit groups (the Senior Civil Service (SCS) and Executive and Senior Managers (ESMs) in the Department of Health's Arm's Length Bodies) have meaningful performance pay systems. Even in these cases, the systems are not trusted by staff and/or are under-used by management. **Whether current pay models sufficiently incentivise good performance should be a matter of active review.**

### Box 1.2: Research into Modern Pay Systems (PWC, 2016)<sup>4</sup>

- This recent research, commissioned and published by the Office of Manpower Economics (OME), aimed to provide a detailed picture of recent developments in pay systems and reward strategies outside the public sector, focussing on innovation and post-recession reform.
- It showed that the monetary value of bonuses is considerably higher in the private sector compared to the public and voluntary sectors.
- Another finding was that bonuses are higher as a proportion of salary for more senior roles.
- It also showed that, since the recession, there has been an increased emphasis on variable pay systems (generally linked to employee or company performance) with the aim of using the pay budget as efficiently as possible to encourage positive and sustainable staff behaviours.

#### *Better data*

- 1.27 Better decision-making requires better data, particularly in respect of recruitment, retention and attrition. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken. These data are needed, not only for the purposes of annual consideration by the SSRB but, even more importantly, for ongoing review by employers through the year.
- 1.28 Data quality across our remit groups is highly variable. Some data may be held and used locally. However, at a national level, the quality is so poor for some remit groups that effective workforce planning is not currently possible. **We request that urgent attention is paid to improving data quality in areas where it is currently inadequate.** In cases where progress has been made since last year, the positive momentum is welcome and should be built upon.
- 1.29 Specific data priorities vary between remit groups. Nevertheless, areas where data tend to be missing or weak include the quality of applicants, recruits and staff and morale and motivation. There is also insufficient information on specialist posts and the feeder group from which future senior public sector workers will be drawn.

#### *Feeder groups*

- 1.30 Generally, there is no current evidence of major retention issues in the feeder groups. However, these could arise rapidly. Furthermore, a lack of data in some areas leaves a risk that serious issues will not be picked up quickly enough. For example, the external market from which the judiciary is mostly appointed is insufficiently understood. In the case of ESMs, no feeder group data has been made available to us.
- 1.31 **We believe it is vital that the feeder groups supplying the next generation of senior public sector leaders are closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.** Such problems can emerge quite rapidly. Employers need to understand the level of risk and plan accordingly.

#### *Targeting*

- 1.32 Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.

<sup>4</sup> PWC (2016), Research into Modern Pay Systems: Office of Manpower Economics. <https://www.gov.uk/government/publications/research-on-modern-pay-systems-november-2016>

- 1.33 The letter from the Chief Secretary to the Treasury of 13 July 2016 said, 'As I set out to you in my letter last year, I expect to see targeted pay awards, in order to support the continued delivery of public services, and to address recruitment and retention pressures. This may mean that some workers could receive more than 1 per cent whilst others receive less, and there should be no expectation that every worker will receive a 1 per cent pay award. I am aware that this requires you to receive good, evidence-based propositions to consider.'
- 1.34 It is, therefore, surprising that not a single department proposed a specific targeted pay award to us this year. Some proposed flat across-the-board increases and others wished to delegate targeting decisions to individual employing bodies.
- 1.35 In the context of a 1 per cent pay policy, targeting pay awards is more challenging because the total amount of money available to target is relatively small. Nevertheless, **we strongly encourage well-supported proposals for targeted pay increases next year.** Where proposals are made to delegate decisions to subsidiary or sub-national levels, there should be evidence that the merits and demerits of this approach have been fully considered.
- 1.36 Recently, the OME published a report on pay targeting in the public sector<sup>5</sup>, which it is hoped will be of assistance to departments and other parties in developing future proposals. Further details are provided in Box 1.3.

### *Central versus devolved tensions*

- 1.37 Tensions hindering the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.
- 1.38 This is particularly the case for chief police officers and between the Cabinet Office and other government departments in the case of the SCS. For example, this year the Cabinet Office has again proposed delegating the great majority of the SCS pay budget to individual departments. There are potential pluses and minuses to such an approach. Crucially, however, there is no visible plan for managing the discrepancies, adverse incentives, inflexibilities and inequities that exist in the system as a result of this policy. Furthermore, it does raise the question of how a national-level Pay Review Body such as the SSRB can best support such a process. **We strongly urge clarity on such issues for each of our remit groups next year.**

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<sup>5</sup> Office of Manpower Economics (2016), Targeted Pay Increases in the Public Sector: Theory and Practice. <https://www.gov.uk/government/publications/targeted-pay-increases-in-the-public-sector-theory-and-practice>

### Box 1.3: Targeted Pay Increases in the Public Sector – Theory and Practice (Office of Manpower Economics, 2016)

This report aimed to provide a basis for thinking about pay targeting in a systematic and structured way. Some selected conclusions are as follows:

- Almost all pay structures already differentiate between employees. If these already work satisfactorily, an employer may not need further targeting via annual increases.
- Vacancies or concerns about staff motivation are not a sufficient basis for a targeted pay award. There needs to be evidence that targeting will have an impact on the issue of concern.
- Targeted awards will have a greater impact where: labour supply is relatively responsive to pay; and/or where output-per-worker will rise relatively significantly in response to increased pay.
- Pay needs to be targeted in a manner that does not do more harm than good by creating other supply or motivation problems, especially in the context of limited budgets.
- Potential dimensions for distinguishing employees to receive targeted pay rises from others are: skills, experience and occupation; location; and employee performance.
- Targeting pay by performance requires robust measurement, or at least ranking, of staff performance and a good understanding of the link between pay and employee output.
- Targeting can be done nationally, departmentally or locally. Relevant factors include overall budgetary control; the balance between making use of granular knowledge and achieving general consistency; the importance of location; and the appropriate level for accountability.
- Effective targeting requires good evidence. Precise data requirements partly depend on the type of targeting: for example, targeting according to locality requires a good understanding of local labour markets.

#### *Diversity*

1.39 The senior workforces within our remit groups need to reflect better the society they serve and the broader workforces for which they are responsible. For most of the SSRB's remit groups, the gender split is more, but not adequately, representative of society than the ethnic diversity breakdown. Data on other diversity aspects, such as disability, sexuality or social background, is generally lacking for our remit groups<sup>6</sup>.

1.40 The SSRB's terms of reference permit us to make recommendations, as we see fit, to ensure that the remuneration of those covered by the remit is consistent with the government's equal opportunities policy. In at least some of the workforce groups within our remit, such as the SCS and ESMs, average pay for women is less than that for men. Employers should be analysing the gender pay gap and ensuring they understand what factors are driving it so that any necessary corrective action can be taken to eliminate it.

<sup>6</sup> In 2011 the percentage of the England and Wales population that was non-white was 14.0 per cent. <https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/ethnicityandnationalidentityinenglandandwales/2012-12-11>. The government estimates that 17 per cent of working age adults have a limiting long term illness, impairment or disability. However, this includes people not currently in paid work. <https://www.gov.uk/government/statistics/family-resources-survey-financial-year-201415>

## Individual remit groups

### *The Senior Civil Service*

1.41 In previous SSRB reports, we have highlighted what we consider to be serious flaws in the current SCS pay system. We recognise that they cannot be resolved quickly, but believe the pace of reform to date has been much too slow.

1.42 The flaws include:

- the pay of members of the remit group being effectively frozen at a particular point on the pay scale, regardless of skills, experience or performance;
- significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below;
- a lack of confidence in the performance management system; and
- a resulting disconnect between pay on the one hand and seniority, performance and contribution on the other. This cannot represent efficient or effective use of the pay budget.

1.43 The recruitment and retention data for the remit and feeder groups do not suggest that there is an immediate need for pay awards greater than 1 per cent in most SCS roles. However, we do not believe the lack of existing recruitment and retention problems should be grounds for complacency. Our conversations this year with members of the remit group emphasised to us their widespread and very deep lack of confidence in the pay system, regardless of whether they thought their own pay or that of their peers was reasonable. We are concerned about the demotivating effect that this might have and about how this may start to impact on staff effectiveness within the SCS remit group and its feeder groups.

1.44 Our remit requires us to advise on the pay of the SCS as a single cadre. However, we have become increasingly conscious of tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. Moreover, such decentralisation makes it harder for the SSRB to play an effective role when its advice is sought from, and provided to, a single central point in government.

1.45 For the current year, we believe that a 1 per cent increase in pay budgets for this group is justified, in accordance with Recommendation 2 which follows paragraph 1.11. However, our most important recommendation for the SCS this year is that there needs to be a formal review of the pay system. We are very willing to assist in such an exercise. We firmly believe we can add more value through advising on a full overhaul of the current system rather than tinkering with the annual distribution of a largely delegated 1 per cent of paybill. We hope that any review would take account of the overarching strategic conclusions that we published in our last report and which we reiterate in this report. In particular, we believe the focus should shift towards seeking to maximise overall outcomes for lowest cost, rather than on limiting basic pay increases across the board.

**Recommendation 4: We recommend that the government undertakes a fundamental review of the SCS pay system, with a view to proposals being made to the SSRB in time for us to comment meaningfully on them in our next annual review with implementation from April 2018.**

### *Senior Officers in the Armed Forces*

- 1.46 Evidence shows that recruitment to, and retention of, the senior military are currently at satisfactory levels. For the time being, it continues to attract sufficient numbers from the feeder group, with no evidence of a decline in the quality of recruits.
- 1.47 However, the future situation on recruitment and retention for the remit group is uncertain. We have seen signs that officers are taking a decision at a younger age than in the past on whether to stay in the military and seek promotion, or leave and seek a second career.
- 1.48 The situation in the feeder group needs to be kept under particularly close review. In the meantime, active and careful consideration should be given by the MoD and HM Treasury to what mitigating factors may need to be put in place should the retention situation worsen.
- 1.49 Recent changes to pension taxation allowances continue to have a detrimental impact on morale. We share the concern of the MoD that this presents an enduring risk to its ability to attract and retain sufficient talent to populate the top ranks in future.
- 1.50 Our concerns about this group justify full use of the 1 per cent pay award budgeted by the MoD. We therefore recommend that all individuals in the senior military receive a 1 per cent pay increase this year, in accordance with Recommendation 2 which follows paragraph 1.11. We also recommend that differentials for Medical and Dental Officers are maintained.

**Recommendation 5: 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<sup>7</sup>.**
- **3-star MODOs should continue to be paid 5 per cent above 2-star MODO base pay, plus X-Factor.**

### *The Judiciary*

- 1.51 The majority of judges, unlike any of our other remit groups, are recruited externally. This contrasts, for instance, with the manner in which the SCS draws heavily from the wider civil service, or how recruitment to the senior military arises by promotion from a lower rank. While, in a few cases, judges move up from one judicial position to a higher one, this is relatively rare. In the main, judges are drawn from an external labour market of relatively highly-paid individuals, usually solicitors or barristers, or less commonly from academia. Therefore, while people are motivated to become judges for a range of reasons and tend to accept that a commitment to public service as a judge may involve moving to a lower salary on appointment, pay and wider reward are nevertheless important in influencing individual decisions to apply for judicial posts.
- 1.52 Senior judges, in particular, accept that they may see a significant drop in salary from their previous work. However, recent changes to terms and conditions, especially to judicial pensions, appear to have made the posts less attractive.

<sup>7</sup> X-Factor is a pensionable addition to pay, which recognises the special conditions of service experienced by members of the Armed Forces compared with civilians over a full career. It is recommended by the Armed Forces' Pay Review Body and, in 2016-17, was £10,272 at the top of the OF4 pay scale. For senior officers, the payment is tapered. 1-star officers (the rank directly below the SSRB's remit) receive 50 per cent of the cash value of X-Factor at the top of the OF4 scale. 2-star and 3-star officers receive an amount equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 scale. 4-star officers (the SSRB's top rank) do not receive it.

- 1.53 This year, there has been an unprecedented number of unfilled vacancies in the High Court. Last year there was a failure to recruit to one post, which in itself was unusual. This was followed by an exercise to fill 14 posts in which only eight judges were recruited. Currently, a further exercise is being run to appoint 25 judges. This has been accompanied by a significant increase in the number of early retirements in the High Court.
- 1.54 For the High Court, the evidence now shows a definite problem with recruitment, and with early retirement. This was sufficiently serious that the SSRB was considering making a recommendation outside the 1 per cent pay norm this year. However, before we could report, the MoJ notified us of the government's own decision to put in place a new allowance worth 11 per cent of pay for some judges in the High Court in England and Wales. The government did not seek the independent advice of the SSRB on this matter.
- 1.55 We present evidence about the recruitment and retention difficulties in the High Court in Chapter 6. We note too that there are also signs of potential difficulties with recruiting to the Circuit Bench.
- 1.56 Looking across the judiciary as a whole, morale seems to have declined further, from already low levels, in the last two years. Factors which have contributed to this include:
- widespread dissatisfaction with the taxation treatment of judicial pensions;
  - increased workloads;
  - poor working conditions;
  - increased numbers of litigants in person; and
  - a sense of not being valued by the government.
- 1.57 Separately from the temporary allowance announced by the MoJ, we recommend that all members of the judiciary should receive a consolidated 1 per cent pay rise this year. This is in accordance with Recommendation 2 which follows paragraph 1.11.
- 1.58 A longer-term solution needs to look, in the round, at the changing expectations for judicial roles and the need to recruit and retain sufficient numbers of high quality judges at all levels. For this and other reasons, we are pleased that the Lord Chancellor has asked us to carry out a major review of judicial pay, which is scheduled to be completed by June 2018. We welcome the Lord Chancellor's clear commitment that the government will engage seriously with our findings in a timely manner.

#### *Executive and Senior Managers in the Department of Health's Arm's Length Bodies*

- 1.59 Our current remit group forms only a small proportion of senior health service managers in England. They do not form a coherent group, as they are mostly employed in various Arm's Length Bodies (ALBs) which have different functions and priorities. Managers move between organisations covered by the SSRB and those in the wider health service, which are currently outside our remit. This means the parties find it difficult to assemble proper evidence on basic questions such as recruitment and retention, career progression, feeder groups and morale.
- 1.60 The limited data available do not indicate any problems recruiting or retaining ESMs in ALBs. Nevertheless, this group has been subject to an extended period of pay restraint and failure to make an award averaging 1 per cent could have detrimental impacts on the motivation of ESMs covered by the SSRB when their leadership is required during a highly challenging period for the health service. The 1 per cent pay budget available should therefore be used, in accordance with Recommendation 2 which follows paragraph 1.11.

- 1.61 Pay increases should be targeted to address recruitment, retention, motivation and service delivery issues, staff performance and current position on the pay scale. They should also be used to make progress on addressing existing anomalies, including significant gender pay disparities and between staff with the same level of responsibility. We note that almost half of ESMs are paid an amount greater than the operational maximum of their Pay Band and we do not expect ALBs to make a consolidated award to this particular group. In addition, we also note that the budget for performance bonuses has been heavily under-used in the past, and we recommend it should be better utilised in future.

**Recommendation 6: We recommend that the Department of Health mandates that ALBs use the whole available budget for non-consolidated awards to the top 25 per cent of performers. If individual ALBs wish not to do this, they should be required to make a formal case to the Department of Health Remuneration Committee.**

- 1.62 Looking forward, we believe that trying to manage this remit group as a separate, coherent workforce is neither practical nor sensible. Instead, we see the following alternatives:
- As the Department of Health has proposed this year, ALB remuneration committees could take on more responsibility for pay setting. This would leave no meaningful function for the SSRB in terms of the normal annual pay cycle, so we would cease to offer advice for this group.
  - Or, the government could expand central pay oversight and widen the SSRB's remit to advise on the pay of all health service senior managers. This would facilitate greater consistency in health service remuneration but would represent a major change with wider policy implications.
- 1.63 We do not think it would be a good use of resources for us to advise again on the ESM group as currently constituted.

**Recommendation 7: We recommend that the government, in consultation with Managers in Partnership, develops a coherent proposition on how best to set the pay of ESMs in the Department of Health's Arm's Length Bodies in the future. This will result in either: the expansion of the SSRB's remit to cover all senior managers working across the NHS, supported by appropriate powers to implement its recommendations if they are accepted; or the development of alternative pay setting arrangements for ESMs in ALBs, which may consist of delegating local pay decisions, supported by clear, rigorous governance and oversight processes, with the corresponding removal of ESMs from the SSRB's remit.**

## Looking ahead

- 1.64 A progress summary is provided here for each of our remit groups as evaluated against our 10 strategic priorities. It is also reproduced for each specific group in the relevant chapter.

Table 1.1: Assessment of position for remit groups<sup>1</sup> against the SSRB's strategic priorities<sup>2</sup>

<b>Key</b>	<b>Green:</b> Area of little concern <b>Amber:</b> Area of some concern <b>Red:</b> Area of significant concern	↑: Improving trajectory ↔: Stable trajectory ↓: Declining trajectory
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SSRB priority in 2016 report	Assessment of position in 2017				
	Senior Civil Service	Senior Officers in the Armed Forces	The Judiciary	Executive and Senior Managers in Arm's Length Bodies	Chief Police Officers <sup>3</sup>
<b>Pay and workforce strategy:</b> Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Commitment to develop SCS pay and workforce strategy, but no concrete proposals. ↔	Plan exists for future size and structure of the workforce, linked to strategic priorities. ↔	Programme for modernisation of the judiciary underway. Major review required to look at pay and grading structure: has been commissioned. ↑	New pay framework now exists, but a lack of a workforce strategy. ↑	New police rank structure being developed and a new reward framework planned. ↔
<b>Focus on outcomes:</b> There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	Potential interest, but no firm commitment or proposals. ↔	No proposals made. ↔	No current proposals but major review will consider remuneration for leadership roles. ↔	No proposals made. ↔	No proposals made. ↔
<b>Action on poor performance:</b> Greater analysis is required of where value is being added and action taken where it is not.	Little direct evidence. Data shows higher performers less likely to leave, but accuracy of data unclear. ↔	No evidence that it is an issue, but no evidence presented. ↔	Unique nature of judicial role makes this difficult: but pre-appointment processes appear robust. ↔	No evidence that it is an issue, but no evidence presented. ↔	No evidence that it is an issue, but no evidence presented. ↔
<b>Performance management and pay:</b> There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	Established performance management system, but not trusted by staff. No specific commitment to review. ↔	No evidence that it is an issue, but no evidence presented. ↔	As above, but major review will consider remuneration for leadership roles. ↔	Little evidence presented. Capacity to pay performance bonuses exists, but is heavily under-used. ↔	No evidence that it is an issue, but no evidence presented. ↔

SSRB priority in 2016 report	Assessment of position in 2017				
	Senior Civil Service	Senior Officers in the Armed Forces	The Judiciary	Executive and Senior Managers in Arm's Length Bodies	Chief Police Officers <sup>3</sup>
<b>Better data:</b> Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good and improved workforce data. ↑	Good and improved workforce data. ↑	Reasonable quality workforce data. ↔	Data provided have improved, but major gaps still exist. ↑	Data remain of poor quality with major gaps. ↔
<b>Feeder Groups:</b> The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Limited data available. No evidence of major concerns. ↔	Evidence that situation is being kept under review: new data presented this year. Potential growing concern around retention. ↓	Lack of up-to-date information. Recruitment problems have emerged in the High Court. Major review will examine this. ↓	Limited data available. No evidence of major concerns. ↔	Limited data available. Appears to be sufficient numbers coming through system at present, but situation is fragile. ↔
<b>Targeting:</b> Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	Departments can target, but lack of general framework for doing so. ↔	A non-targeted pay award is proposed. Targeting argued to be inappropriate for this group. ↔	A non-targeted pay award is proposed. The major review will consider the pay and grading structure. ↔	A targeted award is proposed, but specific proposals are not made. ↑	A non-targeted pay award is proposed. ↔
<b>Central versus devolved tensions:</b> Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	Tension between central and departmental control. ↔	No evidence that such tensions exist. ↔	No evidence that such tensions exist. ↔	Some senior manager jobs in the NHS are subject to national control where others are not. ↔	Tension between central and local control is creating motivation problems and presents a future recruitment risk. ↔

SSRB priority in 2016 report	Assessment of position in 2017				
	Senior Civil Service	Senior Officers in the Armed Forces	The Judiciary	Executive and Senior Managers in Arm's Length Bodies	Chief Police Officers <sup>3</sup>
<p><b>Diversity:</b> The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.</p>	<p>Relatively good performance on gender, but poor on ethnicity, and smaller proportion describe themselves as disabled than in 2004.</p> <p style="text-align: center;">↔</p>	<p>Poor diversity profile, although some progress on gender (first female in 2013, now three). MoD plans to cover ethnicity and disability from 2018.</p> <p style="text-align: center;">↔</p>	<p>Relatively good and improving performance on gender, but poor on ethnicity and other diversity characteristics such as disability.</p> <p style="text-align: center;">↑</p>	<p>Relatively good performance on gender. Data on ethnicity and disability show improvement in 2016 but from a low base.</p> <p style="text-align: center;">↑</p>	<p>Poor performance on gender and ethnicity.</p> <p style="text-align: center;">↔</p>

Notes:

- <sup>1</sup> The SSRB was asked not to conduct an annual review of Police and Crime Commissioners' pay this year so we have no evidence on which to make an assessment.
- <sup>2</sup> All the SSRB's strategic priorities are set out in Box 1.1 (see page 2). The focus of the first strategic priority, total reward, is the SSRB rather than evidence providers, so is not included in this table.
- <sup>3</sup> Chief police officers will be reviewed in a separate SSRB report.

## Chapter 2

### Pay and pensions

#### Summary

- 2.1 Pay and pensions are but two factors determining why people work in our remit groups. Others include a sense of public service, relative security of employment and, in some cases, a more flexible approach to work. That said, it is notable that the base pay of those in our remit groups has been frozen or restricted since 2011, resulting in reductions in real take-home pay of almost a quarter for some groups. Public sector pensions, although still relatively generous, have also become less valuable over this period.
- 2.2 In this chapter, we consider three approaches to benchmarking remuneration for the SSRB's remit groups against appropriate comparators. These are approximations but are useful in terms of understanding broad relativities. The first two of these approaches relate only to pay:
- The first uses Office for National Statistics (ONS) data. This analysis (necessarily somewhat rough and ready) is based on comparing the 98th percentiles of the public and private sector earnings distributions. It is presented with and without statistical adjustments and shows that the base pay and bonuses of the top public sector workers are around 80 per cent of those of private sector workers at the same relative point on the pay distribution.
  - The second approach uses Korn Ferry Hay Group (KFHG) data. It focuses more specifically on our remit groups and attempts to make comparisons with similar private sector jobs. It evaluates and benchmarks jobs according to levels of accountability, knowledge, skills and experience. This approach (also necessarily an approximation) shows base pay varies from less than 50 per cent of the private sector equivalent in some remit groups, to approximately 90 per cent in others. In terms of total remuneration, excluding pensions, the corresponding range is around 20 to 60 per cent.
- 2.3 Despite the various assumptions and approximations inherent in these two analyses, both suggest that the pay of those in our remit groups lags significantly behind the private sector.
- 2.4 However, pension benefits for our remit groups remain generally more attractive than private sector comparators. Adding pensions to the comparisons discussed above reduces the gap between the public and private sectors to some extent. Furthermore, some public sector pension benefits are not fully captured in the calculations. In particular, our remit groups remain overwhelmingly in Defined Benefit pension schemes, while the vast majority of members of private sector schemes are in Defined Contribution schemes. The Defined Benefit schemes for our remit groups provide certainty about future retirement benefits which Defined Contribution pensions do not.
- 2.5 The third approach to benchmarking remuneration uses analysis carried out for the Office of Manpower Economics (OME) by Towers Watson. It focuses specifically on pensions. In common with the other approaches, it shows that public sector pensions remain attractive for our remit groups. However, it also demonstrates that such pensions are now typically less valuable, in both absolute terms and relative to the private sector, than they were prior to the introduction of new pension schemes in 2015. This is due to factors such as increased employee contributions, the introduction of new schemes where benefits are based on an average of earnings across a career rather than final salary and

the uprating of previously accrued pension benefits by the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

- 2.6 Furthermore, changes to pension taxation have led to high effective marginal tax rates in some cases, where an apparently large increase in pensionable income leads to little real change in net income. Rational responses in some cases could be to pursue a different career, seek early retirement, reduce working hours, or to decide not to apply for promotion. We are hearing, as set out in later chapters, that some employees are making such decisions or considering doing so. Specific issues, include the following:
- For some individuals, there is virtually no additional take-home pay benefit from working full-time compared to working fewer hours.
  - Individuals with final salary pensions can face significantly different tax impacts from those with similar pay and average salary pensions.
  - A person in a more senior position can end their career with a less valuable pension than someone in a more junior post. This is predominantly an issue, at present, for the judiciary.
- 2.7 The impacts of taxation depend on factors including age, previously accrued pension benefits and career earnings profile. Therefore, calculating the personal net financial impact of promotion or career progression is a highly complex process. This complexity may, in itself, affect decisions not to apply for, and remain in, senior posts.
- 2.8 Several options exist for reducing the recruitment, retention and motivation risks resulting from changes to pensions and their taxation through providing greater pension flexibility. These include trading off pension benefits for lower contributions, changing the balance between an individual's pension and pay and offering the option of voluntary enrolment in Defined Contribution schemes.

## Introduction

- 2.9 When assessing remuneration, the SSRB needs to look at the wider reward package rather than just base pay and bonuses. This chapter compares financial reward for our remit groups to the private sector and considers trends over time. We pay particular attention to pensions and their taxation because these are frequently being cited as important factors affecting recruitment, retention and motivation in the roles we cover.

## Pay

### *SSRB remit groups*

- 2.10 Our remit covers approximately 7,000 senior personnel in six different groups<sup>8</sup> with an overall paybill of approximately £1 billion. The pay of those in our remit ranges from £64,000, for those senior civil servants paid at the bottom of Pay Band 1, to the most senior members of some of our remit groups, whose salaries exceed £250,000. The salary scales and ranges for each of the remit groups covered by this report are set out in Appendix K.
- 2.11 Since 2015, the government policy has been that public sector pay awards will average no more than 1 per cent per year until 2019-20. However, as shown in later chapters of this report, pay budgets for our remit groups have often risen at a faster rate than 1 per cent. Adjusting for factors such as the changing size of the workforce, tax and National Insurance does not fully account for this. Additional potential reasons for pay budgets rising by more than 1 per cent annually include employers increasing the proportion

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<sup>8</sup> The SSRB covers the Senior Civil Service, the Judiciary, Senior Officers in the Armed Forces, Executive and Senior Managers in the Department of Health's Arm's Length Bodies, Police and Crime Commissioners and Chief Police Officers.

of more senior (better paid) jobs in the workforces and offering higher salaries on appointment, to attract high quality external appointees.

- 2.12 Nevertheless, base pay for the SSRB remit groups has been subject to a period of prolonged restraint since 2010 and this is expected to continue for at least the next few years. In addition, changes to the rates and thresholds of income tax and National Insurance and higher employee pension contribution rates have reduced the take-home pay of those in our groups. A recent such change was the end to the contracting out of the additional state pension and the associated 1.4 per cent National Insurance rebate from April 2016, reducing take-home pay for those earning £40,040 or more per year by around £480 annually.<sup>9</sup> As in recent years, we have asked our secretariat to calculate the combined effects of these changes in both nominal terms and in real terms. The results are shown in Table 2.1 with full details of the calculations and assumptions set out in Appendix J.

**Table 2.1: Representative changes in take-home pay between 2009-10 and 2016-17 resulting from pay, income tax, National Insurance, pension contribution changes and inflation**

Remit group		Nominal change (%)	Real change (against CPI) (%)
SCS	Pay Band 1	-9	-23
Judiciary	Circuit Judge (Band 6.1)	-7	-21
Senior Military	2-star	+9	-8
Executive & Senior Health Managers (ESMs)	Chief Executive	-10	-24

Source: Office of Manpower Economics.

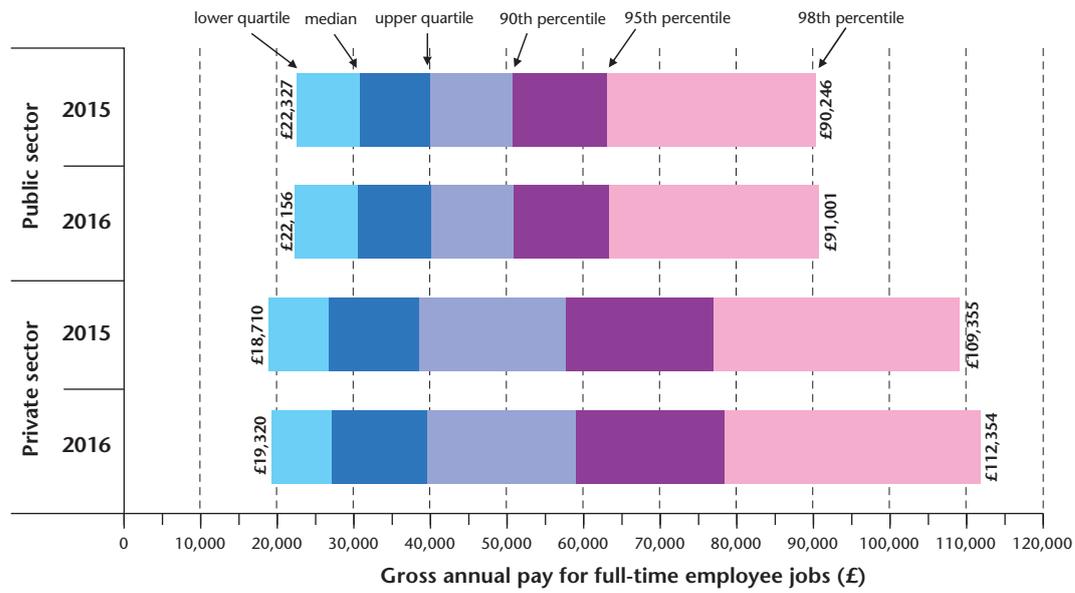
- 2.13 Most of our remit group members have experienced a fall of between a fifth and a quarter in their real take-home earnings between 2009-10 and 2016-17. The typical senior military member continues to be less adversely affected than our other remit groups because the majority still receive annual increments and their pensions continue to be non-contributory.

#### *Public and private sector senior pay*

- 2.14 The distribution of total earnings (pay and bonuses) within the public sector is relatively compressed. This means that, whilst the lowest paid public sector workers are paid slightly more than their private sector counterparts, the highest paid in the public sector earn considerably less than in the private sector.
- 2.15 Using ONS data, the 95th percentile of the public sector total earnings distribution is roughly in line with the pay of the lowest paid workers in SSRB remit groups. The 98th percentile can be used to approximate the typical pay received by members of the SSRB remit groups, although it is necessarily a crude measure because large pay differences exist within and across the groups. Public sector pay, for full-time employees, at the 98th percentile in 2016 was 19 per cent lower than in the private sector, at around £91,000 compared to £112,000.

<sup>9</sup> Institute for Fiscal Studies (2016), *The IFS Green Budget*.

**Figure 2.1: Distribution of annual full-time employee base pay and bonuses in the public and private sectors in 2015 and 2016**

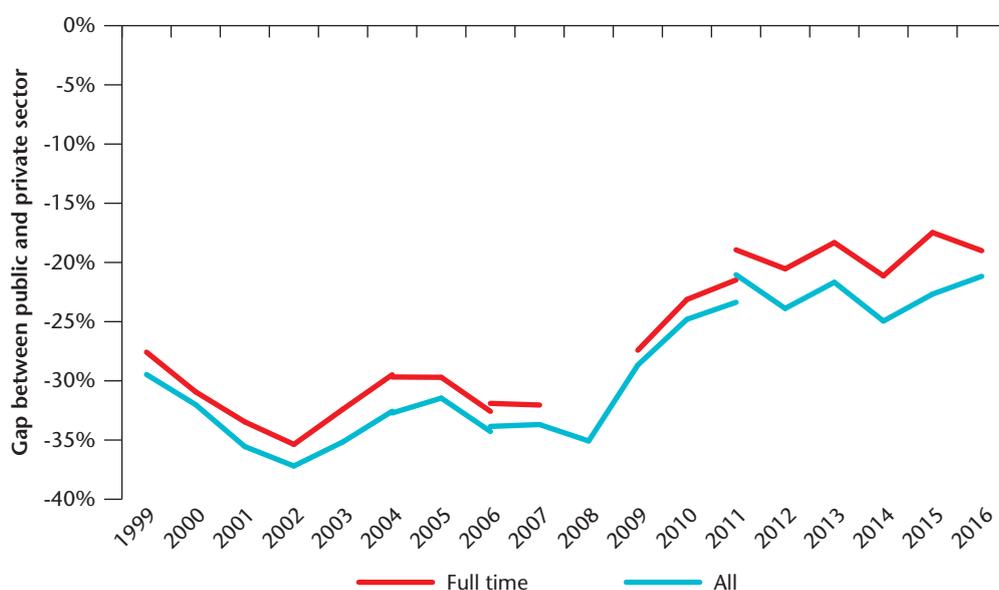


Source: Office for National Statistics, Annual Survey of Hours and Earnings (ASHE) 2016.

Notes: Source data at the 98th percentile have high coefficients of variation, meaning that some of the data in this figure should be viewed as illustrating only broad relativities.

2.16 The unadjusted pay gap at the 98th percentile between the private and public sectors seems to have narrowed since the pre-recession period. It is difficult to elicit precise trends, due to discontinuities in the data, but it appears that the gap between private and public sector earnings at the top end has fallen over time. For full-time workers, as shown in Figure 2.2, it was around 30 per cent in favour of the private sector prior to the economic crisis, but 19 per cent in 2016.

**Figure 2.2: Percentage gap in gross annual base pay and bonuses between the public and private sectors at the 98th percentile as a share of private sector pay**



Source: Office of Manpower Economics calculations using Office for National Statistics Annual Survey of Hours and Earnings (ASHE) data.

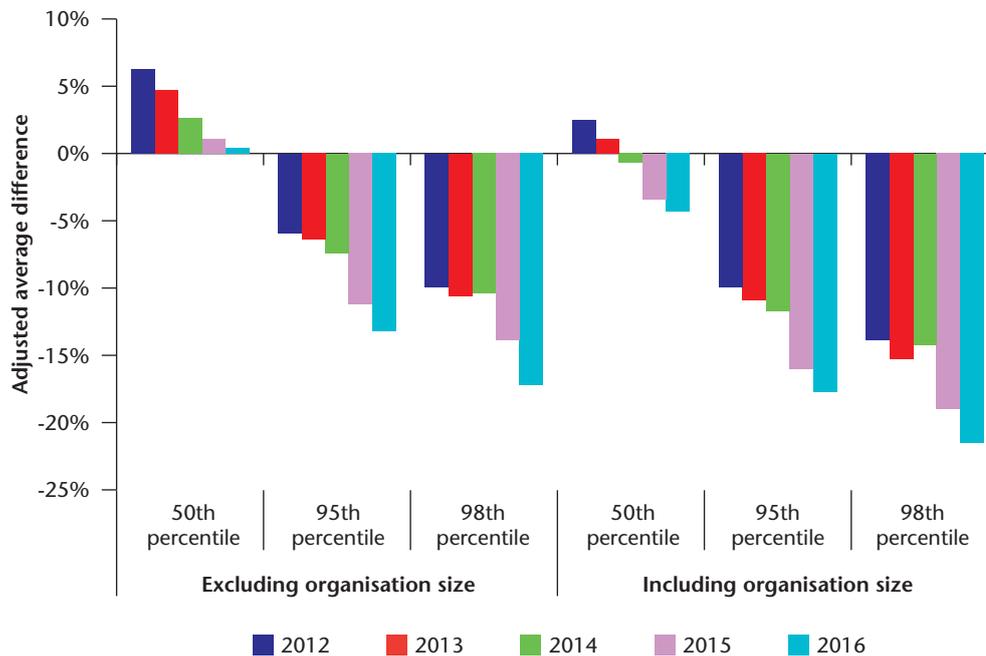
Notes: See notes to Figure 2.1. In addition, the pay gap is unadjusted for employee or job characteristics. Various discontinuities in the ASHE dataset mean comparisons across years need to be made with caution. In 2006, there were changes to the construction of geographic areas and to weighting. In 2007, there were changes to the coding of occupations and weighting. Also, large businesses that return their data electronically began to be used as a separate stratum in ASHE weighting. The ASHE sample size was temporarily reduced by 20 per cent in 2007 and 2008. A value for the full-time gross annual pay 98th percentile was not published in 2008. In 2011, ASHE used the new 2010 Standard Occupational Classification (SOC) for the first time. In 2014, additional supplementary surveys were introduced to improve coverage.

2.17 In order to make better like-for-like comparisons between the two sectors than those presented in Figure 2.2, the ONS uses a regression model to make statistical adjustments which enable the influence of separate factors on hourly base pay and bonuses to be better identified, including organisation size, occupation and gender<sup>10</sup>. It does not adjust for the characteristics of individual jobs. The ONS modelled an adjusted pay differential at the 95th and 98th percentiles of the earnings distribution up to 2015 for our 2016 report. It has since updated that analysis for the period between 2012 and 2016, which shows, in Figure 2.3, that public sector workers at the 98th percentile of the earnings distribution earned around 17 to 22 per cent less than their private sector counterparts<sup>11</sup>. In other words, it appears senior public sector people with similar skills and characteristics are paid less. In contrast to the unadjusted estimates presented in Figure 2.2, the gap between the public and private sectors appears to have widened over time in the adjusted estimates, although the size of the current gap is similar in both calculations.

<sup>10</sup> ONS *Analysis of factors affecting earnings using Annual Survey of Hours and Earnings: 2016*. The analysis adjusts for region, occupation, age, gender and job tenure.

<sup>11</sup> The precise estimates are 17 per cent (excluding organisation size) or 22 per cent (including organisation size). There are arguments, both for and against, making a statistical adjustment for organisation size when performing this calculation. Therefore, in line with Office for National Statistics practice, we present both sets of results rather than selecting a single preferred metric.

**Figure 2.3: Adjusted percentage gap in hourly pay between public and private sector workers as a share of private sector pay between 2012 and 2016**



Source: Office of Manpower Economics calculations using Office for National Statistics Annual Survey of Hours and Earnings data.

Notes: See notes to Figures 2.1 and 2.2.

## Total reward

- 2.18 Total reward includes base pay, performance pay, share-based long-term incentive awards, in-kind benefits, such as health insurance and motor vehicles and pensions. Although our analysis of total reward takes account of pensions, we discuss this issue in greater detail later in this chapter.
- 2.19 In our 2016 report, we developed an analysis that combined ONS pay data at the 98th percentile in 2015 with Institute for Fiscal Studies (IFS) estimates of the pay and pensions gap between the public and private sectors. At that time, we crudely estimated the adjusted public-private sector differential to be between -4 per cent and zero. After updating the analysis to take account of the 2016 ONS data, we now estimate that differential to be between -9 per cent and -5 per cent.<sup>12</sup>
- 2.20 This is a crude analysis because the 98th percentile in the public and private sectors represents only a rough approximation of the SSRB's remit groups and comparator roles. Furthermore, applying the IFS estimate to our senior remit groups requires us to assume that the difference in pension values between the public and private sectors as a whole still applies at senior levels. Ideally, we would compare the roles currently undertaken by those in our remit groups with those they might fill, should they look for an alternative career, but the necessary data are not currently available.
- 2.21 Instead, in order to provide estimates more relevant to our remit groups, we commissioned data this year from the KFHG. It holds a database that contains remuneration data on around 800,000 jobs spread over 800 organisations in the public and private sectors. The KFHG identifies jobs on the database with similar characteristics to those covered by our remit and compares the salary and total remuneration available in each case. Box 2.1 sets out the method that the KFHG uses to evaluate and match jobs.

<sup>12</sup>Further detail of the methodology used is provided in Appendix F of our 2016 report.

### Box 2.1: Korn Ferry Hay Group job evaluation methodology

The Korn Ferry Hay Group (KFHG) uses a job evaluation method to group together similar sized roles for market analysis and benchmarking. Its job evaluation methodology has three main criteria:

- **Accountability:** This is what the role is there to achieve and deliver. It is built up by understanding the role's freedom to act, the scale or size of the area over which the role has an impact and the nature of that impact.
- **Know-how:** This is the sum total of the knowledge, skills and experience necessary to deliver what the role is accountable for. It is built up by examining the need for technical, professional and practical knowledge and the requirement for management and delivering results through others.
- **Problem solving:** This factor covers the need for understanding, creativity and problem solving. It is made up by assessing both the complexity of the judgements made and the nature of the environment in which they are made.

When evaluating roles, the KFHG focuses on the requirements of the job or role itself and assumes that the job is being done as it should be. It makes no judgement about the capability or performance of the job holder.

Once each job has been given a score, the KFHG is able to make pay comparisons for jobs with similar scores. Comparisons can be made for:

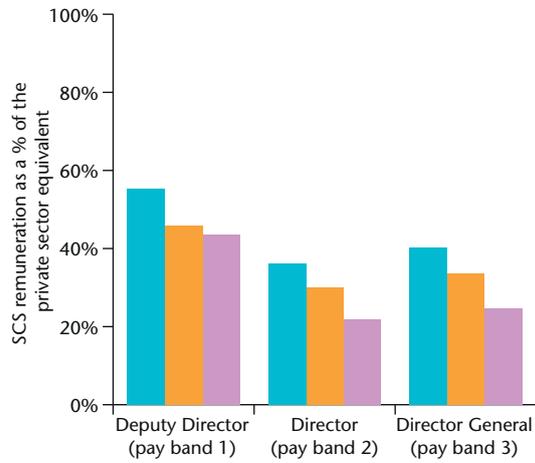
- base salary;
- total remuneration excluding pension (base salary, plus short-term variable payments such as performance bonuses and share-based long-term incentive awards and benefits); and
- total remuneration (as above, plus pension).

2.22 Figure 2.4 shows that, across all of the jobs in our remit groups, base salary is behind that of those in the private sector identified as doing jobs with a similar job score. This ranges from below 50 per cent of private sector pay for some roles, to up to 90 per cent for others. This gap widens when the calculation is repeated for total remuneration, as defined in Box 2.1. This is, in part, because most members of our remit groups do not receive any bonus payments. For their private sector equivalents, bonus pay typically adds 30 to 40 per cent to base pay and share-based long-term incentive awards will add further to this in some cases. The results from this approach are very different from those based on the results of the ONS Annual Survey of Hours and Earnings (ASHE) survey. This is because one method is based on looking at the reward of those at a particular percentile in the earnings distribution while the other makes comparisons based on jobs of a similar weight.

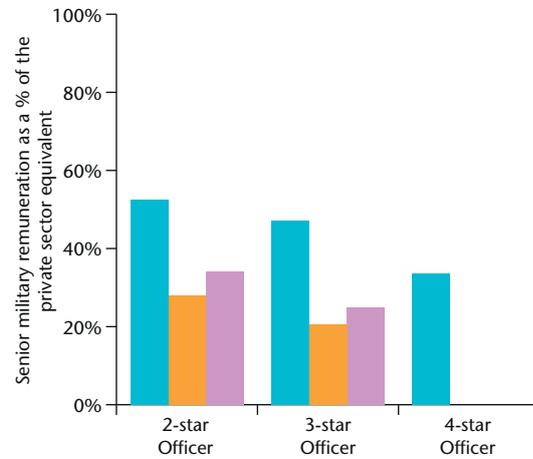
2.23 It is important to note that the nature of the jobs done by those in our remit groups mean that comparisons are often made against those doing very different jobs, despite the KFHG identifying them as having similar job scores. Therefore, this means we should be careful not to place too much weight on this analysis. Ideally, we would prefer to conduct comparisons with jobs that our separate remit groups are moving into or out of, something which is very difficult to do in practice. Even so, the KFHG-based analysis is likely to be more useful than the ONS-based analysis which compares the pay of our remit groups with private sector workers at the same point on the income distribution, even though they may be doing very different jobs in terms of responsibility and complexity.

