Cabinet Office

Government Evidence to the Review Body on Senior Salaries on the Pay of the Senior Civil Service

December 2017

EXECUTIVE SUMMARY

Introduction

1. Last year, the SSRB asked the Government to undertake a fundamental review of the current SCS pay framework, with a view to implementing proposals for change from 2018.

2. In this year's evidence, the Government sets out the findings from this review, a set of core principles for change that have developed from this, specific proposals related to each principle for implementation in 2018/19 and an overall vision for a future SCS workforce which this new pay framework will help drive towards. The Government invites the SSRB to comment on these principles, proposals and long-term vision, to ensure we have a pay system that supports the development of a senior leadership cadre in the Civil Service able to meet the challenges of the future.

Summary of evidence for 2018/19

3. The Government's evidence is provided in two parts. The first part is the main evidence in narrative form and sets out:

   Section 1 – background and economic context
   Section 2 - last year's report and key findings from the 2017 SCS pay framework review
   Section 3 – the long-term vision for a future SCS pay system
   Section 4 – core proposals for 2018/19
   Section 5 – wider progress updates over the last year related to the SCS workforce

4. The following information is annexed to the main evidence:

   Annex A – A summary of the Government's proposals this year (for implementation in 2018/19 and beyond) against SSRB's strategic priorities
   Annex B - An evaluation of the 2017/18 pay award and its application by Main Departments
   Annex C – The allocation of Permanent Secretaries to Pay Tiers (in £5,000 bands)
   Annex D – Pay in the Government Commercial Organisation
   Annex E – Summary of recruitment and retention concerns of the Government Finance function

5. The second part is the supporting statistical data requested by the SSRB. This includes the 2017 People Survey Results for the SCS and analysis from SCS exit interviews conducted from October 2016 to October 2017.

6. As in previous years, the Cabinet Office will work with the SSRB secretariat to provide any additional information required.

Economic context

7. The Chief Secretary to the Treasury wrote to the SSRB in September setting out the Government's overall approach to pay. That letter confirmed that the Government has adopted a more flexible approach to public sector pay, to address areas of skills shortages and in return for improvements to public sector productivity. The last Spending Review budgeted for a 1 per cent average increase in basic pay (and progression pay awards for specific workforces) and there will still be a need for pay discipline over the coming years.

Reform of SCS Pay Framework

8. The review of SCS pay in 2017 identified the following key issues. Many of these have been highlighted or commented on by the SSRB in previous years:
   - Promotion (or level transfer) are seen as the only way to obtain a pay increase.
   - Departments are bidding for talent in an 'internal market' within the Civil Service, exacerbating unnecessary or premature movement of SCS.
   - Controls are not in the right place, resulting in perverse outcomes, including reduced efficiency and lower productivity.
   - There are inconsistent approaches to the use of SCS pay policies (on promotion, transfer and rules for internal appointments).
   - The link between pay and performance is inconsistent.
   - In some professions, the Civil Service is unable to compete for scarce, specialist skills and remains significantly behind the external market.
   - The current system is inefficient, with limited flexibilities to target funding effectively and continuing increases in paybill.
   - The system does not follow a rational structure (i.e. there are frequent cases where SCS are paid less than the staff they manage) which is reported to be damaging confidence and impacting staff morale.

9. Over the long term, the Government wants to move towards a new SCS pay structure. This year's evidence outlines the Government's view on what a future SCS pay framework could look like, with a pay system based around professional groupings, emphasising and rewarding SCS who look to build depth as well as breadth of experience. It seeks as part of this pay round to set the direction for a future SCS pay framework now and begin consistently moving towards through phased evolution of the pay system over the next few years. The pace of reform will be dependent on the wider economic context and amount of funding available.

10. The Government seeks to introduce provisional steps in 2018/19 to set it on track towards this long-term vision of a future pay framework and start addressing some of the most pressing challenges in the current system. To significantly tackle these embedded problems in the long-term, however, we will need to focus even more on maximising outcomes for lowest cost and reinvesting savings from elsewhere in the system.