Figure 2.4: Remuneration comparisons between SSRB remit groups and those in the private sector in roles with similar job scores

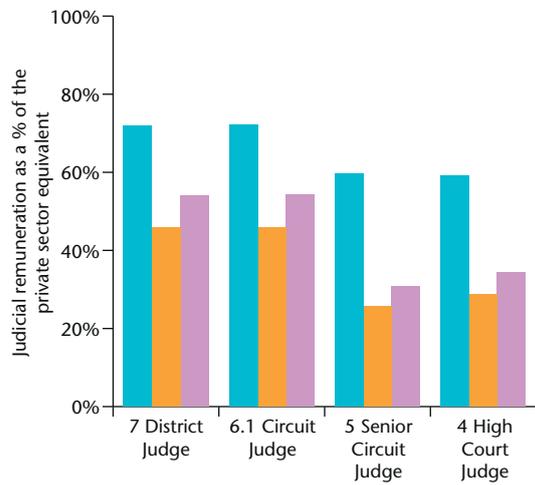
Senior Civil Servants



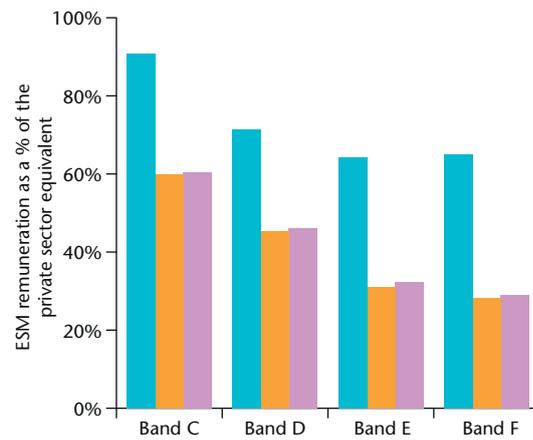
Senior military



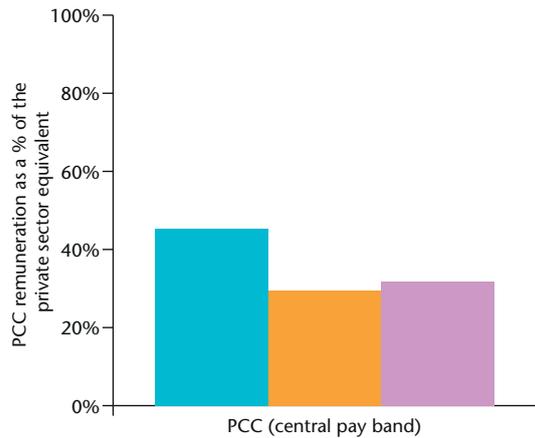
Judiciary



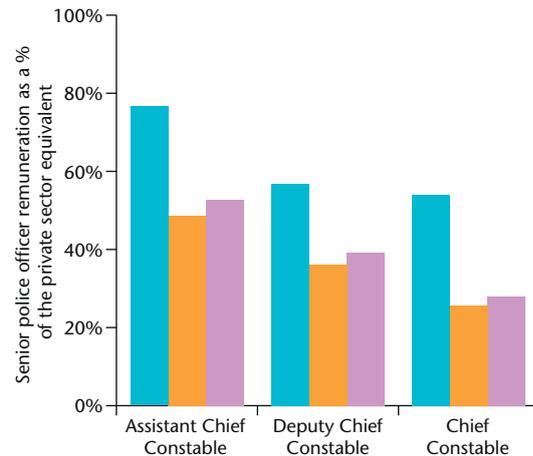
Arm's length bodies Executive and Senior Managers



Police and Crime Commissioners



Chief police officers



■ Base pay ■ Total remuneration excluding pension ■ Total remuneration

Source: Office of Manpower Economics calculations using Korn Ferry Hay Group data.  
 Notes: For 4-star officers, robust comparator data on total remuneration (including or excluding pension) is not available.

## Pensions

- 2.24 Although we have been discussing pensions as part of our analysis of total reward we now consider them in more detail. These are an important component of overall reward for our remit groups, as is apparent from the evidence we receive and from the discussions we have with the groups. Of those employees with a workplace pension, 94 per cent of public sector employees had an occupational Defined Benefit pension in 2016, compared to only 15 per cent in the private sector<sup>13</sup>, where Defined Contribution schemes dominate.
- 2.25 Comparing the financial value of these two different types of pensions is not straightforward, as discussed in Box 2.2. For instance, future pension benefits from Defined Contribution schemes are uncertain, and mitigating this financial risk through the purchase of an annuity comes at a significant cost to the value of the pension fund. This uncertainty does not apply in the case of Defined Benefit schemes, where a predictable and guaranteed pension, officially valued at 20 times the annual accrual rate, and uprated (for our remit groups) in line with inflation, is provided. It is not generally possible to purchase an annuity from the accumulation of a Defined Contribution pension at anything close to such a favourable rate.

### Box 2.2: Comparing public sector and private sector pension schemes

In Defined Benefit schemes, the employee usually makes a contribution to 'buy in' to the scheme. At retirement age, the size of the annual pension provided depends on the individual's prior earnings, the annual rate at which pension benefits were accrued and the length of service.

Under Defined Contribution schemes, the employer makes a monthly financial contribution, typically supplemented by the employee. The total contribution is then invested and can be used to purchase an annuity on retirement.

In order to make the two comparable, the Defined Benefit pension either has to be expressed in terms of a current value, net of employee contributions, or the Defined Contribution pension has to be converted into an expected future value.

The KFHG estimates in this report take the former approach<sup>14</sup>. They value Defined Contribution schemes based on the employer contribution. Where plans are step-rated, based on age or length of service, they create a value for a 'typical' employee. For Defined Benefit schemes, the benefit value is calculated on the basis of earnings and years of service. Usually a percentage of average earnings over an employee's entire period of service or over a particular number of years is used.

A more sophisticated analysis would also need to take into account other factors including: the value to the individual of the relatively certain future pension stream offered by a Defined Benefit pension, subject to the actual career path followed; the arguably greater individual flexibility offered by a Defined Contribution pension; and the comparability of the assumed annuity rate in Defined Contribution schemes and the assumptions made about the cumulative value of Defined Benefit pensions.

<sup>13</sup> *Annual Survey of Hours and Earnings pension tables, UK: 2016 provisional and 2015 revised results*. Employers are asked to name the employee's main type of pension scheme.  
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2016provisionaland2015revisedresults>

<sup>14</sup> The alternative approach could convert a Defined Contribution scheme into a future value, which would require assumptions about the growth of the pension fund over time and the rate at which it would be converted into an annuity. These are not straightforward assumptions and this approach is less typically used.

- 2.26 In 2010, the Government Actuary's Department (GAD), which devised the valuation factor of 20:1, discussed above, said that it may have under-valued pensions because of the assumptions it used about life expectancy and discount rates<sup>15</sup>. GAD also compared this factor to market annuity rates. It said that a joint life annuity at age 60 might be priced using a factor of 32:1 if linked to RPI or 28:1 if linked to CPI.
- 2.27 We present results from two studies below that have attempted to compare pensions for our remit groups with the private sector. First, Figure 2.4 shows that adding pensions to the KFHG calculations discussed in paragraphs 2.21 to 2.23 slightly closes the remuneration gap between our remit groups and private sector comparators. This demonstrates that pensions typically make up a larger proportion of the reward package for senior staff in the public sector than in the private sector. However, in the context of the overall private-public gap in remuneration, the inclusion of pensions in the total reward calculation has a relatively small impact according to this analysis. Estimating pension values is not straightforward but, even if we assume that the methods presented here underestimate the value of public sector pensions, then the value of the overall package in the public sector is still considerably less than that of the private sector for those with similar job scores.
- 2.28 In an alternative study in 2014, the OME<sup>16</sup> published research from Towers Watson into changes in the value of public sector pension schemes from 2010 to 2016. The research report presented three or four examples of career paths for each workforce group relevant to the SSRB. In almost all cases, the public sector pension is worth more than the private sector comparator in 2016. This differs from the KFHG results, because it is based on a different methodology, where public and private sector jobs are matched on pay rather than the content of the job.
- 2.29 The Towers Watson analysis is therefore perhaps the most useful for examining trends over time. It shows that the gap in pension value between the public and private sectors narrowed between 2010 and 2016 in almost all cases. This means that public sector pensions have proportionately lost value relative to private sector pensions over that period. A summary of the work undertaken by Towers Watson is provided in Appendix P.
- 2.30 Factors underlying the Towers Watson finding that public sector pensions have lost value are as follows:
- Increased employee contributions from 2012 onwards.
  - Changes to the indexation of benefits from 2011, from RPI to CPI. At the same time, in the private sector, statutory minimum indexation changed from RPI to CPI, although some schemes continue to use RPI as the basis for indexation.
  - The introduction of new public sector pension schemes in 2015, with benefits based on career average salaries rather than final salary, with higher retirement age. However, these remain Defined Benefit schemes (increasingly rare in the private sector).
  - Changes to the taxation of pensions, with reductions in the Lifetime Allowance and Annual Allowance thresholds.
  - The new Judicial Pension Scheme is registered with HMRC for tax purposes, unlike the previous Judicial scheme.

<sup>15</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/259732/GAD\\_report\\_on\\_flat\\_factor\\_version\\_14\\_October.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259732/GAD_report_on_flat_factor_version_14_October.pdf)

<sup>16</sup> <https://www.gov.uk/government/publications/comparative-pension-valuation-for-review-body-remit-groups>

- 2.31 Although new schemes were introduced in 2015, many in our remit groups remain in legacy schemes that pre-date 2015. They fall into three groups:
- Those within 10 years of their normal retirement age at 1 April 2012, who receive full protection and remain in legacy final salary pension schemes: they are not affected by the introduction of the new career average pension schemes, but are affected by other changes such as tax and the change to revaluing pension benefits by CPI rather than RPI.
  - Those not within 10 years of their normal retirement age at 1 April 2012, who nevertheless will have spent most of their career in the final salary scheme but will spend a small part of their career in the new career average schemes: some in this group will receive partial protection through transitional arrangements, while others will not.
  - Those who spend all or almost all of their career in the new career average schemes: they receive no transitional protection.
- 2.32 The proportion of those in our remit that has currently transitioned to new schemes varies widely by group. At least 90 per cent of our Armed Forces remit group are currently still in the legacy schemes. Sixty five per cent of the judiciary are in the relevant legacy scheme. In contrast, almost two-thirds of the SCS are in career average schemes<sup>17</sup>. However, as time passes those still in legacy schemes will retire and will be replaced by new entrants, who will be members of the new schemes.
- 2.33 Although all the new schemes of which our remit groups are members have benefits based on career average earnings, other characteristics vary from scheme to scheme as shown in Table 2.2.

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<sup>17</sup>The Cabinet Office estimates the distribution of scheme eligibility for the SCS to be as follows: Classic – 21 per cent; Premium/Classic Plus – 10 per cent; Nuvos – 3 per cent; and Alpha – 63 per cent. 3 per cent of members are in Partnership or opted-out. The estimates are based on survey data from March 2017. These figures should be considered indicative, as Senior Civil Service status is not recorded against member records and the figures are based on members earning £64,000 or over. This will include members (mostly at Grade 6 level) who are not Senior Civil Servants.

Table 2.2: Current pension schemes for SSRB remit groups

	Senior Civil Service (SCS)	Senior Military	Judiciary	Executive and Senior Managers (ESMs) in the Department of Health's Arm's Length Bodies	Police and Crime Commissioners (PCCs)	Chief police officers
<b>Geographical coverage</b>	GB	UK	UK	England	England (excluding London) and Wales	England, Wales and Northern Ireland
<b>Pension scheme<sup>1</sup></b>	Alpha Civil Service Principal Pension Scheme	Armed Forces Pension Scheme 2015 (AFPS15)	New Judicial Pension Scheme 2015	National Health Service Pension Scheme	Local Government Pension Scheme 2014	Police Pension Scheme 2015
<b>Revaluation rate<sup>2</sup></b>	CPI	Average Weekly Earnings (AWE)	CPI	CPI +1.5%	CPI	CPI +1.25%
<b>Accrual rate</b>	1/43rd (2.32%) of annual earnings	1/47th (2.13%) of annual earnings	1/43rd (2.32%) of annual earnings	1/54th (1.85%) of annual earnings	1/49th (2.04%) of annual earnings	1/55.3 (1.81%) of annual earnings
<b>Normal retirement age</b>	State Pension Age	60	State Pension Age	State Pension Age	State Pension Age	60
<b>Pension scheme (2015) contribution rates</b>	7.35% (up to £150,000) or 8.05% (£150,001+)	0% Non-contributory scheme	7.35% (up to £150,000) or 8.05% (£150,001+)	13.5% (up to £111,376.99) or 14.5% (£111,377+)	9.9% (up to £86,000) or 10.5% (£86,001+)	13.78% (£60,000+)

Source: Office of Manpower Economics.

Notes:

<sup>1</sup> These schemes apply to all new and some existing members. All schemes, including the New Judicial Pension Scheme (NJPS), are registered with HMRC for tax purposes since April 2015. This means that scheme members are eligible for tax relief on their individual contributions, but only up to their Annual Allowance threshold. The pensions are also subject to the Lifetime Allowance.

<sup>2</sup> The revaluation rate is the rate used to uprate historical earnings figures to present day values for the purposes of calculating average career earnings.

## Pension taxation

- 2.34 In addition to changes to pension schemes, changes over recent years to pension taxation mean that more senior people, in both the public and private sectors, are exceeding Annual and Lifetime pension tax thresholds. These changes have, as intended, reduced the generosity of the tax treatment of relatively high-value pensions. However, they have also had some, probably unanticipated, consequences for our remit groups. These have the potential to affect the incentives and behaviour of both current and potential members, with consequences for recruitment, retention and motivation.
- 2.35 The value of pension benefits is taxed if it increases by more than a certain amount in a given period, currently £40,000 in a single year. The overall value of the 'pension pot' is also taxed if it exceeds a certain threshold, currently £1 million.
- 2.36 The Annual Allowance is the limit determining the maximum increase in the value of benefits that a scheme member can earn over a particular tax year without incurring a tax charge. The Allowance was reduced from £255,000 to £50,000 from April 2011, and further reduced to £40,000 with effect from 2014-15. In the Summer Budget 2015, the Chancellor announced that, from April 2016, the Allowance would be tapered at a rate of £1 for every £2 of income received over £150,000, down to £10,000 for those with income over £210,000. This final change affects those in our remit groups if they are paid more than £110,000 a year and see an increase in their pension benefits of more than £40,000 in a given year.
- 2.37 The Lifetime Allowance is the maximum amount of pension savings an individual can build up over their life from all registered pension schemes without incurring a tax liability. Between April 2012 and April 2014, the Allowance was progressively reduced from £1.8 million to £1.25 million, and then reduced further to £1.0 million from April 2016.
- 2.38 The reductions over time in the Annual and Lifetime Allowances are set out in Table 2.3.

**Table 2.3: Annual and Lifetime Allowances since 2010-11**

Year	Annual Allowance (£ thousands)	Lifetime Allowance (£ millions)
2010-11	255	1.80
2011-12	50	1.80
2012-13	50	1.50
2013-14	50	1.50
2014-15	40	1.25
2015-16	40 <sup>1</sup>	1.25
2016-17	40 <sup>2</sup>	1.00

Source: Office of Manpower Economics.

Notes:

<sup>1</sup> From April 2016, a tapered Annual Allowance was introduced. Transitional arrangements applied during 2015-16. These are to enable all pension schemes to align their Pension Input Periods (PIPs), over which the Annual Allowance is measured, with the tax year. This means two mini PIPs will be relevant for the tax year 2015-16. The pre-alignment mini PIP was open between 1 April 2015 and 8 July 2015 and members had an Annual Allowance of £80,000 in respect of that period. The post-alignment mini PIP ran between 8 July 2015 and 5 April 2016, and members have an Annual Allowance equal to their unused Allowance from the pre-alignment mini PIP to a maximum of £40,000.

<sup>2</sup> If income is over £110,000 and an individual contributes more than £40,000 to their pension then the Allowance is reduced by £1 for every £2 of income and pension contribution in excess of £150,000, up to a limit of £210,000.

- 2.39 Before 2015, the Judicial Pension Scheme was unusual, in that it was not registered for tax purposes with HMRC. This meant that judges did not receive tax relief on their pension contributions but also fell outside the scope of the Annual and Lifetime Allowances. However, this is not the case for the New Judicial Pension Scheme, introduced in 2015, which is registered with HMRC for tax purposes.

## The Annual Allowance

### *Details of the Annual Allowance*

- 2.40 Calculating the increase in pension benefits for the Annual Allowance over a given period is a function of the change in the value of the pension lump sum (where applicable) and the annual pension (multiplied by a valuation factor of 16) based on length of service to date. The valuation factor of 16 was devised by GAD in 2010<sup>18</sup> and represents its estimate of the actuarial value of the specified annual increase to pension over a year. GAD said that, when devising the valuation factor, it had been asked by HM Treasury to take into account that the choice of valuation factor should avoid discouraging or encouraging Defined Benefit pension provision unnecessarily and that actuarial assumptions should aim to deliver consistency between treatment of Defined Benefit and Defined Contribution members.
- 2.41 Many members of our remit groups remain in final salary pension schemes. The effect of breaching the Annual Allowance threshold can be more sudden in such schemes than in the average salary schemes introduced from April 2015, as illustrated later in this chapter. This is because the actuarial value of the pension can jump significantly due to increases in pay, such as through rises resulting from incremental progression or a promotion. This makes retirement planning feel more complicated and less predictable. However, the system mitigates, to some extent, against such one-off pension benefit increases by allowing use of any unused Allowance from the previous three years to be offset against a sharp increase in benefits in a single year.
- 2.42 Where a scheme member has an increase in pension benefits which exceeds £40,000, even after using unused Allowance from the previous three years, they will be taxed on the figure exceeding the Annual Allowance. This will be at the same rate at which they pay income tax. Scheme members can pay the tax due at the time, or they can often elect to use 'Scheme Pays', a mechanism that allows the pension scheme administrator to pay any tax charge due. In return, the pension administrator will apply a reduction to the individual's pension benefit in line with factors set out by GAD.
- 2.43 The rules relating to the pensions Annual Allowance are applied equally across private and public sector workforces. However, there are particular impacts impinging on those in Defined Benefit schemes, with differences in impact depending on the characteristics of those affected. Below, we set out three examples showing:
- the impact of introducing a career average scheme to replace a final salary scheme;
  - the effect of choosing to work fewer than full-time hours; and
  - the impact of using 'Scheme Pays'.

### *Example one: impact of introducing a career average scheme*

- 2.44 When we met members of the SCS remit group, a number said they were aware of the potential for a tax charge if they were promoted and that this was a factor when considering applying for promotion to more senior levels. However, the Annual Allowance will have different impacts on remit group members, depending on whether they are members of final salary or average salary schemes. To examine this issue, we

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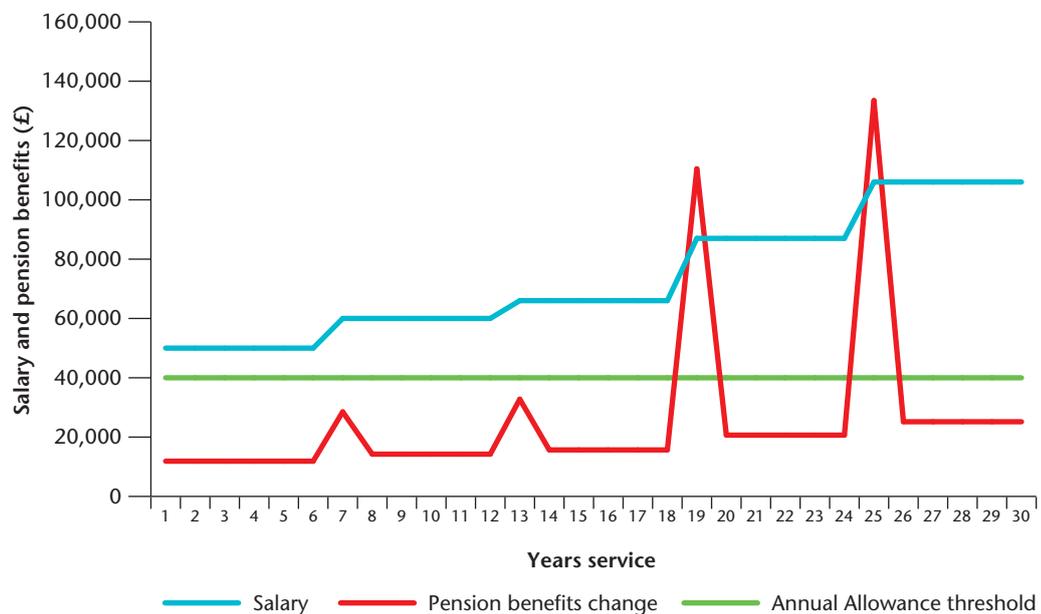
<sup>18</sup> Government Actuary's Department, *Reducing the Annual Allowance, Setting the valuation factor*, October 2010.

first consider the example of a civil servant who is a member of a pension scheme where benefits are calculated based on the members' final salary. The hypothetical individual:

- joins the civil service as a Grade 7 at age 30;
- is a member of the Civil Service Classic scheme;
- is promoted every six years thereafter;
- is paid, throughout, at a level that corresponds to a plausible minimum salary for their pay band, based on current civil service pay; and
- retires at age 60 as a SCS Pay Band 3, on the current minimum for the grade of £106,000.

2.45 Figure 2.5 shows their salary profile and how their pension benefits grow each year, in relation to the £40,000 Annual Allowance.

**Figure 2.5: Salary and pension benefits profile of an illustrative civil servant on the Classic (final salary) pension scheme**



Source: Office of Manpower Economics analysis for the SSRB.

2.46 In most years, the individual sees an increase in their pension benefits of well below the Annual Allowance threshold of £40,000. The exceptions come in the years when they are promoted from SCS Pay Band 1 to Pay Band 2 and from Pay Band 2 to Pay Band 3. Potentially, in each instance, they could face a tax charge based on the increase in pension benefits that year. For example, when the individual is promoted to SCS Pay Band 3 in their 25th year of service, their pension fund sees a step-change in its value and they exceed the Annual Allowance by more than £93,000.

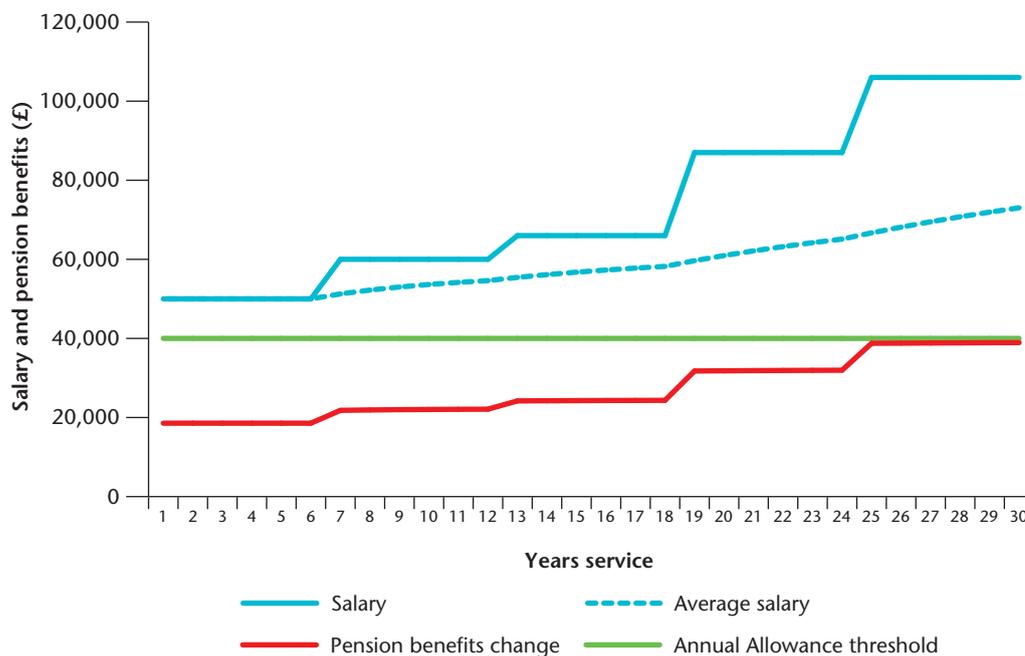
2.47 However, in each of the three years prior to earning promotion, they did not use their full £40,000 Allowance. That unused Allowance can offset some of the excess. The individual has unused Annual Allowance from the previous three years, totalling £58,000. Subtracting this from £93,000 leaves an adjusted excess of £35,000. That excess is taxed at a rate of 40 per cent, the rate at which income tax is paid, leaving a tax bill of £14,000. The scheme member can pay the tax immediately with no impact

on their pension or, alternatively, they could use 'Scheme Pays' which means an actuarial reduction in the value of the pension they receive on retirement<sup>19</sup>.

2.48 This can be contrasted to a civil servant with the same career and salary path, but who joins the Alpha pension scheme. In this scheme, benefits are calculated based on the member's average salary across their whole career.

2.49 Figure 2.6 shows the salary profile and pension benefit profile over time, in relation to the £40,000 Annual Allowance. Unlike their counterpart in the final salary scheme, in this example, the member never exceeds the £40,000 Annual Allowance threshold, even in those years where they gain promotion.

**Figure 2.6: Salary and pension benefits profile of an illustrative civil servant on the Alpha (average salary) pension scheme**



Source: Office of Manpower Economics analysis for the SSRB.

2.50 In these scenarios, we assumed a retirement age of 60 in both cases for the purposes of comparison. In reality, members of Alpha have a higher normal retirement age and there are a number of other important differences between the Classic and Alpha schemes. Nevertheless, the above analysis illustrates that, all other things being equal, members of average salary schemes are less likely to breach the £40,000 Annual Allowance threshold, in those years where they gain a large pay increase, than those individuals on final salary pensions. This is because the impact of a large pay increase is averaged out across each year of service to date rather than the full impact being felt in one year. Therefore, to the extent that this issue is proving to be a disincentive for members of some of our remit groups to seek promotion, it should gradually become less so in the future.

*Example two: impact of choosing to work fewer than full-time hours*

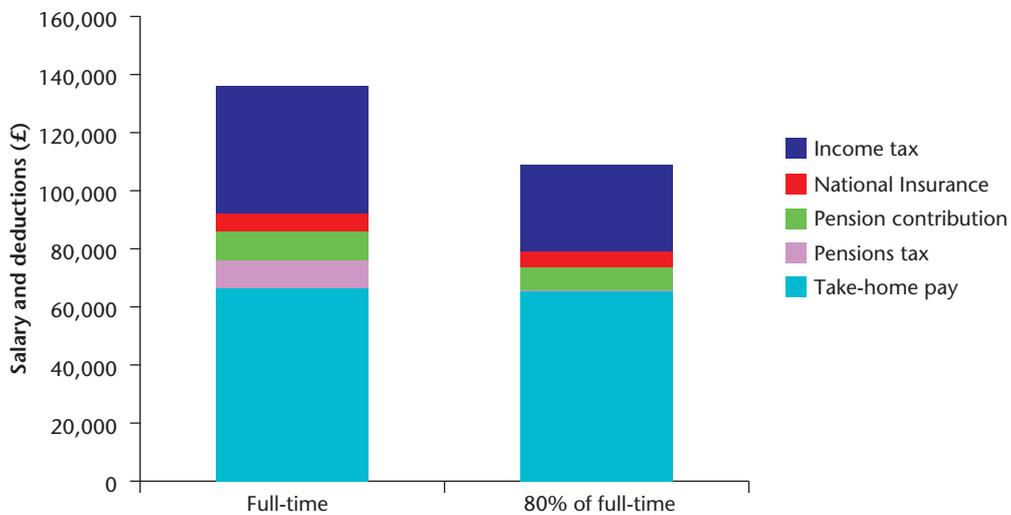
2.51 It has been suggested to us that reductions in take-home pay resulting from the existing pensions tax arrangements are encouraging people to work reduced hours. As an example, consider two externally recruited SCS Director Generals (Pay Band 3), one of whom is appointed on a full-time salary of £135,900 (the median pay for that

<sup>19</sup> The value of the 'Scheme Pays' reduction will depend on a number of factors including the individual's age, pension scheme and normal retirement age.

grade) whilst the other is contracted to work 80 per cent of full-time hours and is paid a reduced salary.

2.52 After deductions for income tax, National Insurance and pension contributions, the staff member working reduced hours has net pay that is 86.4 per cent of that of the colleague working full-time hours. However, the staff member working full-time hours also has a potential further reduction in their net pay because their pension benefits increase by more than their Annual Allowance, which in this case is reduced to £27,000 due to tapering arrangements. This means that the take-home pay of the staff member working 80 per cent of full-time hours is 98.5 per cent of that of the individual working full-time. This is set out in Figure 2.7. For the last £1 earned the individual's take-home pay increases by just £0.13, meaning there is an effective marginal tax rate of 87 per cent.

**Figure 2.7: Salary and deductions of an illustrative civil servant, working full-time and part-time, in the Alpha (average salary) pension scheme**



Source: Office of Manpower Economics analysis for the SSRB.

2.53 Although the recruit working a full week would also be accruing a larger pension, it may well be that some would choose to have an extra day a week of personal time rather than work that day for a small difference in take-home pay.

2.54 In supplementary written evidence this year, the Lord Chief Justice (LCJ) highlighted a similar issue for Circuit judges (currently paid £133,506) and Senior Circuit judges (£144,172).

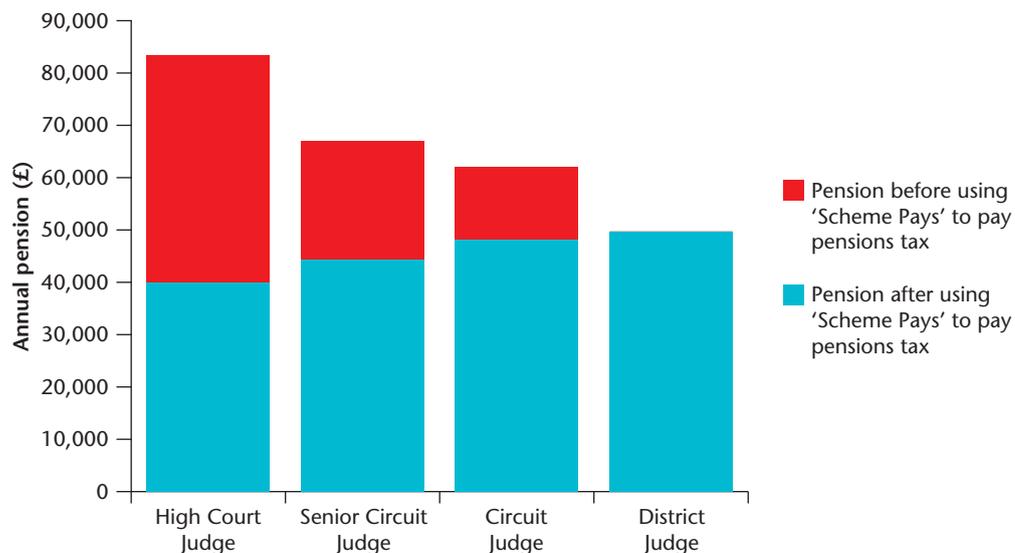
2.55 If a significant number of people at these pay levels made a judgement that they preferred to have the extra leisure time, work fewer than full-time hours and take a lower pension, this would mean having to identify and recruit more people to these senior roles. While an employer can reject a request from an employee to reduce their contracted working hours, there is a risk that doing so would increase retention pressures by encouraging early exits from the remit group.

*Example three: impact of using ‘Scheme Pays’ to defer pension tax charges*

2.56 In his written evidence, the LCJ included examples of newly appointed judges at different levels and the pensions that they could expect to receive as members of the New Judicial Pension Scheme. The evidence highlighted the impact of the ‘Scheme Pays’ arrangement to defer tax charges resulting from exceeding the Annual Allowance threshold, as illustrated in Figure 2.8.

- 2.57 The evidence from the LCJ showed that High Court, Senior Circuit and Circuit judges could all expect to exceed the Annual Allowance each year they were a member of the new scheme. Assuming that they were unable to offset any excess against unused Allowance from the previous three years, then the tax charges they could expect to receive each year were between £8,500 for Circuit judges and £25,500 for High Court judges. If they chose to pay the tax at the time, this would result in a reduction in take-home pay of between 11 per cent for a Circuit judge and 26 per cent for a High Court judge.
- 2.58 In oral evidence, we were told that, in such cases, judges would usually choose to use 'Scheme Pays'. Depending on the size of the tax charge, the age of the scheme member, and their normal retirement age, a negative adjustment is made to the pension at the time of payment. The evidence from the LCJ said that the size of the adjustments were such that there was the potential for more senior judges to receive a smaller pension than their less senior colleagues.
- 2.59 For example, a High Court judge, before paying tax charges for breaching the Annual Allowance and after 20 years of service, could expect to receive an annual pension of £83,400. However, the negative adjustment resulting from the use of 'Scheme Pays' results in a pension of just £39,900. Smaller adjustments would also be made to the pensions of Senior Circuit judges and Circuit judges. The figure shows that the value of the annual pension decreases as seniority increases.

**Figure 2.8: Impact of Annual Allowance on the value of judicial pensions before and after the use of 'Scheme Pays'**



Source: Lord Chief Justice.

### *Conclusions on the Annual Allowance*

- 2.60 These examples help to illustrate how the Annual Allowance rules can affect individuals or remit groups in different ways. Although Towers Watson showed that the new career average pension schemes are generally less valuable than their final salary predecessors, one effect of the new schemes is that senior personnel will be less likely in the future to exceed the Annual Allowance in those years where they are promoted. We have heard from staff still on the final salary schemes who have been concerned about the potential size of tax charges, should they be promoted. This issue should gradually diminish over time as more people become members of the new career average salary schemes.

- 2.61 However, the same does not apply to judges. They are typically appointed directly into relatively well paid posts later in their career, where they may remain without further promotion. As a result, real-terms career average salary for a judge may be quite similar to current salary. In contrast a member of the SCS, for example, will often have joined the civil service and its pension scheme at a junior level before rising in seniority and real-terms salary over time. This means that, for a senior civil servant, career average salary can be significantly lower than current pay. Therefore, taking a judge and senior civil servant with career average pensions and similar current salaries, the judge is likely to accrue higher pension benefits over a year. However, the judge is also likely to incur a higher Annual Allowance tax liability, than the civil servant. This is likely to influence individual judges' decisions about whether to apply for judicial appointment.
- 2.62 Also, the application of tapers to the income tax personal allowance and the Annual Allowance applying to pension benefits could lead to large behavioural consequences for individuals. For instance, in paragraphs 2.51 to 2.55 we showed that it resulted in such a high effective marginal tax rate that it could be rational for an individual to seek to work part-time rather than work full-time. This may result in a need to recruit more post-holders or to deny requests to work reduced hours, impacting negatively on motivation.
- 2.63 Finally, combining the effect of the Annual Allowance taper with the 'Scheme Pays' method for deferring pension tax charges until retirement may lead to counter-intuitive outcomes, such as senior judges retiring with a smaller pension than less senior colleagues. Once this situation is understood by judges, it may affect individuals' views about the desirability of applying for senior judicial posts.

## The Lifetime Allowance

### *Details of the Lifetime Allowance*

- 2.64 In a Defined Benefit scheme, to calculate how much of the Lifetime Allowance has been used, the value of the pension expected in the first year of retirement is multiplied by 20 and added to the lump sum, in a manner as discussed earlier in this chapter. For example, a member of the SCS in the Classic Civil Service Pension Scheme retiring with a final salary of £86,900, after 40 years' service, would qualify for an annual pension of £43,450 and a one-off lump sum of £130,350. Adding the value of the lump sum to 20 times the annual pension gives a total of £999,350, just within the current Lifetime Allowance of £1 million.

### *Conclusions on the Lifetime Allowance*

- 2.65 It is difficult to generalise about the impacts of the Lifetime Allowance on remit groups because they depend on the value of the pensions that an individual has accumulated over their lifetime. Nevertheless, we can state the following:
- The most highly paid senior people will often accumulate larger pensions and are more likely to be affected, or to be affected to a greater extent.
  - Individuals who accumulated large pensions before entering a remit group are also more likely to be affected by the Lifetime Allowance. For instance, some judges will have been highly remunerated in previous roles working as barristers or solicitors and may have accumulated large pensions before entering the judiciary.
- 2.66 Therefore, for some members of the remit group, existing high effective marginal tax rates resulting from breaching the Annual Allowance will be further exacerbated by breaching the Lifetime Allowance.

## Looking ahead

- 2.67 Taxation policy is a matter for the government rather than the SSRB or other pay review bodies. However, the SSRB's strategic approach recognises that pay cannot be considered in isolation from other aspects of financial reward or taxation. Therefore, our pay recommendations are made with reference to the impact that changes to the overall remuneration package have on recruitment, retention and motivation.
- 2.68 On the above basis it is of note that, for many members of our remit groups, pensions and their taxation are currently a matter of greater concern than changes to base pay. These issues could therefore be influencing individual behaviour and decisions. They may, therefore, impact on recruitment, retention and motivation in our remit groups, potentially leading to increased pay pressures. In at least one case (High Court judges, discussed in a later chapter) we believe this is already happening.
- 2.69 The complex workings of the Annual and Lifetime Allowance applied to pension benefits do produce difficult decisions for some individuals about whether to seek promotion, or, in the case of the judiciary, whether to apply in the first place. For some groups, they yield high effective marginal tax rates with a consequent effect on individuals' decisions to apply for positions, to seek part-time rather than full-time work, or to take early retirement.
- 2.70 Last year, we encouraged the government to consider the issue of pension flexibility for public sector workers. To date, however, we have seen little evidence of concrete progress. Therefore, we set out below three broad options that we believe merit consideration.

### *Option one: trading off pension benefits for lower contributions*

- 2.71 The FDA and Prospect have suggested that the Alpha Civil Service Pension Scheme could be adapted to allow members to choose to pay reduced pension contributions in return for lower pension benefits. The employee would receive a lower pension in retirement, but would benefit now from paying lower contributions and from the removal or reduction of a tax liability from breaching the Annual Allowance threshold. In the case of the SSRB's remit groups, this is only likely to be beneficial in a case where it would reduce liability for tax for exceeding the Annual Allowance.
- 2.72 Some flexibility of this nature already exists in the Local Government Pension Scheme (LGPS). LGPS members can elect to pay half their normal pension contributions and build up half of their normal pension.
- 2.73 In common with the schemes for our remit groups, the LGPS is a Defined Benefit scheme. However, in the LGPS, employee and employer contributions are used to fund the future pensions of current employees. In contrast, the pensions for our remit groups are unfunded: employee and employer pension contributions made now are, in effect, funding the current pensions of retired public sector workers. Similarly, the pensions of our current remit groups will be funded by future tax payers (in part, by future public sector workers).
- 2.74 Table 2.4 presents a simplified illustration, under such circumstances, of the public finance impact of a public sector employee accruing reduced public sector pension benefits. It shows that there would be a negative impact on the public finances in

the short term. This would be counterbalanced, in the longer term, by lower pension liabilities<sup>20</sup>.

**Table 2.4: Public finance impact of a public sector employee accruing a reduced pension and making smaller contributions**

	Short-term (pre-retirement) public finance impact	Long-term (post-retirement) public finance impact
Reduced employee pension contributions	Negative	Neutral
Reduced pension tax receipts (for breach of Annual or Lifetime Allowance)	Negative <sup>1</sup>	Negative <sup>1,2</sup>
Reduced employer pension contributions	Neutral <sup>3</sup>	Neutral
Reduced pension payments	Neutral	Positive
Income tax receipts from reduced pension	Neutral	Negative

Source: Office of Manpower Economics analysis for the SSRB.

Notes:

<sup>1</sup> Tax owed for breaching the Annual Allowance threshold can be paid while working, or deferred until retirement under the 'Scheme Pays' arrangements.

<sup>2</sup> Tax owed for breaching the Lifetime Allowance threshold is paid at retirement.

<sup>3</sup> The employer makes reduced pension contributions but it is possible that the government could correspondingly reduce funding to the employer. Therefore, from an overall government finance perspective, these effects are assumed to cancel each other out.

2.75 Applying the LGPS approach to our remit groups would create a new short-term financial pressure. Nevertheless, this should be considered alongside the longer-term savings from reduced public sector pension liabilities. In the interests of avoiding detrimental impacts on staff retention, we believe **the option of offering more flexibility around the level of pension contributions, and associated pension benefits, for our remit groups should be given active consideration by the government.**

2.76 Currently, in at least some cases, if an individual chooses to leave the pension scheme, they lose access to other benefits, for example, life assurance. **The government should therefore consider the possibility of allowing continued access to benefits, such as life assurance, should somebody willingly choose to give up their membership of a public sector pension scheme.**

#### *Option two: changing the balance between pensions and pay*

2.77 Some private sector employers will have responded to changes in the tax treatment of pensions by changing the focus of their reward packages for senior people away from pensions and more towards pay or long-term benefits such as share-based long-term incentive awards. Again, the unfunded nature of central government pensions constitutes a potential barrier to considering similar measures for our remit groups. This is shown in Table 2.5, which extends the example in Table 2.4 to one where the lower pension is counterbalanced, to some extent, by higher pay.

<sup>20</sup> The individual is assumed to be in an unfunded Defined Benefit scheme and, in this table, is assumed to receive no compensation in terms of pay for a reduction in pension. This analysis includes the possibility of an individual accruing no additional pension and making no contributions. This is a simplified example, which does not take account of all factors, including impacts on individual working or spending behaviour and consumption tax revenue. The individual is assumed to be in breach of the Annual Allowance or Lifetime Allowance thresholds.

**Table 2.5: Additional impact on public finances if employee also receives additional pay in lieu of lower pension**

	Short-term (pre-retirement) public finance impact	Long-term (post-retirement) public finance impact
Increased pay	Negative	Neutral
Income tax and National Insurance receipts from additional pay	Positive	Neutral

Source: Office of Manpower Economics analysis for the SSRB.

Notes: This table should be viewed alongside Table 2.4. This is a simplified example, which does not take account of all factors, including impacts on individual working or spending behaviour and consumption tax revenue.

2.78 In the short term, offering higher pay in lieu of reduced pension contributions would exacerbate the short-term financial pressure. However, the extent of that pressure and how it would balance against longer-term net exchequer savings from reduced pension liabilities, depends on the precise terms under which reduced pension entitlement is converted into higher pay. This gives the government control over the nature and extent of the financial impact. We therefore believe that, **further to potentially providing employees with more flexibility around pension contributions and entitlements, the option of converting some foregone pension entitlement into pay should also be considered.**

2.79 In financial terms, we note that any net overall benefit for the SSRB remit groups would correspondingly amount to a net loss to the public finances<sup>21</sup>. Therefore, it is possible that either a change of this nature would be deemed unaffordable or it would be offered to remit group members on such terms that many would not welcome such a change to their pay and pension arrangements. Nevertheless, there remains scope for exploring options to offer flexibility to those individuals who would value it.

### *Option three: voluntary enrolment in Defined Contribution pension schemes*

2.80 We note that the government has already made a different pay and pension offer to civil servants in the Government Commercial Organisation, which includes a Defined Contribution pension. Logically, many remit group members would choose not to move to a Defined Contribution scheme if offered that option. This is because, as we have emphasised above, Defined Benefit pensions are generally seen as relatively more valuable. Furthermore, Defined Contribution schemes still incur potential tax liability, which may be a particular consideration for a senior public sector worker who is close to the Lifetime Allowance threshold.

2.81 Nevertheless, if there were particular circumstances in which individuals did wish to switch to a Defined Contribution pension, possibly also taking slightly higher pay as partial compensation as outlined above, this may be a welcome flexibility in certain cases. This would, perhaps, particularly be so where individuals move in and out of the public sector at different points in their career and will be used to being in receipt of Defined Contribution pensions.

2.82 We therefore suggest that **the possibility of offering members of our remit groups the flexibility to switch, if they wish, from Defined Benefit to Defined Contribution pensions should be explored.** Given that Defined Benefit pensions remain a key part of the reward package for public sector workers, our proposal is that consideration is given to offering employees this additional flexibility on a voluntary basis only.

<sup>21</sup> It is possible, however, that members of the remit group and the government may discount future costs and benefits at different rates.

*Conclusions on pension options*

2.83 It is beyond our remit to make recommendations on pension taxation but where it affects the recruitment, retention and motivation of public sector workers, it is a matter of concern to us. We believe a number of options for increased flexibility merit examination, as described above.

**Recommendation 3: Public sector employers should closely examine the options for making pension packages more flexible and take action where appropriate.**



# Chapter 3

## Economic context

### Summary

- 3.1 The UK economy grew by an estimated 2.0 per cent in 2016. The rate of economic growth remained reasonably stable following the vote for the UK to leave the European Union in June 2016. Nevertheless, the referendum result has heightened the level of economic uncertainty looking forward. The Office for Budget Responsibility (OBR) predicts growth of 1.4 per cent in 2017, while the Bank of England's more recent forecast growth rate for 2017 is 2.0 per cent.
- 3.2 The unemployment rate remains at a low level by historical standards and the employment rate is high, suggesting a relatively tight labour market. Nevertheless, partly as a result of continued weak productivity growth and low inflation, wage growth has remained modest, at an estimated rate of 2.4 per cent in 2016. The rates for the private and public (excluding financial services) sectors were 2.6 per cent and 1.7 per cent respectively.
- 3.3 As discussed in Chapter 2, a real-terms cut of over 20 per cent in base pay and bonuses since 2010 has been typical for the SSRB's remit groups. Pay restraint of such extent and duration is unprecedented since the second world war. This has been accompanied by significant amendment of public sector pension schemes, in addition to changes to the taxation of pensions for both public and private sector employees.
- 3.4 Consumer Prices Index (CPI) inflation was 1.8 per cent over the year to January 2017. It is forecast to increase further, to 2.5 per cent, in 2017. This means that, if awards are consistent with government public sector pay policy, average public sector pay will fall further in real terms this year. This applies to both public sector workers in general, and to our remit groups.

### The economy<sup>22</sup>

- 3.5 Provisional estimates suggest the UK economy saw Gross Domestic Product (GDP) growth of 2.0 per cent<sup>23</sup> in 2016. With regard to 2017:
  - In November 2016, the OBR predicted GDP growth in 2017 of 1.4 per cent, down from the 2.2 per cent expected in March 2016. It expected GDP growth to slow into 2017 as economic uncertainty led firms to delay investment, thereby weakening productivity growth, and as consumers were squeezed by higher import prices, due to the fall in the value of the pound since the EU membership referendum in June 2016.
  - More recently, in February 2017, the Bank of England revised up its own forecast for GDP growth in 2017 to 2.0 per cent<sup>24</sup>. At that time, the Bank said that this reflected the strength of consumer spending, which had not fallen since the EU referendum as previously anticipated, as well as a stronger outlook for global growth and the slower fiscal reduction announced in the autumn statement.

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<sup>22</sup> Figures in this chapter were updated up to 15 February 2017.

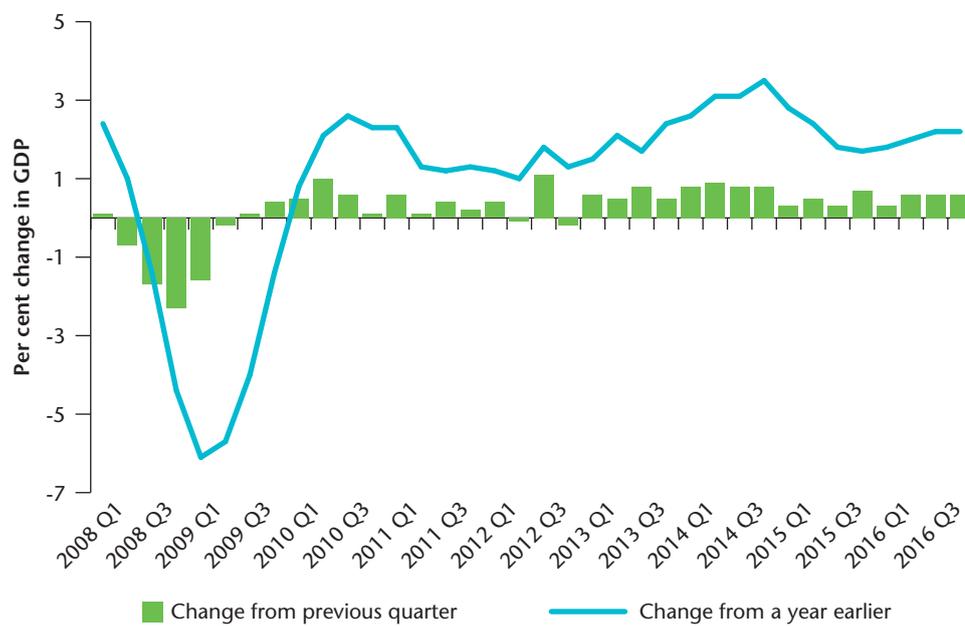
<sup>23</sup> Preliminary estimate for the final quarter of 2016 published on 26 January 2017.

<sup>24</sup> Bank of England Inflation Report, February 2017.

Table 3.1: GDP forecasts

	Office for Budget Responsibility %		Bank of England central projection %	HM Treasury independent median %
	March 2016	November 2016	February 2017	February 2017
2017	2.2	1.4	2.0	1.4
2018	2.1	1.7	1.6	1.3
2019	2.1	2.1	1.6	1.8
2020	2.1	2.1	–	1.9

Figure 3.1: UK Gross Domestic Product (GDP) growth between 2008 Q1 and 2016 Q4

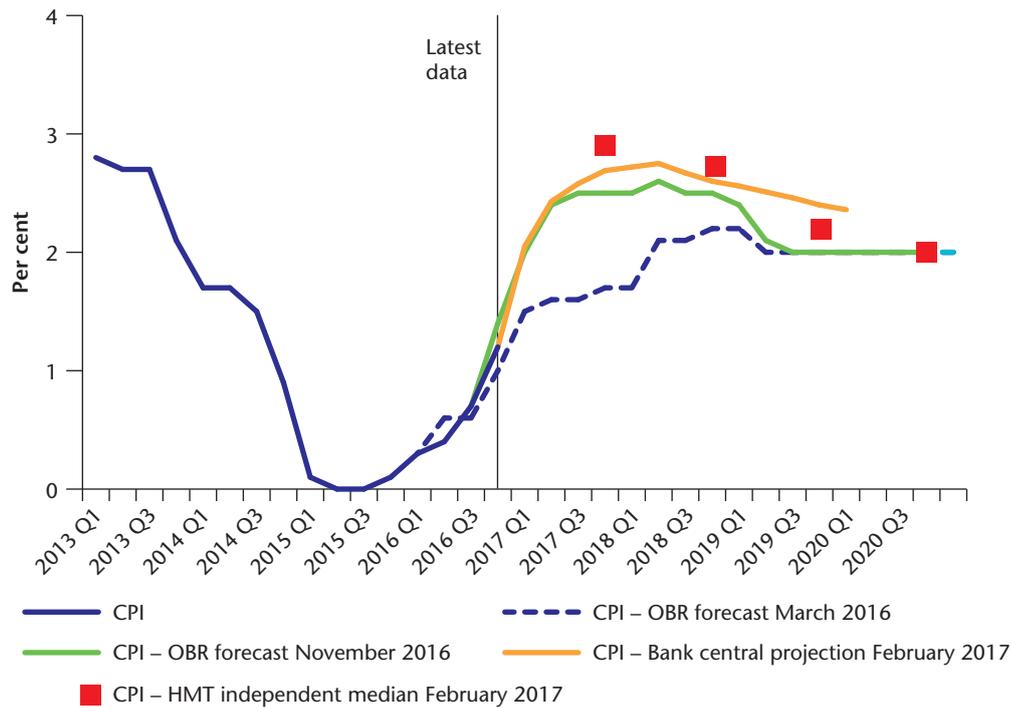


Source: Office for National Statistics (IHQ, IHR).

### Inflation

3.6 CPI inflation has risen through 2016 and the latest figures, for January 2017, put the annual rate at 1.8 per cent. The corresponding Retail Prices Index (RPI) annual inflation rate was 2.6 per cent in January 2017, having risen from a low of 0.7 per cent in October 2015. The last time both CPI and RPI were at higher levels was June 2014.

Figure 3.2: CPI data and forecasts, between 2013 and 2020



Source: ONS, CPI (D7G7), RPI (CZBH), quarterly, not seasonally adjusted, UK, Q1 2013-Q3 2016; Bank of England Inflation Report, November 2016; OBR (March and November 2016); HM Treasury (November/December 2016).

3.7 Since the EU referendum, the expected path for CPI inflation in 2017 has been revised up, because the weaker exchange rate is expected to push up the price of imported goods. As shown in Table 3.2, annual CPI inflation is now forecast to be in the range of 2.5 to 2.9 per cent in the fourth quarter of 2017. RPI inflation is expected to rise to around 3.4 per cent at the end of 2017.

Table 3.2: Inflation forecasts

Year to	Office for Budget Responsibility %		Bank of England central projection %		HM Treasury independent median %		
	March 2016		November 2016		February 2017		
	CPI	RPI	CPI	RPI	CPI	RPI	
2017 Q4	1.6	2.4	2.5	3.4	2.7	2.9	3.5
2018 Q4	2.0	3.2	2.5	3.6	2.6	2.7	3.3
2019 Q4	2.1	3.2	2.0	3.1	2.4	2.2	3.1
2020 Q4	2.0	3.2	2.0	3.2	–	2.0	3.2

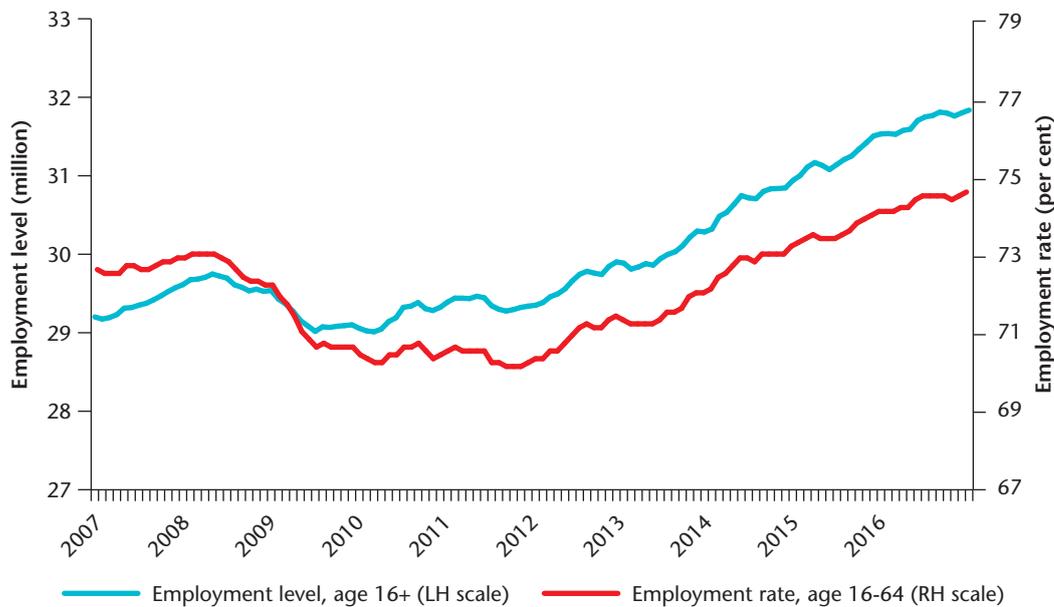
### Employment and unemployment

3.8 Both the level and rate of employment are at historical highs, as shown in Figure 3.3. However, the latest labour market data suggests that the significant improvement seen in recent years may be slowing:

- The level of employment grew by 302,000 (1.0 per cent) in the year to November 2016, but only rose by 37,000 (0.1 per cent) in the final quarter of 2016.

- The number of full-time employees rose by 0.4 per cent (86,000) over 2016, but only increased by 7,000 in the three months to December.
- The number of part-time employees grew by 1.1 per cent (77,000) over 2016, but fell by 7,000 over the three months to December.
- Self-employment grew by 2.7 per cent (125,000) over 2016 but only increased by 13,000 over the three months to December 2016.

Figure 3.3: Total employment, rate and level, between 2007 and 2016



Source: Office for National Statistics (MGRZ and LF24).

- 3.9 The level of unemployment, measured by the Labour Force Survey (i.e. those looking for, and available for, work), has been falling since the end of 2011. The latest figures, for the three months to December 2016, put it at 1.60 million, with a fall of 7,000 on the quarter and by 97,000 on the year. However, unemployment fell at a slower rate than in the previous year: under 25,000 in each three-month period on average in 2016, compared to over 50,000 per quarter in 2015. The unemployment rate was 4.8 per cent in December 2016, which was the lowest for 11 years.
- 3.10 The Bank of England said in its February 2017 *Inflation Report* that it expected subdued but positive growth in employment in the near term. There was uncertainty, however, around the extent, timing and composition of future changes in employment.
- 3.11 The OBR revised up its unemployment forecast for the next two years in its November report, as it expected slower growth in real GDP to generate spare capacity in the economy. It forecast unemployment to peak at 5.5 per cent of the labour force in mid-2018, up around 0.3 percentage points (approximately 100,000 people) relative to its March 2016 forecast. Neither the Bank nor the OBR forecast that Brexit-related uncertainty will prompt more job-shedding, but unemployment will still rise as a result of reduced hiring.

## Remuneration

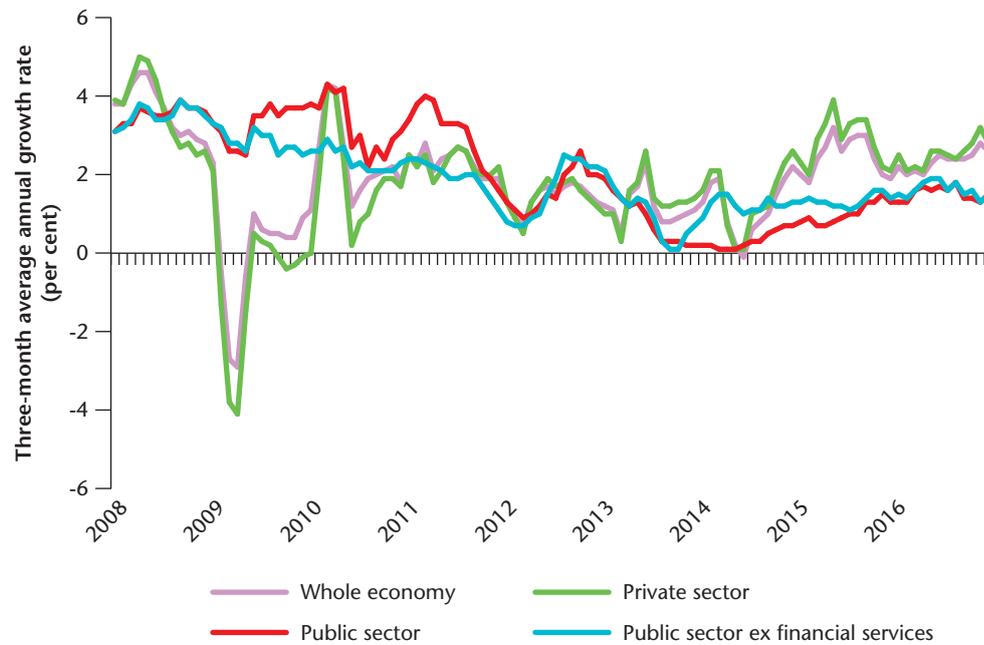
3.12 In the three months to December 2016, compared to a year earlier:

- whole economy average earnings growth was 2.6 per cent;
- private sector earnings growth was 2.8 per cent; and

- public sector earnings growth (excluding financial services) was 1.5 per cent.

3.13 As shown in Figure 3.4, private sector average earnings growth generally strengthened during the second half of 2016, reflecting a pick-up in earnings growth in construction and in the wholesale, retail, hotels and catering sectors. Earnings growth in the private sector has been stronger than that in the public sector for the last two years.

Figure 3.4: Average weekly earnings growth (total pay) between 2008 and 2016



Source: ONS, average weekly earnings annual three-month average change in total pay for: the whole economy (KAC3); private sector (KAC6); public sector (KAC9); private sector excluding financial services (KAE2); monthly, seasonally adjusted, GB, 2008-2016

- 3.14 Expectations for average nominal earnings growth have been revised down since the EU Referendum, despite the higher expected inflation, reflecting poorer forecast productivity growth and a weaker labour market than previously expected.
- 3.15 As Table 3.3 shows, whole economy average earnings growth is now expected to be in the range of 2.4 to 3.0 per cent in 2017 and 2.6 to 3.25 per cent in 2018. With the current government public sector pay policy limiting awards to an average of 1 per cent until 2019-20, average weekly earnings are likely to continue to grow more quickly in the private than the public sector.

Table 3.3: Average earnings growth forecasts

	Office for Budget Responsibility %		Bank of England indicative projection %	HM Treasury independent median %
	March 2016	November 2016	February 2017	February 2017
2017	3.6	2.4	3.0	2.5
2018	3.5	2.8	3.25	2.8
2019	3.4	3.3	3.25	3.0
2020	3.6	3.6	–	3.0

## Conclusions

- 3.16 The UK economy has, over recent quarters, been characterised by steady economic growth, subdued inflation and wage growth and a strong labour market. However, inflation is on an upward trajectory and is expected to increase further in 2017. Future prospects for the economy and labour market are subject to considerable uncertainty.
- 3.17 Saving major unanticipated events, most SSRB remit group members will see their pay fall, in real terms, during 2017. Whilst this has the potential to increase recruitment and retention pressures for our remit groups, uncertain prospects for the economy and labour market make it difficult to predict whether such pressures are likely to rise significantly in the immediate future.

## Chapter 4

### The Senior Civil Service

#### Summary

- 4.1 In previous SSRB reports, we have highlighted what we consider to be serious flaws in the current Senior Civil Service (SCS) pay system. We recognise that they cannot be resolved quickly, but believe the pace of reform to date has been much too slow.
- 4.2 These flaws, many of which are acknowledged by the government, are summarised later in this chapter. They include:
- the pay of members of the remit group being effectively frozen at a particular point on the pay scale, regardless of skills, experience or performance;
  - significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below;
  - a lack of confidence in the performance management system; and
  - a resulting disconnect between pay on the one hand and seniority, performance and contribution on the other. This cannot represent efficient or effective use of the pay budget.
- 4.3 A lack of pay progression within pay bands encourages frequent movement to secure a better salary at the expense of building deep experience. For those members of the SCS who are the most talented, or who have the most sought-after skills, the risk is that their pay will become insufficiently attractive in comparison to the wider public or private sectors.
- 4.4 The recruitment and retention data for the remit group and feeder group do not suggest that there is an immediate need for pay awards greater than 1 per cent in most SCS roles. However, we do not believe the lack of existing recruitment and retention problems should be grounds for complacency. Our conversations this year with members of the remit group emphasised to us their widespread and very deep lack of confidence in the pay system, regardless of whether they thought their own pay or that of their peers was reasonable. We are concerned about the demotivating effect that this might have and about how this may start to impact on staff effectiveness within the SCS remit group and its feeder groups.
- 4.5 It is evident that recruitment problems do exist in certain specialist areas. The government has taken a new approach to recruiting commercial specialists through a separate Government Commercial Organisation, with non-standard reward packages for senior posts. It should be noted that this new pay structure has been introduced by the government without our independent advice being sought.
- 4.6 Our remit requires us to advise on the pay of the SCS as a single cadre. However, we have become increasingly conscious of tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. Moreover, such decentralisation makes it harder for the SSRB to play an effective role when its advice is sought from, and provided to, a single central point in government.

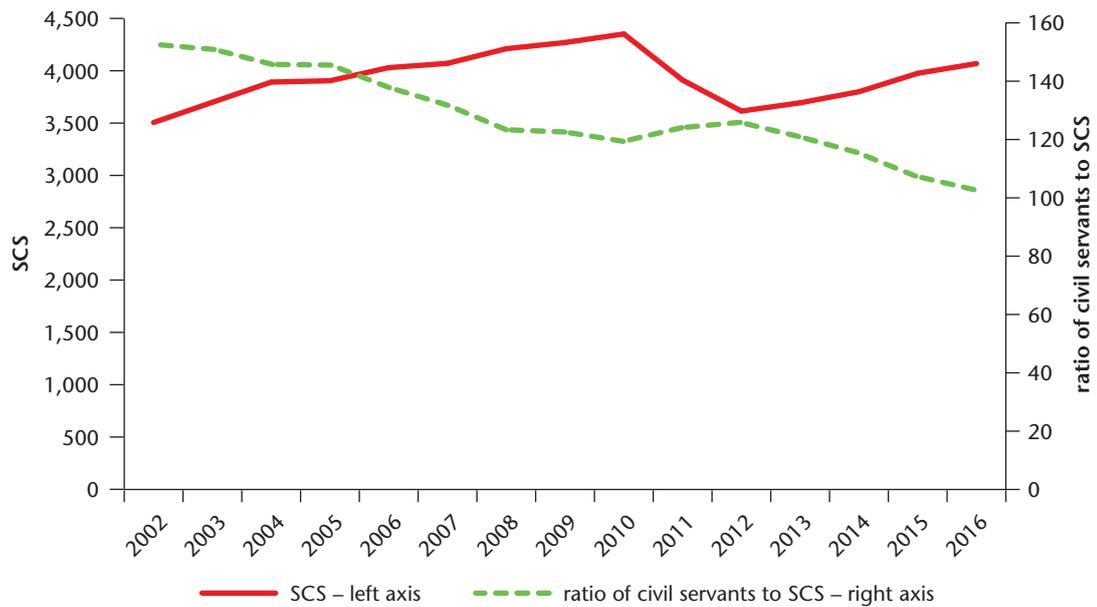
- 4.7 As an example, for the last two years we have recommended targeting the least well paid Pay Band 1 staff by increasing the band minimum by £2,000, to reduce the pay overlap with some staff with more junior responsibilities. This recommendation, which would have accounted for only a small fraction of the 1 per cent budgeted for pay awards, has now twice been rejected by government in favour of implementing its own proposal of a £1,000 increase, most recently to £64,000 from April 2016. We were told this was largely because it would have had differential financial impacts across departments, which could not be easily managed by any central adjustments. We were not convinced by this argument. Indeed, we were told by the Scottish and Welsh governments that their Pay Band 1 minima were £70,800 and £68,150 respectively. If a recommendation on even this small scale cannot be accepted, it leads us to question what government is expecting from us, and how we can effectively add value.
- 4.8 As we noted in paragraph 4.4, the recruitment and retention data for the remit group and its feeder group do not suggest that there is an immediate need for pay awards greater than 1 per cent in most SCS roles. However, in the context of a pay and performance management system which does not command the respect of the remit group, we believe failure to use the 1 per cent that has been budgeted for awards would be a further demotivating influence. Therefore, for the current year, we believe that a 1 per cent increase in pay budgets for this group is justified in accordance with Recommendation 2 which follows paragraph 1.11.
- 4.9 However, our most important recommendation for the SCS this year is that the government undertakes a formal review of the pay system. We are very willing to assist in such an exercise. We firmly believe we can add more value through advising on a full overhaul of the current system rather than tinkering with the annual distribution of a largely delegated 1 per cent of paybill. We hope that any review would take account of the overarching strategic conclusions that we published in our last report and which we reiterate in this report. In particular, we believe the focus should shift towards seeking to maximise overall outcomes for lowest cost, rather than on limiting basic pay increases across the board.

## Introduction

### *The remit group*

- 4.10 Figure 4.1 shows the size of the remit group over time. It also shows the ratio of SCS members to all civil servants. In 2016, there were 4,070 members of the SCS, an increase of 93 (2.3 per cent) from 2015. In each of the last four years, the size of the SCS has grown while the overall size of the civil service has fallen. The ratio of civil servants to SCS members fell from 107:1 in 2015 to 102:1 in 2016 and continues a general trend going back to at least 2002.

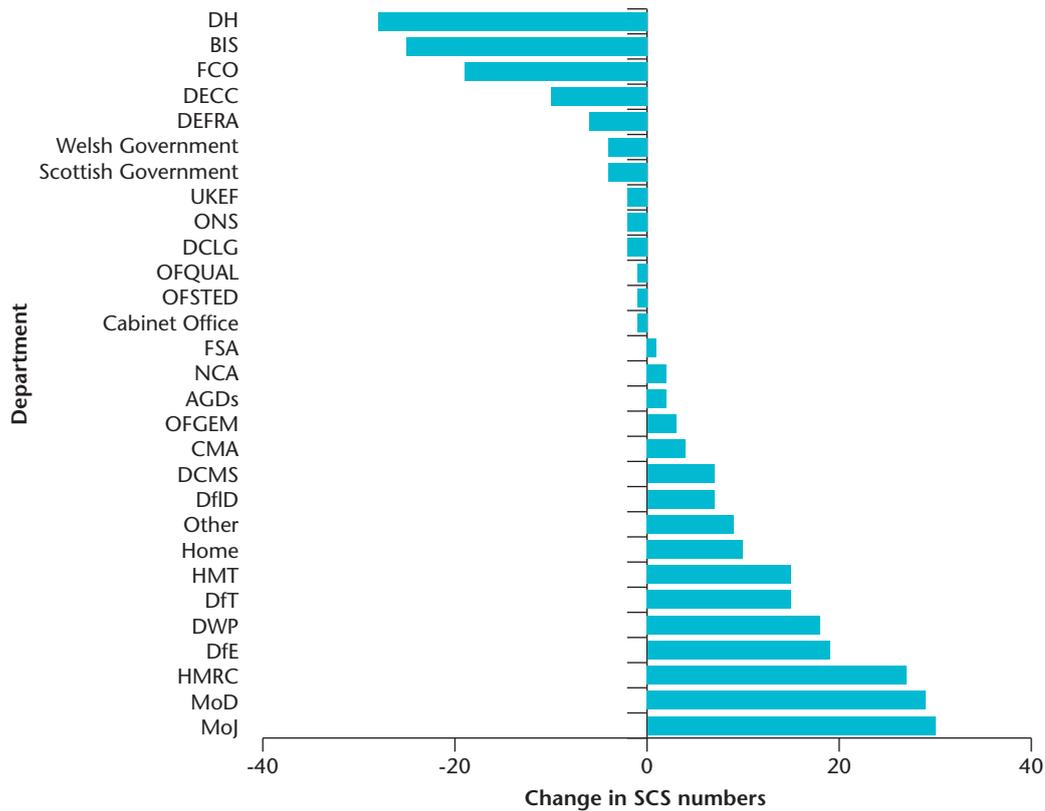
Figure 4.1: Total SCS staff between 2002 and 2016



Source: Cabinet Office (SCS numbers), Office for National Statistics Public Service Employment Statistics (civil service numbers).

- 4.11 The Cabinet Office said that the number of SCS members was still 7 per cent lower than in 2010. It also said that, excluding machinery of government changes which moved staff into and out of the civil service, the number of SCS members would be 12 per cent lower than in 2010.
- 4.12 In oral evidence to the SSRB, the Cabinet Secretary said that the government had no target for the number of SCS, and that individual departments were able to have the number of SCS they felt fitted within their budgets. He also said that 2015 manifesto commitments, and the need to deliver Brexit, meant that more managers were needed. So were technicians, such as digital and commercial experts.
- 4.13 The departments with the largest absolute increases in SCS numbers in 2016, compared with 2015, were the Ministry of Justice (+30), the Ministry of Defence (+29) and HM Revenue and Customs (+27). The departments with the largest absolute decreases were the Department of Health (-28), the Department for Business, Innovation and Skills (-25) and the Foreign and Commonwealth Office (-19). It is important to note that this only shows changes over a single year, and may not be representative of longer-term changes in these departments.

Figure 4.2: Change in total number of SCS between 2015 and 2016 by department (including executive agencies)



Source: Cabinet Office.

- 4.14 Between 1996 and 2016, the percentage of women in the SCS more than doubled, from 16.7 per cent to 40.3 per cent. The 40 per cent barrier was exceeded for the first time in 2016.
- 4.15 The percentage of SCS from a Black and Minority Ethnic background in 2016 was 4.4 per cent. This is up from 4.1 per cent in 2015, and again the largest ever recorded. The percentage of SCS with disabilities was 3.4 per cent. This represents a slight increase from 3.2 per cent in 2015, but is still below the peak of 3.7 per cent recorded in 2004. These figures are significantly lower than for the wider population, for whom comparator figures are provided in paragraph 1.39, footnote 6.
- 4.16 In August 2016, SCS members were asked to complete a socio-economic background survey, to inform a set of recommended talent and diversity measures, to be published in the autumn of 2016. We requested the findings from this survey in order to enhance our understanding of the SCS workforce for this year's review, but they were not shared with us.

### *Pay and the pay system*

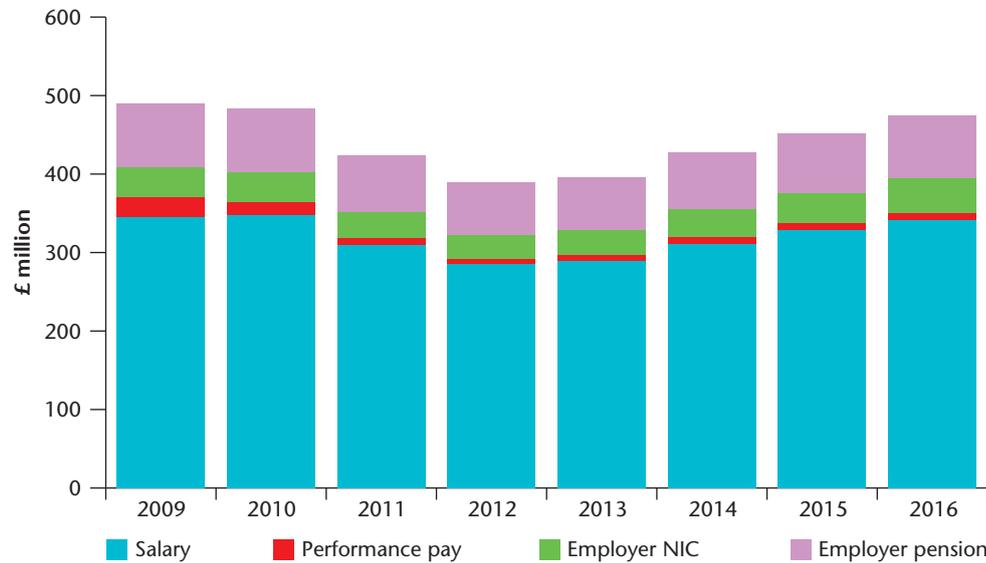
4.17 As shown in Figure 4.3, the SCS paybill in 2016 was £475 million, an increase of 5 per cent from 2015. The changes in the paybill between 2015 and 2016 can be broken down as follows:

- The basic salary element rose by 4.0 per cent.

- Non-consolidated performance-related pay was little changed<sup>25</sup>.
- Employer National Insurance contributions rose by 15.8 per cent<sup>26</sup>.
- Employer pension contributions rose by 5.2 per cent.

4.18 Growth in the paybill per head between 2015 and 2016 was 2.7 per cent. The average basic salary per head grew by 1.6 per cent over the same period.

Figure 4.3: SCS paybill between 2009 and 2016



Source: Cabinet Office.

4.19 Table 4.1 sets out the current SCS pay ranges. Each range is very wide. Nevertheless, the median pay level at each grade is towards the bottom end of the scale. Most members of the SCS are at Pay Band 1.

<sup>25</sup> In 2016 the share was equivalent to 2.6 per cent of salary. Each year between 2011 and 2016, non-consolidated performance-related pay was worth between 2.5 and 2.8 per cent of salary, having previously been 4.6 per cent in 2010 and 7.2 per cent in 2009.

<sup>26</sup> The Cabinet Office said that the fact that there was no longer a rebate of employers' contributions for employees in a personal pension scheme would have been a contributory factor.

Table 4.1: SCS pay ranges and median pay by Pay Band in 2016-17

Pay Band	Number in Pay Band	Pay Band minimum £	Pay Band maximum £	Median salary £
1	2,970	64,000	117,800	75,500
1A <sup>2</sup>	97	67,600	128,900	78,700
2	762	87,000	162,500	98,800
3	135	106,000	208,100	135,900
Permanent Secretaries <sup>3</sup>	39	142,000	200,000	160,000-164,999
<b>Total</b>	<b>4,003<sup>1</sup></b>			<b>79,400<sup>4</sup></b>

Source: Cabinet Office.

Notes:

<sup>1</sup> This figure is lower than the total of SCS members in paragraph 4.10 because it excludes those on non-standard pay arrangements, e.g. those seconded from the NHS and paid at NHS rates.

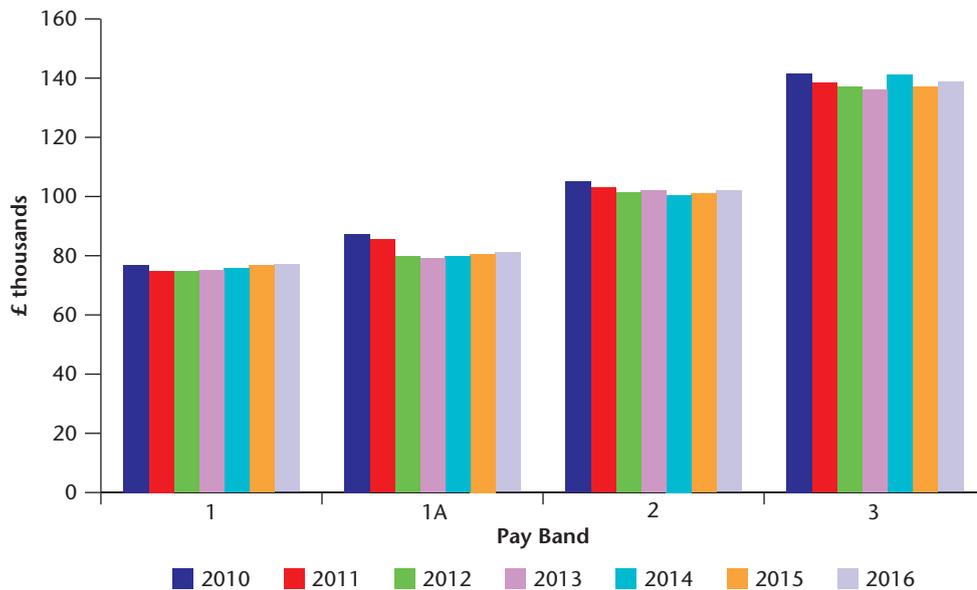
<sup>2</sup> The government's evidence says that Pay Band 1A is now effectively a closed grade. Existing staff will remain in the grade and may receive pay awards but departments should not recruit into it and it will eventually be removed as part of 'de-layering'. Consequently, the government has excluded Pay Band 1A from the proposed increases in pay band minima.

<sup>3</sup> The Permanent Secretary 'minimum' is the bottom of the Tier 3 pay band and the 'maximum' is the top of the Tier 1 pay band.

<sup>4</sup> The Permanent Secretary salaries are not included in the total median salary figure.

4.20 Median salaries, including bonuses, in 2016 were higher for staff in each Pay Band than in 2015. Changes in median salaries by Pay Band are set out in Figure 4.4.

Figure 4.4: SCS median salaries, including bonuses, by Pay Band between 2010 and 2016



Source: Cabinet Office.

4.21 Figure 4.5 shows that three-quarters of those who were promoted to SCS Pay Band 1 internally earn less than £80,000 a year, while over three-quarters of those externally hired into Pay Band 1 are paid above that amount. The difference in median pay between internal promotees and external hires across the SCS as a whole is 29 per cent.

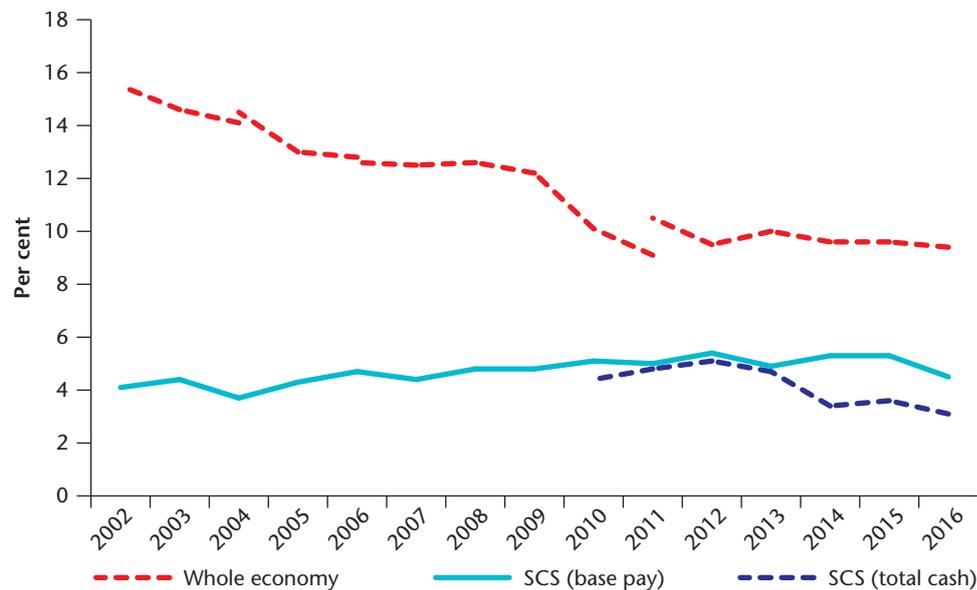
Figure 4.5: Cumulative distribution of SCS Pay Band 1 salaries in 2016, by internal and external hiring



Source: Cabinet Office.

4.22 In terms of basic salary and across all grades in the SCS, the gender pay gap was 4.5 per cent in favour of men in 2016, the smallest such gap since 2007. This gap narrows to 3.1 per cent after including non-consolidated performance-related pay. The latter figure compares with 16.6 per cent for full-time employees in the private sector and 9.4 per cent across the economy as a whole.

Figure 4.6: SCS gender pay gap between 2002 and 2016



Sources: Cabinet Office (SCS), Office for National Statistics Annual Survey of Hours and Earnings (ASHE) (whole economy).

Notes: For an explanation of the discontinuities in the ASHE data set see Figure 2.2.

4.23 Like many other groups of public sector workers, but only a minority of our remit groups, the best performing 25 per cent of the SCS are eligible for a non-consolidated performance award. In 2016, exactly 25 per cent of the SCS were designated as 'top'

performers, therefore receiving a performance award. This was a reduction from 27.6 per cent in 2015. Such awards are limited to 3.3 per cent of the organisation's SCS paybill. Where departments did make awards in 2016, they were between £7,000 (the Home Office for Pay Band 1) and £17,000 (HMRC and the Department for Transport, both for Pay Band 3).

4.24 In at least the last three years, the percentage of staff receiving an award increased with seniority. In 2016:

- 23 per cent of Pay Band 1 staff received awards which averaged £9,200;
- 31 per cent of Pay Band 2 staff received awards which averaged £11,300;
- 35 per cent of Pay Band 3 staff received awards that averaged £14,500; and
- we received no data for Permanent Secretaries.

4.25 In addition to end of year performance awards in 2016, the government gave departments the flexibility to introduce in-year non-consolidated awards to recognise outstanding contribution for up to 10 per cent of SCS staff. At the time of the Cabinet Office submitting evidence:

- The Department for Communities and Local Government planned to make seven awards in total. It had already made five awards, of £5,000 for those in Pay Band 2 and of £3,000 to those in Pay Band 1.
- HM Treasury had made seven awards of £5,000 each.
- The former Department for Business, Innovation and Skills planned to make individual awards of £4,000 each.
- The Department for Culture, Media and Sport, the Department for Education, the former Department for Energy and Climate Change, HM Revenue and Customs and the Department for Transport planned to make awards of up to £5,000 each.

### *Pension schemes*

4.26 Pensions for our remit groups are discussed in Chapter 2. A new civil service pension scheme, *Alpha*, was introduced with effect from 1 April 2015. Details of this scheme are provided in Chapter 2. This has retained the Defined Benefit aspect of previous schemes, but benefits are now based on average earnings over a whole career rather than on salary at the time of retirement. Those within 10 years of their normal retirement age at 1 April 2012, which was 60 or 65 in previous schemes, have remained in those schemes. Others have transitioned to *Alpha* after April 2015, or will do so in future.

4.27 At 31 March 2016, the Cabinet Office said that indicative estimates were that 61 per cent of SCS were members of the new scheme, while 39 per cent were members of the legacy schemes. Many of the 61 per cent will also have accrued some previous pension entitlement under the legacy schemes, prior to switching to *Alpha*.

### *Pension taxation*

4.28 The Cabinet Office told us that changes to the Annual Allowance would affect members in the *Alpha* scheme earning over £108,000 from April 2016 and expected the number of members with a tax charge to reach 800 by 2018-19. It said that the impact could be as much 7-10 per cent of total remuneration. For example, those earning £160,000 in *Alpha* would incur an annual pension charge in excess of £20,000 which they would not have faced a few years ago.

## *Government response to our 2016 recommendations*

4.29 The government accepted most of our recommendations, all of which mirrored its own proposals, as follows:

- Consolidated local awards of between 0 and 9 per cent for all except those in the bottom 10 per cent of the performance distribution. Awards took account of performance, job weight, challenge of role and the need for individual pay repositioning.
- The introduction of an in-year contribution award available for up to 10 per cent of a department's workforce, worth no more than £5,000 to a single individual.
- An increase in the minima for Pay Bands 2 and 3 by £1,000.

4.30 We also recommended that the minimum for Pay Band 1 be increased by £2,000, to £65,000, to reduce the overlap between Pay Band 1 and the grades immediately below. However, for the second consecutive year, the government did not accept this recommendation. In a statement following publication of our report the Prime Minister said<sup>27</sup> 'we recognise the concerns of the Senior Salaries Review Body on the pay overlap between delegated grades and the bottom of the SCS Pay Band 1. The government believes that individual departments are best placed to assess the pay position of individuals within their own SCS cadre, and indeed the needs of their own delegated grades, and to decide how to prioritise the resources available to address any pay issues.' The Prime Minister continued 'the government will prescribe an increase of £1,000 and ask departments to give serious consideration to raising salaries by more based on individual business needs.'

4.31 In practice, awards varied across departments, for example:

- the Department for Education made awards of between 0.30 per cent and 1.52 per cent, dependent on performance and position in the pay range. Other departments also made awards based on performance and position in the pay range;
- the Department for Transport increased the minima of Pay Bands 1 and 2 by £1,500 to help address overlaps between Grade 6 and SCS Pay Band 1 and between Pay Band 1 and Pay Band 2; and
- the Department for Energy and Climate Change increased the minimum of its Pay Band 1 to £66,000.

4.32 In addition, we sought information from the Scottish and Welsh governments on the band minima for their staff. The Welsh government said that its SCS Pay Band 1 minimum was now £68,150 and reflects a decision by their Remuneration Committee to reduce the overlap between SCS salary rates and those for the grades immediately below. The Scottish government said that it had worked to eradicate the issue of overlapping pay bands by setting a higher minimum rate for SCS Pay Band 1, of £70,800 from April 2016.

## *Policy context*

4.33 In our 2016 report, we emphasised that departments need to be clear about their long-term objectives and have a pay and workforce strategy to support them, with annual awards linked to the longer-term strategy. This year, the government said it welcomed our conclusion that it should adopt a more strategic approach and carry out a fundamental review of the SCS pay framework. The government invited us to work with

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<sup>27</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-04-21/HCWS693/>

it on such a review and to make recommendations on the priority areas that should be addressed. To date, however, we have been presented with no specific proposals.

4.34 In its evidence for this report, the government agreed that 'here are a number of challenges with the SCS pay system'. We comment on these below. The challenges include:

- limited opportunities for significant pay increases within pay bands;
- salary levels that are heavily determined by pay on appointment or promotion rather than performance;
- significant pay overlaps between the bottom grade of the SCS and the grades immediately below;
- pay scales that, in some areas, do not always reflect the external labour market; and
- growing concern that there are areas where there is a shortage of expertise, as SCS members are leaving for roles in the wider public sector and elsewhere.

4.35 In addition we note that:

- a lack of pay progression within pay bands encourages frequent movement to secure a better salary at the expense of building deep experience;
- salaries determined by pay on appointment can create perverse outcomes, where talented people who rise most rapidly find that on reaching the SCS they are stuck on lower salaries than their colleagues at the same grade; and
- the most talented members of the SCS may move out of the public sector altogether if the overall package is insufficiently appealing.

4.36 In July 2016, the government published a Civil Service Workforce Plan, in which it said it would review the SCS pay framework and develop a flexible reward scheme framework for scarce skills, starting with the creation of the Government Commercial Organisation (GCO). The Civil Service Board has agreed four priority areas for reward strategy, which are to:

- review pay levels and the overall pay framework;
- better target pay awards;
- explore the composition of the total reward package by finding a credible policy solution to pension tax changes; and
- develop funding mechanisms to reinvest and achieve some of the above.

4.37 In its written evidence, the government said that it had started a programme of work to create the GCO. It said its aim was to raise the capability of senior commercial specialists across the civil service, through improved talent management and a reward offer more in line with that available in the wider market. It said that departmental commercial capability reviews had identified the need to recruit a core group of senior commercial specialists, complementing existing SCS, to be the most senior commercial specialists across Whitehall. It also said that HM Treasury has agreed there should be flexibility to recruit up to 25 such specialists, 'sitting outside the SCS, with remuneration packages beyond those normally available to SCS members'.

4.38 The government said it was also looking for current Grade 6 and SCS staff to transfer into the GCO, where they will be offered access to a new reward package that offers a different mix between higher base pay and performance-related pay, offset by a less valuable Defined Contribution pension. It said that staff who do transfer on the new GCO terms will be reviewed by an independent remuneration committee that will report to

HM Treasury. It should be noted that this new pay structure has been introduced by the government without our independent advice being sought.

## Proposals

### *Government proposals*

4.39 In its written evidence the government made the following specific pay proposals:

- The minima of Pay Bands 1, 2 and 3 to be increased by £1,000.
- One per cent of the paybill (less the cost of increasing the Pay Band minima) to be used for awards taking into account performance, job weight and challenge of role. The bottom 10 per cent of performers would not be eligible for an award.
- End-year non-consolidated performance awards to continue to be made to the top 25 per cent of performers. Departments also to have the flexibility to make in-year awards to up to 10 per cent of SCS to recognise outstanding contribution. The cost of these two payments is limited to 3.3 per cent of the SCS paybill.

4.40 Furthermore, the government asked us to work with it on the review of the SCS reward framework and to make recommendations on the priority areas that should be addressed. In paragraph 4.93 we set out the issues that we believe a review needs to examine.

### *Other proposals*

4.41 In their evidence, the FDA and Prospect proposed the following on pay:

- to address some of the issues in the civil service reward framework by engaging in a negotiated multi-year settlement;
- to remove the current practice of capping the salary increases of internal promotees on promotion.

4.42 FDA and Prospect also proposed that:

- there should be greater central control to resolve issues of fragmentation and to achieve a coordinated workforce policy;
- there should be greater transparency of salaries and recruitment approaches;
- the SSRB recommends that the civil service has the resources it needs to meet the challenges of the years ahead; and
- the SSRB reiterates that engagement with the FDA and Prospect should be a priority for the Cabinet Office. They said that pension reform is an area where engagement is particularly important.

## Evidence

4.43 We received both written and oral evidence from the Cabinet Office, the First Division Association (FDA) and Prospect and the Civil Service Commission. On 15 December 2016, we also heard directly from a number of members of SCS Pay Bands 1, 2 and 3 and members of the Future Leaders Scheme (FLS), who have been identified as having the potential to become members of the SCS in the future. Those already in the SCS talked about their experiences in the SCS and gave their views on pay and conditions. The FLS participants talked about their future aspirations to the SCS and the factors influencing them.

### *Pay and performance management*

4.44 In our 2016 report, we said that the government should give serious consideration to carrying out a fundamental review of the SCS pay framework to address a range of issues.

These included the lack of progression within pay bands, wide pay ranges, pay overlaps between Pay Band 1 and the grades immediately below, and the disconnect between performance and pay levels relative to SCS peers.