11. In developing this year's evidence, the Government has taken particular note of the SSRB's priorities set out in its 2017 Report as follows:
    - *Pay and workforce strategy*
    - *Focus on outcomes*
    - *Action on poor performance*
    - *Performance management and pay*
    - *Better data*
    - *Feeder Groups*
    - *Targeting*
    - *Central versus devolved tensions*
    - *Diversity*

    Our commentary against each of these is set out through out the evidence. Annex A provides an overall summary of how proposals in the Government evidence this year will make progress on each of these areas and activity the Government plans to take forward to address these priorities in the long-term.

Strategy and Vision

12. The Government believes the SCS Pay Framework should reform to support movement towards the following overall vision for a future SCS workforce:

Vision for a future SCS

More diverse

In line with our aspirations for the rest of the Civil Service, we would want to see an SCS that reflects the nation it serves, with leaders from a diverse range of backgrounds, located in different areas of the country.

Stronger professional anchors

While leaders in the Civil Service have been and will continue to need to be 'generalists', in future, we need leaders with stronger professional anchors and a better mix of specialist skills and backgrounds in the most senior grades.

More specialist skills

We expect a future Civil Service that is able to recruit and retain specialist skills; better at growing our own functional expertise; less reliant on external recruitment or contractors / consultants; and has more Civil Servants coming through talent pipelines into SCS roles with specialist skills and experience.

More experienced

Less than half of the SCS have been in their current post for two years or more. In future, we want SCS to remain in post longer, to enable them to gain a greater depth of experience, confidence and leadership skills learnt through doing.

13. The Government plans to reform the SCS Pay Framework around the following three core principles:

i) To move to a set of consistent pay ranges by professional grouping over time.
ii) To provide greater reward for high performers and those who develop capability by remaining in role.
iii) To provide clearer rules and control on how people move through and around the SCS pay system.

14. The Government also intends to explore what funding models may be possible in future, linked to an overall review of future workforce projections, capability and with the intention of releasing efficiencies and driving greater productivity, to bring back proposals to SSRB for their review at the end of 2018.

15. **SSRB are asked to endorse the principles for change and vision outlined for the SCS workforce.**

16. **SSRB are also invited to work with the Government to determine how best to maximise outcomes for lowest cost - including funding pay awards - and consider the scope for this to improve productivity in the Civil Service workforce.**

Approach to 2018/19 awards

General approach

17. The Government plans to use this year's pay award to move towards the new pay framework, aligned to the principles outlined above.

18. In line with the Review Body's recommendation last year, it is proposed to use funding more effectively rather than focussing on limiting basic pay increases. For 2018/19 pay awards, the Government proposes that it reinvests savings from operating more consistent policies on pay levels for movement around the system and using these to fund structural reform (by raising minima) and limited targeted increases to address pay anomalies. This would be a new flexibility for the SCS pay system, on top of any headline award, to ensure that pay awards were affordable without additional funding. In the long-term, the Government would aim to release more funding (through addressing inefficiencies) to further reward SCS who develop their expertise and capability by remaining in role.

SSRB is invited to comment on this general approach to pay awards from April 2018.

Proposal 1 – moving to consistent pay ranges

19. The Government believes that we should move to consistent pay ranges by professional grouping, according to the Groups outlined below:
    a. **Group A:** for a majority of 'Civil Service' wide professions.
    b. **Group B:** higher 'guideline' ranges for a small number of market-facing professions.

c. **Group C:** for niche, specialist roles (particular to one or only few departments).

20. A 'dual key' process would also be available where, with the agreement of both the Permanent Secretary and Head of Function/Profession, pay could be agreed for particular roles, where required, above the set maxima. Pay above the defined senior pay control threshold would continue to require approval from the Chief Secretary to the Treasury.

21. For the majority of roles (as defined in "Group A"), the Government believes there should be a consistent pay range and would like the SSRB's views on the feasibility and benefits of moving towards the following pay ranges over a three-year period. This includes introducing a new tiering structure for Directors General.