- 4.45 The latest estimates from the Cabinet Office are that there are 7,000 civil servants in grades below the SCS who are paid more than the SCS Pay Band 1 salary minimum of £64,000 (there is a total of almost 3,000 people in the SCS Pay Band 1). In oral evidence, the Cabinet Secretary said that it was not clear how many of those non-SCS staff paid more than £64,000 a year were directly managed by a member of the SCS paid less than them. However, we heard anecdotally from members of the SCS in Pay Band 1 that a substantial number were. In their written evidence, the FDA and Prospect included the results of a survey of members, discussed further below, where 32 per cent of respondents said they did manage someone on a lower grade who had a higher salary than them. We heard from both the FDA and Prospect, and directly from members of the remit group, that this was causing considerable dissatisfaction and demotivation to those directly affected.
- 4.46 In discussions with the remit group, the large pay gap between internal and external recruits was clearly a source of dissatisfaction to those who had been internally promoted, who saw no difference between their performance and that of colleagues externally recruited. The Cabinet Secretary accepted that this was seen as unfair by internal promotees.
- 4.47 A further point made frequently by members of the remit group, was that SCS salary was more a function of pay in the former grade, rather than performance or experience in the existing job. On promotion to the SCS, individuals are paid either the pay band minimum or a salary of 10 per cent more than their previous salary, whichever is the higher. This means that those promoted into the SCS from a position at or close to the Grade 6 pay maximum in their department will be initially paid more than a high-flier promoted into the SCS lower down the Grade 6 or Grade 7 pay scales. Ad hoc, and, in recent years, very sluggish pay progression means that these salary differentials get locked in for the long term.
- 4.48 It was also clear from our discussions that there is a widespread lack of confidence in the performance management system. A number of participants said that they had been told that they had exceeded their annual objectives, yet were not eligible for a performance award.
- 4.49 It was said to us, in remit group discussions, that the performance pay system was biased against exceptional performers in lower-profile roles in favour of good performers in higher-profile ones. In such a case, we would expect to see a large number of people receiving successive performance bonuses over time, and we requested data on this issue from the Cabinet Office.
- 4.50 We would expect there to be some correlation between the percentage being designated as a top performer in one year and again in the next. Unsurprisingly, therefore, the data showed that, of those designated 'top' performers in 2016, 48 per cent were similarly designated in 2015. This still allows for significant amounts of mobility in and out of the top performance group. However, because bonuses are limited to only 25 per cent of the remit group, the above also suggests that an individual not in receipt of a performance bonus in one year has only a 17 per cent chance of receiving one the following year<sup>28</sup>.

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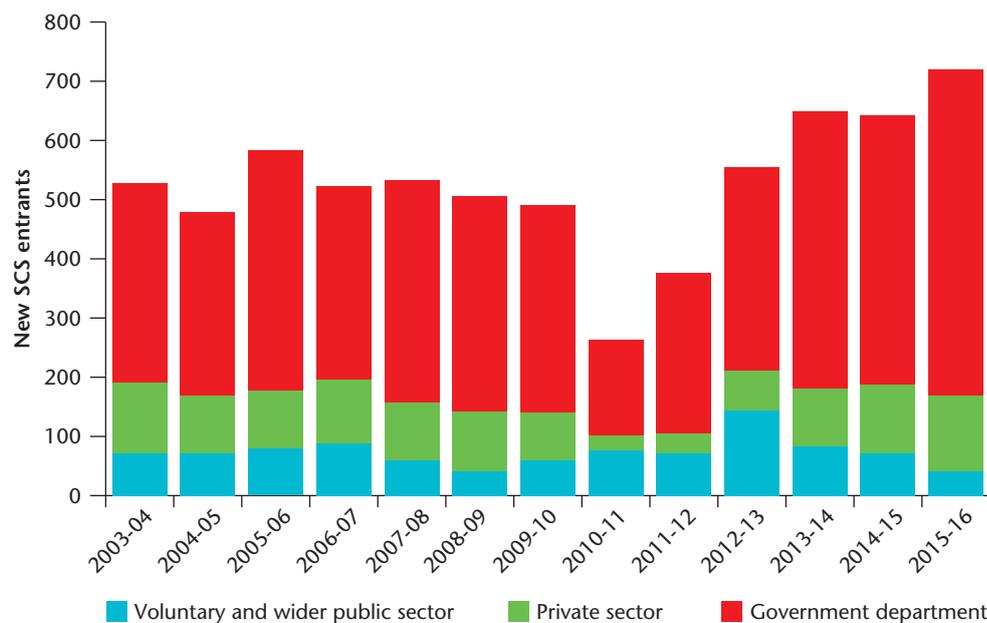
<sup>28</sup> Consider 100 remit group members who are SCS members in both 2016 and 2017 (for simplicity, we do not account for entry to, and exit from, the remit group). In each year, we assume that 25 individuals receive bonuses. If 48 per cent of those receiving a top marking in 2016 also do so in 2017, 12 members receive a bonus in both years (48 per cent of 25). It follows that, of the 75 members who did not receive a 'top' marking in 2016, 13 will receive one in 2017 (25 minus 12). This is a 17 per cent chance (13 out of 75).

- 4.51 The government evidence included data on the distribution across SCS grades of non-consolidated performance pay awards. As outlined above, this shows the distribution of 'top' performers, receiving performance bonuses, is skewed towards the most senior SCS grades. Furthermore, those in the lowest pay band were also most likely to be identified as 'poor' performers.
- 4.52 Last year, we noted that the existing performance management system has been in place since 2011 and said that the government should evaluate whether it is proving effective, given the widespread dissatisfaction with it. There has been no such evaluation. In their written evidence, the Cabinet Office said that the need for a fundamental examination of the system would be kept under review.

### Recruitment

- 4.53 The majority of the SCS are in Pay Band 1, which is drawn primarily from within the civil service. Recruitment trends over time are shown in Figure 4.7. Recruitment to the SCS has recovered from a low in 2010-11, when there were just 263 entrants, to 720 in 2015-16. Of those joining the SCS in 2015-16, 77 per cent were already civil servants (up from 71 per cent in 2014-15), with 18 per cent from the private sector (unchanged from 2014-15) and the remaining 6 per cent from the voluntary and wider public sectors (down from 11 per cent in 2014-15). The percentage of internal entrants is the highest recorded, despite all SCS jobs now being externally advertised by default. This suggests that there is either a large pool of suitably qualified internal candidates, or a lack of suitably qualified external people willing to take SCS roles, given current levels of remuneration and other job-related factors.
- 4.54 The proportion recruited externally varies greatly by profession. Fewer than ten per cent of those working in tax inspection, statistics or legal roles were externally recruited while over a third of those in internal audit, procurement and contract management, information technology and science and engineering were recruited from outside.

**Figure 4.7: New SCS entrants, by employment sector, between 2003-04 and 2015-16**



Source: Cabinet Office.

4.55 We received evidence from the Civil Service Commission (CSC) on competitions at SCS Pay Band 2 and above in 2015-16. The position across all relevant SCS grades was as follows:

- There were competitions for 158 posts, up from 79 in 2014-15.
- The Commission said that part of the increase in activity was driven by the attempt to select 25 senior commercial specialists.
- All but four of the competitions were open to candidates from both inside and outside the civil service.
- The 158 competitions resulted in 124 appointments.

4.56 Only 12 appointments were made to the 25 senior commercial posts. This accounts, in part, for the increase in the number of competitions where no appointment was made. Many of the other unfilled posts also required specialist commercial or digital skills. The Commission said there continues to be a challenge to recruit to these kinds of roles in the Civil Service.

4.57 There is no evidence that the failure to fill some posts has led to a drop in the quality of appointees. Candidates assessed as appointable, are classed as 'outstanding', 'very good', 'clearly above the minimum appointable level' or 'acceptable'. Eighty-two per cent of those deemed to be appointable were graded as 'outstanding' or 'very good'. This is higher than in 2014-15, when the corresponding figure was 69 per cent.

4.58 The recruitment picture varied according to level of seniority, as shown in Table 4.2. Recruitment difficulties appear to be most prevalent at Pay Band 2, where a number of roles have been left unfilled. It appears, from the information we saw on individual posts, that many of the roles not filled are specialised in their nature.

**Table 4.2: Appointments to SCS posts at Pay Band 2 and above in 2015-16**

	Posts advertised	Post filled with		No appointment made
		More than 1 appointable candidate identified	Only 1 appointable candidate identified	
<b>Permanent Secretary and Pay Band 3</b>	32	17 (53%)	11 (34%)	4 (13%)
<b>Pay Band 2</b>	126	64 (51%)	32 (25%)	30 (24%)

Source: Civil Service Commission.

4.59 The Commission said that pay was mentioned as a constraining factor on a number of occasions, but that this was not seen as something remarkable. It did say that almost all external candidates were prepared to take a pay cut because they want to 'make a difference to the success of the public realm'. However, the Commission also said that the threshold for SCS pay of £142,500 above which HM Treasury approval is required is unsustainable for some commercially orientated parts of the civil service. It said that the GCO had been given the freedom to recruit commercial directors on a higher salary, and/or with a bespoke performance pay arrangement. However it had still only been able to find candidates to fill about half of the posts.

4.60 The evidence from the government did not include any information setting out the proposed pay arrangements for recruitment of commercial specialists to the new GCO. Nor did it provide specific detail on the revised terms and conditions, or information on the basis for the reward packages offered, including details of what market analysis had been conducted.

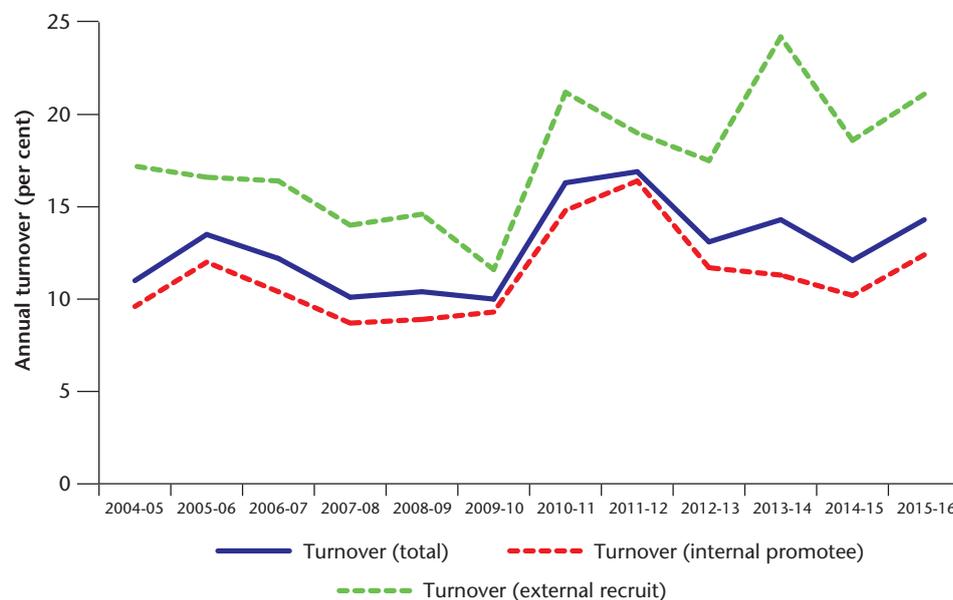
4.61 The FDA and Prospect expressed a number of concerns about the new arrangements for appointing commercial specialists. They said that, for existing civil servants who had already acquired pension benefits in the Defined Benefit civil service scheme, the change to pension arrangements was particularly unattractive. They further highlighted that the proposed redundancy arrangements were worse than those already existing. For external hires, FDA and Prospect said that it was unclear whether the new offer was better or worse than the existing offer.

### Retention

4.62 Statistics on turnover<sup>29</sup> are as follows:

- In 2015-16, the turnover rate for the SCS was 14.3 per cent, an increase from 12.1 per cent, but broadly in line with the longer-term historical trend, as shown in Figure 4.8.
- In every year since at least 2004-05, those who were previously promoted into the SCS from within the civil service were less likely to leave than those recruited externally. In 2015-16, 12.4 per cent of internal promotees left the SCS, compared with 21.1 per cent of those hired externally. However, this difference may result from many of those externally hired only intending to spend a relatively short period in the civil service before returning to the wider labour market.

Figure 4.8: SCS annual turnover rate, between 2004-05 and 2015-16



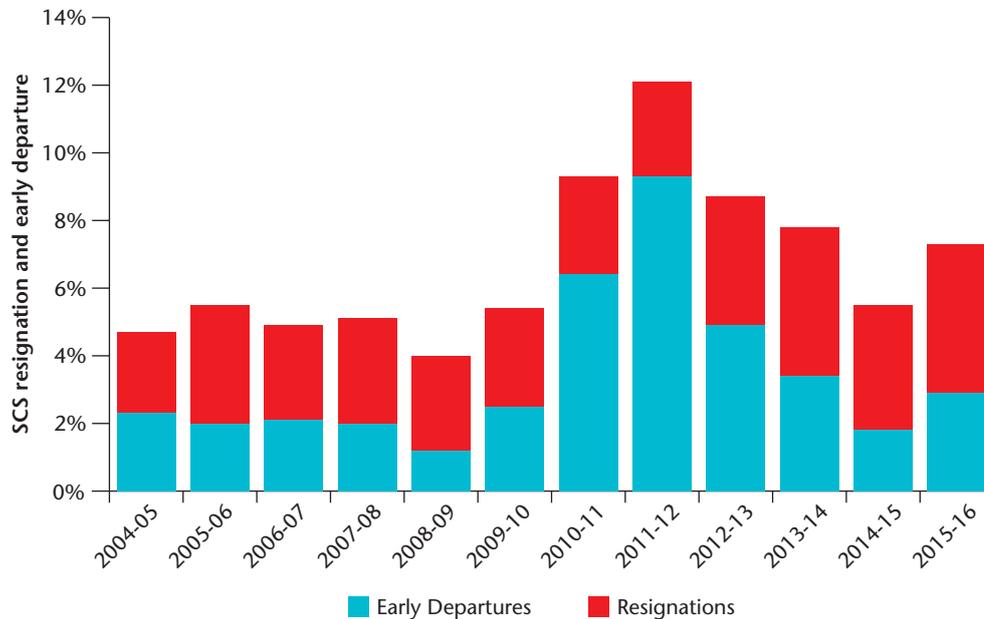
Source: Cabinet Office.

4.63 In 2015-16, the resignation rate for the SCS was 4.3 per cent, an increase from 3.7 per cent in 2014-15. The FDA and Prospect acknowledged that the resignation rate was low but said that the numbers were being depressed. They said this was because

<sup>29</sup> Turnover includes resignations, the end of temporary promotions, retirements, early departures, end of contract/secondment, and other (includes death, dismissal, machinery of government changes and movements out of the centrally managed SCS (i.e. to the diplomatic service, or intelligence service)).

some who would otherwise have chosen to leave were hoping to be allowed to leave in a voluntary exit scheme. In 2015-16, 7.3 per cent of SCS either resigned or left before normal retirement age, an increase from 5.5 per cent in 2014-15. It was lower than in each of the previous four years, but higher than levels seen prior to 2009-10.

**Figure 4.9: SCS resignation and early departure rate between 2004-05 and 2015-16**



Source: Cabinet Office.

- 4.64 Those identified as 'low' performers in 2014-15 were far more likely to leave the SCS in 2015-16 than those identified as 'top' performers. In 2015-16, 3.2 per cent of 'top' performers left the civil service compared with 9.3 per cent of 'low' performers. This data, taken at face value, seems to show that the best-performing SCS members are being successfully retained. However, we have heard anecdotally that some of the panels that award bonuses assign staff who have already left the SCS to the 'low' group by default.
- 4.65 In 2015, the government accepted our recommendation that it should systematically conduct exit interviews with those leaving the SCS and reported in its evidence for our 2016 report on the small number of exit interviews that had been conducted at that point. It said that, between 1 April 2015 and 31 March 2016, 175 SCS members had resigned but exit interview returns had been submitted for just 66 of those resigning. Only the Home Office, the Department for Transport and the Department for Work and Pensions had provided exit interview returns for more than half of those SCS who resigned during the period. The most common reason giving for resigning, by just over 50 per cent, was their pay compared with people doing a similar job in other organisations. The government described 56 per cent of those resignations as 'regrettable'.
- 4.66 The government said that it is taking steps to ensure better use of exit interviews in the future, and that the Cabinet Office will continue to emphasise to departments the importance of conducting these interviews. It also said that a comprehensive understanding of why SCS are resigning will help inform the reward strategy. We strongly agree that this is important and look forward to seeing complete data, based on full compliance with the exit interview requirements.
- 4.67 The Pivotal Role Allowance (PRA) was introduced in 2013 and was designed to retain SCS in highly specialised roles and those delivering the riskiest projects across government.

The evidence from the Cabinet Office reported on a review of the Allowance that it had conducted. The review found that 12 departments had used the PRA on 44 occasions and that it was being deployed as intended and then withdrawn at the end of a project, or when the role was no longer pivotal. The review found that some departments thought that the bureaucracy was such that it was not worth making use of the allowance. The review conceded that the allowance had been underutilised. Current arrangements would be improved and communicated to departments to encourage greater use.

### *Pensions*

- 4.68 The government evidence accepted that changes to the taxation of pension benefits from 2016 and the introduction of the *Alpha* pension scheme in 2015 had reduced net total reward for the SCS.
- 4.69 Although the pension taxation issue did come up in discussions with members of the remit group, it did not appear to resonate as strongly with this group as with other groups covered by our remit. This may be because most of the SCS are not paid enough to be affected by the Annual Allowance. In addition, the ability to carry over unused Annual Allowance from previous years may be currently postponing the date at which the first tax charge is made. The Cabinet Office said it is considering the implications for the SCS workforce and whether any action is appropriate.
- 4.70 The FDA and Prospect said that they had repeatedly offered to discuss pensions with the Cabinet Office, but without success. They made two specific proposals. The first was the introduction of a '50-50' section of the Defined Benefit scheme whereby members reduce their pension contributions in return for a reduction in pension benefits. This is a feature of the Local Government Pension Scheme. We discuss this in Chapter 2.
- 4.71 The second FDA and Prospect proposal was to allow members of the Classic pension scheme to access the Partnership section of the civil service pension scheme. This is a Defined Contribution element of the scheme whereby employers would match member contributions of up to 3 per cent of pensionable salary. The FDA and Prospect said that these changes would allow higher earning civil servants to manage their pension saving without encouraging them to stop saving completely.

### *Morale and motivation*

- 4.72 There were two different surveys of the SCS in 2016. One was the Civil Service People Survey for the whole civil service, run by the Cabinet Office. The other was the FDA/Prospect membership survey.
- 4.73 In the 2016 People Survey, the engagement score<sup>30</sup> for the SCS reached 76 per cent in 2016, the highest score recorded since at least 2009. However, there was substantial variation between departments, ranging from the Department for International Development at almost 90 per cent and the Department of Health, the Department for Business, Energy and Industrial Strategy and the Cabinet Office, all below 70 per cent. The 2016 engagement score for all civil servants was 59 per cent. Unfortunately, full results for the SCS from the 2016 survey were not made available to us in time for this report.

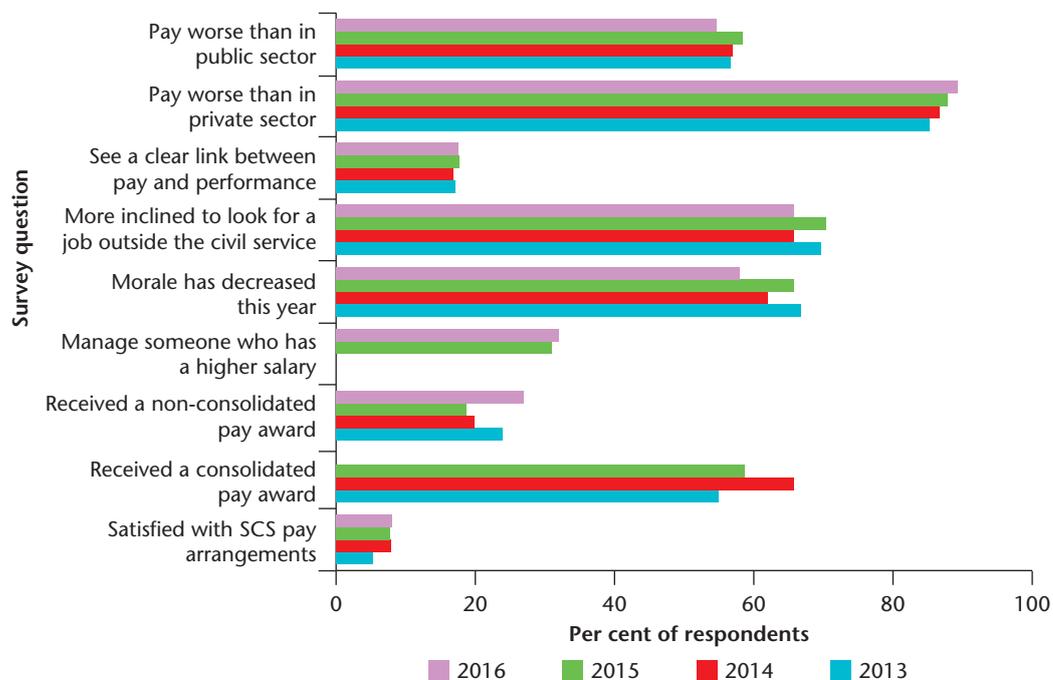
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<sup>30</sup>The employee engagement score is calculated as a weighted average of the responses to five questions about whether the individual: is proud to tell others they are part of the organisation; would recommend the organisation as a great place to work; feels strongly attached to the organisation; is inspired by the organisation to do the best in their job; and motivated by the organisation to achieve its objectives.

4.74 Each year, as part of their evidence, the FDA and Prospect include the results of a survey of their SCS members. Some results are presented in Figure 4.10. In general, the results are little changed from 2015. The main results, based on 450 responses, are as follows:

- 92 per cent of respondents said they were dissatisfied with the pay arrangements, unchanged from 2015.
- 60 per cent received a consolidated pay increase this year. However, more than 10 per cent said they had not received a consolidated award in over five years.
- 27 per cent received a non-consolidated pay increase this year, an increase from 19 per cent in 2015.
- 32 per cent said they managed someone on a lower grade who has a higher salary than them. This figure is little changed from 31 per cent in 2015.
- 58 per cent said their morale had decreased in the last year, compared with 66 per cent in 2015. The single factor having the most negative impact on morale was pay restraint, cited in 47 per cent of cases.
- 66 per cent said they were more inclined to look for a job outside the civil service than 12 months ago, down from 70 per cent in 2015.
- 83 per cent, including 55 per cent of top performers, said they did not see a clear link between performance and pay. This figure was little changed from 82 per cent in 2015.
- 89 per cent said they thought their pay was worse than for similar jobs in the private sector, compared to 88 per cent in 2015. This figure has increased slightly in each of the last three years.
- 55 per cent said they thought their pay was worse than for similar jobs in the public sector. This compares to 58 per cent in 2015.

Figure 4.10: FDA/Prospect SCS pay survey results between 2013 and 2016



Source: FDA and Prospect.

4.75 Some of the figures provided, including 92 per cent of respondents being dissatisfied with current pay arrangements, are striking. It should, however, be stressed that the FDA/

Prospect survey is based on a relatively small sample, covering about 20 per cent of the SCS population.

- 4.76 The People Survey coverage, with a response rate of 90 per cent, is much wider. However, we were told by members of the remit group that there is an incentive to answer the People Survey positively, as the results from a manager's work unit are used to assess their own effectiveness. Therefore, the answer may have an impact on a manager's chances of receiving a non-consolidated performance pay award. The engagement score for the management area overseen by a member of the SCS is put on the front page of their annual appraisal form.

### *Feeder group*

- 4.77 Although the SCS does recruit from the private sector and the wider public sector, most current members of the SCS were promoted from within the civil service. In December 2016, we met a number of civil servants on the Future Leaders Scheme (FLS), who are staff at Grade 6 and Grade 7 with the potential to reach the SCS. A majority of those we met said they expected to be promoted within three years.
- 4.78 Many of the FLS participants expressed concerns about the salaries available to them on promotion. Some were concerned that they would be paid less than externally appointed candidates. Others said there was little incentive to be promoted to the SCS directly from Grade 7 as this would mean they were almost certain to be placed at the bottom of the SCS pay scale and 'leapfrogged' by those promoted at a later date, but from a higher point on the Grade 6 pay scale. A number of participants said that they planned to leave the civil service and reapply as an external entrant, as this was the only way to be paid at a point significantly above the minimum of the SCS Pay Band.

## **Recommendations**

### *Response to headline pay proposals*

- 4.79 In previous SSRB reports, we have highlighted what we consider to be serious flaws in the current SCS pay system. We recognise that they cannot be resolved quickly, but believe the pace of reform to date has been much too slow. We are of the view that these flaws, set out in this chapter, are having serious adverse behavioural and motivational impacts.
- 4.80 The recruitment and retention data for the remit and feeder groups does not suggest that there is an immediate need for pay awards greater than 1 per cent in most SCS roles. However, we do not believe the lack of existing recruitment and retention problems should be grounds for complacency. Our conversations this year with members of the remit group emphasised to us their widespread and very deep lack of confidence in the pay system, regardless of whether they thought their own pay or that of their peers was reasonable. We are concerned about the demotivating effect that this might have and about how this may start to impact on staff effectiveness within the SCS remit group and its feeder groups.
- 4.81 Our remit requires us to advise on the pay of the SCS as a single cadre. However, we have become increasingly conscious of tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. Moreover, such decentralisation makes it harder for the SSRB to play an effective role when its advice is sought from, and provided to, a single central point in government.

- 4.82 In the context of a pay and performance management system which does not command the respect of the remit group, we believe failure to use the 1 per cent that has been budgeted for awards would be a further demotivating influence. **Therefore, for 2017, we believe that a 1 per cent increase in pay budgets for this group is justified**, in accordance with Recommendation 2 which follows paragraph 1.11.
- 4.83 However, our most important recommendation for the SCS this year is that the government undertakes a formal review of the pay system. We are very willing to assist in such an exercise. We hope that any review would take account of the overarching strategic conclusions that we published in our last report and which we reiterate in this report. In particular, we believe the focus should shift towards seeking to maximise overall outcomes for lowest cost, rather than on limiting basic pay increases across the board.

**Recommendation 4: We recommend that the government undertakes a fundamental review of the SCS pay system, with a view to proposals being made to the SSRB in time for us to comment meaningfully on them in our next annual review with implementation from April 2018.**

#### *Response to other proposals and other observations*

- 4.84 We firmly believe we can add more value through advising on a full overhaul of the current system rather than tinkering with the annual distribution of a largely delegated overall 1 per cent of paybill. Therefore, we make no further pay recommendations in this chapter. We do, however, offer some observations.
- 4.85 **We support the principle of non-consolidated awards to reward high performance and believe that they should be used where available.** However, we remain of the view that restricting payments to a maximum of 25 per cent of SCS staff is overly rigid. This is seen as arbitrary, unfair, and biased against exceptional performers in more junior roles.
- 4.86 Notwithstanding the arbitrariness of the 25 per cent quota, we are concerned about the clear correlation between grade and performance markings, with the most senior SCS grades being the most likely to be identified as 'top' performers. To enforce the quota rigidly for more junior staff but not the most senior grades sets a poor leadership example. **We believe that the rules around the application of this quota should be fully transparent and that the government should publish annually, for each SCS grade up to and including Permanent Secretary, the distribution of performance appraisal markings across all performance categories.** It would be straightforward to do this in a manner that does not compromise the anonymity of the individuals concerned, which we believe should be maintained.
- 4.87 Although only introduced in 2016, we note that only a small number of departments chose to or were able to make in-year awards this year. **We are content that in-year rewards continue into 2017, but think the issue of how outstanding in-year contributions are rewarded should be considered, as part of the review of the SCS pay system.**
- 4.88 It is evident that recruitment problems do exist in certain specialist areas. The government has taken a new approach to recruiting commercial specialists through a separate GCO, with non-standard reward packages for senior posts. However, the government has introduced this new organisation without our independent advice being sought. This year, we also had to seek clarity from the Cabinet Office on whether this group remain a part of the SCS, and in our remit, or not. **In order to help address any**

such ambiguities in future years, we would like to receive a remit letter from the Cabinet Office, as we do for most of our other remit groups, specifying the issues to be addressed by the SSRB.

- 4.89 The FDA and Prospect urged us to make a recommendation that civil service organisations have the resources they need to meet the challenges of the years ahead. Decisions on resourcing are a matter for the government and not the SSRB. **We are, however, prepared to consider any evidence presented in the future that individuals have excessive workloads due to under-staffing, as this presents a risk to recruitment, retention and motivation.** Data on workloads and working hours is one of the weak areas of the generally good data we receive for this remit group.
- 4.90 The FDA and Prospect said that there are signs that the Cabinet Office is improving engagement with them and asked us to recommend that this should be a future priority. As we said in our 2016 report, **we support engagement between the government and unions on workforce matters, which should be transparent and constructive.** This includes areas such as pension reform and any future review of the SCS pay system.

### Looking ahead

- 4.91 We look forward to playing a role in the review of the SCS pay system. We have said for a number of years that such a review is necessary and we are clear that the government needs to grasp this opportunity to develop a system that eliminates the ad hoc arrangements and inconsistencies in the current structure and replaces them with a new one that helps to recruit, retain and motivate the SCS of today and of the future. We also believe that the review will benefit from being conducted in an open and transparent manner and with significant involvement of stakeholders such as ourselves, the FDA and Prospect and the Civil Service Commission.
- 4.92 In Chapter 1 of this report, we highlighted progress against the SSRB's strategic priorities as set out in our 2016 report. Our assessment of the position for the SCS is summarised below. We hope that this will prove helpful in taking forward the review.

Table 4.2: Assessment of position of SCS against the SSRB's strategic priorities

Key	Green: Area of little concern Amber: Area of some concern Red: Area of significant concern	↑: Improving trajectory ↔: Stable trajectory ↓: Declining trajectory
SSRB priority in 2016 report	Assessment of SCS position in 2017	
<b>Pay and workforce strategy:</b> Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Commitment to develop SCS pay and workforce strategy, but no concrete proposals.  ↔	
<b>Focus on outcomes:</b> There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	Potential interest, but no firm commitment or proposals.  ↔	
<b>Action on poor performance:</b> Greater analysis is required of where value is being added and action taken where it is not.	Little direct evidence. Data shows higher performers less likely to leave, but true accuracy of data unclear.  ↔	
<b>Performance management and pay:</b> There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	Established performance management system, but not trusted by staff. No specific commitment to review.  ↔	
<b>Better data:</b> Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good and improved workforce data.  ↑	
<b>Feeder Groups:</b> The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Limited data available. No evidence of major concerns.  ↔	
<b>Targeting:</b> Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	Departments can target, but lack of general framework for doing so.  ↔	
<b>Central versus devolved tensions:</b> Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	Tension between central and departmental control.  ↔	
<b>Diversity:</b> The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Relatively good performance on gender, but poor on ethnicity, and a smaller proportion describe themselves as disabled than in 2004.  ↔	

4.93 The issues that we believe an SCS review needs to examine are as follows:

- We welcome the government's commitment in its evidence to explore the scope for funding flexibility within the parameters of public sector pay policy. As we said last year, there should be more focus on maximising outcomes for lowest cost and reduced fixation on limiting basic pay increases across the board. We encourage the government to identify areas where appropriate cost controls can be put in place and where a more innovative approach to pay can be piloted and evaluated. Whilst our remit only applies to the SCS, the principles can be applied more widely.
- Although we are asked by the Cabinet Office to make recommendations on pay for the SCS as a whole, the acceptance or rejection of those recommendations, or the way in which an award is implemented, is driven by individual departmental preferences. In its evidence, the government said that it agreed with us that the civil service needs to take a more corporate and coherent approach to the SCS workforce in general. The FDA and Prospect said responsibility for SCS workforce policy should be centralised as this would encourage greater consistency in pay levels for comparable roles and fairness between performance assessments. We believe that a clear plan is needed for centralisation of the management of the SCS workforce, or its delegation to departments, or a balance between the two, in place of the incoherencies in the current hybrid model.
- We have heard from many in the remit group of concerns about being paid less than those they manage, being paid less than someone doing the same job because they were recruited externally and being paid less than newly promoted colleagues. The lack of pay progression through overly wide pay bands means that it is very difficult to alleviate any of these issues. The result is that people are being paid according to their job history rather than their skills, experience or contribution. To be worthwhile, the new pay system must address these longstanding issues.
- We believe this review offers the opportunity to consider changes to the composition of the overall offer. The overall package is made up of pay, pensions, allowances and other cash and non-cash elements. Outside the public sector, employers are able to offer their employees packages that allow flexibility between, for instance, pay and pensions, to suit individual circumstances. Potential options are discussed further in Chapter 2 of this report.
- Many members of the SCS have expressed dissatisfaction with the performance management system and the use of non-consolidated performance-related pay. The Cabinet Office said that the need for a fundamental evaluation of the performance management system would be kept under review. We think this does not go far enough, and believe that a full review should form a part of, or run alongside, the review of the SCS pay system.
- Finally, the review should consider what role the SSRB can most usefully and meaningfully play in the ongoing oversight of the new system, particularly if it is to retain decentralised elements.

4.94 The quality of data provided for the SCS compares well with that provided for other remit groups and the Cabinet Office have been responsive to some of our suggestions for data improvement, for which we are grateful. However, there are still areas where improvements could be made. These include:

- disclosure of relevant information held by the Cabinet Office but not shared with us for various reasons, which this year included information on the socio-economic background of SCS members, the most recent People Survey results for the SCS and some performance distribution data for the most senior grades;
- full information on the remuneration arrangements for senior specialist staff, and the evidence base for those arrangements;

- better information on the 7,000 non-SCS paid more than the SCS Pay Band 1 minimum;
- more complete data from exit interviews, which requires that all departments conduct such interviews;
- the collection and use of data relating to the workloads and working hours of SCS members; and
- the provision of improved information on the feeder group.

## Chapter 5

### Senior Officers in the Armed Forces

#### Summary

- 5.1 Evidence shows that recruitment to, and retention of, the senior military are currently at satisfactory levels. For the time being, it continues to attract sufficient numbers from the feeder group, with no evidence of a decline in the quality of recruits.
- 5.2 However, the future situation on recruitment and retention for the remit group is uncertain. We have seen signs that officers are taking a decision at a younger age than in the past on whether to stay in the military and seek promotion, or leave and seek a second career. This year, the number of OF4 and OF5 feeder group officers choosing to leave was the highest in the last nine years.
- 5.3 The situation in the feeder group needs to be kept under particularly close review. In the meantime, active and careful consideration should be given by the Ministry of Defence (MoD) and HM Treasury to what mitigating factors may need to be put in place should the retention situation worsen.
- 5.4 Recent changes to pension taxation allowances continue to have a detrimental impact on morale. We share the concern of the MoD that this presents an enduring risk to its ability to attract and retain sufficient talent to populate the top ranks in future.
- 5.5 A number of other factors have been identified by remit and feeder group officers in our discussions with them this year. These could, together with the impact of pension changes, restrict inflow into, or fuel greater outflow from, the remit group in future. These include:
  - strongly-held and widespread dissatisfaction with the perceived arbitrary application of rules surrounding the daily conduct of work;
  - an increasing sense of managing a business rather than leading operations in the field;
  - a perception that the senior military offer as a whole has declined, including the non-pay elements; and
  - the relative attractiveness of outside employment options, particularly if the economy improves further.
- 5.6 Our concerns about this group justify full use of the 1 per cent pay award budgeted by the MoD. We therefore recommend that all individuals in the senior military receive a 1 per cent pay increase this year, in accordance with Recommendation 2 which follows paragraph 1.11. We also recommend that differentials for Medical and Dental Officers are maintained.

#### Introduction

##### *The remit group*

- 5.7 There were 125 senior officers at 2-star rank and above on 1 July 2016, a decrease of three over the year. A breakdown by rank since 2011 is given in Table 5.1 and a list of the officer ranks in the UK military is set out in Appendix L. In 2016, there were only three female officers, all 2-star, in the remit group. None reported being from a Black, Asian and Minority Ethnic group.

**Table 5.1: Number of senior officers as at 1 July, between 2011 and 2016**

All services	2011	2012	2013	2014	2015	2016	Net change 2015-2016
4-star	10	9	9	8	7	8	+1
3-star	23	22	27	27	30	31	+1
2-star	95	94	92	95	91	86	-5
Total	128	125	128	130	128	125	-3

Source: Ministry of Defence.

- 5.8 In 2016-17, those in our remit group were paid between £112,683 and £262,959, with an associated paybill of £26.7 million. This included Employer's Earnings Related National Insurance Contributions (ERNIC) and Superannuation Contribution Adjusted for Past Experience (SCAPE).
- 5.9 Figures supplied by the MoD show that annual salary growth per head has averaged 1.2 per cent per year, as shown in Table 5.2.

**Table 5.2: Salary growth per head between 2012-13 and 2016-17<sup>1</sup>**

	Salary growth per head (excluding on costs) (£)	Change (%)
2012-13	121,749	
2013-14	122,443	0.6
2014-15	124,120	1.4
2015-16	125,149	0.8
2016-17	127,494	1.9

Source: OME calculations using Ministry of Defence data.

Notes:

<sup>1</sup>This includes the effect of pay progression, but excludes ERNIC and SCAPE.

### *Pay and the pay system*

- 5.10 Certain aspects of the pay system and terms of service for the senior military differ from those for our other remit groups. The pay system for the senior military includes incremental progression and a pension scheme that remains non-contributory. The 2-star and 3-star officers in the remit group also receive tapered X-Factor<sup>31</sup>. Overall the reduction in take-home pay experienced by the senior military has been smaller in recent years than that for our other remit groups, as shown in Appendix J. However, the senior military do not receive performance-related pay in addition to base pay and they have limited security of employment.
- 5.11 The senior military receive annual pay increases through a system of incremental progression for those with satisfactory performance, of between 2.0 and 4.9 per cent, for those paid below the scale maximum. These increases therefore have greater value to an individual than any general award that has been recommended by the SSRB in recent

<sup>31</sup>X-Factor is a pensionable addition to pay, which recognises the special conditions of service experienced by members of the Armed Forces compared with civilians over a full career. It is recommended by the Armed Forces' Pay Review Body and, in 2016-17, was £10,272 at the top of the OF4 pay scale. For senior officers, the payment is tapered. 1-star officers (the rank directly below the SSRB's remit) receive 50 per cent of the cash value of X-Factor at the top of the OF4 scale. 2-star and 3-star officers receive an amount equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 scale. 4-star officers and above do not receive it.

years. The MoD confirmed that no member of the senior military had their incremental pay withheld for performance reasons in 2016-17. Of those officers in the remit group at 1 April 2016, 24 did not receive an increment. This was because six were already at the top of the pay range for their rank and a further 18 officers had insufficient seniority because they had served in rank for less than six months of the reporting period.

- 5.12 The Parliamentary Under Secretary of State and Minister for Defence Veterans, Reserves and Personnel (the Minister) confirmed to us that he regarded incremental pay as an appropriate pay system within the Armed Forces. He said that he wanted to retain it, not least as an individual's second job in rank was often more demanding than their first.

### *Pension schemes*

- 5.13 The MoD estimated that roughly 60 per cent of the senior military belong to the 1975 Armed Forces Pension Scheme, 30 per cent to the 2005 Scheme and the rest to the newest scheme introduced from April 2015. All three are Defined Benefit, non-contributory pension schemes. The MoD hopes to provide more robust data on pension scheme membership next year. The numbers in the new scheme are small because most of the current senior military remit group are within ten years of normal retirement age<sup>32</sup>. However, the 2015 Armed Forces Pension Scheme is based on average career earnings rather than final salary and has a pension age of 60 (up from 55 in the previous scheme). It also has a new accrual rate.

### *Pension taxation*

- 5.14 The MoD told us that 32 members of the Armed Forces incurred a tax charge in 2015-16 as a result of exceeding the Annual Allowance. Of these, 21 were in our remit group. The highest charge was estimated to be over £110,000. The reduction in the Lifetime Allowance from £1.25 to £1 million in April 2016 will also have increased the tax liability of the remit group. The MoD told us that transitional protection is being made available to those who may be affected by the changes.

### *Medical and Dental Officers (MODOs)*

- 5.15 In July 2016 there were three Medical and Dental Officers (MODOs) in the remit group. Two are 2-star officers 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. The 3-star MODO is paid 5 per cent above 2-star MODO base pay plus X-Factor.

### *Government response to our 2016 recommendations*

- 5.16 The government accepted our recommendation to increase the base pay of the senior military by 1 per cent. This was implemented with effect from 1 April 2016. In addition, the government said eligible senior officers, like other members of the Armed Forces, would continue to receive an increment for their pay scale, subject to satisfactory performance.

### *Policy context*

- 5.17 The Department told us that it had simplified structures and delegated responsibility and accountability to appropriate levels as recommended in the 2011 Defence Reform report. It also said that it was working with Defence Equipment and Support, the Defence Infrastructure Organisation and Defence Business Services to help ensure that the requirements of the 2015 Strategic Defence and Security Review were fulfilled.

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<sup>32</sup>All those aged 45 or over on 1 April 2012 remain in either the 1975 or 2005 Armed Forces Pension Schemes.

- 5.18 The Department updated us on the 'Star Count' initiative. The 2012 Liability Review had supported a reduction in the number of senior military posts at 1-star and above from 500 in 2010 to 405 in 2020. The latest estimate of the number of posts at 1-star and above was 430 at 1 April 2016. The MoD said that this was slightly above its interim target of 427.
- 5.19 The Department informed us about the continuing work of the Senior Appointments Committee. This Committee conducts an annual review of the 'top talent' across the services at 2-star and 3-star level in order to plan ahead for the next six to eight years. It also helps to ensure that senior personnel stay in post for longer, where feasible.
- 5.20 The MoD also told us about the new Combined Accommodation Assessment System (CAAS), which covers grading and rent changes for Service Families Accommodation (SFA). The MoD told us that on 31 October 2016, 45 senior military officers resided in SFA. The MoD told us that our remit group was likely to be in the highest-graded accommodation and to incur the largest rent increases under the CAAS.

## Proposals

- 5.21 In the light of continued pay restraint, the MoD proposed a uniform increase of 1 per cent to basic pay across all ranks. It also proposed preservation of the 10 per cent minimum increase to base pay on promotion (excluding X-Factor<sup>33</sup>) from 1-star to 2-star rank. This is the difference between the value of the highest pay point for those ranks covered by the Armed Forces' Pay Review Body (AFPRB) and the lowest pay point for the ranks that we cover. The MoD estimated the additional cost of both elements of such an award for the senior military in 2016-17 at £0.281 million. This includes ERNIC and SCAPE. This amounts to 1 per cent of the paybill for our remit group, and is budgeted for by the Department.
- 5.22 When the Chief Secretary to the Treasury (CST) wrote to the SSRB Chair in July 2016, he said that the government expected pay awards to be targeted. However, the MoD said that because the military pay structure already distinguished between individuals by rank, any uniform pay award in the Armed Forces would effectively be differentiated. It added that further targeting would not be necessary or helpful.

## Evidence

- 5.23 We took written and oral evidence from the MoD. In addition, on 29 September 2016, we held a discussion with 13 senior officers, around 10 per cent of the remit group. We also met around 25 feeder group members from the three services in September and November 2016.

## Recruitment

- 5.24 The Armed Forces develops its own personnel from the feeder groups for the senior military, and promotes them to fill the most senior roles. The feeder groups are discussed later in this chapter. The Minister told us that the senior military continued to attract sufficient numbers because of the variety, responsibility and challenge of the work.
- 5.25 The Minister told us that the MoD had focused on how to increase representation from diverse communities in the senior military. He observed that as an internally-fed organisation they were restricted in what they could do. However, as the recruitment base changed, there would be increased opportunities to employ a more diverse workforce that better reflected the composition of the general population.

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<sup>33</sup>Worth £2,594 in 2017-18 to 2-star and 3-star officers if a 1 per cent pay award is approved.

- 5.26 The Minister added that challenging diversity targets in the public domain had been set for the Armed Forces. The 2020 diversity targets which apply to the Armed Forces as a whole are:
- to increase female personnel to 15 per cent of total intake by 2020; and
  - to increase Black, Asian and Minority Ethnic (BAME) personnel to at least 10 per cent of total intake by 2020, on the way to 20 per cent.
- 5.27 In the Minister's view, the diversity situation was improving gradually, but he wanted to see changes happening faster. He said there was no single way to increase ethnic diversity in the senior military but that role models were very important, as was adapting the approach according to the ethnic minority group being targeted. The Chief of the Defence Staff (CDS) added that it would take time for more women to feed through the ranks, but that role models already existed.
- 5.28 The MoD currently gives us data on age and gender in the remit group. It told us that from 2018, it would also start to provide information on ethnicity and disability.

### *Retention*

- 5.29 The MoD reported this year that voluntary outflow from the remit group, excluding normal retirements, had remained steady in comparison with the previous year, following a spike in 2013-14. In the 12 months to June 2016, 16 officers were promoted into the remit group. In addition, 14 officers retired and a further five retired early (compared with the year to June 2015, when 19 officers retired and a further five retired early). Table 5.3 shows early retirements from the remit group in the last five years.

**Table 5.3: Officers in the SSRB senior military remit group (OF7-OF9) leaving the services voluntarily, from 2012-13 to 2015-16<sup>1,2</sup>**

	Rank	2012-13	2013-14	2014-15	2015-16
Senior military	4-star OF9	0	0	0	0
	3-star OF8	0	3 (11%)	0	0
	2-star OF7	3 (3%)	6 (6%)	5 (5%)	5 (6%)

Source: Ministry of Defence.

Notes:

<sup>1</sup> This covers the period from July to June each year.

<sup>2</sup> The table shows early departures and not those at normal retirement age.

- 5.30 The Minister said that a degree of outflow was needed in a pyramid shaped organisation. The CDS said that the voluntary outflow numbers would include some who were leaving a matter of weeks before their retirement date. He added that the level of voluntary outflow in the previous year could have been affected by the design and impact of the 2015 Armed Forces Pension Scheme encouraging individuals to leave before their 55th birthday. The Department said it would continue to monitor and record the retention issues facing the SSRB remit group.
- 5.31 This year, the MoD invited us to note that 'changes to pension tax relief present an enduring retention risk to the military remit and feeder groups'. While pension taxation is not a matter for this review body, we are interested in its impact on recruitment, retention and motivation within our remit groups. The MoD said that pensions are a key part of the offer, but that service personnel were well sighted on the reduction in the value of the pension. It also said that the further reduction in the Annual Allowance threshold meant that more service personnel will in future incur a tax charge, which

may colour their decision to accept promotion or to remain in the service. The MoD explained that those promoted to 2 and 3-star rank could see a large increase in their tax charge as a result of accruing a large amount of pension in the year of promotion. It was particularly concerned that those officers with high potential would decide that it was not sensible to remain in the military for a full career.

- 5.32 In the longer term, the MoD expected a greater number of remit group members to be affected by the changes in pension taxation, with 3-star officers potentially having significant reductions to their Annual Allowance (to the minimum of £10,000) where their adjusted earnings take them over the £150,000 threshold. In addition, those promoted to the remit group could also see a large increase in their tax charge because they will have accrued a large amount of pension in the year of promotion.
- 5.33 When we met members of the remit group they told us that, increasingly, individuals decided whether to stay in or leave the military on the basis of the pension situation. They added that those promoted fastest were those most penalised by the pension taxation changes, as their pay, and corresponding pension benefits, increased at the fastest rate.
- 5.34 The MoD evidence stated that HM Treasury is undertaking further work, following a public consultation on pension tax relief held in the summer of 2015. It added that the MoD understands that HM Treasury will consider, on a case-by-case basis, where there is evidence of a need to change pension taxation arrangements.
- 5.35 The MoD told us that Veterans UK, the organisation which estimates individual tax charges for those in the military, may no longer be able to do so. This was because earnings will be based on a new definition of adjusted income which includes all taxable income from current employment plus any other source. The MoD said that, in future, individuals would need to assume greater personal responsibility for determining whether a tax charge would be incurred.

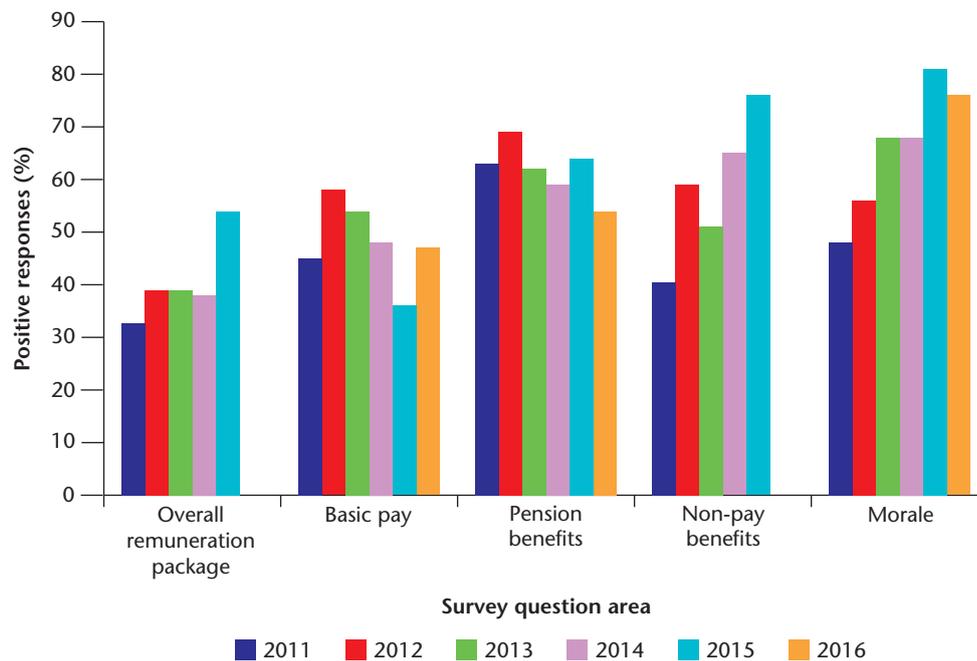
### *Morale and motivation*

- 5.36 Members of the remit group told us that the senior military was perceived as being well remunerated but that the 'lived experience' was in decline, as were their support arrangements. They also said that senior military roles were now increasingly about managing businesses rather than leading operations, and that pension taxation was now the predominant issue within the remit group.
- 5.37 The Minister told us that, in his view, morale in general was good within the senior military. However, he recognised that total remuneration was not as good as it had been. The CDS said that it was important to retain incremental pay for now, because those in receipt of it were dealing with much change and uncertainty, including changes to their pensions and terms and conditions of employment.
- 5.38 The response rate from the senior military to the 2016 Armed Forces Continuous Attitude Survey (AFCAS) was 44 per cent, down from 52 per cent in 2015. Overall, the MoD noted a reasonable increase from the previous year in satisfaction with base pay levels and allowances for the remit group, and an increase in satisfaction with service benefits to the family. However, it also noted a decrease in satisfaction in a number of other areas.
- 5.39 Some results are presented in Figure 5.1. The percentage of the senior military saying they were satisfied with their basic pay rose from 36 to 47 per cent in the most recent survey. However, satisfaction with pension benefits fell from 64 to 54 per cent. In addition, the percentage able to take their whole annual leave entitlement fell from

28 to 18 per cent. The main reason given for this was workload, which was cited by 86 per cent of respondents.

5.40 For the sixth year, our secretariat also ran an online survey just for the senior military remit group. It contains questions that complement the AFCAS survey and there were 53 responses, approaching half of the remit group at that time. Compared with last year, there was an increase in positive responses to the question on the overall remuneration package but fewer positive responses for questions on non-pay benefits, pay on promotion and X-Factor. Figure 5.1 shows changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale for officers at 2-star rank and above between 2011 and 2016.

**Figure 5.1: Changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale for officers at 2-star and above, between 2011 and 2016**



Sources: Ministry of Defence (How satisfied are you with your basic pay? How satisfied are you with your pension benefits? How would you rate your level of morale?) and Office of Manpower Economics (How satisfied are you with your overall remuneration package? How satisfied are you with your non-pay benefits?).

Notes: For the questions about the overall remuneration package, basic pay, pension benefits and non-pay benefits, the figure shows the percentage of respondents answering satisfied or very satisfied. For the question about morale, the figure shows the percentage of respondents answering high or very high.

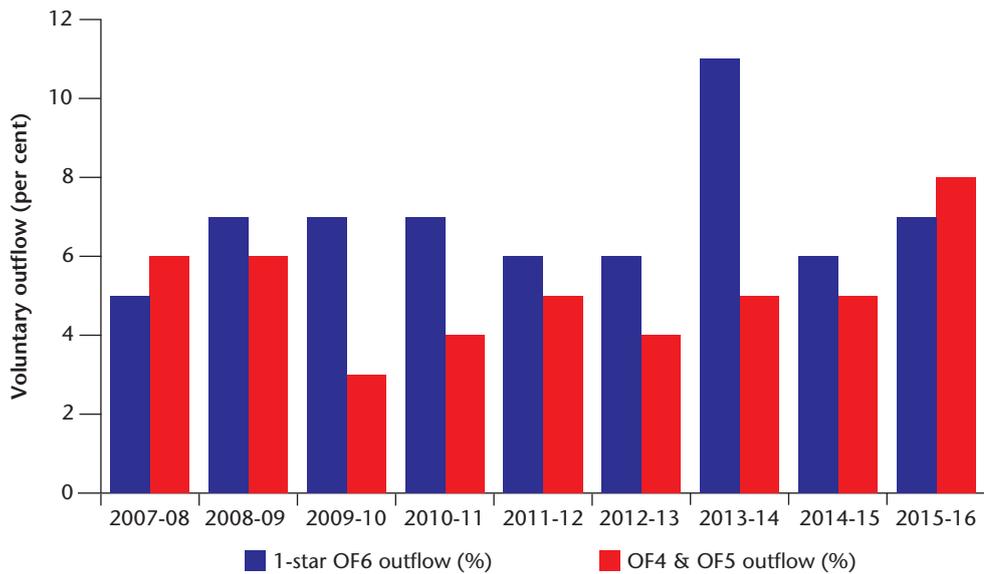
### *Retention in the feeder group*

5.41 The feeder group for the senior military comprises the three ranks from which officers are promoted into our remit group. These are the OF4, OF5 and OF6 ranks. On 1 April 2016, there were 3,164 OF4 officers, 932 OF5 officers and 279 OF6 (or 1-star) officers. Further information on each of these ranks in the three services is set out in Appendix L.

5.42 The MoD observed this year that voluntary outflow from the feeder groups had increased. Twenty-one OF6 officers (or 7 per cent) chose to leave the feeder group, compared with 18 (or 6 per cent) in the previous year. Of those, seven gave 'take advantage of opportunities outside' as the reason for leaving and three each cited 'offer of civilian employment' and 'take advantage of pension arrangements'.

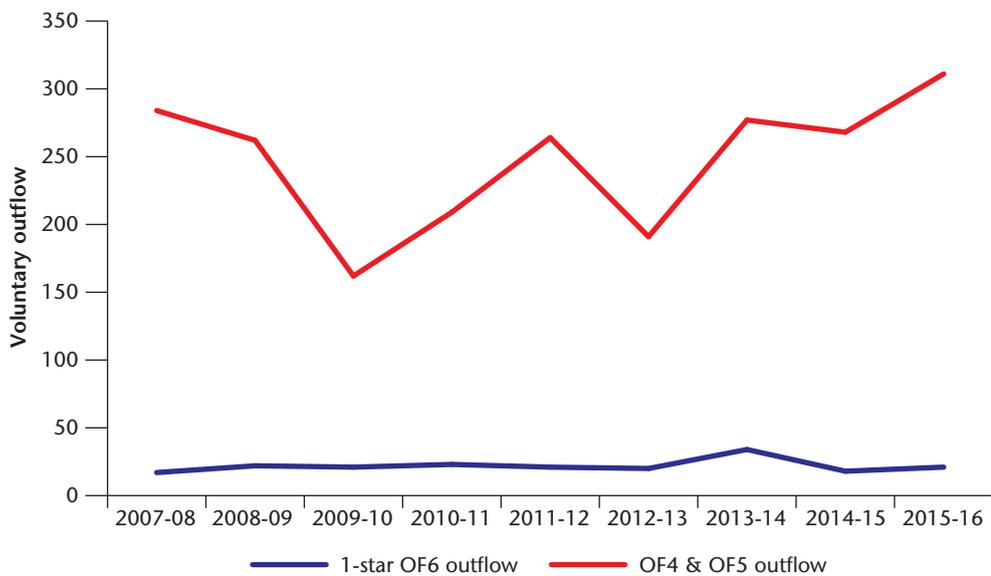
5.43 In addition, there was an increase in the number of OF4 and OF5 feeder group officers choosing to leave. The overall number rose to 311 in the year to June 2016, compared with just under 270 in the year to June 2015, and was the highest level for at least nine years. Figure 5.2 shows the percentage of officers in the SSRB feeder groups leaving the services voluntarily in the last nine years. Figure 5.3 shows the respective numbers leaving.

**Figure 5.2: Percentage of officers in the SSRB feeder groups (OF4-OF6) leaving the services voluntarily between 2007-08 and 2015-16**



Source: Ministry of Defence.

**Figure 5.3: Number of officers in the SSRB feeder groups (OF4-OF6) leaving the services voluntarily between 2007-08 and 2015-16**



Source: Ministry of Defence.

5.44 The MoD told us that it recognised that while a certain amount of outflow at all levels was necessary, healthy and normal, it was important to closely monitor the feeder group in order to detect any negative developments in retention, motivation and quality. It noted that, although the increase in voluntary outflow this year was relatively small, it

might be the start of an upward trend in overall dissatisfaction with service life. For the second year, the MoD explained that Career Managers had reported that greater effort was required to manage the feeder group than was the case three or four years ago, with many wishing to discuss their future options.

- 5.45 The CDS said that there was considerable uncertainty within both the remit and feeder groups, particularly relating to the effect of pension changes on the total offer. The Chief of Defence People said that the Armed Forces were still able to promote sufficient numbers into the remit group. However, he feared that it could become increasingly difficult to retain the most talented individuals, particularly if financial constraints tightened in the services and the economy improved further.
- 5.46 When we met members of the feeder group they told us that the lowering of the Lifetime Allowance threshold and the reduction in the value of the pension constituted a demotivating factor. They said that many OF6 officers were leaving because recent changes to pensions had fundamentally altered and reduced the offer substantially. Moreover, the AFCAS survey returns for the OF5 and OF6 feeder groups showed a reduction in satisfaction levels with pension benefits.
- 5.47 The MoD said that in 2016 it reinstated, to all three services, Article 189 on compulsory retirement without compensation at OF6 rank and above. However, the Chief of Defence People explained in oral evidence that it was used rarely and that opportunities to remain in the services had increased, with the Royal Navy and RAF raising the retirement age to 60 while the Army would raise it to 60 in the next four to five years. Nevertheless, feeder group members told us of an increased sense of insecurity when we visited them: they knew of recent cases of the 'one-job-only' guarantee on promotion in place for the remit group being extended down to 1-star rank. They regarded this as a disincentive to seeking promotion.
- 5.48 Last year, we asked the MoD to consider whether more could be done to track the quality of current senior military leaders and the feeder group over time, with a particular focus on the quality of those leaving the Armed Forces voluntarily prior to normal retirement age. Since 2013, the MoD has been providing the SSRB with data on the career paths of the most talented individuals in the feeder ranks from 2007 onwards to see how many have remained or departed<sup>34</sup>.
- 5.49 This year, the MoD, for the first time, analysed the data it gave us for the feeder group. It said that 23 per cent of those identified as the most talented between 2007 and 2011 were no longer serving, compared with 10 per cent of those identified as the most talented between 2011 and 2015.
- 5.50 While this annual data collection has succeeded in identifying and tracking the officers in the feeder group that it is most important to retain, we would expect to see lower retention rates in the earlier cohorts. Those individuals will be, on average, more advanced in their careers and will have had more time in which to decide to leave the Armed Forces. It would be helpful if the MoD could develop a method for analysing and presenting this data in a manner that accounts for this natural bias.

### *Morale and motivation in the feeder group*

- 5.51 When we met them, feeder group members told us that, as they reached the point where the Annual Allowance and Lifetime Allowance started to have an effect, they were more likely to leave the Armed Forces. They said that they needed to decide whether the reduced benefits were worth staying in for, or whether to leave and start a second career.

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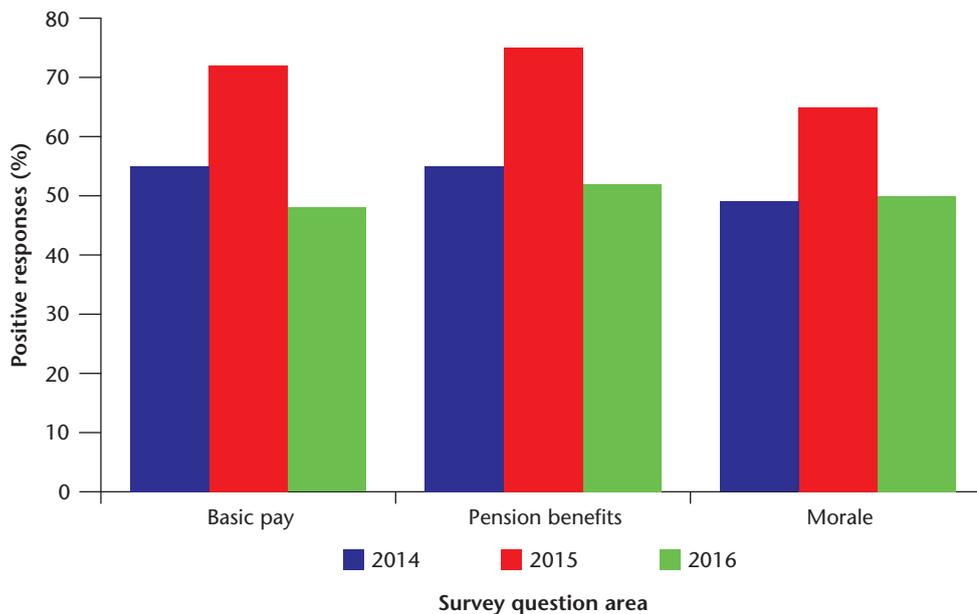
<sup>34</sup> Promotion board top scorers and delegates from the Higher Command and Staff Course taken by OF5s and OF6s seeking promotion to the remit group.

5.52 Discussion group participants also said that the non-pay elements of the package had declined, such as support staff and compensation for travel and accommodation costs. In addition, the costs associated with overseas postings were said to be considerable. They also identified factors that they said undermined morale, such as: feeling unable to make decisions that they were qualified to make (such as on how to spend relatively small sums of money); not feeling valued; not trusting the system to look after them; and the impact on family life of heavier workloads and longer hours.

5.53 For the third year, the MoD also provided us with the responses from OF5 and OF6 officers to the AFCAS survey. Some results are shown in Figure 5.4. In 2016, compared with 2015, most of the responses were less positive. Although there was a small increase in the numbers saying they were satisfied with allowances, there were fewer positive responses for questions relating to basic pay, pension benefits and service life in general.

5.54 This year, 33 per cent of feeder group officers reported they were able to take all their annual leave in the last year, compared with 40 per cent in 2015. Those unable to do so gave workload as the main cause.

**Figure 5.4: Changes in satisfaction with pay, pension and morale for officers at OF5 and OF6 between 2014 and 2016**



Source: Ministry of Defence.

5.55 The MoD also conducted its annual Continuous Working Patterns survey for the OF5 and OF6 feeder groups. This suggested that the mean weekly hours worked in 2015-16 had reverted to the 2013-14 total of 59 hours, after increasing significantly to 67 hours in 2014-15.

## Recommendations

5.56 Evidence shows that recruitment to, and retention of, the senior military are currently at satisfactory levels. For the time being, it continues to attract sufficient numbers from the feeder group, with no evidence of a decline in the quality of recruits.

5.57 However, the future situation on recruitment and retention for the remit group is uncertain. We have seen signs that officers are taking a decision at a younger age than in the past on whether to stay in the military and seek promotion, or leave and seek a second career. This year, the number of OF4 and OF5 feeder group officers choosing to leave was the highest in the last nine years.

- 5.58 Recent changes to pension taxation allowances continue to have a detrimental impact on morale. We share the concern of the MoD that this presents an enduring risk to its ability to attract and retain sufficient talent to populate the top ranks in future.
- 5.59 A number of other factors have been identified by remit and feeder group officers in our discussions with them this year. These could, together with the impact of pension changes, restrict inflow into, or fuel greater outflow from, the remit group in future. These include:
- strongly-held and widespread dissatisfaction with the perceived arbitrary application of rules surrounding the daily conduct of work;
  - an increasing sense of managing a business rather than leading operations in the field;
  - a perception that the senior military offer as a whole has declined, including the non-pay elements; and
  - the relative attractiveness of outside employment options, particularly if the economy improves further.
- 5.60 Our concerns about this group justify full use of the 1 per cent pay award budgeted by the MoD, in accordance with Recommendation 2 which follows paragraph 1.11.
- 5.61 We have not seen evidence to support a differentiated award. We have concluded that this is not the right time to introduce one, given present changes and uncertainties and because this remit group is part of a larger organisation with a longstanding collegiate culture. **The increase in pay budgets should therefore be applied equally to all individuals in the senior military group, from 1 April 2017. This will mean preservation of the 10 per cent base pay differential between 1-star and 2-star rank, before X-Factor.**
- 5.62 This award will add £0.27 million to the paybill. The pay scales for a 1 per cent award are set out in Table 5.4 below.

**Table 5.4: Recommended 2-star, 3-star, 4-star and Chief of the Defence Staff pay scales**

The pay scales below apply to 2-star, 3-star, 4-star officers and the Chief of the Defence Staff (CDS) with effect from 1 April 2017. <sup>1,2</sup>				
	2-star	3-star	4-star	CDS
Increment level	£	£	£	£
6	125,385	160,518	194,630	
5	122,978	155,917	190,814	
4	120,617	151,452	187,072	265,588
3	118,303	145,727	182,510	260,380
2	116,034	138,911	178,058	255,275
1	113,810	132,420	173,715	250,270

Notes:

<sup>1</sup> Figures are rounded to the nearest pound.

<sup>2</sup> For 2-star and 3-star officers, values include X-Factor which is applied at the rate of £2,594, this sum being equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale.

## *Medical and Dental Officers (MODOs)*

5.63 In April 2016, the government accepted the recommendation by the Armed Forces' Pay Review Body that the pay of Defence Medical Services up to 1-star be increased by 1 per cent. We have received no evidence to suggest that the differential should change this year for the senior Armed Forces. For 2017-18, we recommend that all 2-star and 3-star MODOs receive a pay award that maintains their current percentage differentials.

### **Recommendation 5: 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.**

5.64 The situation in the feeder group needs to be kept under particularly close review. In the meantime, **active and careful consideration should be given by the MoD and HM Treasury to what mitigating factors may need to be put in place should the retention situation worsen.** We welcome the MoD's commitment to closely monitor this group, and will want the Ministry to provide commentary in its next submission on potential reasons for the higher rate of departures, if it continues.

## **Looking ahead**

5.65 This year, the MoD told us that a new pay model, called Pay16, had been introduced for the ranks below the senior military from April 2016. It also said that it retained a wish to revisit the relationship between the AFPRB and SSRB pay structures, following implementation of Pay16, to assess whether the two pay systems were coherent and compatible, and to make recommendations if required.

5.66 We remain of the belief that the MoD should give careful consideration to whether the current pay system for the senior military remains the most effective way of appropriately delivering its business needs, and incentivising its most senior people. Therefore, **we support the review of the relationship between the AFPRB and SSRB pay structures taking place, at the earliest opportunity.** We look forward to seeing the results of the review, and to considering any pay propositions that arise from it.

5.67 The MoD has said that, in future, individuals will need to assume greater personal responsibility for determining whether they have incurred a pension tax charge. **We would like to see further information on how the MoD intends to ensure individuals can access specialist pension advice in future, should they require it.**

5.68 In Chapter 1 of this report, we highlighted progress against the SSRB's strategic priorities as set out in our 2016 report. Our assessment of the position for the senior military is summarised in Table 5.5.

**Table 5.5: Assessment of position of senior military against the SSRB's strategic priorities**

Key	<p><b>Green:</b> Area of little concern</p> <p><b>Amber:</b> Area of some concern</p> <p><b>Red:</b> Area of significant concern</p>	<p>↑: Improving trajectory</p> <p>↔: Stable trajectory</p> <p>↓: Declining trajectory</p>
SSRB priority in 2016 report	Assessment of senior military position	
<b>Pay and workforce strategy:</b> Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Plan exists for future size and structure of the workforce, linked to strategic priorities.	↔
<b>Focus on outcomes:</b> There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	No proposals made.	↔
<b>Action on poor performance:</b> Greater analysis is required of where value is being added and action taken where it is not.	No evidence that it is an issue, but no evidence presented.	↔
<b>Performance management and pay:</b> There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	No evidence that it is an issue, but no evidence presented.	↔
<b>Better data:</b> Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good and improved workforce data.	↑
<b>Feeder Groups:</b> The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Evidence that situation is being kept under review: new data presented this year. Potential growing concern around retention.	↓
<b>Targeting:</b> Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	A non-targeted pay award is proposed. Targeting argued to be inappropriate for this group.	↔
<b>Central versus devolved tensions:</b> Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	No evidence that such tensions exist.	↔
<b>Diversity:</b> The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Poor diversity profile, although some progress on gender (first female in 2013, now three). MoD plans to cover ethnicity and disability from 2018.	↔

5.69 The quality of the data we receive from the MoD is high. However, we would be keen for the MoD to explore ways of improving the senior military response rate to the AFCAS survey, given that this year the response rate was down compared to 2015. There is also potential to make the data provided on the feeder group more useful, as discussed above in paragraph 5.50 and to provide more detailed data on early retirements, including the age of retirees.

# Chapter 6

## The Judiciary

### Summary

- 6.1 The majority of judges, unlike any of our other remit groups, are recruited externally. This contrasts, for instance, with the manner in which the SCS draws heavily from the wider civil service, or how recruitment to the senior military arises only by promotion from a lower rank. While, in a few cases, judges move up from one judicial position to a higher one, this is relatively rare. In the main, judges are drawn from an external labour market of relatively highly-paid individuals, usually solicitors or barristers, or less commonly from academia. Therefore, while people are motivated to become judges for a range of reasons and tend to accept that a commitment to public service as a judge may involve moving to a lower salary on appointment, pay and wider reward are nevertheless important in influencing individual decisions to apply for judicial posts.
- 6.2 Senior judges, in particular, accept that they may see a significant drop in salary from their previous work. However, recent changes to terms and conditions, especially judicial pensions, appear to have made the posts less attractive.
- 6.3 This year, there has been an unprecedented number of unfilled vacancies in the High Court. Last year there was a failure to recruit to one post, which in itself was unusual. This was followed by an exercise to fill 14 posts in which only eight judges were recruited. Currently, a further exercise is being run to appoint 25 judges. This has been accompanied by a significant increase in the number of early retirements in the High Court.
- 6.4 For the High Court, the evidence now shows a definite problem with recruitment and with early retirement. This was sufficiently serious that the SSRB was considering making a recommendation outside the 1 per cent pay norm. However, before we could report, the Ministry of Justice (MoJ) notified us of the government's own decision to put in place a new allowance worth 11 per cent of pay for some judges in the High Court in England and Wales. The government did not seek the independent advice of the SSRB on this matter.
- 6.5 This allowance is temporary, taxable and non-pensionable. It will apply to new appointees and to those existing members of the High Court who are members of the 2015 Judicial Pension Scheme most affected by recent changes in pension provision and taxation. High Court judges qualified for the allowance who subsequently become Court of Appeal judges will continue to receive the allowance.
- 6.6 We present the evidence about the recruitment and retention difficulties in the High Court later in this chapter. We note that there are also signs of problems with recruiting to the Circuit Bench.
- 6.7 Looking across the judiciary as a whole, morale seems to have declined further, from already low levels, in the last two years. Factors which have contributed to this include:
  - widespread dissatisfaction with the taxation treatment of judicial pensions;
  - increased workloads;
  - poor working conditions;
  - increased numbers of litigants in person; and
  - a sense of not being valued by the government.

- 6.8 Separately from the temporary allowance announced by the MoJ, we recommend that all members of the judiciary should receive a consolidated 1 per cent pay rise this year. This is in accordance with Recommendation 2 which follows paragraph 1.11.
- 6.9 A longer-term solution needs to look, in the round, at the changing expectations for judicial roles and the need to recruit and retain sufficient numbers of high quality judges at all levels. For this and other reasons, we are pleased that the Lord Chancellor has asked us to carry out a major review of judicial pay, which is scheduled to be completed by June 2018. We welcome the Lord Chancellor's clear commitment that the government will engage seriously with our findings in a timely manner.

## Introduction

### *The remit group*

- 6.10 Our standing remit group comprises salaried judicial office holders in the courts and tribunals of the United Kingdom (UK). It does not include fee-paid judges.
- 6.11 On 1 March 2016, there were 2,035 salaried judicial office holders in the UK. Data for England and Wales in 2016 show that 28 per cent of Courts judiciary and 45 per cent of Tribunals judiciary were female<sup>35</sup>. Figures for other parts of the UK show 23 per cent of judges in Scotland<sup>36</sup> and 26 per cent in Northern Ireland<sup>37</sup> were female. Of those judges in England and Wales who provided ethnicity data, 6 per cent declared themselves to be of Black, Asian or Minority Ethnic origin<sup>38</sup>. The greatest concentration of salaried judges, over 660, is in London and the South East of England. No further information was provided to us on other diversity characteristics, such as disabilities, within the remit group.

### *Pay and the pay system*

- 6.12 The judicial salary structure consists of nine salary groups. Appendix M contains further information on the types of judge within each one. Currently, all judges at each level receive a single rate of spot pay. They receive neither incremental progression pay, nor performance-related pay. Table 6.1 sets out current judicial salaries.
- 6.13 All members of the judiciary have significant previous legal experience. In the main, judges are drawn from an external labour market of relatively highly-paid individuals, usually solicitors or barristers, or less commonly from academia. For the salary groups that are considered the entry points to the judiciary (4, 6.1 and 7), the MoJ evidence confirmed that the majority of appointments are from outside the judiciary or are from the fee-paid judiciary. The latter group is itself externally recruited and most fee-paid judges work part-time (for an agreed number of days per year) while continuing to do non-judicial work.

### *Paybill*

- 6.14 The MoJ stated that remuneration for the SSRB's judicial remit group in England and Wales accounted for £339 million in 2015-16 (£226 million in salaries; £27 million in Accruing Superannuation Liability Charges and £87 million in Employers' National Insurance Contributions). Including Scotland and Northern Ireland, the paybill costs for salaried judiciary across the UK as a whole are some £391 million.

<sup>35</sup> Judicial Diversity Statistics 2016. The data covers both salaried and fee-paid judges and so includes some judges not covered by our remit.

<sup>36</sup> [http://www.scotland-judiciary.org.uk/Upload/Documents/2016\\_09\\_2DiversityStatsScottishJudiciary\\_2.pdf](http://www.scotland-judiciary.org.uk/Upload/Documents/2016_09_2DiversityStatsScottishJudiciary_2.pdf).

<sup>37</sup> OME estimate based on Northern Ireland Courts data.

<sup>38</sup> The Judicial Office for Scotland said it did not hold information on ethnicity for the judiciary. In Northern Ireland all judges described themselves as 'White'.

**Table 6.1: Judicial salaries and numbers in post in 2016 by country and salary group<sup>39</sup>**

Salary group (with examples of specific roles) <sup>1</sup>	Salary from 1 April 2016	Numbers in post 31 March 2016			Total 2016
		England and Wales	Scotland	Northern Ireland	
1 (Lord Chief Justice)	£249,583	1			1
1.1	£222,862	2	1	1	4
2 (Supreme Court)	£215,256	11	1		12
3 (Court of Appeal)	£204,695	41	9	3	53
4 (High Court)	£179,768	106	20	10	136
5	£144,172	76	7	2	85
6.1 (Circuit judges)	£133,506	604	131	22	757
6.2	£125,689	37	3	2	42
7 (District judges)	£107,100	894		42	936
Salaried medical members	£85,103	7			7
Stipendiary magistrates <sup>2</sup>	£72,701		2		2
<b>Total</b>		<b>1,779</b>	<b>174</b>	<b>82</b>	<b>2,035</b>

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

Notes:

<sup>1</sup> A list of roles within each salary group is in Appendix M.

<sup>2</sup> The Courts Reform Scotland Act 2014 introduced the office of Summary Sheriff and abolished the office of Stipendiary Magistrate from 1 April 2016.

### *Pension schemes*

6.15 Salaried judicial office holders can be members of either the 1993 Judicial Pension Scheme, or the 2015 Judicial Pension Scheme. The 1993 Scheme is a final salary, Defined Benefit scheme. It is unique within our remit groups for not being registered with HM Revenue and Customs (HMRC). This means that members of that scheme receive no tax relief on their employee contributions but benefit from not being subject to the Annual and Lifetime Allowances.

6.16 The 2015 Scheme is a Defined Benefit scheme, based on career average earnings. It is registered with HMRC for tax purposes, so bringing it into line with other public sector schemes. This means that individual judges will be allowed to claim tax relief on the contributions they make, but that pension accrual will be subject to the Annual and Lifetime Allowances.

6.17 Those who remain in the 1993 scheme are eligible for partial or full protection. All judges within ten years of normal retirement age (65) at 1 April 2012 are fully protected, and those aged between 51 and 6 months and 55 years of age at 1 April 2012 were given the option to defer joining the new scheme for a period linked to their age.

6.18 The MoJ said that, in November 2016, 2,032 salaried judges were members of a pension scheme. Table 6.2 shows that judges at Circuit Bench and above were more likely to be in the 1993 scheme, with full protection, than judges below the Circuit Bench. The latter were more likely to be in the 2015 scheme. Table 6.2 also shows that around half of all salaried judges will remain in the 1993 scheme until the end of their career. The MoJ told us that it did not know if any judges had opted out of both Judicial Pension Schemes.

<sup>39</sup> In the past the MoJ provided us with annual data on numbers of judges in post and we built up time series information. However, in October 2016, the MoJ moved to a new data collection method meaning accurate comparisons could not be made with previous years.

Table 6.2: Judicial Pension Scheme membership, November 2016

Scheme	All salaried judges	Circuit Bench and above <sup>1</sup>	Below Circuit Bench
1993 (with full protection)	1,030 (51%)	618 (56%)	412 (45%)
1993 (with partial protection)	285 (14%)	151 (14%)	134 (15%)
2015	717 (35%)	342 (31%)	375 (41%)
<b>Total</b>	<b>2,032</b>	<b>1,111</b>	<b>921</b>

Source: Ministry of Justice.

Notes:

<sup>1</sup> District judges (Magistrates' Courts) are included here rather than in the Below Circuit Bench group because their salaries are paid through the consolidated fund. The salaries of those in the Below Circuit Bench group are paid from the Departmental Vote.

6.19 On 16 January 2017, an employment tribunal upheld a claim by 210 judges that they suffered a disproportionate loss to their pensions, purely because they were younger, when the 2015 Judicial Pension Scheme was introduced. The tribunal decided that, as older judges were allowed to stay in the 1993 pension scheme until retirement or for an interim period, this was unlawful discrimination against younger judges. The government has said it will appeal the ruling.

### *Pension taxation*

6.20 The evidence from the Lord Chief Justice for England and Wales (LCJ) stated that changes to the Annual Allowance, from April 2016, reduced the overall remuneration of Judicial Pension Scheme 2015 members in all judicial salary groups, other than those in salary group 7 based outside London. However, the judges most affected will be the most senior. For example, evidence from the LCJ showed that a High Court judge in the Judicial Pension Scheme 2015 will breach the Annual Allowance threshold in their first year of service. If they have a tax charge and pay their tax bill at once, this is equivalent to a take-home pay reduction of nearly 30 per cent. If they use 'Scheme Pays' each year across a 20 year career, the value of their final pension will be almost halved<sup>40</sup>. This, in turn, leaves the High Court judge receiving a smaller pension than a District judge, although the overall reward package of a High Court judge would remain greater.

6.21 Further analysis of the impact of the pension taxation changes on the take-home pay and pensions of judges is provided in Chapter 2.

### *Government response to our 2016 recommendations*

6.22 The government accepted the recommendation in our 2016 report that judicial salaries be increased by 1 per cent, with effect from 1 April 2016.

### *Policy context*

6.23 Last year we reported on the government's plans for reforming the justice system. This year, the MoJ told us that, in September 2016, the Lord Chancellor, LCJ and Senior President of Tribunals had jointly confirmed these plans. It said that the proposed reforms would have a major impact on the work of judges and would call for adaptability and a willingness to take full advantage of new technology.

### *The 2016-17 round*

6.24 The Lord Chancellor wrote in August 2016, confirming our remit on the judiciary for the 2017-18 annual pay round. She asked us to conduct our usual annual review process

<sup>40</sup> See paragraph 2.59.

and make recommendations on the pay of our judicial remit group from April 2017. This letter is reproduced in Appendix D.

### *The next SSRB major review*

- 6.25 In addition, on 28 October 2016, the Lord Chancellor commissioned the SSRB to carry out a major review of the judicial salary structure. The Lord Chancellor's letter can be found in Appendix E. The reply from the SSRB Chair is in Appendix F.
- 6.26 The Lord Chancellor asked that we make recommendations in our major review, not only on the pay of our standing salaried judicial remit group in UK courts and tribunals, but also on fee-paid judges who have comparators with these posts. In addition, we have been asked to include fee-paid judges whose pay is the responsibility of Scottish Ministers, judges and legal members in the devolved tribunal systems in Scotland, Wales and Northern Ireland, and the new post of Summary Sheriff in Scotland. The report will be to the Lord Chancellor.
- 6.27 The Lord Chancellor asked us specifically to:
- consider whether the current salary structure is fit for purpose;
  - evaluate roles carried out by all judicial office holders;
  - consider the growth of leadership roles within the judiciary; and
  - advise on the positions and level of pay required to recruit, retain and motivate high calibre office holders at all levels of the judiciary.
- 6.28 Our work on the major review has commenced. It will look forward from the current position, rather than beginning from recommendations made in previous SSRB reviews.

### *Diversity*

- 6.29 The MoJ told us that it was working closely with the judiciary, the Judicial Appointments Commission and the legal professions to improve diversity, so that the judiciary better reflected the society it served. It also explained that increasing diversity, throughout the remit group, was one of the main goals of the judicial modernisation programme.
- 6.30 The MoJ said that there was evidence that these changes may be starting to take effect. It reported that the numbers of female judges in the High Court and Court of Appeal were at their highest recorded levels, and that more than half of all judges in courts and tribunals under 40 years of age were women. In addition, the percentage of women in the courts judiciary on 1 April 2016 was 28 per cent, up from 25 per cent in 2015 and 22 per cent in 2011. However, the MoJ said it needed to ensure that this progress was maintained and to improve representation from Black, Asian and Minority Ethnic groups and from people from lower socio-economic backgrounds.

## **Proposals**

### *Government proposals*

- 6.31 For 2017-18, the MoJ proposed a pay award of 1 per cent for all judges in the remit group, but said that it was continuing to explore options to address any emerging concerns with recruitment and retention. It added that, while it believed that a single award for all judicial office holders remained the best option, it would carefully consider any alternative approaches that the SSRB might recommend. The Scottish Government proposed a maximum basic pay award of 1 per cent for 2017-18, in line with public sector pay policy in Scotland.

### *Other proposals*

- 6.32 The LCJ said that, as the problems created by the pension tax changes had not been remedied, he invited us to recommend a pay award greater than 1 per cent for those judges affected. He also urged us to consider recommending a 'more general' rise over 1 per cent. However, he specified neither a numerical value for the award nor which judicial salary groups should receive it.
- 6.33 The Lord President of Scotland (Lord President) said that, if there was to be a major review reporting in 2018, he would propose a common award of 1 per cent for all levels of the judiciary in 2017.
- 6.34 The Lord Chief Justice of Northern Ireland (LCJNI) said that all tiers of the judiciary should receive a 'meaningful' salary increase in 2017, and a uniform award across all tiers until the major review had concluded. However, he did not specify a numerical value for the increase.
- 6.35 A number of other judicial associations and representative groups made proposals on pay:
- Both the High Court Judges' Association and the Council of Circuit Judges argued for a substantial increase in 2017-18 in the pay of the judges they represented.
  - The Association of District Judges asked for a uniform 1 per cent award in 2017-18, pending possible re-grading of District judges in the forthcoming major review.
  - The Council of Employment Judges called for both a uniform 1 per cent award and the re-grading of Employment judges to a higher salary group in 2017-18.
  - The Council of Upper Tribunal Judges sought a uniform award for all judges in 2017-18 and re-grading of Upper Tribunal judges to a higher salary group before the major review.
  - The Association of High Court Masters (including Registrars, Costs Judges and Principal Registry District Judges) sought a pay increase of at least 3 per cent and re-grading for many of its members in the major review.
  - Both the Council of District Judges (Magistrates' Courts) and the Council of Immigration Judges said it was important that judicial salary groups 6.2 and 7 did not receive a lower percentage award than those in other salary groups.

### **Evidence**

- 6.36 For this round, we received evidence from the UK and Scottish Governments, the Chief Justices, organisations overseeing judicial appointments, a range of judicial associations and representative groups, and individual judges. A full list of those who provided evidence is given in Appendix A. We heard oral evidence from:
- the Lord Chancellor and Secretary of State for Justice;
  - the Lord Chief Justice of England and Wales;
  - the Lord President;
  - the Lord Chief Justice of Northern Ireland; and
  - the Judicial Appointments Commission for England and Wales.

### *Recruitment in England and Wales*

- 6.37 The Judicial Appointments Commission (JAC) normally provides evidence on its recruitment activities for the year ending 31 March. However, at our request, this year it

also published information for 1 April 2016 to 30 September 2016 in order to provide a fuller and more up-to-date picture<sup>41</sup>.

- 6.38 The JAC said that two exercises resulted in unfilled vacancies in the April to September 2016 period:
- a High Court (salary group 4) exercise resulting in six unfilled vacancies from a total of 14; and
  - a Circuit judge (salary group 6.1) exercise resulting in 11 unfilled vacancies from a total of 55.
- 6.39 The JAC confirmed that the High Court experienced its first unfilled vacancy in 2014-15, but that the Circuit Bench had not had any before 2016-17<sup>42</sup>. It also confirmed that the only other unfilled salaried vacancy, in the period 1 April 2015 to 30 September 2016, was a specialist Tribunals post in salary group 5<sup>43</sup>.
- 6.40 The JAC reported that the ratio of candidates graded A (outstanding) and B (strong), in proportion to the total number of vacancies, had fallen consistently in the High Court and Circuit Bench since 2010-11<sup>44</sup>. However, 2016-17 was the first year that the Circuit Bench failed to meet its recruiting target.
- 6.41 In oral evidence, the Lord Chancellor said she was aware of the impact of pension taxation in dampening interest in High Court recruitment. The Ministry explained that around 25 to 30 High Court judges were affected by the pension taxation changes, as they were members of the 2015 Judicial Pension Scheme. The remainder were on the 1993 Scheme. The JAC said the pension issue was having a profound effect on those who had been particularly successful in their previous career.
- 6.42 A number of other parties also expressed views on the recruitment situation. The LCJ, the High Court Judges' Association, the Council of Circuit Judges and the Association of District Judges all also raised pension taxation as a matter of significant concern. In addition, the Association of District Judges emphasised that pension changes were having a disproportionate effect on the judges it represented. It said that, as they were generally younger, a higher proportion of them were members of the less valuable 2015 Judicial Pension Scheme.
- 6.43 Other causes of recruitment difficulties highlighted by the Lord Chancellor were:
- the slow pace of court and tribunal modernisation;
  - poor working conditions;
  - falling real remuneration;
  - recruiting from a highly-paid pool;
  - poor workforce planning data; and
  - dissatisfaction with the selection process.

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<sup>41</sup> Between 1 April 2015 and 31 March 2016 the JAC received 726 applications for 152 salaried vacancies in 11 selection exercises and made 154 recommendations for appointment. Between 1 April and 30 September 2016, the JAC received 297 applications for 77 salaried vacancies in 8 selection exercises and made 60 recommendations for appointment.

<sup>42</sup> Apart from in 2011-12, when the recruitment exercise was specific to 'Heavyweight Crime' and there was one unfilled vacancy.

<sup>43</sup> The office of Deputy Regional Valuer of the First-tier Tribunal, Property Chamber (Residential Property) in the North.

<sup>44</sup> In the High Court there had been 93 applications for 13 vacancies but in 2015-16 there were just 56 applications for 14 vacancies. On the Circuit Bench in 2010-11, there had been 273 applications for 30 vacancies but in 2015-16 there were 184 applications for 55 vacancies.

- 6.44 As with pensions, these concerns were broadly shared by many who gave us evidence. The JAC, for example, identified a similar range of causes for recruitment difficulties, and added that workload and the increase in numbers of litigants in person had been raised as factors deterring potential applicants.
- 6.45 Regarding the Circuit Bench, the Lord Chancellor added that unfilled vacancies could be linked to a shortage of fee-paid recorders and to stop-start recorder recruitment in the last few years, following a four-year moratorium on recorder competitions from 2011 to 2015. However, the Council of Circuit Judges rejected this argument. Instead, it believed that decreasing pay and pensions were the cause of the decline in the number of suitable applicants, along with changes to the workload of the Circuit Bench.
- 6.46 The LCJ said that he was taking a cautious approach to the unfilled vacancies on the Circuit Bench and that he needed more than one recruitment round to assess the causes: in his view, it was possible that application numbers had fallen following developments in legal aid policy, or because criminal law solicitors and barristers were moving into more lucrative regulatory work. He confirmed that he was aware of the theory around the lack of recorder competitions. He explained that the JAC would be running three annual competitions for a total of 300 recorders between February 2017 and February 2019.
- 6.47 The LCJ said that London faced an additional pressure compared to the rest of the UK because it was the centre of the dispute resolution system and important in terms of the arbitration market. It was the location of a large number of international legal practices and the source of many alternative employment opportunities.

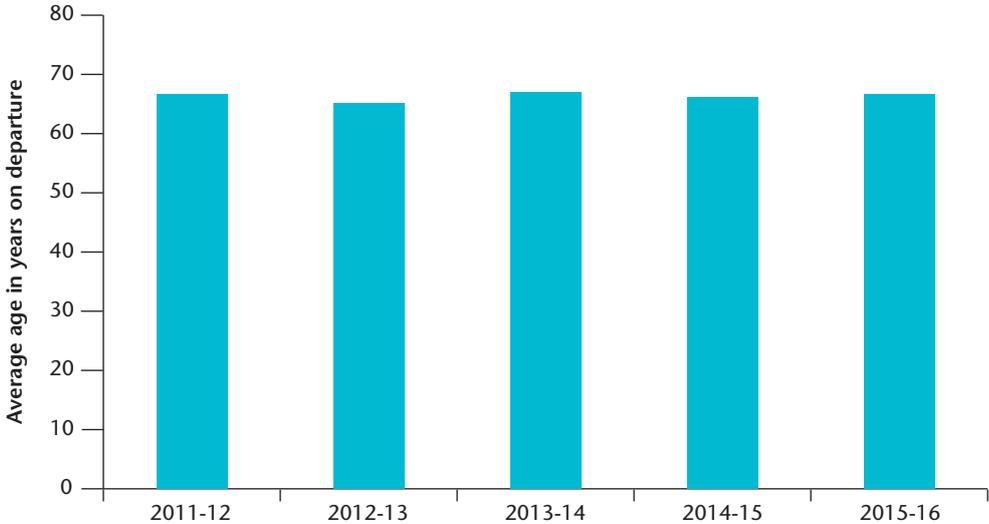
#### *Recruitment in Scotland and Northern Ireland*

- 6.48 The Judicial Appointments Board of Scotland (JABS) told us that it ran three successful competitions in 2015-16:
- One was for 13 Summary Sheriffs (currently paid in line with those in salary group 7). It received 169 applications, its highest ever total for a single appointment round, and filled all the vacancies.
  - It also filled a Sheriff post (salary group 6.1), following 19 applications.
  - For five vacancies in the Office of Senator of the College of Justice (Outer House Judges of the Court of Session or salary group 4), there had been more than five suitable applicants in a strong field.
- 6.49 The Northern Ireland Judicial Appointments Commission (NIJAC) reported that it had run four exercises for salaried judiciary in 2015-16 and had succeeded in filling all the vacancies, including three in the High Court of Northern Ireland. NIJAC said it was content that, in each instance, there was a sufficiently meritorious field of applicants to identify suitable reserves.
- 6.50 However since then, in supplementary evidence they sent to us, the Lord President and LCJNI both expressed serious concern at the impact of changes to pensions and pension taxation on immediate senior judicial recruitment. They were concerned about attracting candidates with the necessary range and depth of experience at senior levels.

#### *Retention in England and Wales*

- 6.51 The MoJ told us that it was monitoring early retirement data carefully. It said that, overall, there were no signs of a general trend towards a lower average retirement age. The data are shown in Figure 6.1.

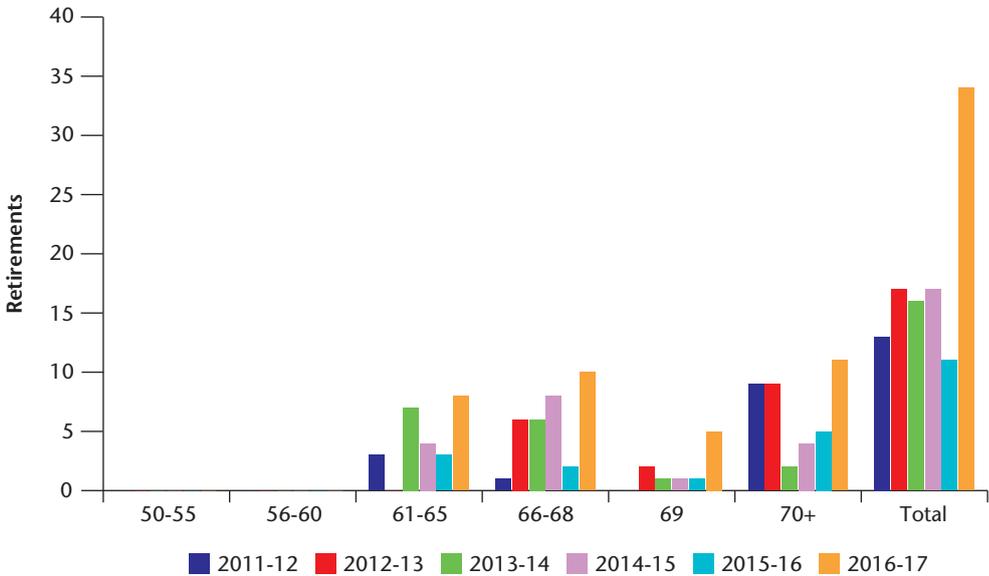
**Figure 6.1: Departures and average ages of retirement of salaried judges in England and Wales between 2011-12 and 2016-17**



Source: Ministry of Justice.

6.52 In supplementary evidence, the LCJ provided data that showed a sudden increase in recent and forthcoming retirements from the higher judiciary<sup>45</sup> in comparison with previous years. From around 150 senior judges, 34 were retiring in 2016-17, more than double the norm in any of the previous five years. In addition to a rise in the number retiring aged 70 and over, this total includes 23 senior judges who retired or who were expected to do so, aged under 70. This compared with a maximum of 13 early retirements in any of the previous five years. Figure 6.2 shows retirements from the higher judiciary between 2010-11 and 2016-17 by age.

**Figure 6.2: Higher judiciary retirements by age in England and Wales between 2010-11 and 2016-17**



Source: Judicial Office.

<sup>45</sup>The higher judiciary includes Court of Appeal, High Court and Senior Circuit judges.

6.53 The LCJ said that over 100 new High Court judges could be required in the next five years because of compulsory and early retirements and promotions from the High Court. He explained that, despite holding an exercise to recruit 25 High Court judges in January 2017, by October the High Court complement of 108 judges would be down 22 judges before any appointments could be made from the January competition. This meant a further recruitment campaign would be necessary.

#### *Retention in Scotland and Northern Ireland*

6.54 The Scottish Government evidence said that five of the 13 judges who retired in 2015-16 were aged under 65, compared with two of the 12 judges who retired in 2014-15. The Lord President said that, in Scotland, the average retirement age was slowly declining, with a tendency for an increasing number of judges to retire by the age of 65 rather than later.

6.55 The LCJNI reported that, of the five judges who had left the Northern Ireland judiciary in 2016, two below High Court level had not completed 20 years' service. They therefore would not receive their full pension entitlement. He concluded that, while there had not previously been a strong indication of early retirement at those tiers of the Northern Ireland judiciary, this might be a sign of change in the future.

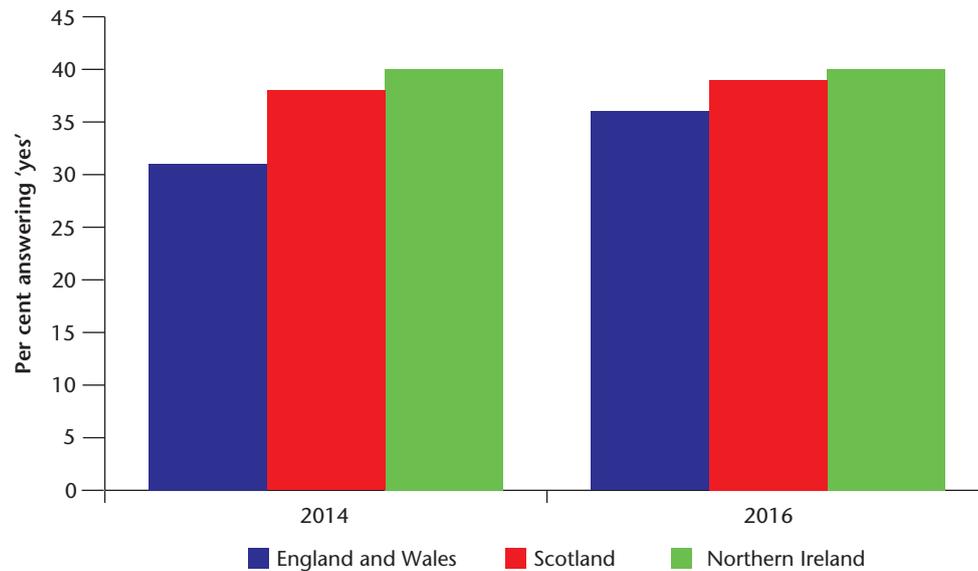
6.56 The 2016 Judicial Attitude Survey showed that, in Scotland and Northern Ireland, there was no real change in the proportion of judges considering leaving early in the next five years. It increased from 38 to 39 per cent in Scotland and remained at 40 per cent in Northern Ireland, as shown later in this chapter in Figure 6.3. However, these proportions for both Scotland and Northern Ireland exceeded the corresponding figures for England and Wales in both 2014 and 2016.

#### *Judicial surveys*

6.57 In 2016, the judiciary commissioned a second Judicial Attitude Survey of all serving salaried judges in the UK, which provided findings relevant to the issue of judicial retention. This survey repeated an exercise first carried out in 2014 and was conducted online by University College London (UCL) in June and July 2016. The LCJ and Senior President of Tribunals have said they intend to repeat the Judicial Attitude Survey in 2018. In England and Wales there was a response rate of 99 per cent, up from 89 per cent in 2014. Overall, the results were similar to those of the 2014 survey, reported on in detail in our 2015 annual report.

6.58 The survey showed that in 2016, 36 per cent of judges in England and Wales were considering leaving early in the next five years, compared with 31 per cent in the first survey conducted in 2014. The results are shown in Figure 6.3.

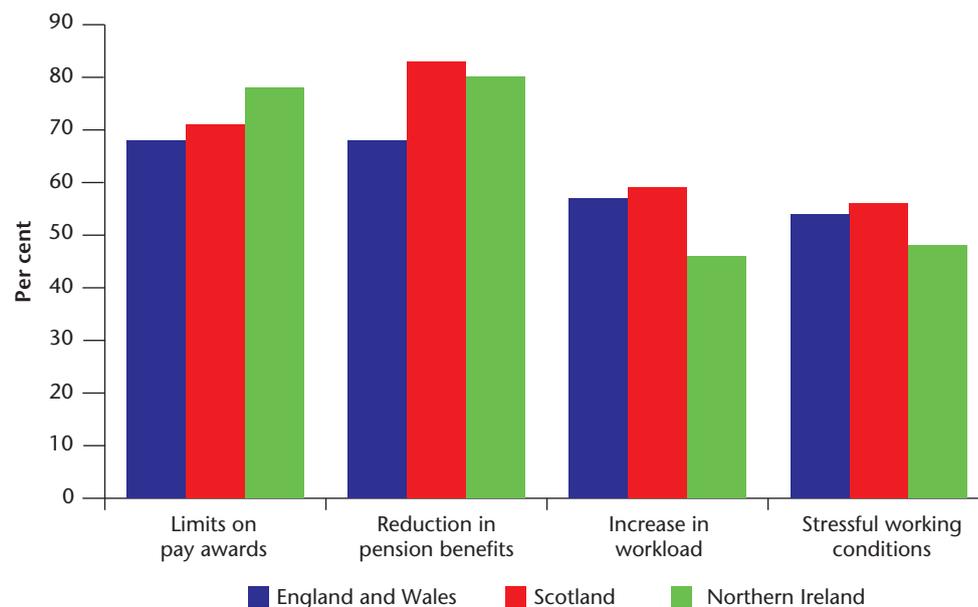
**Figure 6.3: Percentage of judges saying they were considering leaving the judiciary early in the next 5 years**



Source: Judicial Attitude Surveys 2014 and 2016.

6.59 Figure 6.4 shows that, across the UK, pay and pensions were identified as the factors most likely to make judges consider an early departure. The 2016 results for England and Wales also showed that High Court judges were the most likely to say that they were considering leaving early. However, those appointed since 2010, who were more likely to have known about pension changes on appointment, were less likely to say that they were considering leaving than those appointed between 1995 and 2009. The 2016 results also showed that intentions to leave early did not vary significantly by gender or ethnicity.

**Figure 6.4: Factors prompting judges' early departure**



Source: Judicial Attitude Survey 2016.

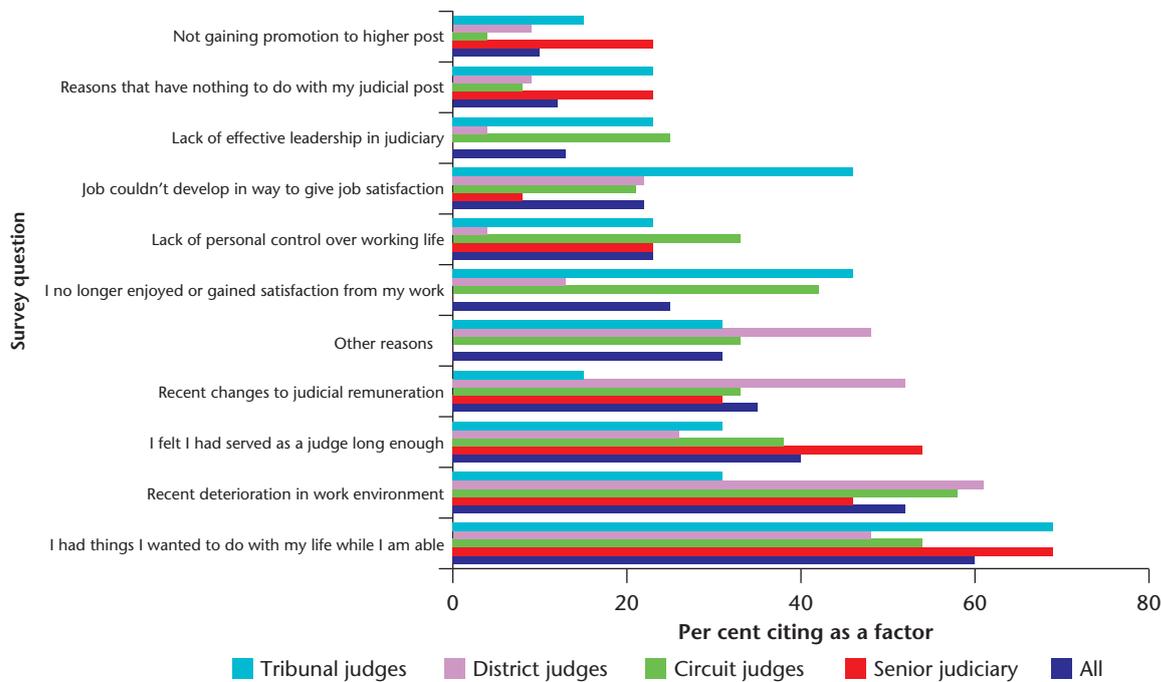
6.60 In 2016, the LCJ also commissioned UCL to conduct a judicial early leavers' study. The LCJ and the SPT said the judiciary intended to survey all retiring judges in future. UCL surveyed 88 retired salaried members of the judiciary, in both courts and tribunals<sup>46</sup> in England and Wales, who had left at least one year before normal retirement age over the past three years.

6.61 The most common reasons given by retired judges for choosing to leave before retirement age were:

- the desire to do other things with their life (60 per cent);
- a recent deterioration in the judicial working environment (52 per cent);
- they felt they had served as a judge long enough (40 per cent); and
- recent changes to judicial remuneration (including pay and pensions) (35 per cent).

6.62 Responses varied by role, as shown in Figure 6.5.

**Figure 6.5: Judicial Early Leavers Study 2016, factors prompting judges to leave the judiciary before retirement age**



Source: Judicial Early Leavers Study 2016.

6.63 When asked which factors would have prompted them to reconsider a decision to leave early, the two factors mentioned most often by judges overall were improvements in financial compensation or in working conditions. For senior judges, promotion was the factor most frequently mentioned.

6.64 Just over half of those surveyed said they continued in paid employment after leaving, with senior judges (84 per cent) and Circuit judges (65 per cent) the most likely to do so.

<sup>46</sup> Responses from: the senior judiciary (20); Circuit judges (26), District judges (23), Tribunal judges (13); and District judges (Magistrates' Courts) (6).

- 6.65 A number of the parties referred to this survey in their evidence. Comments included the following:
- The High Court Judges' Association observed that it was likely that the senior judges who cited changes in remuneration in the survey did so because of reductions in take-home pay rather than pensions as they were probably personally unaffected by the pension changes.
  - The Council of Circuit Judges said that, as two-thirds of the retired Circuit judges had continued in paid employment, it was clear that their motivation was not to give up work but to cease being a Circuit judge.
  - The Association of District Judges said that the results of the study clearly indicated that pay, increasing job weight and absence of recognition were material influences on District judges' retirement decisions.
- 6.66 In supplementary written evidence, the LCJ emphasised his fear that retention would be affected further as those with transitional pension protection moved on to the new pension scheme. He described this as a potential 'time-bomb'. Depending on an individual's date of birth, the transitional protection would end for all judges by 2021. He said that many current members of the higher judiciary had already stated publicly that they would refuse to join the 2015 Judicial Pension Scheme and would leave the judiciary once their transitional protection ended. He said that he had seen this starting to happen and that the impact would soon emerge in the formal retention data. He added that those currently aged 56 to 60 were those most affected by this issue.
- 6.67 Unlike for our other remit groups, we expect the Annual Allowance threshold for the judiciary to continue to be a factor despite the introduction of a career-average pension scheme. This is because many judges, on taking up appointment, will immediately be paid a salary that means their annual increase in pension benefits will exceed the Annual Allowance threshold. This issue is explored further in Chapter 2. Whether they receive a tax charge may also depend on their pension provision before joining the judiciary which will count towards their Lifetime Allowance.
- 6.68 Many of those who were already members of the judiciary when the new pension scheme was introduced were unhappy with the changes and some may subsequently have regretted their decision to join the judiciary if they did not receive transitional protection. Those joining the judiciary now have, at least, done so with knowledge of the current pension arrangements.
- 6.69 The LCJ said that senior judges in particular were drawn to retiring early, often to take alternative work, for example as family financial dispute mediators, commercial arbitrators, or academics. The Lord Chancellor stressed that the UK justice system was facing significant competition from foreign judiciaries and the arbitration profession.
- 6.70 The LCJ also told us that fiscal changes meant that there was little incentive for a Circuit judge to work more than 80 per cent of their full time hours. Our own analysis of such incentives, taking into account the interaction of the personal tax allowance and the Annual Allowance with total earnings, is provided in Chapter 2. In addition, the LCJ said that more Circuit judges were deciding to leave in their mid-60s, once they qualified for a full pension. He said it was therefore likely that an unprecedented 100 Circuit judges, from a maximum contingent of 650, would need to be recruited.

## *Morale and motivation in England and Wales*

6.71 Further relevant findings from the 2016 Judicial Attitude Survey (hereafter, referred to as the Survey) for England and Wales<sup>47</sup> were as follows:

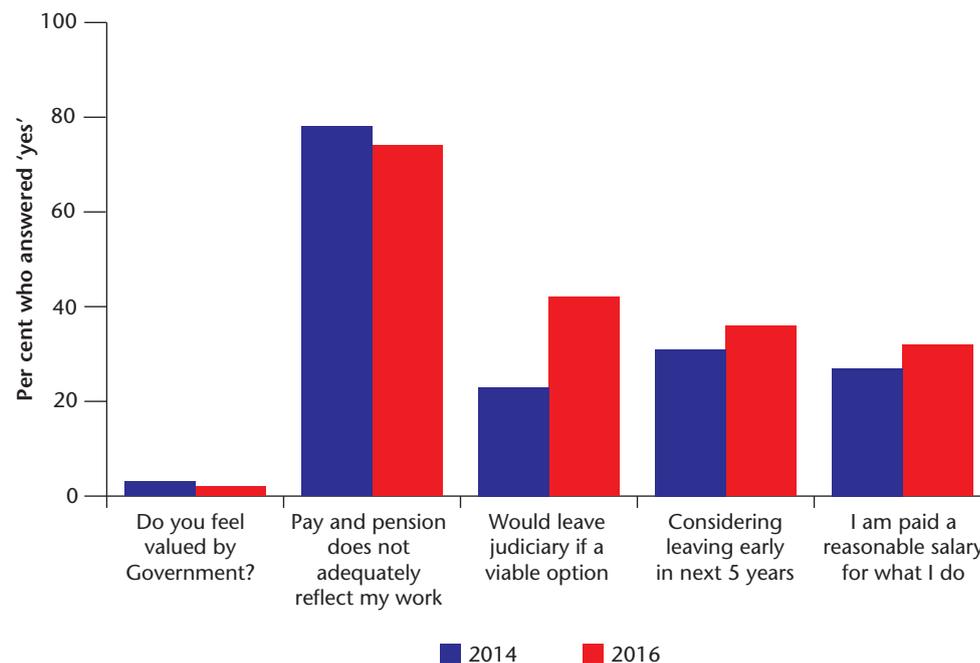
- Almost all judges (97 per cent) felt they provided an important service to society but only 2 per cent felt valued by government (compared with 3 per cent in 2014).
- 78 per cent of all judges said that they had suffered a net loss of earnings over the last two years. Over 60 per cent of courts judiciary, at all levels, did not agree that they were paid a reasonable salary for the job they did. 63 per cent of all judges said that pay was affecting their morale, with Employment and Circuit judges the most likely to say so.
- 62 per cent said the pension changes had affected them directly.
- 61 per cent said their morale had been affected by pension changes, with Circuit, Employment, District and High Court judges the most likely to say so.
- 57 per cent of judges said they would still encourage suitable people to join the judiciary, although that percentage dropped to just below 50 per cent for District judges and High Court judges.
- Three-quarters felt their working conditions had worsened since 2014, with the responses from Circuit and District judges more negative than for other groups of judges.
- A majority of judges (58 per cent) said that both their caseload and other judicial workload over the last 12 months was manageable. There was little change in this from 2014. However, around half of Circuit judges (51 per cent) and Court of Appeal judges (46 per cent) reported that their case workload was too high, compared with a smaller proportion of First-tier Tribunals judges (26 per cent).
- Judges were far more likely to say that the amount of out of hours work required was affecting them in 2016 (51 per cent of respondents compared with 29 per cent in 2014); and to say that they would consider leaving the judiciary if it was financially viable to do so (42 per cent compared with 23 per cent<sup>48</sup>).
- On changes of greatest concern to judges, most factors were not substantially changed from 2014. However, the increase in numbers of litigants in person had risen to third in the list from fifth position.

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<sup>47</sup> <https://www.judiciary.gov.uk/wp-content/uploads/2017/02/jas-2016-england-wales-court-uk-tribunals-7-february-2017.pdf>

<sup>48</sup> However, this question was phrased differently in 2014 and this may have been a factor in the increase.

Figure 6.6: England and Wales judicial attitude surveys in 2014 and 2016: results on key topics



Source: Judicial Attitude Surveys 2014 and 2016.

- 6.72 Referring to the 2016 Survey finding that just 2 per cent of judges felt valued by government, the Lord Chancellor said that an IPSOS Mori poll<sup>49</sup> had shown that the judiciary was the third most trusted profession after doctors and teachers. She said that judges were highly valued by society and government but that this message was not getting through to them. The Lord Chancellor told us that the courts and tribunals modernisation programme was beginning to bring improvements to judicial working practices.
- 6.73 The various parties said that the factors affecting recruitment (as listed in paragraphs 6.41 to 6.47) were also affecting morale. The LCJ said that judicial morale had continued to deteriorate since 2014 and was in fact at an 'all-time low'. In his view, the judiciary was no longer a self-evidently attractive occupation. The Council of Immigration Judges described morale as 'extremely fragile'. A range of judicial associations, including the Council of District Judges (Magistrates' Courts), the Council of Circuit Judges, the High Court Judges' Association and the Association of High Court Masters, agreed that morale had declined since 2014 largely because of changes to judicial remuneration.
- 6.74 The High Court Judges' Association emphasised that the 2016 Survey showed that High Court judges were the least likely of all judges to encourage judicial applications and the most likely group to say that pension changes had affected the morale of the judges they worked with. The Council of Circuit Judges commented that Circuit judges were the group most likely to say that they would consider leaving the judiciary if they felt it was a viable option.
- 6.75 A number of judicial organisations told us that a heavier and more complex workload had affected the morale of the judges they represented, including the Association of District Judges, the Council of Upper Tribunal Judges and the Council of Immigration Judges. The LCJ explained that, in the Court of Appeal, 700 asylum appeal applications were pending and in the senior family courts there was significant pressure from rising public and

<sup>49</sup> <https://www.ipsos-mori.com/researchpublications/researcharchive/3685/Politicians-are-still-trusted-less-than-estate-agents-journalists-and-bankers.aspx>

private law caseloads. Furthermore, in the criminal courts, 40 to 50 per cent of judges' time was now taken up with historic and contemporaneous sex offences.

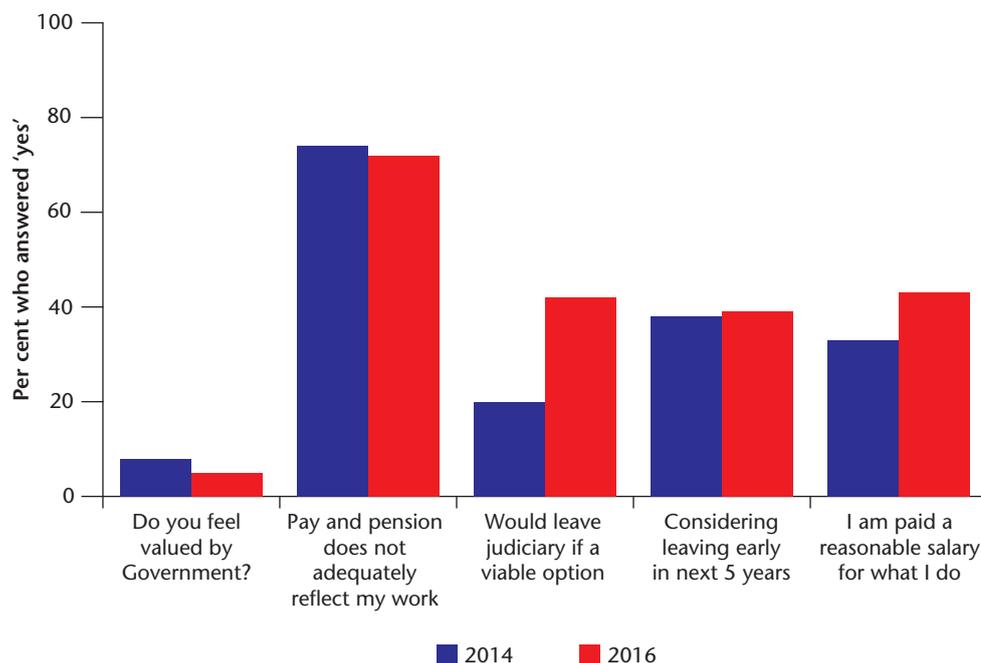
6.76 On working conditions, the LCJ confirmed that some court and tribunal buildings were in a 'shocking' state of dilapidation. He added that District judges were being placed under considerable strain by a coincidence of factors. These included fewer administrative staff and a court-based record system that was 'hopelessly behind', incompatible with a new judicial IT system and a cause of huge frustration. However, he expected the modernisation programme and further planned IT improvements to address some of these issues. In addition, he said that the creation of case officers had been proposed to remove as much non-judicial work as possible from judges.

### *Morale and motivation in Scotland and Northern Ireland*

6.77 Selected results from the Survey in Scotland<sup>50</sup> and Northern Ireland<sup>51</sup> are shown in Figures 6.7 and 6.8 respectively.

6.78 The Lord President said that the key message from the 2016 Survey in Scotland, in comparison with 2014, was that the primary factor now affecting judicial morale, more than workload, was pension changes. The Sheriffs' Association in Scotland told us that the combined effect of pension and taxation changes, the reduction in remuneration, and increasing work and responsibility had led to a marked decrease in morale among Sheriffs.

**Figure 6.7: Scotland judicial attitude surveys in 2014 and 2016: results on key topics**



Source: Judicial Attitude Surveys 2014 and 2016.

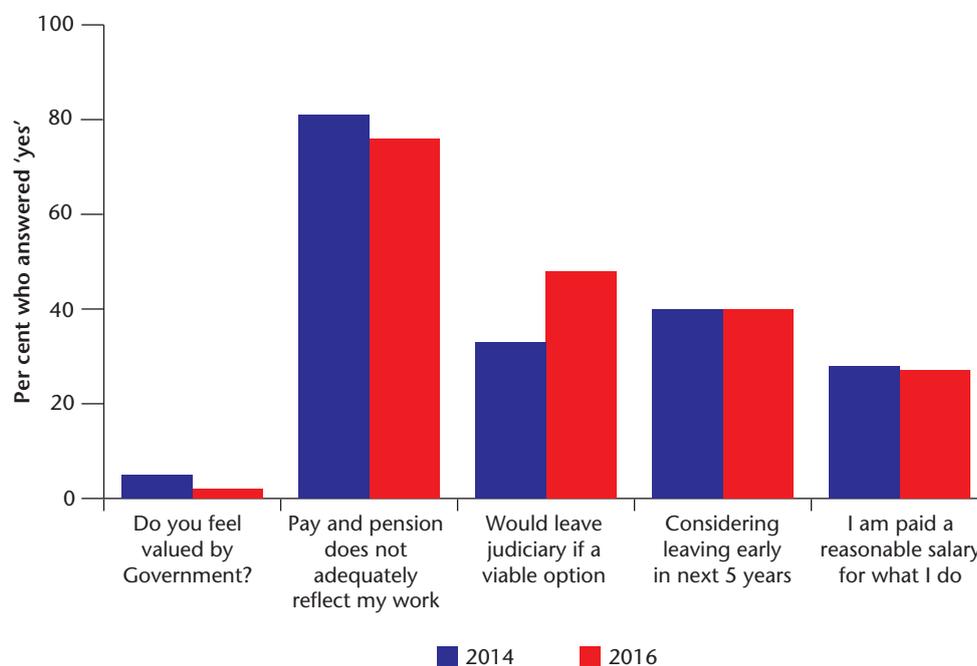
6.79 The LCJNI explained that the 'shock waves' from registration of the 2015 Judicial Pension Scheme for taxation purposes and the impact of changes to the Lifetime Allowance and Annual Allowance had left younger judges very agitated over their different treatment. In his view, the whole of the judiciary had been affected psychologically by the changes.

<sup>50</sup> <http://www.scotland-judiciary.org.uk/Upload/Documents/JudicialAttitudeSurvey2016Scotland23October2016.pdf>

<sup>51</sup> <http://www.jsbni.com/resources/other/Documents/Judicial%20Attitude%20Survey%202016%20Northern%20Ireland.pdf>

However, he also observed that, by 2016, many had realised they had to accept the new pension scheme arrangements because they were in line with the rest of the public sector.

**Figure 6.8: Northern Ireland judicial attitude surveys 2014 and 2016: results on key topics**



Source: Judicial Attitude Surveys 2014 and 2016.

## Recommendations

- 6.80 The majority of judges, unlike any of our other remit groups, are recruited externally. This contrasts, for instance, with the manner in which the SCS draws heavily from the wider civil service, or how recruitment to the senior military arises by promotion from a lower rank. While, in a few cases, judges move up from one judicial position to a higher one, this is relatively rare. In the main, judges are drawn from an external labour market of relatively highly-paid individuals, usually solicitors or barristers, or less commonly from academia. Therefore, while people are motivated to become judges for a range of reasons and tend to accept that a commitment to public service as a judge may involve moving to a lower salary on appointment, pay and wider reward are nevertheless important in influencing individual decisions to apply for judicial posts.
- 6.81 Looking across the judiciary as a whole, morale seems to have declined further, from already low levels, in the last two years. Factors which have contributed to this include:
- widespread dissatisfaction with the taxation treatment of judicial pensions;
  - increased workloads;
  - poor working conditions;
  - increased numbers of litigants in person; and
  - a sense of not being valued by the government.
- 6.82 We therefore recommend that all members of the judiciary should receive a consolidated 1 per cent pay rise this year. This is in accordance with Recommendation 2 which follows paragraph 1.11. The resulting amounts are set out in Table 6.3 below.

**Table 6.3: Recommended judicial salaries from 1 April 2017<sup>1</sup>**

Salary group	Recommended judicial salaries from 1 April 2017
1	£252,079
1.1	£225,091
2	£217,409
3	£206,742
4	£181,566
5	£145,614
6.1	£134,841
6.2	£126,946
7	£108,171
Salaried medical members	£85,954

Notes:

<sup>1</sup> These salary totals do not include the temporary allowance announced by the government.

- 6.83 The above is separate from the temporary allowance announced by the MoJ for High Court judges.
- 6.84 Last year, we were told of problems with recruitment and retention and of an unfilled vacancy in the Family Division of the High Court. As a consequence of recruitment and retention concerns, the MoJ and the LCJ proposed a differential award in favour of the High Court. At the time, we said we regarded the failure to fill this one post as rather limited evidence of a recruitment problem, albeit unprecedented. We concluded then that it was difficult to tell if the inability to fill all vacant positions was a transient feature or the beginning of a trend.
- 6.85 This year, there has been an unprecedented number of unfilled vacancies in the High Court. Following the failure to recruit to one post last year, which in itself was unusual, there was an exercise to fill 14 posts in which only eight judges were recruited. Currently, a further exercise is being run to appoint 25 judges. This has been accompanied by a significant increase in the number of early retirements in the High Court.
- 6.86 High Court judges, like the rest of the judiciary, are mainly recruited externally, but the candidates tend to be particularly senior and generally highly-paid individuals. This group has traditionally accepted that they would see a significant fall in salary if they joined the judiciary, but recent changes to judicial terms and conditions have made the offer much less attractive to them. The evidence now shows a very worrying recruitment and retention trend.
- 6.87 This was sufficiently serious for the SSRB to be considering making a recommendation outside the 1 per cent pay norm in this report. However, in the event, the MoJ has already notified us of the government's own decision to put in place a new allowance for some judges in the High Court in England and Wales. The government did not seek the independent advice of the SSRB on this proposal.
- 6.88 This allowance, worth 11 per cent of High Court judges' pay, is temporary, taxable and non-pensionable. It will apply to new appointees and to those existing members of the High Court who are members of the 2015 Judicial Pension Scheme most affected by recent changes in pension provision and taxation. High Court judges who qualify for the allowance and subsequently become Court of Appeal judges will continue to receive the allowance.

- 6.89 We note that the new allowance only applies in England and Wales. The devolved administrations in Scotland and Northern Ireland may need to consider whether it should also apply there.
- 6.90 The Circuit Bench has also seen a number of unfilled vacancies this year. **Recruitment and retention of Circuit judges should, therefore, be particularly closely monitored over the coming months.**
- 6.91 Furthermore, given low morale in the judiciary generally, the MoJ should monitor closely recruitment, retention and motivation at all levels in 2017-18. As we said last year, and as discussed in Chapter 2 of this year's report, **the government should carefully explore the scope for pay and pension flexibilities, as found in the private sector, in order to support recruitment and retention within the judicial workforce.**

### Looking ahead

- 6.92 In Chapter 1, we highlighted progress against the SSRB's strategic priorities as set out in our 2016 report. Our assessment of the position for the judiciary is summarised in Table 6.4. We ask the government to take account of this in its evidence to us for future annual reviews, although we recognise that some aspects of the strategic approach will be especially relevant to the major review, which is due to report in June 2018.

**Table 6.4: Assessment of position of judiciary against the SSRB’s strategic priorities**

Key	
<p><b>Green:</b> Area of little concern  <b>Amber:</b> Area of some concern  <b>Red:</b> Area of significant concern</p>	<p>↑: Improving trajectory  ↔: Stable trajectory  ↓: Declining trajectory</p>

SSRB priority in 2016 report	Assessment of judicial position in 2017
<b>Pay and workforce strategy:</b> Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Programme for modernisation of the judiciary underway. Major review required to look at pay and grading structure: has been commissioned. ↑
<b>Focus on outcomes:</b> There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	No current proposals but major review will consider remuneration for leadership roles. ↔
<b>Action on poor performance:</b> Greater analysis is required of where value is being added and action taken where it is not.	Unique nature of judicial role makes this difficult: but pre-appointment processes appear robust. ↔
<b>Performance management and pay:</b> There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	As above, but major review will consider remuneration for leadership roles. ↔
<b>Better data:</b> Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Reasonable quality workforce data. ↔
<b>Feeder Groups:</b> The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Lack of up-to-date information. Recruitment problems have emerged in the High Court. Major review will examine this. ↓
<b>Targeting:</b> Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	A non-targeted pay award is proposed. The major review will consider the pay and grading structure. ↑
<b>Central versus devolved tensions:</b> Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	No evidence that such tensions exist. ↔
<b>Diversity:</b> The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Relatively good and improving performance on gender, but poor on ethnicity and other diversity characteristics such as disability. ↑

### *Major review of the judicial salary structure*

- 6.93 A longer-term solution to the issue of judges' pay needs to look, in the round, at the changing expectations for judicial roles and the need to recruit and retain sufficient numbers of high quality judges at all levels. For this and other reasons, we are pleased that the Lord Chancellor has asked us to carry out a major review of judicial pay, which is scheduled to be completed by June 2018. This will allow for a more strategic approach to be developed for judicial pay and will be based on a thorough analysis of evidence from all parts of the judiciary and from the wider legal sector. We welcome the Lord Chancellor's clear commitment that the government will engage seriously with our findings, in a timely manner.
- 6.94 We have been asked to complete and report on our review by June 2018. It will be conducted during a period of significant change and reform for judges and the environment they work in. We have established an Advisory and Evidence Group, consisting of members of the judiciary at various levels, representatives from the MoJ and Scottish and Northern Ireland governments, the Judicial Appointments Commission and other relevant parties, to call on throughout the review period. This body will help to define and compile objective and up-to-date evidence and keep us closely in touch with judicial expertise, views and sentiment. The SSRB will also engage in wider consultation with the judiciary, both through formal gathering of evidence and informal meetings and visits. The recommendations arising from the evidence will be the responsibility of the SSRB.
- 6.95 Our work on the major review will look forward from the current position, rather than beginning from recommendations made in previous SSRB reviews.



## Chapter 7

# Executive and Senior Managers in the Department of Health's Arm's Length Bodies

### Summary

- 7.1 Our current remit group forms only a small proportion of health service managers in England. They do not form a coherent group, as they are mostly employed in various Arm's Length Bodies (ALBs) which have different functions and priorities. Managers move between organisations covered by the SSRB and those in the wider health service, which are outside our remit. This means the parties find it difficult to assemble proper evidence on basic questions such as recruitment and retention, career progression, feeder groups and morale.
- 7.2 The limited data available do not indicate any problems recruiting or retaining Executive and Senior Managers (ESMs) in ALBs. Nevertheless, this group has been subject to an extended period of pay restraint and failure to make an award averaging 1 per cent could have detrimental impacts on the motivation of ESMs covered by the SSRB when their leadership is required during a highly challenging period for the health service. The 1 per cent pay budget available should therefore be used, in accordance with Recommendation 2 which follows paragraph 1.11.
- 7.3 Pay increases should be targeted to address recruitment, retention, motivation and service delivery issues, staff performance and current position on the pay scale. They should also be used to make progress on addressing existing anomalies, including significant gender pay disparities and between staff with the same level of responsibility. In addition, we also note that the budget for performance bonuses has been heavily under-used in the past, and we recommend it should be better utilised in future.
- 7.4 In the absence of an alternative mechanism for making an evidence-based pay award, we believe our pay recommendations for 2017 should be applied to the ESMs in the five Ambulance Trusts in our remit as well.
- 7.5 Looking forward, we believe that trying to treat this remit group as a separate, coherent workforce is neither practical nor sensible. Instead, we see the following alternatives:
  - As the Department of Health (DH) has proposed this year, ALB remuneration committees could take on more responsibility for pay setting. This would leave no meaningful function for the SSRB in terms of the normal annual pay cycle, so we would cease to offer advice for this group.
  - Or, the government could expand central pay oversight and widen the SSRB's remit to advise on the pay of all health service senior managers. This would facilitate greater consistency in health service remuneration, but would represent a major change with wider policy implications.
- 7.6 We do not think it would be a good use of resources for us to advise again on the ESM group as currently constituted.

## Introduction

### *The remit group*

- 7.7 The SSRB's remit covers Executive and Senior Managers (ESMs) in Arm's Length Bodies (ALBs) of the DH and five Ambulance Trusts<sup>52</sup> that do not have Foundation Trust status. The collective name given to those in our remit has been changed from Very Senior Managers (VSMs) to Executive and Senior Managers. This is to distinguish them from the much larger number of senior managers in NHS Trusts, Foundation Trusts and Clinical Commissioning Groups which do not form part of our remit. Organisations employing managers outside our remit have discretion to set remuneration subject only to their own internal budgets, and free from direct government control.
- 7.8 We have said in previous reports that the composition of our remit group currently makes no sense, with the pay of other senior managers working in Trusts being set by the individual Trusts, without any input from us. This is an issue we return to later in this chapter.
- 7.9 The organisation employing the greatest number of ESMs in our remit is NHS England, with 167 ESMs at 1 April 2016. A full list of organisations employing ESMs in the SSRB remit is set out in Table 7.1.

**Table 7.1: Number of Executive and Senior Managers (SSRB's remit) in the Department of Health's Arm's Length Bodies on 1 April 2016**

Organisations	ESMs on 1 April 2016
NHS England	167
Commissioning Support Units	52
NHS Trust Development Authority <sup>53</sup>	30
Health Education England	28
Care Quality Commission	20
Monitor <sup>54</sup>	19
NHS Digital <sup>55</sup>	10
NHS Blood and Transplant Authority	9
NHS Litigation Authority	7
National Institute for Health and Clinical Excellence	6
Human Tissue Authority	4
NHS Business Services Authority	4
Human Fertilisation and Embryology Authority	3
Health Research Authority	1
<b>TOTAL</b>	<b>360</b>

Source: Department of Health.

- 7.10 ESMs make up around 1.5 per cent of the total ALB workforce and, in 2015-16, accounted for 4 per cent of the total ALB paybill. The ESM paybill was £53 million in 2015-16, down from £65 million in 2014-15. The DH said that the fall was explained by the cost of redundancy payments to ESMs in 2014-15, primarily in NHS England, Health Education England and Commissioning Support Units.

<sup>52</sup> The five Trusts are: London, East Midlands, East of England, North West and Yorkshire.

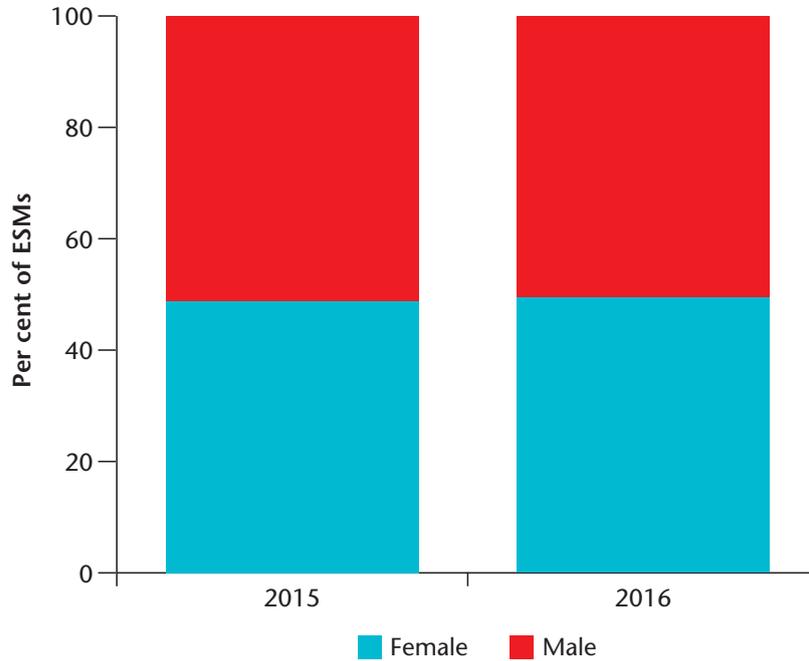
<sup>53</sup> Now part of NHS Improvement.

<sup>54</sup> Now part of NHS Improvement.

<sup>55</sup> Used to be known as the NHS Health and Social Care Information Centre.

7.11 Women make up almost half the ESM population. In 2016, 49.4 per cent of ESMs were women, a slight increase from 48.8 per cent in 2015. The median age, for both men and women, is 54 years.

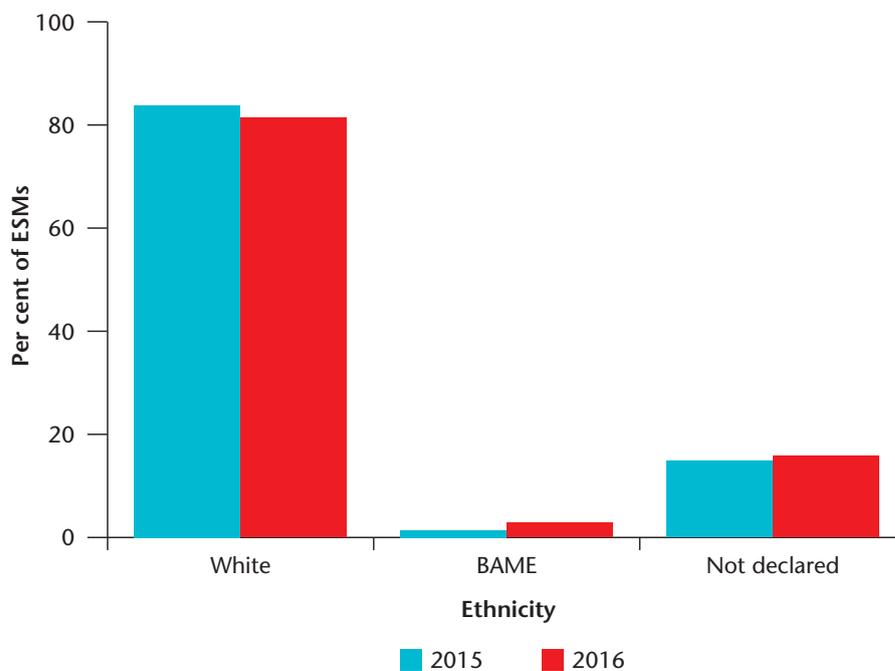
Figure 7.1: Executive and Senior Managers by gender in 2015 and 2016



Source: Department of Health.

7.12 The percentage of ESMs recorded as being from an ethnic minority background (BAME) in 2016 was 2.8 per cent, an increase from 1.4 per cent in 2015.

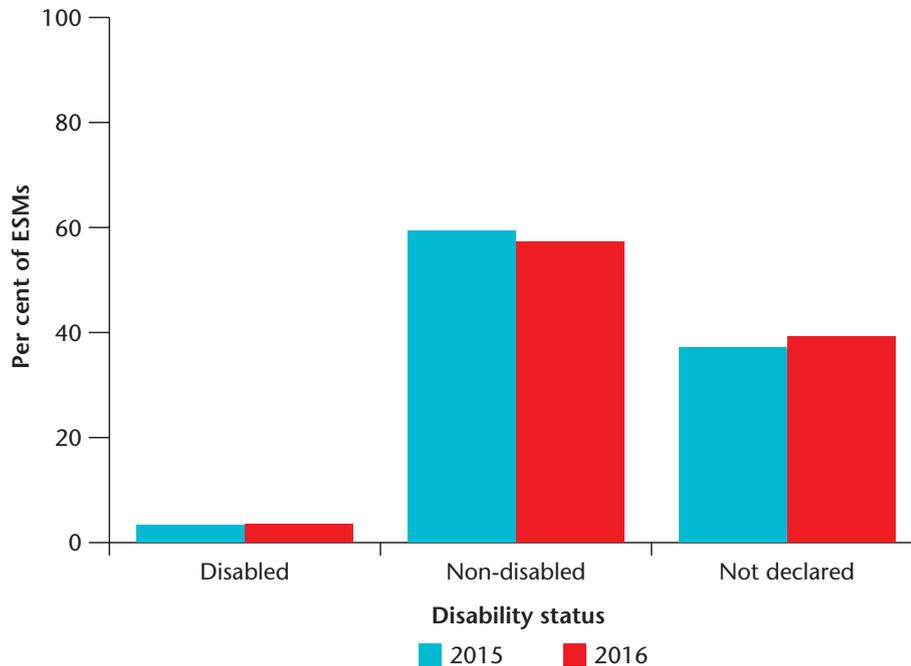
Figure 7.2: Executive and Senior Managers by ethnicity in 2015 and 2016



Source: Department of Health.

7.13 In 2016, 3.6 per cent of the total number of ESMs declared that they had a disability, little changed from 3.4 per cent in 2015, although almost 40 per cent of ESMs did not declare whether they had a disability.

Figure 7.3: Executive and Senior Managers by disability status in 2015 and 2016



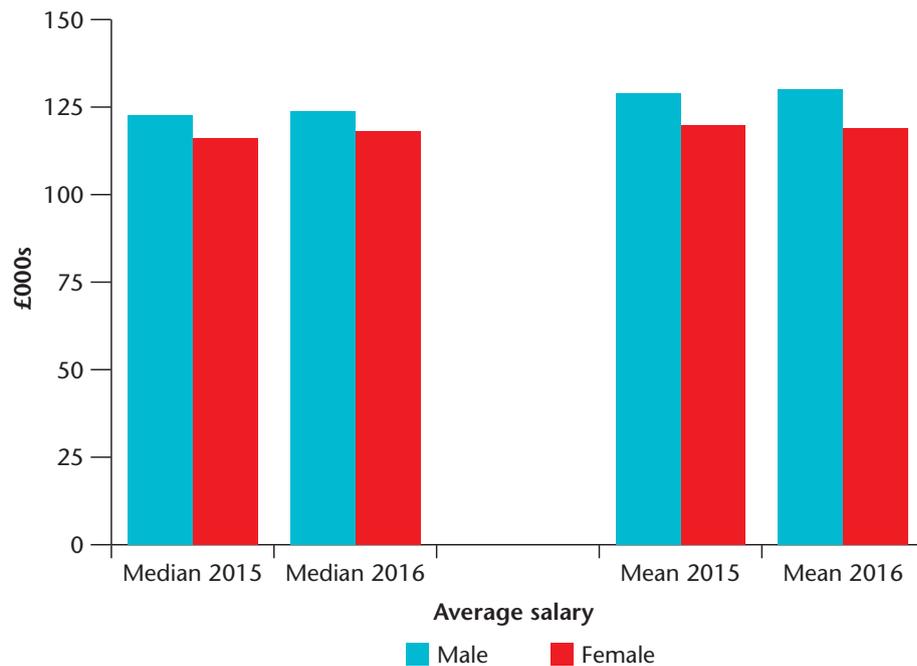
Source: Department of Health.

7.14 ESMs are geographically spread around the country. Almost 34 per cent of ESMs are based in London, with a further 28 per cent based in the North of England (mainly in Leeds), 21 per cent in the Midlands and the East of England and 13 per cent in the South of England. Four per cent of ESMs are either home-based, or are based in more than one office.

### *Pay and the pay system*

7.15 In 2016, ESM pay ranged between £82,400 and £265,300. Median ESM pay in 2016 was £120,700, an increase from £120,100, in 2015. Mean pay in 2016 was £124,500, little changed from 2015. In 2016, median pay for women was 4.5 per cent lower than for men, less than the 5.3 per cent of 2015. Mean pay for women was 8.7 per cent lower than for men, demonstrating that men are disproportionately represented in the best-paid posts. This represents a widening of the gap from 7.1 per cent in 2015.

Figure 7.4: ESM average pay by gender in 2015 and 2016



Source: Department of Health.

7.16 In 2015-16, ALB chief executives were paid, on average, £172,400. The DH evidence included figures from NHS Improvement that showed the pay of chief executives in ALBs was similar to that of chief executives in medium-sized Foundation Trusts and NHS Trusts.

7.17 Like many other groups in the public sector, the best performing 25 per cent of ESMs are eligible for an annual non-consolidated performance award. In the case of ESMs, such awards are limited to 5 per cent of base pay for any one individual. In principle, they are also limited to 5 per cent of the organisation's ESM paybill. In practice, however, this second limit will not be binding, because awards of up to 5 per cent of individual pay for only up to a quarter of staff will total up to less than 5 per cent of the overall pay budget.

### *Pension schemes*

7.18 The DH said that over 90 per cent of ESMs were members of the NHS Pension Scheme. The 1995 and 2008 sections, where benefits were based on final salary, are now closed, except for those individuals who were eligible for age-related protection. The 2015 section remains a Defined Benefit scheme, but has benefits based on career average earnings rather than final salary. The DH was unable to tell us how many people remained on the final salary scheme and how many were on the new career average scheme.

### *Pension taxation*

7.19 The DH estimated that between 2011 and 2016 the proportion of NHS staff who were members of the NHS scheme had increased. However, it also said that amongst the highest paid there was a growing trend to opt out of the pension scheme. It speculates that this may be due to the effect of changes to the Lifetime and Annual Allowances. These are discussed in Chapter 2.

### *Government response to our 2016 recommendations*

7.20 Having asked for the DH evidence for our 2016 report by the end of September 2015, we received it only at the end of January 2016. In that evidence, the DH said that it was going to introduce a new pay framework from April 2016, as an outcome of its review of

the 2012 pay framework. We were disappointed that the government had not given us an opportunity to consider the review of the 2012 framework and, in the circumstances, we did not feel we had sufficient evidence to be able to advise on the suitability of the new pay framework. We therefore did not make a pay recommendation but said that the DH should determine what level of increase was appropriate.

- 7.21 In response, the DH, individual ALBs employing ESMs, and Managers in Partnership (MiP), worked together so that awards were made to ESMs covered by our remit. MiP said that they welcomed this opportunity to work with the DH and the ALBs but did not think it was a suitable approach to take in the long term. MiP, the DH and NHS England each said that there had been no adverse reaction to the SSRB choosing not to make a recommendation in 2016.
- 7.22 The DH said that it had advised ALBs to make consolidated awards that were equal in cash terms, to each ESM qualifying for an award, and that in total they should be worth 1 per cent of the ESM paybill, in line with government public sector pay policy. This meant that lower paid ESMs should receive a slightly larger pay award, when expressed as a percentage of salary, than the higher paid. The DH said that taking this approach recognised, in part, that there is no pay progression built into the pay framework.
- 7.23 A number of ALBs took some time to decide how to make awards in 2016. While most organisations made consolidated awards to all those eligible, in accordance with advice from the DH, this approach was not taken in all cases. The Care Quality Commission (CQC) made no award to anybody earning more than £100,000 a year, and NHS England, which is by far the largest employer of ESMs in our remit, only made awards to those paid less than £113,625 (the Grade 1 operational maximum in the new pay framework). This meant that only 49 ESMs in NHS England, less than a third, received a consolidated award, with a cost to the organisation of 0.3 per cent. Therefore, most ESMs in our remit in 2016 again saw no consolidated increase in pay. Awards made to ESMs were between £965 and £1,330.
- 7.24 Government policy allows employers to make non-consolidated performance awards to the best performing 25 per cent of ESMs. We would expect around 90 staff, a quarter of the remit group, to have received such awards in 2016. However, data from the DH showed that performance awards were made to just 16 ESMs. NHS England has not made any performance awards since its inception in 2013; the CQC has a policy not to make performance awards; and NHS Improvement has chosen not to pay a bonus this year, a period in which it was formed from combining Monitor and the Trust Development Authority. The National Institute for Health and Clinical Excellence (NICE) and the NHS Business Services Authority also did not make any performance awards.

### *Policy context*

- 7.25 From June 2016, a new DH Pay Framework for Executive and Senior Managers in ALBs was introduced. The DH said that it was developed to address a number of design and implementation issues associated with the use of previous pay frameworks. The new framework is based on job evaluation which places ESM roles in one of four pay bands. The current pay bands are set out in Table 7.2. The DH expects ESMs to be paid at the minimum on recruitment, and, later in their careers, no more than the operational maximum. In unusual circumstances, the DH said it was possible for ESMs to be paid above the operational maximum, in an 'exception zone', where there was strong market-based evidence and approval from the DH Remuneration Committee to support it.

Table 7.2: 2016 ESM Pay Framework

Role/Grade	Minimum (£)	Operational maximum (£)	Exception zone (£)
1	90,900	113,625	131,300
2	131,301	146,450	161,600
3	161,601	176,750	191,900
4	191,901	207,050	222,200

Source: Department of Health.

- 7.26 The DH said that the new framework should be applied to all chief executives, all executive directors and all senior managers that report directly to the chief executive. It should also apply to other ESM posts in ALBs where the job weight is such that the ALB Remuneration Committee decides that Agenda for Change pay scales, which cover most of those working in the NHS, are not appropriate. Roles expected to be covered by the two highest pay ranges, Grades 3 and 4, are chief executives of larger ALBs. Grade 2 roles are expected to be chief executives of medium sized ALBs or board level executive directors in larger ALBs. Grade 1 roles are functional leads, operational directors at sub-board level or chief executive of one of the smaller ALBs.
- 7.27 The DH said it was intended that all appointments to posts will be at the salary range minimum, or within a range up to the operational maximum. ALB Remuneration Committees have delegated authority to appoint up to the operational maximum, except where the salary is above £142,500. Where there are clear market data to indicate that a salary up to the operational maximum will not attract suitable candidates, a business case to pay a salary in the exception zone must be agreed with the DH ALB Remuneration Committee.
- 7.28 There is also potential for people to be paid an Additional Responsibilities Allowance. This is a pensionable payment worth up to 10 per cent of basic pay, which can be paid on a temporary basis, usually for up to 12 months, to an individual taking on substantial extra responsibilities outside their core role for a limited time. Development Pay can also be paid. This will usually involve an individual being paid an amount less than the full salary for the role while they are developing in it, normally following promotion. This is intended to be for a set period, with the individual moving onto the appropriate salary once that period has expired.
- 7.29 The DH has modelled the impact of the new pay framework, based on Job Evaluation outcomes. It found that 75 per cent of posts should be in Pay Band 1, 20 per cent in Pay Band 2, 5 per cent in Pay Band 3 and a very small number in Pay Band 4. Compared with the pay bands introduced in 2016, 2 per cent of ESMs are paid below their pay band minimum, 55 per cent are paid between their pay band minimum and the operational maximum and no less than 43 per cent are paid above their operational maximum.

## Proposals

### *Government proposals*

7.30 In its written evidence on pay, the DH proposed:

- no increase to the minimum or maximum of pay bands;
- the full use of the 1 per cent available for consolidated awards, targeted to reflect ALB business need, taking account of weight/challenge of role and differentiated to performance and position within the pay band;

- the continued availability of non-consolidated awards, for the top 25 per cent of performers, worth a maximum of 5 per cent to any single individual and no more than 5 per cent of the ALB ESM paybill; and
- that the SSRB does not make a pay recommendation for the staff in the five Ambulance Trusts still covered by our remit.

7.31 Furthermore the DH invited our views on:

- its proposal that ALBs submit their resource and reward strategy to the DH ALB Remuneration Committee before next year's pay round;
- whether it needs to consider any further measures to improve the quality assurance process in relation to senior award; and
- how the SSRB might wish to engage more directly with ALBs to provide strategic advice and support.

### *Other proposals*

7.32 As part of its evidence, MiP made the following proposals to the SSRB:

- The approach of dividing 1 per cent of the paybill among qualifying ESMs should be repeated again in 2017.
- The operational review of the new ESM Pay Framework should be used to develop a leadership and workforce strategy for ALBs, which especially addresses the issues of performance pay and pensions.
- Key stakeholders, such as MiP itself, should be closely involved in the planning and delivery of the review.
- There should be a sector-wide discussion about extending the remit of the SSRB to executive posts in the wider NHS, possibly as part of the operational review.

### **Evidence**

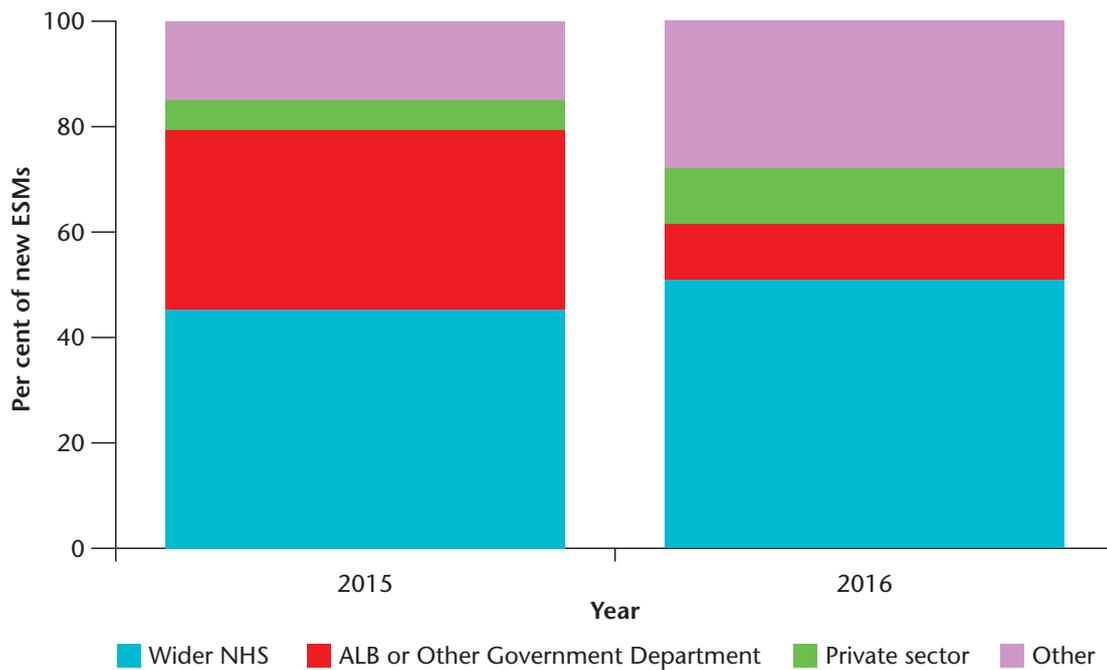
7.33 For the 2017-18 round, we received written evidence in October 2016 from the DH and MiP. A team from the DH, headed by Philip Dunne, Minister of State for Health, gave oral evidence on 27 October 2016. Jon Restell, Chief Executive of MiP, gave oral evidence on 20 October 2016.

### *Recruitment*

7.34 The DH said that in 2016, ALBs had appointed 57 ESMs (16 per cent of ESM strength in 2016), an increase from 53 (14 per cent) in 2015.

7.35 The data on sources of recruits, as set out in Figure 7.5, show that the labour market for ESMs is not self-contained. The largest supplier of new ESMs was the wider NHS, with 51 per cent coming from this source. Other ESMs were equally likely to come from either the private sector or from ALBs and other government departments (OGDs) combined, with eleven per cent of new ESMs recruited from each of these sources. This marks a change from 2015 when over a third of newly recruited ESMs came from ALBs and OGDs. NHS England said that it had not struggled to fill vacancies this year.

Figure 7.5: Recruitment of ESMs, by source



Source: Department of Health.

### Retention

7.36 The DH said that in 2016, 63 ESMs (18 per cent of ESM strength in 2016) left, of whom 33 (9 per cent) resigned. Compared with 2015, this is a smaller number of leavers overall and a smaller number of resignations.

Table 7.3: Outflow of ESMs

Numbers leaving	2016	2015
ESM leavers	63	84
Of which resigned	33	49

Source: Department of Health.

### Morale and motivation

7.37 Unlike some of our other remit groups, such as the Senior Civil Service, the senior military and the judiciary, the DH does not provide us with data that measure the morale of ESMs across ALBs as a whole. We have been told that some data are held and used locally by individual ALBs. However, without reliable data, we find it difficult to be able to assess the morale of those in this remit group, and the impact this might have on their motivation to do their job or their intention to remain in the organisation.

7.38 The DH did, however, provide data from NHS England which showed that, in July 2015, 78 per cent of ESMs were either satisfied or very satisfied with their level of pay. Data from all ALBs showed that 0.36 per cent of ESM working days were lost to sickness, up from 0.23 per cent in 2015, but less than the figure for all ALB staff of 2.46 per cent. While the figure for ESMs appears low, this may be due to under-reporting of sickness absences.

7.39 MiP usually conducts a survey of its members each year and includes the results in its evidence to the SSRB. However, this year MiP has not conducted such a survey, having decided instead to target its resources at a survey and other engagement activities with its members in relation to an operational review of the new ESM Pay Framework later in

2017. MiP referred back to its 2015 survey results, which showed that half of all survey respondents did not agree that their pay was determined fairly relative to similar roles in the private sector and over 45 per cent said that their pay was not agreed fairly relative to managers elsewhere in the NHS. It went on to say that a majority of respondents did not consider that they had a good work-life balance. Some respondents talked about work that was interesting and complex but being delivered at an unsustainable pace.

- 7.40 MiP said that, if ESMs did not receive a consolidated award this year, it was likely to damage morale and staff engagement and send a negative signal about the value placed on the work of this group.

## Recommendations

### *Response to pay proposals*

- 7.41 Both the DH and MiP proposed that the 1 per cent available for consolidated awards should be fully used. The DH proposed that awards were targeted to reflect ALB business need, taking account of weight/challenge of role and differentiated by performance and position within the Pay Band. MiP said that the approach of dividing 1 per cent of the paybill among qualifying ESMs should be repeated in 2017.
- 7.42 The limited data available do not indicate any problems recruiting or retaining ESMs in ALBs. Nevertheless, this group has been subject to an extended period of pay restraint and failure to make an award averaging 1 per cent could have detrimental impacts on the motivation of ESMs covered by the SSRB when their leadership is required during a highly challenging period for the health service. **The 1 per cent pay budget available should therefore be used, in accordance with Recommendation 2 which follows paragraph 1.11. Failure to use in full the limited budget increase that has been made available would itself be demotivating. The pay budget available should be used to address priorities for individual ALBs.**
- 7.43 We do not have sufficient evidence to be able to say what the priorities are for each ALB. However, pay increases should be targeted to address recruitment, retention, motivation and service delivery issues, staff performance and current position on the pay scale. They should also be used to make progress on addressing existing anomalies, including significant gender pay disparities and between staff with the same level of responsibility.
- 7.44 Based on the wide variations in pay within this workforce, and the lack of strategic underpinning for pay decisions made before the introduction of the new framework, we are sympathetic to the DH's proposal that awards should be targeted, in order to reduce anomalies. We note that almost half of ESMs are paid an amount greater than the operational maximum of their Pay Band and we do not expect ALBs to make a consolidated award to this particular group. The anomalies that we do expect to be addressed include making awards to those currently paid below the minimum for their grade in the new ESM Pay Framework, and where there are pay differences resulting from gender or age.
- 7.45 Last year, the DH left the implementation of its advice to the discretion of ALBs. It said that, in 2016, it had advised ALBs that they should make consolidated cash payments worth 1 per cent of the ESM paybill, in line with government public sector pay policy. Nevertheless, some ALBs chose not to make a consolidated award, or to make awards worth less than 1 per cent of the paybill. This meant that most ESMs did not receive a consolidated award at all. **This year the DH should mandate what overall pay award is to be made by each ALB and not leave the matter to ALB discretion.**
- 7.46 The DH asked us not to make a pay recommendation for ESMs in the five Ambulance Trusts covered by our remit. Neither the DH nor MiP presented us with any evidence that

might allow us to make such a recommendation. However, we think it is important that managers in these organisations are considered for a pay award this year. **In the absence of an alternative mechanism for making an evidence-based pay award, we believe our pay recommendations for 2017 should be applied to the ESMs in the five Ambulance Trusts in our remit as well.**

- 7.47 The DH proposed the continued availability of non-consolidated awards for the top 25 per cent of performers, worth a maximum of 5 per cent to any single individual and no more than 5 per cent of the ALB ESM paybill. As explained above, it is not possible under the current rules to actually use the full 5 per cent of paybill. Notwithstanding that, we are concerned that many ALBs do not make any non-consolidated awards at all to reward good performance. This must mean that awards are made to only an incomplete subset of the top 25 per cent of performers, and are worth less than 1 per cent of the paybill. As discussed in Chapter 1, a performance pay system that connects individual reward for performance clearly and firmly to organisational priorities can be a motivational tool. We believe that, given such arrangements have been put in place, they should be used as a part of the total remuneration package for ESMs. This is particularly the case given that other health service employers and the private healthcare sector provide incentives in this way.

**Recommendation 6: We recommend that the Department of Health mandates that ALBs use the whole available budget for non-consolidated awards to the top 25 per cent of performers. If individual ALBs wish not to do this, they should be required to make a formal case to the Department of Health Remuneration Committee.**

#### *Response to other proposals*

- 7.48 The DH has said that the new ESM Pay Framework will be subject to periodic review to ensure it remains fit for purpose and that the first such review will take place later in 2017. We are strongly supportive of such a review taking place and of MiP's proposal that, as a key stakeholder, it should be closely involved in the planning and delivery of the review. We agree with MiP that this is an opportunity to develop a leadership and workforce strategy for ALBs, and to address issues such as performance pay. This may also be the most effective way for interested parties to consider whether our remit should be extended to cover other senior managers in the healthcare system, or whether alternative mechanisms should be developed to determine the pay of ALB ESMs and those in the Ambulance Trusts currently still covered by our remit. The DH has said it would welcome our involvement in the process by inviting us to comment on the review.
- 7.49 The DH also asked us to offer our views on its proposal that ALBs submit their resource and reward strategy to the DH ALB Remuneration Committee before next year's pay round and on how to improve the quality of the assurance process in relation to senior reward. We would expect that ALBs would already have such strategies in place and, if this leads to an improvement in the evidence provided to the SSRB, we support ALBs sharing these strategies with the DH. We also support the DH in looking at ways to improve the quality of the assurance process and think this should form part of the wider review of the pay system.
- 7.50 The DH has said it would welcome our views on how we might want to engage more directly with ALBs to get strategic advice and support. Direct contact with organisations employing managers in our remit may help us better understand the environment individual organisations are working in and the particular challenges that each faces. On the other hand, we do not wish to blur lines of accountability: it is the DH, not the ALBs, that requests our advice. The DH is responsible for ensuring our recommendations, if accepted, are implemented. Consideration of how this is best done is dependent upon the future coverage of our remit.

## Looking ahead

- 7.51 Our current remit group forms only a small proportion of health service managers in England. They do not form a coherent group, as they are mostly employed in various ALBs which have different functions and priorities. Managers move between organisations covered by the SSRB and those in the wider health service, currently outside our remit. This is demonstrated by the fact that over 50 per cent of ESMs recruited to ALBs in 2016 came from other parts of the NHS.
- 7.52 For these reasons, the distinction between the groups inside and outside the remit is an arbitrary one from a pay and reward perspective. Neither the government nor employee representatives have offered a cogent justification for it. We have said for a number of years that this arrangement makes implementing a rational approach to setting pay and reward for this group very difficult, regardless of whether the DH or the SSRB attempt to do this.
- 7.53 We have received a more comprehensive overview of the available data, albeit with some substantial remaining gaps, this year. This has crystallised the underlying reality: this is not a coherent remit group in its current form. The various parties find it difficult to put together a proper evidence base for us on basic questions such as recruitment and retention, career progression, feeder groups and morale. This makes it difficult for us to add value.
- 7.54 This year, the DH has proposed that the remuneration committees of ALBs take on greater responsibility for pay setting, albeit still operating within the parameters of the government's public sector pay policy. If this was to be the long-term approach, this underlines that there would be no purpose in the government seeking the SSRB's advice on pay for this group of managers in future.
- 7.55 Although MiP said it was not opposed to further delegation to ALB remuneration committees, it said that this should be done transparently and with national rules to ensure consistency of approach between ALBs. At this stage, it is not clear exactly how the DH would oversee these arrangements but we believe rigorous governance and oversight arrangements would be needed and that MiP should input into their development.
- 7.56 Alternatively, the government could expand central pay oversight and widen the SSRB's remit to advise on the pay of all health service senior managers. This would mirror how we cover all senior civil servants, salaried judges, Police and Crime Commissioners and senior officers in the police and armed forces. It would also facilitate greater consistency in health service remuneration but would represent a major change with wider policy implications.
- 7.57 Were the government to pursue the above approach, we would be happy to discuss how the SSRB could play a useful and meaningful role. In considering the SSRB's role, the following issues would require consideration:
- There would need to be clear means by which the government could act on our recommendations, which implies that the SSRB would need to have the means to exert control over pay of senior managers across the NHS.
  - The SSRB would create requirements for data on the wider workforce, in addition to the general data improvement priorities that already exist. This would require clarity as to which body would coordinate this process and assemble and present this data.
  - Such an arrangement would take time to implement, meaning robust arrangements would need to be put in place to ensure that the pay of our current remit group is monitored and considered during the transition.

7.58 We do believe there is agreement amongst the parties that the current arrangements are not logical. However, we also recognise that currently there is no consensus on what approach to take in future. We think that the DH needs to urgently discuss with MiP and the ALBs and, if appropriate, other organisations employing senior managers in the health service about how best, if at all, to use us in future. Meanwhile, the current situation, where the SSRB advises annually on this group, does not represent good use of the resources of the SSRB, our secretariat or those who provide evidence to us. We do not think it would be a good use of resources for us to advise again on the ESM group as currently constituted.

**Recommendation 7: We recommend that the government, in consultation with Managers in Partnership, develops a coherent proposition on how best to set the pay of ESMs in the Department of Health's Arm's Length Bodies in future. This will result in either: the expansion of the SSRB's remit to cover all senior managers working across the NHS, supported by appropriate powers to implement its recommendations if they are accepted; or the development of alternative pay setting arrangements for ESMs in ALBs, which may consist of delegating local pay decisions supported by clear, rigorous governance and oversight processes, with the corresponding removal of ESMs from the SSRB's remit.**

7.59 The data we have received has improved from last year, but still requires considerable development. The precise data requirements will depend on the governance arrangements for this workforce in the future, but in any event the employer should seek to address fundamental gaps in areas including: morale and motivation of the workforce; attrition rates; vacancies and success or otherwise in filling them; where relevant senior managers go when they leave; prevalence of different pension arrangements across the remit group; and the retention, intentions and motivation of the next generation of senior managers.

7.60 In Chapter 1 of this report, we highlighted progress against the SSRB's strategic priorities as set out in our 2016 report. Our assessment of the position for ESMs is summarised in Table 7.4. We hope that this will prove helpful to those with responsibility for workforce planning for this remit group.

**Table 7.4: Assessment of position of ESMs against the SSRB’s strategic priorities**

Key	
<p><b>Green:</b> Area of little concern  <b>Amber:</b> Area of some concern  <b>Red:</b> Area of significant concern</p>	<p>↑: Improving trajectory  ↔: Stable trajectory  ↓: Declining trajectory</p>

SSRB priority in 2016 report	Assessment of ESM position in 2017
<b>Pay and workforce strategy:</b> Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	New pay framework now exists, but a lack of a workforce strategy.  ↑
<b>Focus on outcomes:</b> There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	No proposals made.  ↔
<b>Action on poor performance:</b> Greater analysis is required of where value is being added and action taken where it is not.	No evidence that it is an issue, but no evidence presented.  ↔
<b>Performance management and pay:</b> There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	Little evidence presented. Capacity to pay performance bonuses exists, but is heavily under-used.  ↔
<b>Better data:</b> Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Data provided have improved, but major gaps still exist.  ↑
<b>Feeder Groups:</b> The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Limited data available. No evidence of major concerns.  ↔
<b>Targeting:</b> Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	A targeted award is proposed, but specific proposals are not made.  ↑
<b>Central versus devolved tensions:</b> Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	Some senior manager jobs in the NHS are subject to national control where others are not.  ↔
<b>Diversity:</b> The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Relatively good performance on gender. Data on ethnicity and disability show improvement in 2016 but from a low base.  ↔

# Chapter 8

## Police and Crime Commissioners

### Introduction

#### *The remit group*

- 8.1 There are 41 directly elected Police and Crime Commissioners (PCCs) in England and Wales. The most recent PCC elections were held on 5 May 2016<sup>56</sup>. In 2011, the SSRB made recommendations, accepted by the government, that the pay of PCCs should be between £65,000 and £100,000 and be broadly linked to the size and complexity of the respective police force. Those pay levels are set out in Appendix K and have been in place since PCCs were first elected in November 2012.

#### *Our previous recommendations*

- 8.2 We first considered the pay of PCCs as part of our annual remit in 2014. In both our 2014 and 2015 reports we recommended, and the government accepted, that the pay of PCCs should remain unchanged.
- 8.3 In our 2016 report, we did not make a recommendation on the pay of PCCs. In October 2015, the Home Secretary wrote to us to say it was the government's intention to further develop the role of PCCs. The Home Secretary asked that we delay a full review of PCCs' pay until the proposed changes were in place. She also requested that we refrain from conducting a review of PCC pay that year.

### Proposals

- 8.4 On 16 December 2016, the Home Secretary wrote to us (see Appendix H) to say that the Policing and Crime Bill was passing through parliament. The Policing and Crime Act subsequently received Royal Assent on 31 January 2017. The Act will enable PCCs to seek responsibility for the fire and rescue authority in their area. The Home Secretary said that the earliest these responsibilities could be taken on was April 2017.
- 8.5 The Home Secretary said that it was difficult to foresee any circumstances in which she could accept a recommendation to increase PCC pay at that point and asked that we refrain again from conducting an annual review of PCC pay. We, therefore, did not seek any evidence from either the Home Office or the Association of Police and Crime Commissioners.
- 8.6 In addition, the Home Secretary asked that we refrain from conducting a full review of the PCC role, until the intended substantive changes to the model were in place. However, she went on to 'give a firm commitment that a full review will be conducted in 2017 which will include the additional fire functions, and, where necessary, in subsequent years to include any further expansion of the PCC role'.

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<sup>56</sup>There was no PCC election in Greater Manchester in May 2016 as the role of PCC is one of the responsibilities of the directly elected mayor due to be elected in 2017.

## Looking ahead

- 8.7 When the SSRB recommended the current PCC pay levels in 2011 it said that the force weighting which governs Chief Constables' pay provided a suitable mechanism to calibrate a pay structure for PCCs. The weightings for Chief Constables have, however, not been changed since 2003. The police are also working to implement a pay structure based on roles, competence and skills, informed by the College of Policing Leadership Review, published in 2015. We therefore suggest that **the exact timing and focus of any full review of the pay of PCCs should take into account the likelihood of, and need for, a review of Chief Constables' pay in the near future.**

## Appendix A

### List of those who gave evidence and information to the SSRB

#### The Senior Civil Service

Cabinet Secretary and Head of the Civil Service  
Cabinet Office  
First Civil Service Commissioner  
The Civil Service Commission  
FDA and Prospect

#### Senior officers of the armed forces

The Parliamentary Under Secretary of State for Defence  
Ministry of Defence  
Chief of the Defence Staff  
Chief of Defence People  
Senior military discussion group  
Feeder group discussions

#### The judiciary

The Lord Chancellor and Secretary of State for Justice  
The Lord Chief Justice of England and Wales, The Senior President of Tribunals and  
The Chancellor of the High Court  
Judicial Appointments Commission (England and Wales)  
Judicial Appointments Board for Scotland  
Northern Ireland Judicial Appointments Commission  
Lord President of Scotland  
Lord Chief Justice of Northern Ireland  
Ministry of Justice (including information from the Northern Ireland Courts and Tribunals  
Service)  
Scottish Government  
High Court Judges' Association  
Council of HM Circuit Judges  
Council of Upper Tribunal Judges  
Sheriffs' Association  
Council of Immigration Judges  
Association of District Judges  
Council of HM District Judges (Magistrates' Courts)  
Council of Employment Judges  
Employment Judiciary in Northern Ireland  
Association of High Court Masters (including Masters of the Chancery and Queen's Bench  
Divisions, Costs Judges of the Senior Courts, District Judges of the Principal Registry of the  
Family Division and High Court Bankruptcy Registrars)  
Judge Advocate General  
Written evidence from two individual judicial post holders

#### Executive and Senior Managers in the Department of Health's Arm's Length Bodies

Department of Health  
Managers in Partnership



## Appendix B

### Website references for publications

This SSRB report can be found at:

<https://www.gov.uk/government/organisations/office-of-manpower-economics>

Evidence submitted to the SSRB by the Cabinet Office:

<https://www.gov.uk/government/collections/senior-civil-service-performance-management-and-reward>

Evidence submitted to the SSRB by the FDA/Prospect:

<http://www.fda.org.uk/Media/Now-is-the-time-to-change-the-Governments-approach-to-public-sector-pay-says-FDA.aspx>

Evidence submitted to the SSRB by the Ministry of Justice:

<https://www.gov.uk/government/publications/response-to-ssrbs-information-request-for-2017-to-2018-review-of-judicial-remuneration>

Evidence submitted to the SSRB by the Department of Health:

<https://www.gov.uk/government/publications?departments%5B%5D=department-of-health>

Evidence submitted to the SSRB by Managers in Partnership:

<http://www.miphealth.org.uk/News/HomepageNews-35594.aspx>



## Appendix C

# Letter from the Chief Secretary to the Treasury to the Chair of the Senior Salaries Review Body (SSRB) about public sector pay of 13 July 2016

OFFICIAL



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

Dr Martin Read  
Chair of the SSRB  
c/o Office of Manpower Economics  
Fleetbank House  
2-6 Salisbury House  
EC4Y 8JX

13<sup>th</sup> July 2016

*Dear Martin,*

### PUBLIC SECTOR PAY 2017-18

1 Thank you for your work on the 2016-17 pay round. The Pay Review Bodies continue to play an invaluable role in making independent, evidence-based recommendations on public sector pay awards, as well as continuing to provide high-quality advice on wider reforms to pay and allowances policy. I am extremely grateful to you and your colleagues for your considered work. Over the remainder of the Parliament I look forward to the Pay Review Bodies continuing to advise the Government on how best to achieve pay reforms and deliver fair and sustainable pay awards for public sector workforces

2. As you know the fiscal context remains very challenging following the outcome of the EU referendum vote. However, the Government's public sector pay policy, announced at Summer Budget 2015 and reaffirmed in the Autumn Statement and Spending Review 2015, was intended to enable prudent long-term planning while protecting jobs, and I can confirm that this policy remains in place. We will fund public sector workforces for pay awards of an average of 1 per cent a year, up to 2019/20.

3. As I set out in my letter to you last year, I expect to see targeted pay awards, in order to support the continued delivery of public services, and to address

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recruitment and retention pressures. This may mean that some workers could receive more than 1 per cent whilst others receive less, and there should be no expectation that every worker will receive a 1 per cent pay award. I am aware that this requires you to receive good, evidence-based propositions to consider.

4. Relevant Secretaries of State will write to you shortly with their remit letters, as and where needed. Relevant departments will submit their proposals covering the specific needs of their workforces in their evidence to you in the early autumn. I look forward to your 2017-18 recommendations.

*Yours sincerely,*

A handwritten signature in blue ink, appearing to read 'GREG HANDS', with a long horizontal flourish extending to the right.

GREG HANDS

## Appendix D

# Letter from the Lord Chancellor and Secretary of State for Justice to the SSRB Chair about the remit for the 2017-18 review of judicial salaries of 17 August 2016



The Right Honourable  
**Elizabeth Truss MP**  
Lord Chancellor & Secretary  
of State for Justice

Dr Martin Read CBE  
Chair of the Senior Salaries Review Body  
8th Floor, Fleetbank House  
2-6 Salisbury Square  
London  
EC4Y 8JX

MoJ ref: 035517

17 August 2016

Dear Dr Read

### REMIT FOR THE 2017/18 REVIEW OF JUDICIAL SALARIES

Thank you for the work carried out by the Senior Salaries Review Body (SSRB) during the 2016/17 pay round and for your recommendation on judicial salaries. I look forward to working with you and the other members of the Review Body on the next annual review.

I would like to confirm the SSRB's remit in relation to the judiciary during the upcoming pay round for 2017/18. I would like the Review Body to conduct its usual annual review process and make recommendations to the government on the pay of the SSRB's judicial remit group from April 2017.

As the then Chief Secretary to the Treasury stated in his letter to you earlier this month, the government's public sector pay policy remains unchanged. There is funding for pay awards that average up to 1% a year for public sector workforces and these funds should be targeted, where possible, to support the continued delivery of public services and to address any workforce pressures such as recruitment and retention. The Review Body should take this policy into account when formulating its recommendations in relation to the judiciary.

My department will continue to work to improve the quality of data available to inform your consideration of judicial pay as part of the annual review.

I would find it helpful to meet to discuss our respective future roles on the matter of judicial remuneration in due course. If you are happy to meet, my office will be in touch to set this up.

I am copying this letter to the Lord Chief Justice of England and Wales and the Senior President of Tribunals.

Best Wishes,

A handwritten signature in blue ink, appearing to read "Elizabeth Truss".

ELIZABETH TRUSS MP

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# Appendix E

## Letter from the Lord Chancellor and Secretary of State for Justice to the SSRB Chair about the major review of the judicial salary structure of 28 October 2016



The Right Honourable  
**Elizabeth Truss MP**  
Lord Chancellor & Secretary  
of State for Justice

Dr Martin Read CBE  
Chair of the Senior Salaries Review Body  
8th Floor, Fleetbank House  
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London  
EC4Y 8JX

28 October 2016

Dear Dr Read

### MAJOR REVIEW OF THE JUDICIAL SALARY STRUCTURE

I write following our meeting on the SSRB major review. Given the substantial changes that have taken place to the justice system and further reforms that are planned, it is important that a comprehensive evaluation of judicial pay takes place. I would therefore like the SSRB to carry out a major review of the judicial salary structure.

I would be grateful if you could provide me with recommendations on the judicial salary structure and appropriate pay levels no later than June 2018, taking into account comparisons with the legal profession and senior people elsewhere in the public sector. I recognise the points made in your 2016 report about the uncertainty resulting from the long delay in the government's response to the last review. I can assure you that the government will engage seriously with the recommendations from this review and will do so in a timely fashion.

In line with previous major reviews, I expect the SSRB to consider whether the current salary structure is fit for purpose, to evaluate roles carried out by all judicial office holders and advise on their appropriate position within the salary structure and to advise on the level of pay required to recruit, retain and motivate high calibre office holders at all levels of the judiciary. In addition, I want you to consider broader issues relating to judicial remuneration. The review should look at whether the current salary structure should be simplified. I would also like recommendations on how best to reward judicial leadership. Government policy on judicial pensions is – and will remain – outside of the SSRB's remit. I expect, however, that you will wish to take into account changes to the overall judicial remuneration package when formulating your recommendations on pay. The government policy that public sector pay awards will average up to 1% of pay bill in each financial year up to 2019/20, and that pay awards should be targeted, where possible, to support the delivery of public services and address recruitment and retention pressures, should also be taken into account.

In addition to the SSRB's standard judicial remit group of salaried UK judges whose pay is my responsibility, I would ask you to consider, and make recommendations on, the pay of fee-paid judges who have comparators within the salaried judiciary. Following policy changes as a result of recent litigation – where we have not yet assessed the true impacts of that litigation upon judicial remuneration as a whole – I feel that it is important that we include fee-paid judges in the review. The Scottish government also wish the SSRB to make recommendations on a number of judicial office holders whose

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pay is devolved (those in the devolved Scottish tribunal system and the newly created post of Summary Sheriff). I agree that these office holders should be included in the review.

If you are minded, as in the past, to convene a small consultative group to guide the review in an advisory manner and support the process, I suggest that the group should be representative of the main parties who will be affected by the review by including judges representing the three UK jurisdictions, the tribunal judiciary and fee-paid officer holders. It should also include representatives of my department and the devolved administrations. During the first phase of the review, this group should advise me on the draft terms of reference that will form the guiding principles for the review.

I am keen that the review is timely and cost effective, and I know my officials have spoken to yours about this. I am particularly keen that any consultancy work commissioned during this review provides the best value for money results whilst future-proofing longer term arrangements for assessing judicial pay.

Once you agree to undertake the review I will write to the Lord Chief Justices of England and Wales, and Northern Ireland, the Lord President, the Senior President of Tribunals, and the Justice Ministers of Scotland and Northern Ireland to ask for nominees for consultative group members.

Best Wishes

A handwritten signature in black ink, appearing to read 'Elizabeth Truss', written in a cursive style.

**ELIZABETH TRUSS**

## Appendix F

# Reply from the SSRB Chair to the Lord Chancellor and Secretary of State for Justice regarding the major review of the judiciary of 7 November 2016



Office of Manpower  
Economics

SENIOR SALARIES REVIEW BODY  
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The Right Honourable Elizabeth Truss MP  
Lord Chancellor and Secretary of State for Justice  
102 Petty France  
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7 November 2016

*Dear Lord Chancellor,*

### MAJOR REVIEW OF THE JUDICIAL SALARY STRUCTURE

Thank you for our recent highly constructive meeting and for your letter dated 28 October asking the SSRB to carry out a major review of the judicial salary structure. I believe such a review is needed and I am pleased that the Review Body has been asked to take on such an important role. I am delighted to accept the commission.

I strongly support your proposal to form a consultative group to assist the SSRB in carrying out its review. The suggestion in your letter on its composition is in line with our own thinking. The group will be chaired by Sharon Witherspoon, Chair of the SSRB Judicial Sub-Committee. Sharon and I would like the group to be active throughout the review, ensuring that the SSRB has full access to its expertise and views. It should also ensure the SSRB has timely access to required data and information and can help assess gaps and inconsistencies in evidence as they emerge and how they might be addressed. I agree that any research commissioned



needs to represent good value-for-money. The group's advice will be particularly valuable in achieving this objective.

Sharon and I wish to name the consultative group the Advisory and Evidence Group, reflecting the intentions outlined above. In order to be successful, the group needs to be composed of senior representatives of the main parties and I would be very grateful if you were able to make this point when you write to the Lord Chief Justices of England and Wales, and Northern Ireland, the Lord President, the Senior President of Tribunals and the Justice Ministers of Scotland and Northern Ireland.

The Review Body will aim to submit its advice by June 2018 as requested. However, this is a tight timescale and you will appreciate not fully within the SSRB's control. In order to meet the June 2018 date, the terms of reference will need to be approved by the end of February 2017. Any delay in such approval will mean a corresponding delay in the final submission. It is therefore important to ensure that members of the Advisory and Evidence Group understand they will need to make themselves available in January for meetings to formulate the draft terms of reference. Based on realistic assumptions about how long it will take to convene the Advisory and Evidence Group and the number of meetings that group will require, the draft terms of reference may not be ready for submission to you until mid-February.

There will also be a number of deadlines for the submission of data and information which the SSRB will set and which will need to be met in order to achieve a June 2018 submission date. We will need the full support of the Ministry of Justice in ensuring that these submission deadlines are met.

I can confirm that the SSRB will have regard to the Government policy that public sector pay awards will average 1 per cent in each year up to 2019-20 and that pay awards should be targeted where possible. However, the SSRB will need to look fundamentally at the pay structure taking into account judicial recruitment in the light of the external market, retention and motivation. The changing nature of judicial roles will also be relevant. It is, therefore, not possible to determine in advance the overall change in the judicial pay budget that the recommendations of this review may imply.

Finally, as I explained when we met, the review will be a major undertaking for the SSRB and others involved. I am therefore particularly grateful for your reassurance

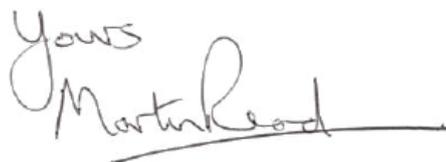


that the Government will engage seriously with the findings from the review and will do so in a timely fashion.

Thank you once again for asking the SSRB to undertake this important task. I would be happy to discuss any of the issues outlined in this letter with you and, of course, our secretariat will work closely with your officials over the duration of the review.

I and my colleagues very much look forward to working on and delivering the review you have requested.

With all good wishes

Yours  
A handwritten signature in black ink that reads "Yours" on the first line and "Martin Read" on the second line, followed by a horizontal flourish.

Dr Martin Read CBE  
SSRB Chair

Copy to Sharon Witherspoon, SSRB Judicial Sub-Committee Chair



## Appendix G

### Letter from the Minister of State for Health to the SSRB Chair about the SSRB remit 2017-18 – Arm’s Length Bodies (ALB) Executive and Senior Managers (ESMs) of 18 August 2016



Department  
of Health

POC-1047085

Dr Martin Read CBE  
Chair of SSRB  
OME  
8th Floor  
Fleetbank House  
2-6 Salisbury Square  
London EC4Y 8JX

*Philip Dunne MP  
Minister of State for Health*

*Richmond House  
79 Whitehall  
London  
SW1A 2NS*

*Tel: 020 7210 4850*

Dear Martin,

#### **Senior Salaries Review Body (SSRB) Remit 2017/18 - Arm’s Length Bodies (ALB) Executive and Senior Managers (ESM)**

I am writing as a follow up to the letter from the Chief Secretary to the Treasury (CST), Greg Hands on 13 July 2016 to the Secretary of State (SofS) setting out the SSRB remit for ALB ESMs for the 2017/18 pay round. I have now taken responsibility for this group of ALB staff.

I should first wish to add my own thanks to that of the CST for the robust and independent advice that the Government receives from the SSRB on ESM pay. I can assure you that we value this advice very highly and attach considerable importance to the role of the SSRB, informed as it is by expert, impartial and independent judgement.

#### **Context for the 2017/18 remit**

I ask that when considering your recommendations, it is done within the context of the Government’s public sector pay policy, announced at Summer Budget 2015 and reaffirmed in the Autumn Statement and Spending Review 2015:

- the government will need to ensure public sector pay restraint;
- the government will fund an average pay award of 1 per cent a year, up to 2019/20; and
- pay awards are targeted to address recruitment and retention pressures.

It is clear that in the next few years ALBs will face significant challenges to deliver efficient operating models in the context of aspiring to create a multi-professional workforce and prioritisation of work programmes with reduced administration budgets.

## Detail of Remit

The Department has introduced a new ALB ESM Pay Framework in order to address a number of design and implementation issues associated with the use of the previous ALB Very Senior Manager (VSM) Pay Framework which arose from the 2012 health and care system reforms. The basis for introducing this framework will be set out in this year's evidence to the SSRB.

As part of the discussions with a number of ALB HR directors involved in the development of the new Pay Framework, it was decided that it would be appropriate to redefine ALB VSMs as ALB ESMs to draw a sharper distinction between ALB senior managers and VSMs in the wider NHS (which are not in the remit of the ESM Pay Framework).

Officials met with Margaret Edwards at the end of July to discuss the issues you raised in your Thirty-Eighth Annual Report on Senior Salaries 2016, and to ensure that our evidence to you will address all your concerns and provide a comprehensive data picture to support our workforce strategy and pay proposals.

Within the context of a challenging financial landscape we would welcome your recommendations on the best use of the average 1% pay award committed by government. We do not expect an across the board 1% pay award to ESMs but expect that the 1% is used to address retention issues and to reward individual performance.

The Government decided to target the annual average 1 per cent pay award. Accordingly the ESM average 1% pay award for 2016/17 has been implemented by awarding a consolidated cash payment only to ESMs that have met or exceeded their performance rating. A consolidated cash award rather than a percentage increase means that the award is targeted towards lower paid ESMs. Our rationale for this approach is that a consolidated cash payment will better reward and recognise the contribution of this group of ESMs and address retention issues.

With this in mind, and within the context of the CST's request of targeting the pay awards for 2017/18, I would welcome your independent advice and ideas about how ALBs might use their ESM paybill creatively to target pay awards.

As always, my officials will be happy to work closely with your secretariat to ensure you have all the information you need to assist your task of providing independent input to this important review.

Yours sincerely,



**PHILIP DUNNE**

## Appendix H

### Letter from the Home Secretary to the SSRB Chair about the Police and Crime Commissioner pay review 2017-18 of 16 December 2016



Home Secretary

2 Marsham Street  
London SW1P 4DF  
[www.gov.uk/home-office](http://www.gov.uk/home-office)

Dr Martin Read CBE  
Chair, Senior Salaries Review Body  
Office of Manpower Economics  
8<sup>th</sup> Floor Fleetbank House  
2-6 Salisbury Square  
London  
EC4Y 8JX

16 December 2016

Dear Dr Read

#### **PCC Pay Review 2017-18**

Firstly, I would like to thank the Senior Salaries Review Body (SSRB) for your continued work in respect of Police and Crime Commissioner (PCC) pay.

As you are aware, the former Home Secretary accepted the SSRB's recommendation, in your initial 2011 report, for the Body to complete a full review of the PCC role in time to take effect for the second round of national elections in 2016. We also accepted the SSRB's recommendation that PCCs be added to your annual remit to review each year whether the evidence justified a recommendation to increase PCCs pay.

In 2015, my predecessor wrote to you requesting that a full review of PCC pay be postponed until the planned expansion of the PCC role and remit was in place and the additional responsibilities could be properly assessed. Additionally, we requested that you defer from conducting an interim review at that time because of the unlikelihood of accepting a recommendation to increase PCC pay when we were also asking the police to make further savings.

At the current time, PCCs are still to assume any additional responsibilities. The Policing and Crime Bill, which will enable PCCs to seek responsibility for the fire and rescue authority in their area, where a local case is made, is currently passing through Parliament. However, the earliest that the first PCCs could take on these responsibilities would be April 2017 which, in any event, would not be in time for consideration as part of this year's pay review round.

Whilst I am committed that PCCs should remain part of your annual remit to review pay each year, and very much recognise the important role of the SSRB, I endeavour to make the best use of your valuable time. Therefore, I would ask that you further delay conducting a full review of the PCC role until our intended substantive changes to the model are in place. However, I give a firm commitment that a full review will be conducted in 2017 which will include the additional fire functions, and, where necessary, in subsequent years to include any further expansion of the PCC role.

In respect of whether the Review Body should conduct another annual review for this year's round, either solely based on PCCs' current responsibilities, or alongside the review of chief officer pay, I am mindful that the overarching public sector pay position remains the same. It is difficult to foresee any circumstances in which I could accept a recommendation to increase PCC pay at this point in time.

This being the case, I would also formally ask that you refrain from conducting an annual review of PCC pay during this year's round and acknowledge that this will, again, result in a pay freeze for PCCs for this year.

As ever, I will keep our position on these issues under review and I will write to you again ahead of the next pay round to further update you on the progress of the expansion of the PCC role.



**The Rt Hon Amber Rudd MP**

## Appendix J

### Take-home pay – full calculations

#### Example 1 – Arm’s Length Bodies Executive and Senior Managers (formerly Very Senior Managers)

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 and then increased again by 1 per cent in April 2016. He/she is a member of the NHS pension scheme making a personal contribution of 8.5 per cent in 2009-10, which increased in stages to 14.5 per cent in 2016-17.

	2009-10	2016-17
	£	£
<b>Gross Income</b>		
Base Pay	155,000	158,116
Performance Pay		
<b>Total Pay</b>	<b>155,000</b>	<b>158,116</b>
<b>Pension Contribution</b>		
	13,175	22,927
	£155,000 x 8.5%	£158,116 x 14.5%
Personal Allowance	6,475	0
		the Personal Allowance of £11,000 reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit
Taxable Pay	135,350	135,189
	£155,000 – £6,475 – £13,175	£158,116 – £22,927
<b>Income Tax</b>	<b>46,660</b>	<b>47,676</b>
	(£37,400 x 20%) + (£97,950 x 40%)	(£32,000 x 20%) + (£103,189 x 40%)
<b>National Insurance</b>	<b>4,747</b>	<b>6,495</b>
	(£5,715 x 0%) + (£38,160 x 11%) + (£111,125 x 1%) – (£35,100 x 1.6%)	(£8,060 x 0%) + (£34,940 x 12%) + (£115,116 x 2%)
<b>Take-home Pay</b>	<b>90,418</b>	<b>81,018</b>
	£155,000 – £13,175 – £46,660 – £4,747	£158,116 – £22,927 – £47,676 – £6,495
<b>Change in take-home pay between 2009-10 and 2016-17</b>	<b>£</b>	<b>(%)</b>
Nominal	-£9,400	(-10%)
Real (based on RPI)	-£25,878	(-29%)
		RPI increased by 25.5% £81,018/1.255 = £64,540
Real (based on CPI)	-£21,704	(-24%)
		CPI increased by 17.9% £81,018/1.179 = £68,714

## Example 2 – Senior Civil Service

A senior civil servant in Pay Band 1 was paid £67,000 (placed in the 36th percentile for performance against objectives – i.e. for eligibility for Non-Consolidated Performance-Related Pay (NCPRP)). Pay was then frozen for three years and increased by 1 per cent in each year since 2013-14. In 2016-17 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, which increased in stages to 7.35 per cent in 2016-17.

	2009-10	2016-17
	£	£
<b>Gross Income</b>		
Base Pay	67,000	69,720
Performance Pay	6,080	0
<b>Total Pay</b>	<b>73,080</b>	<b>69,720</b>
<b>Pension Contribution</b>		
	1,005	5,124
	£67,000 x 1.5%	£69,720 x 7.35%
Personal Allowance	6,475	11,000
Taxable Pay	65,600	53,596
	£73,080 – £6,475 – £1,005	£69,720 – £11,000 – £5,124
<b>Income Tax</b>		
<b>National Insurance</b>		
	18,760	15,038
	(£37,400 x 20%) + (£28,200 x 40%)	(£32,000 x 20%) + (£21,596 x 40%)
	3,928	4,727
	(£5,715 x 0%) + (£38,160 x 11%) + (£29,205 x 1%) – (£35,100 x 1.6%)	(£8,060 x 0%) + (£34,940 x 12%) + (£26,720 x 2%)
<b>Take-home Pay</b>	<b>49,387</b>	<b>44,830</b>
	£73,080 – £1,005 – £18,760 – £3,928	£69,720 – £5,124 – £15,038 – £4,727

Change in take-home pay between 2009-10 and 2016-17

	£	(%)	Calculations (between April 2009 and January 2017)
Nominal	-£4,557	(-9%)	
Real (based on RPI)	-£13,675	(-28%)	RPI increased by 25.5% £44,830/1.255 = £35,712
Real (based on CPI)	-£11,365	(-23%)	CPI increased by 17.9% £44,830/1.179 = £38,022

### Example 3 – Judiciary

A Circuit judge in salary group 6.1 was paid £128,296 in 2009-10. Pay was then frozen for three years and increased by 1 per cent in each year since 2013-14. He/she is a member of the Judicial Pension Scheme (JPS) making contributions of 1.8 per cent in 2009-10, which increased in stages to 4.41 per cent in 2016-17. As the JPS is a non-registered scheme, members do not qualify for tax relief on their contributions.

	2009-10	2016-17
	£	£
<b>Gross Income</b>		
Base Pay	128,296	133,506
Performance Pay		
<b>Total Pay</b>	<b>128,296</b>	<b>133,506</b>
<b>Pension Contribution</b>	<b>2,309</b>	<b>5,888</b>
	<i>£128,296 x 1.8%</i>	<i>£133,506 x 4.41%</i>
Personal Allowance	6,475	0
		the Personal Allowance of £11,000 reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit
Taxable Pay	121,821	133,506
<b>Income Tax</b>	<b>41,248</b>	<b>47,002</b>
	<i>(£37,400 x 20%) + (£84,421 x 40%)</i>	<i>(£32,000 x 20%) + (£101,506 x 40%)</i>
<b>National Insurance</b>	<b>4,480</b>	<b>6,003</b>
	<i>(£5,715 x 0%) + (£38,160 x 11%) + (£84,421 x 1%) – (£35,100 x 1.6%)</i>	<i>(£8,060 x 0%) + (£34,940 x 12%) + (£90,506 x 2%)</i>
<b>Take-home Pay</b>	<b>80,258</b>	<b>74,613</b>
	<i>£128,296 – £2,309 – £41,248 – £4,480</i>	<i>£133,506 – £5,888 – £47,002 – £6,003</i>

	£	(%)	Calculations (between April 2009 and January 2017)
<b>Change in take-home pay between 2009-10 and 2016-17</b>			
Nominal	-£5,645	(-7%)	
Real (based on RPI)	-£20,821	(-26%)	<i>RPI increased by 25.5% £74,613/1.255 = £59,437</i>
Real (based on CPI)	-£16,977	(-21%)	<i>CPI increased by 17.9% £74,613/1.179 = £63,281</i>



## Appendix K

### Existing salaries for the SSRB remit groups

#### Salary bandings of Permanent Secretary posts in September 2016

Pay band	Pay range (£000s)
Roles (£190,000 – £235,000)	Chief Executive of the Civil Service (230-235)
	Head of the Civil Service (195-200)
Tier 1 roles (£180,000 – £200,000)	HM Treasury (185-190)
	Department for Work and Pensions (185-190)
	HM Revenue and Customs Chief Executive (185-190)
	Home Office (185-190)
	Ministry of Defence (180-185)
	Foreign and Commonwealth Office (180-185)
	Ministry of Justice (180-185)
	HM Revenue and Customs Executive Chair (170-175)
	National Security Advisor (165-170)
	Tier 2 roles (£160,000 – £180,000)
First Parliamentary Counsel (175-180)	
Department for Transport (170-175)	
Security Service (165-170)	
Department for International Development (165-170)	
Department of Health (165-170)	
Welsh Government (165-170)	
Department for International Trade (165-170)	
Scottish Government (160-165)	
Secret Intelligence Service (160-165)	
Department for Communities and Local Government (160-165)	
Department for Business, Innovation and Skills (160-165)	
Department for the Environment, Food and Rural Affairs (160-165)	
Department for Exiting the EU (160-165)	
Department for Education (160-165)	
Government Communications Head Quarters (160-165)	
Treasury Solicitor (160-165)	
Tier 3 roles (£142,000 – £160,000)	Northern Ireland Office (155-160)
	HM Treasury 2nd Permanent Secretary (150-155)
	Department for Culture, Media and Sport (155-160)
	Cabinet Office 2nd Permanent Secretary (155-160)
	Home Office 2nd Permanent Secretary (155-160)
	Office for National Statistics (150-155)
	Chair of Joint Intelligence Committee (145-150)
Specialist roles (may attract skills or market premium)	Chief Executive Defence Equipment & Support (285-290)
	Chief Medical Officer (205-210)
	Director of Public Prosecutions (200-205)
	Government Chief Scientific Adviser (180-185)

## Senior civil servants in pay bands, median salaries and pay ranges in 2016

Pay band	Pay range (£)	Median salary (£)	Number in band (£)
Permanent Secretaries	142,000 – 200,000	160,000 – 164,999	39
3	106,000 – 208,100	135,900	135
2	87,000 – 162,500	98,800	762
1A	67,600 – 128,900	78,700	97
1	64,000 – 117,800	75,500	2,970
<b>Total</b>		<b>79,400</b>	<b>4,003</b>

Note: The above total of SCS members is lower than the total staff currently in post (4,070). The difference consists of SCS members in non-standard pay bands and with non-standard contracts, e.g. those paid at NHS rates.

Source: Cabinet Office.

## Pay of senior officers in the armed forces

Scale point	Value of scale points (from 1 April 2016)			
	CDS (£)	4-star (£)	3-star (£) <sup>2</sup>	2-star (£) <sup>2</sup>
6		192,703	158,929	124,143
5		188,925	154,374	121,760
4	262,959	185,220	149,952	119,423
3	257,802	180,703	144,284	117,132
2	252,747	176,295	137,536	114,885
1 (Minimum)	247,792	171,995	131,109	112,683
Numbers in post <sup>1</sup>	1	7	31	86

Notes:

<sup>1</sup> Numbers in post as of 1 July 2016.

<sup>2</sup> This includes X-Factor which is applied at the rate of £2,568, 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 April 2016.

Source: Ministry of Defence.

## Pay of 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

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

Source: Home Office.

## Pay of members of the judiciary

Salary group	Salary from 1 April 2016 (£)	Number in post on 31 March 2016
1	249,583	1
1.1	222,862	4
2	215,256	12
3	204,695	53
4	179,768	136
5	144,172	85
6.1	133,506	757
6.2	125,689	42
7	107,100	936
Salaried medical members	85,103	7
Stipendiary magistrates	72,701	2
<b>Total</b>		<b>2,035</b>

Sources: Ministry of Justice and Scottish Government.

## Executive and Senior Managers 2016 Pay Framework

Role/Grade	Minimum salary (£)	Operational maximum salary (£)	Exception zone (£)
1	90,900	113,625	131,300
2	131,301	146,450	161,600
3	161,601	176,750	191,900
4	191,901	207,050	222,200

Source: Department of Health.



## Appendix L

### NATO rank codes and UK service ranks – officers

NATO rank codes and UK service ranks – officers					
NATO code	UK stars	Royal Navy	Royal Marines	Army	Royal Air Force
OF-9 <sup>1</sup>	4	Admiral	General	General	Air Chief Marshal
OF-8 <sup>1</sup>	3	Vice Admiral	Lieutenant General	Lieutenant General	Air Marshal
OF-7 <sup>1</sup>	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.

Note:

<sup>1</sup> These officers belong to our remit group.



## Appendix M

### The judicial salary structure at 1 April 2017<sup>57</sup>

#### 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<sup>58</sup>

High Court Judges (Northern Ireland)<sup>59</sup>

Outer House Judges of the Court of Session

Vice-Chancellor of the County Palatine of Lancaster<sup>60</sup>

#### Group 5+

Judge of the First-tier Tribunal (Social Entitlement Chamber) and deputy Judge of the Upper Tribunal (former Chief Asylum Support Adjudicator, Asylum Support Tribunal)<sup>61</sup>

#### 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, Property Chamber, Social Entitlement Chamber, and Tax 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

Permanent Circuit Judges, Employment Appeals Tribunal

President, Employment Tribunals (England & Wales)

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<sup>57</sup> Alphabetical order within salary group. Source: Ministry of Justice.

<sup>58</sup> Includes the posts of President, Employment Appeal Tribunal and the Presidents of the Upper Tribunal (Tax and Chancery Chamber, Administrative Appeals Chamber and Lands Chamber) who are High Court Judges.

<sup>59</sup> High Court Judges in Northern Ireland are also known as Puisne Judges. Includes the post of President of the Upper Tribunal (Immigration and Asylum Chamber), who is a High Court Judge in Northern Ireland.

<sup>60</sup> Post currently held by a High Court Judge.

<sup>61</sup> Post is not in either group 4 or group 5 of the judicial salary structure. Salary agreed on a personal basis given unique circumstances.

President, Employment Tribunals (Scotland)  
Recorder of Belfast<sup>62</sup>  
Recorder of Liverpool  
Recorder of Manchester  
Senior Circuit Judges  
Senior District Judge (Chief Magistrate)  
Sheriffs Principal  
Specialist Circuit Judges, Chancery, Mercantile, Patents & Technology & Construction Court  
Vice Presidents of the Upper Tribunal (Immigration and Asylum Chamber) (former Deputy Presidents, Asylum and Immigration Tribunal)

### **Group 6.1**

Chamber President of the First-tier Tribunal (War, Pensions and Armed Forces Compensation Chamber) Chief Bankruptcy Registrar  
Chief Chancery Master  
Circuit Judges  
County Court Judges (Northern Ireland)<sup>63</sup>  
Deputy Chamber Presidents (Health, Education & Social Care Chamber)  
President, Appeals Tribunal (Northern Ireland)  
President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)  
Regional Employment Judges (formerly Regional Chairmen, Employment Tribunal)  
Registrar of Criminal Appeals  
Senior Costs Judge  
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<sup>64</sup>, Lands Chamber and Tax and Chancery Chamber)  
Vice-President, Employment Tribunal (Scotland)

### **Group 6.2**

Chairman, Mental Health Review Tribunal (Wales)<sup>65</sup>  
Deputy Senior District Judge (Magistrates' Courts)  
Principal Judge, First-tier Tribunal (Property Chamber)  
Surveyor Members, Lands Tribunal (Northern Ireland)  
Surveyor Members, Lands Tribunal (Scotland)  
Surveyor Members, Upper Tribunal (Lands)  
Vice-Judge Advocate General  
Vice-President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)

### **Group 7<sup>66</sup>**

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

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<sup>62</sup> Current post holder receives a salary of 108 per cent of Group 5 rate under arrangement established from 1 April 2002.

<sup>63</sup> 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.

<sup>64</sup> These judges are also called Senior Immigration Judges.

<sup>65</sup> The Welsh Assembly Government is responsible for the Chairman of the Mental Health Review Tribunal (Wales) post.

<sup>66</sup> Group 7 post holders in London are paid an additional £2,000 salary lead and an additional £2,000 London allowance.

District Judges of the Principal Registry of the Family Division  
District Judges (Northern Ireland)  
District Judges (Magistrates' Courts)  
District Judges (Magistrates' Courts) (Northern Ireland)  
Employment Judges (England and Wales and Scotland)  
Judges of the First-tier Tribunal (Health, Education & Social Care Chamber, Immigration and Asylum Chamber<sup>67</sup>, Property Chamber, Social Entitlement Chamber, Tax Chamber, General Regulatory Chamber and War Pensions and Armed Forces Compensation Chamber)  
Masters of the Senior Courts  
Registrar of the Supreme Court  
Masters of the Supreme Court (Northern Ireland)  
Presiding District Judge (Magistrates' Courts) (Northern Ireland)<sup>68</sup>

**Other**

Salaried Medical Members, Social Entitlement Chamber<sup>69</sup>

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<sup>67</sup> These judges are also called Immigration Judges.

<sup>68</sup> This post is paid at 108 per cent of the Group 7 salary.

<sup>69</sup> This post is paid £85,954.



# Appendix N

## Comparison of senior staff surveys 2016

### Summary

1. The Office of Manpower Economics has analysed people surveys covering the senior military, Senior Civil Service (SCS) and the judiciary to compare trends in pay and morale-based measures across those groups. Results are presented in this appendix.
2. Comparisons between surveys, containing non-identical questions and relating to different reference periods, need to be made with caution. The measures discussed here are used because they are broadly comparable across different surveys, rather than because they are seen as wholly representative of staff morale or other factors. Nevertheless, some broad and tentative conclusions can be drawn, as follows:
  - There has been an overall decline in satisfaction with pay over recent years.
  - Scores for perceptions of senior military workload have improved in the most recent survey. In contrast, the trend was broadly flat for the SCS and the judiciary.
  - The sense of achievement from work has increased for the senior military and the SCS, but has declined for judges.
  - The senior military has shown improvements in satisfaction with the challenge of the job, whilst this has declined for judges. The recent trend is flat for the SCS.
3. Overall, analysis of the measures chosen for this paper suggest the following in relation to the workforces for which we have data:
  - The SCS has been characterised by flat trends or modest improvements in the most recent surveys for which we have data which, unfortunately, do not include the most recent survey, carried out in 2016.
  - The judiciary has seen declines on most measures.
  - The results for the senior military are volatile over time, possibly due to the small size of the remit group contributing to a small sample. Nevertheless, results show general improvement in the most recent survey.

### Introduction

4. This appendix compares annual staff survey results across groups of interest to the SSRB. The surveys used are the Armed Forces Continuous Attitude Survey (AFCAS), the Civil Service People Survey and the Judicial Attitude Survey (JAS). Table 1 provides a general summary of each survey.

Table N.1: Summary of surveys

Survey	Remit group covered	Countries covered	Data availability	Participants	Response rate (%)
Armed Forces Continuous Attitude Survey	Senior military	England, Wales, Scotland and Northern Ireland	2010 to 2016 annually	55	44
Civil Service People Survey	Senior Civil Service	England, Wales, Scotland and Northern Ireland	2010 to 2015 annually	4,300	Approx 90
Judicial Attitude Survey	Salaried judges	England, Wales, Scotland and Northern Ireland	2014 and 2016	1,580	99

Source: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: The response rate for the Civil Service People Survey is an estimate. The survey results may include FCO and MoD responses from local overseas staff or military staff undertaking civilian roles. Results for the SCS from the 2016 Civil Service People Survey were requested, but not provided to us in time for this report. The participant and response rate figures use data from the latest year indicated by the data availability column.

5. To make comparisons, questions with similar themes have been chosen and contrasted across the groups. However, not all of the available questions are directly comparable, meaning questions covering similar themes have been chosen to allow broad comparisons. Further to this, there are methodological constraints and biases that make comparisons across surveys difficult. Fundamental differences between the surveys such as the method of data collection and the ordering of questions can influence the results.
6. A full explanation of the limitations involved in comparing these survey results and the precise survey questions used are presented at the end of this appendix.
7. For the above reasons, this appendix focuses on comparing the direction and magnitude of change in each chosen area that is focused on.
8. For the purposes of simple comparison, results for all surveys are indexed to 2014<sup>70</sup>. However, this approach omits some information. For example, an indexed rise on a survey measure from 5 per cent to 8 per cent is identical to an indexed increase from 50 per cent to 80 per cent, whereas the omitted percentage point differences, of +3 and +30 respectively, are clearly very different from each other. Percentage point changes, which are quoted in the text, are not equivalent to changes in index points as shown in charts.

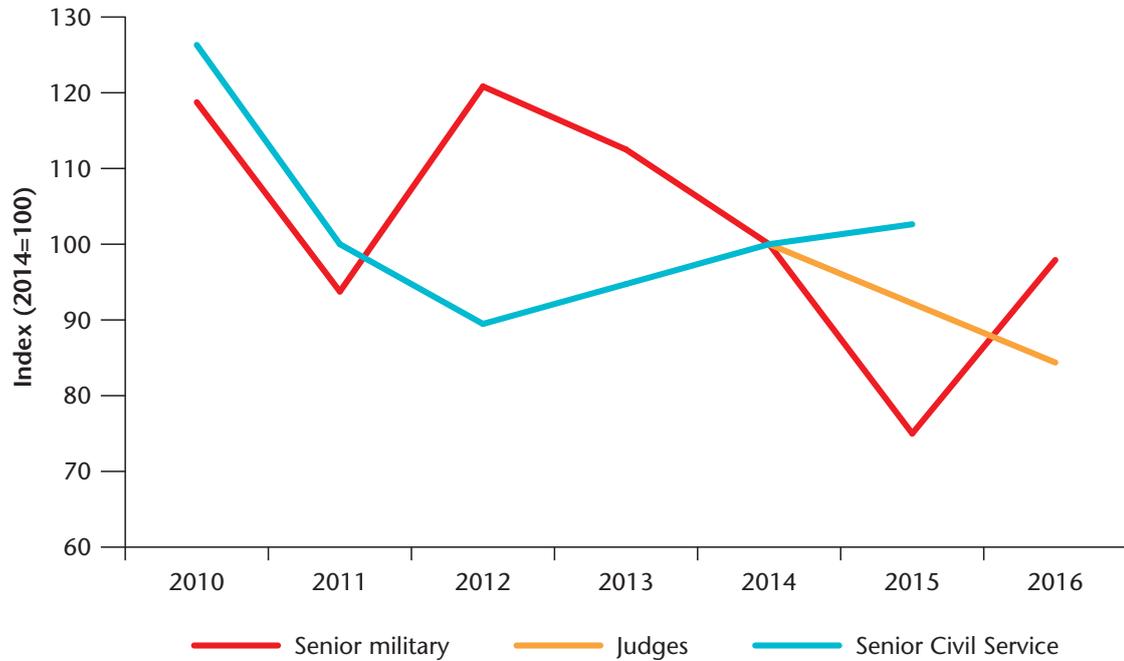
## Pay

9. The comparator groups have experienced similar pay environments over the past few years, determined by public sector pay policy. Figure N.1 plots the positive responses for pay satisfaction. The survey questions relating to this issue are broadly similar. Responses show the following:
  - All remit groups reported relatively low levels of satisfaction with pay, with it only reaching above 50 per cent in the senior military towards the beginning of the period.

<sup>70</sup>The earliest common year in each survey.

- For the SCS, pay satisfaction was 9 percentage points (24 index points)<sup>71</sup> lower in 2015 than in 2010.
- The judiciary saw a fall of 5 percentage points between 2014 and 2016.
- The senior military experienced persistent decreases in pay satisfaction, with it falling 21 percentage points, between 2010 and 2015. However, it increased in 2016, bringing pay satisfaction back to close to 2014 levels.

Figure N.1: Pay satisfaction between 2010 and 2016 (2014 = 100)



Sources: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: Higher scores imply greater satisfaction. The Judicial Attitude Survey was carried out in 2014 and 2016: the point for 2015 is an average of the two years for graphing purposes.

## Workload

- There are fewer similarities between the workload questions in the surveys. Nevertheless results show the following:
  - SCS and judicial perceptions of workload showed only small year-on-year fluctuations over the period.
  - There was an increase in armed forces respondents with an 'about right' workload of 12 percentage points between 2013 and 2016.

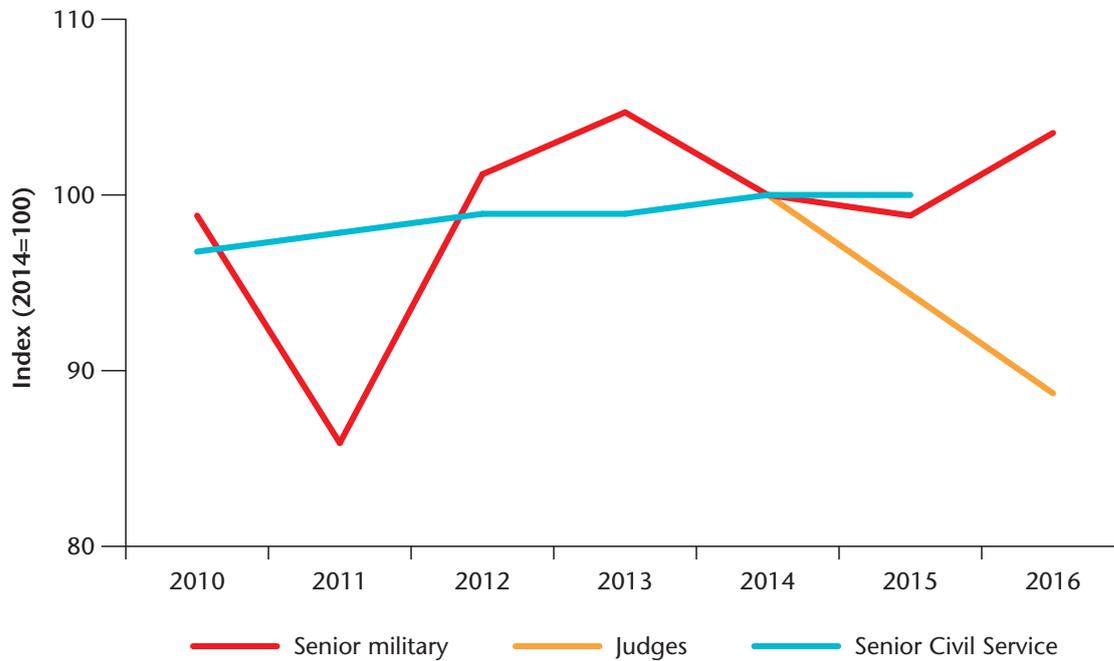
## Job engagement

- Leadership in the remit groups will often have different priorities which are reflected in the job engagement questions asked in the surveys, making them incomparable. Nevertheless, one broadly comparable area is the sense of achievement that employees derive from work, as plotted in Figure N. 2. Some results are as follows:
  - Positive responses for sense of achievement from work were generally high for the SCS and military, and lower but still above 50 per cent for the judiciary.
  - The SCS sense of achievement measure rose slightly over the period, to 3 percentage points higher in 2015 than 2010.

<sup>71</sup> All percentage and index changes in this paper are rounded to the nearest whole number.

- The sense of achievement score for the armed forces increased by 3 percentage points overall between 2014 and 2016, despite a fall in 2015.
- For the judiciary, satisfaction with job achievement fell 7 percentage points between 2014 and 2016.

Figure N.2: Sense of achievement between 2010 and 2016 (2014 = 100)

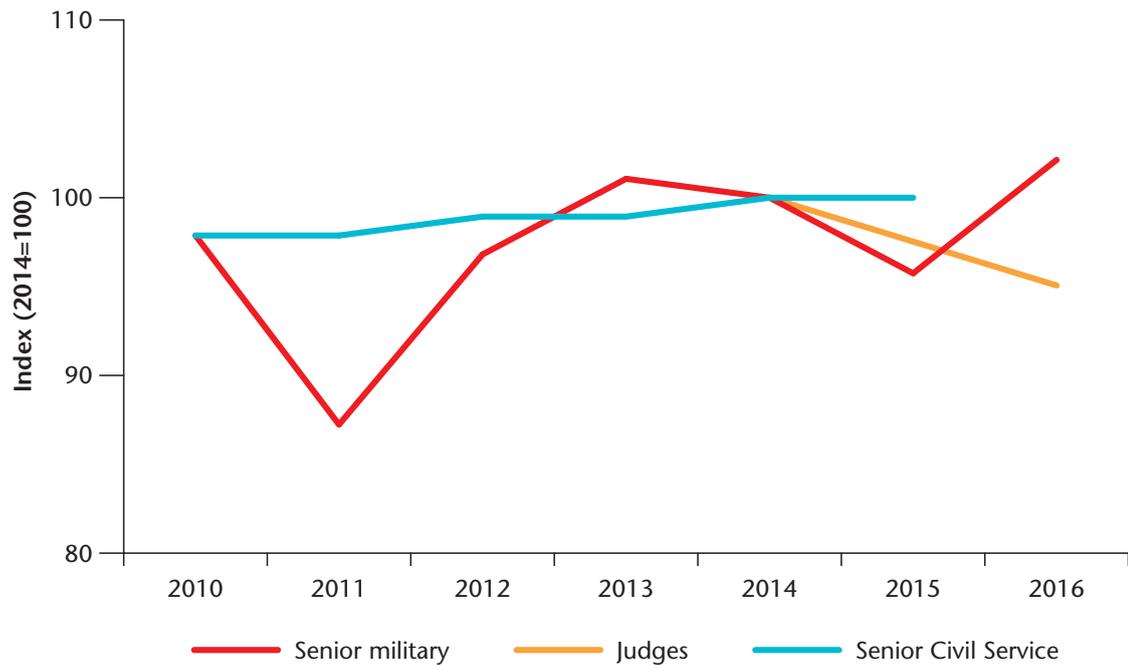


Source: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: Higher scores imply a greater sense of achievement. The Judicial Attitude Survey was carried out in 2014 and 2016: the point for 2015 is an average of the two years for graphing purposes.

12. A further comparable area of job engagement is the challenge employees get from their work. Trends are plotted in Figure N.3. This is measured by a similar question across the surveys:
- The proportion of the SCS satisfied with the challenge in their role was quite flat over the period, increasing slightly, by 2 percentage points overall between 2010 and 2015.
  - The armed forces saw an overall increase of 4 percentage points between 2010 and 2016, following an initial fall in 2011 of 10 percentage points.
  - The judiciary saw a decline on this measure, with it falling 4 percentage points between 2014 and 2016.

Figure N.3: Work challenge between 2010 and 2016 (2014 = 100)



Source: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: Higher scores imply a greater sense of challenge from work. The Judicial Attitude Survey was carried out in 2014 and 2016: the point for 2015 is an average of the two years for graphing purposes.

### Further detail on making comparisons of survey groups

13. When completing a survey, participants can often be subject to influences, which can affect the responses collected. The layout and timing of different surveys can therefore make comparisons between surveys difficult or misleading. Factors which can cause bias include the following:

- Non-response bias occurs when eligible individuals are unwilling or unable to participate in the survey. If the characteristics of the responding and non-responding participants systematically differ, then the results may be biased. This is often a problem when there is a low response rate.
- Framing effects are an example of cognitive bias, whereby participants in a survey react to a particular choice in different ways depending on how it is presented. For instance framing the same question as a gain or loss can lead to the same participant expressing contrasting views.
- How an individual reacts to a question or event can be affected by other recent influences. These are called priming effects. With respect to surveys, priming effects can occur through the ordering of questions. As participants move further into a survey, their responses are more likely to be influenced by previous questions and answers. For example, if a pay question is asked before the job satisfaction question then the participant may place a larger weighting on the pay aspect of their job satisfaction and a lower weighting on other contributory factors.

14. The precise comparator questions used for the analysis are provided in Tables N.2 to N.5 below.

**Table N.2: Pay satisfaction questions**

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How satisfied are you with your rate of basic pay (includes X-Factor, but excludes allowances)?	<ul style="list-style-type: none"> <li>• <b>Satisfied</b></li> <li>• Neutral</li> <li>• Dissatisfied</li> </ul>
Civil Service People Survey	I feel that my pay adequately reflects my performance	<ul style="list-style-type: none"> <li>• <b>Strongly agree</b></li> <li>• <b>Agree</b></li> <li>• Neither agree nor disagree</li> <li>• Disagree</li> <li>• Strongly disagree</li> </ul>
Judicial Attitude Survey	I am paid a reasonable salary for the work I do	<ul style="list-style-type: none"> <li>• <b>Strongly agree</b></li> <li>• <b>Agree</b></li> <li>• Not sure</li> <li>• Disagree</li> <li>• Strongly disagree</li> </ul>

Sources: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: **Bold** indicates the responses used when discussing results in this Appendix.

**Table N.3: Workload questions**

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How would you rate your workload over the last 12 months?	<ul style="list-style-type: none"> <li>• Too high</li> <li>• <b>About right</b></li> <li>• Too low</li> </ul>
Civil Service People Survey	I have an acceptable workload	<ul style="list-style-type: none"> <li>• <b>Strongly agree</b></li> <li>• <b>Agree</b></li> <li>• Neither agree nor disagree</li> <li>• Disagree</li> <li>• Strongly disagree</li> </ul>
Judicial Attitude Survey	Case workload over the last 12 months	<ul style="list-style-type: none"> <li>• Too high</li> <li>• <b>Manageable</b></li> <li>• Too low</li> </ul>

Sources: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: **Bold** indicates the responses used when discussing results in this Appendix.

Table N.4: Sense of achievement questions

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How satisfied are you with the sense of achievement you get from your work?	<ul style="list-style-type: none"> <li>• <b>Satisfied</b></li> <li>• Neutral</li> <li>• Dissatisfied</li> </ul>
Civil Service People Survey	My work gives me a sense of personal accomplishment	<ul style="list-style-type: none"> <li>• <b>Strongly agree</b></li> <li>• <b>Agree</b></li> <li>• Neither agree nor disagree</li> <li>• Disagree</li> <li>• Strongly disagree</li> </ul>
Judicial Attitude Survey	Satisfaction with sense of achievement in the job	<ul style="list-style-type: none"> <li>• <b>Completely satisfied</b></li> <li>• <b>Satisfied</b></li> <li>• Could be better</li> <li>• Not satisfied at all</li> </ul>

Sources: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: **Bold** indicates the responses used when discussing results in this Appendix.

Table N.5: Work challenge questions

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How satisfied are you with the challenge in your job?	<ul style="list-style-type: none"> <li>• <b>Satisfied</b></li> <li>• Neutral</li> <li>• Dissatisfied</li> </ul>
Civil Service People Survey	I am sufficiently challenged by my work	<ul style="list-style-type: none"> <li>• <b>Strongly agree</b></li> <li>• <b>Agree</b></li> <li>• Neither agree nor disagree</li> <li>• Disagree</li> <li>• Strongly disagree</li> </ul>
Judicial Attitude Survey	Satisfaction with challenge of the job	<ul style="list-style-type: none"> <li>• <b>Completely satisfied</b></li> <li>• <b>Satisfied</b></li> <li>• Could be better</li> <li>• Not satisfied at all</li> </ul>

Sources: Office of Manpower Economics analysis of the Armed Forces Continuous Attitude Survey, Civil Service People Survey and Judicial Attitude Survey.

Notes: **Bold** indicates the responses used when discussing results in this Appendix.



## Appendix P

### Discussion of comparative pension valuation for review body remit groups

1. Chapter 2 of this report provides comparative valuations from a 2014 report by Towers Watson<sup>72</sup> regarding pension benefits for 'illustrative' individuals from different pay review body remit groups. The Towers Watson study has the advantage of providing specific information on the SSRB remit groups. However, the focus is intentionally on a small number of illustrative career paths: the report does not attempt to calculate averages across the piece.
2. Three reference points were used: 2010, 2013 and 2016. The 2010 figures used the Retail Price Index (RPI) for inflation indexation. The 2013 figures used the Consumer Price Index (CPI) as the inflation index, and accounted for increased employee contributions required in Defined Benefit schemes in 2013 compared to 2010. The 2016 figures again used the CPI, and also took into account pension scheme reforms implemented from April 2015 and changes to contracting out from National Insurance contributions for public sector pension members from 2016.
3. The Towers Watson study estimated the Net Present Value of the pension benefits to individuals as the value of benefits arising over workers' whole careers. This was expressed as a percentage of the value of the individual's total salary over that career, net of employee cost. It showed that pension values varied greatly within and across schemes, depending on factors including the employee's career path, the age of entry, the age of leaving, the age of retirement, pay progression / promotion increases and the length of service.
4. In order to compare Defined Contribution schemes to Defined Benefit schemes, the analysis assumed that the investment return<sup>73</sup> was, on average over a career, the same as the long-term discount rate for valuing Defined Benefit schemes. Such an approach may underestimate the amount a Defined Contribution pension pot will accumulate, although it does not account for the risk and uncertainty associated with the financial return.
5. Moreover, as far as possible, the analysis uses the same financial and demographic assumptions for public and private sector pension schemes, in order to identify differences in the absolute value of pension benefits, as opposed to differences relative to income. This extended to the use of the same public sector earnings profiles for both public and private sector pension scheme valuations. The Towers Watson report presented the gross values of benefits, before any tax adjustments.
6. Some financial assumptions used were: Consumer Prices Index (CPI) inflation of 2 per cent per annum; a 3 per cent real terms discount rate; Retail Prices Index (RPI) inflation of 1 per cent per annum above CPI; pay increases of 1 per cent above CPI; and promotion and progression pay increases based on what were current pay scales for the relevant career paths.
7. The analysis used three comparator private sector pension schemes: a Defined Benefit scheme, a Defined Contribution scheme and a representative mid-level scheme. The latter is a weighted average of the two types of schemes, which moves closer towards a

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<sup>72</sup>Towers Watson (2014), *Comparative Pension Valuation for Review Body Remit Groups: Report on results of comparative valuation of pension benefits for illustrative individuals.*

<sup>73</sup>Net of expenses and the cost of purchasing annuities.

typical Defined Contribution scheme for the later reference dates, to reflect recent trends away from provision of Defined Benefit schemes in the private sector.

8. Information for the public and private schemes was taken from Towers Watson surveys, such as the Towers Watson *2013 FTSE100 Defined Contribution Survey* and the *UK Top Executive Remuneration Survey*.
9. The Towers Watson report presented three or four examples of career paths for the Senior Civil Service (SCS), the judiciary, the senior military and Very Senior Managers (now referred to as Executive and Senior Managers) (ESMs) in the health service.
10. To illustrate how to interpret the results of this work, Table P.1 shows an example of an individual who joins the Civil Service Fast Stream at age 23, is promoted to Senior Civil Service Pay Band 1 at age 39 and remains at that level until retirement at age 60. In 2016, this individual's pension was worth 16 per cent of pay, relative to a representative mid-level comparator private sector pension worth 13 per cent of pay<sup>74</sup>: a 3 per cent public sector pension premium.

**Table P.1: Pension differential of a Senior Civil Service career path in 2010, 2013, and 2016**

	2010 (%)	2013 (%)	2016 (%)
(a) Net value of remit group benefits (public sector) (a)	27	19	16
(b) Representative mid-level scheme (private sector) (b)	14	12	13
(a) – (b) Pension differential (public sector – private sector)	13	7	3

Source: Towers Watson (2014) (F1 career path) and Office of Manpower Economics calculations.

11. Table P.2 shows the results, after making comparisons identical to those shown in the bottom row of Table P.1, for each career path. At the extreme, the individual in the career path I3 of ESMs in the health service was the worst off compared to their private counterparts in 2016, whereas the individual in the career path H1 of the Senior Military was the best off. While there may be some common reasons for differences, such as the Senior Military pension scheme continuing to be non-contributory, it is important to recognise that these estimates are highly sensitive to the examples chosen.

<sup>74</sup>The same earnings profiles were used for both public and private sector pay. This was an assumption in the Towers Watson work to allow consistent comparisons of the absolute rather than relative value of pensions. For the SSRB's purposes this makes the results more useful for analysing changes over time than for comparing public and private sector pensions.

**Table P.2: Difference in value between the pension of representative members of SSRB remit groups and that of a private sector comparator (as % of pay)**

Professional group	Examples of career path	2010 (%)	2013 (%)	2016 (%)
Senior Civil Service	F1	13	7	3
	F2	16	5	3
	F3	17	14	15
Judiciary	G1	21	18	15
	G2	22	18	14
	G3	19	16	15
Senior Military	H1	36	32	33
	H2	17	20	26
	H3	36	32	28
Executive and Senior Health Managers	I1	15	12	-5
	I2	13	6	4
	I3	1	-5	-11
	I4	2	1	-4

Source: Office of Manpower Economics calculations based on Towers Watson (2014).



## Appendix Q

### Glossary of terms and abbreviations

#### General

Accrual rate	The rate at which future benefits in a defined benefit pension scheme accumulate
Base pay	Basic salary, excluding non-consolidated bonuses, allowances, value of pensions, etc
CPI	Consumer Prices Index
GDP	Gross Domestic Product
Office for Budget Responsibility	Created in 2010 to provide independent and authoritative analysis of the UK's public finances
ONS	Office for National Statistics
Pay Band	A salary range with a minimum and maximum within which posts are allocated
RPI	Retail Prices Index
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

AGD	Attorney General's Department
BIS	Former Department for Business, Innovation and Skills (now the Department for Business, Energy and Industrial Strategy (BEIS))
Civil Service Commission	Oversees appointments to senior positions within the SCS to ensure fair and open competition for jobs
CMA	Competition and Markets Authority
DCLG	Department for Communities and Local Government
DCMS	Department for Culture, Media and Sport
DECC	Former Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DfE	Department for Education
DfID	Department for International Development
DfT	Department for Transport
DH	Department of Health
DWP	Department for Work and Pensions
FCO	Foreign and Commonwealth Office
FSA	Financial Standards Authority
HMRC	Her Majesty's Revenue and Customs

HM Treasury	Her Majesty's Treasury
MoD	Ministry of Defence
Moj	Ministry of Justice
NCA	National Crime Agency
OFGEM	The government regulator for gas and electricity markets
OFQUAL	The Office of Qualifications and Examinations Regulation
OFSTED	Office for Standards in Education, Children's Services and Skills
SCS	Senior Civil Service/Servants
UKEF	UK Export Finance

### Senior officers in the armed forces

AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
CDS	The 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

JABS	Judicial Appointments Board for Scotland
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 pay	Judges are all paid a standard amount in each salary group. This contrasts with, for example, 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 M)

## **Executive and Senior Managers in the Department of Health's Arm's Length Bodies**

ALBs	Arm's Length Bodies
DH	Department of Health
ESMs	Executive and Senior Managers
MiP	Managers in Partnership

## **Police and Crime Commissioners**

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