Group	Deputy Director	Director	Director General		
			Tier 1	Tier 2	Tier 3
Group A - "Civil Service Wide" Professions	£70-95k	£92-130k	£115-135k	£135-150k	£150k+
Group B - Market facing roles	TBC with professions identified as market facing, to be confirmed in 2019/20				
Group C - Niche / department specific roles	TBC with departments who employ most of profession				

22. In order to move towards these new ranges in 2018/19, whilst recognising further work is needed to define exact pay ranges for Groups B & C, the Government wishes to take action now to begin transitioning SCS to the new pay band minima, prioritising high performers but with the aim of moving all staff to new minima within a three year period. This systematic approach to raising minima will also help tackle the concern previously highlighted by SSRB and members of the SCS regarding the pay overlap with Grade 6.

23. Given the further work needed to define pay ranges over the next year, the Government has provided provisional recommendations for the maxima of the new 'Group A' pay ranges but believes the reduction of the maxima to this level should not take place this year. The approach to maxima will instead be considered as part of the Government's plans to develop further proposals on profession-based pay ranges in 2018/19.

24. **The Government would like the SSRB to:**
   i. **Endorse the proposed pay ranges for "Group A" professions and the tiered approach for Directors General.**
   ii. **Endorse the approach to transitioning to new pay ranges (beginning from April 2018) outlined in the main body of the evidence.**
   iii. **Comment on the Government's view on professions which may warrant use of different pay ranges, more closely aligned to the external market, based on recruitment and retention issues and specialist skills.**
   iv. **Work with the Government to define pay ranges for each profession throughout 2018.**

Proposal 2 – greater reward in role

25. In the long-term, the Government wants to move to a pay system for the SCS that encourages and enables reward for high performers and those who build expertise and capability while remaining in post. For 2018/19, we believe this principle translates into a number of specific proposals, considering how we maximise the effectiveness of existing SCS consolidated and non-consolidated funding, as outlined below. In future, we would want to create a sustainable way to enable movement through pay scales based on growth in competence through development in role.

26. On consolidated funding, the Government believes that departments should continue to have the flexibility to freely designate base pay awards within their organisation but should be strongly encouraged to target these at high performers and those lowest down the pay scale. Departments should also be encouraged not to give consolidated awards to those higher than the proposed new maxima unless there are exceptional reasons to do so.

27. We also believe there is a case for departments to use a very small amount of the money reinvested from controlling movement around the system to address particular anomalies.

28. On non-consolidated performance related pay awards, the Government believes that it is important to continue targeting these towards exceptional performance. The introduction of the in-year contribution award for an additional 10 per cent of staff in 2016/17 was a flexibility that has been welcomed by departments to provide some additional benefits. For 2018/19, the Government is therefore proposing an expansion of this flexibility for departments to award up to 20 per cent of staff in-year awards within existing cost controls.

29. This year, the Government would also welcome SSRB's views on the introduction of a new corporate recognition scheme, to acknowledge and reward exceptional contributions to cross-government initiatives from SCS that go above and beyond their day-to-day roles. These would be small amounts

(c.£1,000) with funding coming from the existing pivotal role allowance (PRA) pot which is not fully utilised.

30. To tackle immediate flight risks in the interim, the Government proposes continuing to maintain the current Pivotal Role Allowance scheme as a transitory measure to ensure that highly specialist staff and those delivering major projects are retained (reviewing its continued appropriateness as we begin to move towards a new long-term pay model).

31. We acknowledge that these proposals for 2018/19 are tactical solutions to support the start of a transition towards a pay system that better incentivises and rewards SCS who acquire expertise and depth of experience through their current roles. The Government commits in 2018/19 to articulating a long-term approach to how this system may operate, including the potential implications of this for the wider SCS performance management structures.

32. **SSRB is asked to:**

    i. **Comment on the Government's approach to continue to allow Departments a flexible framework for making pay awards; and**
    ii. **Endorse the Government's proposals for enabling departments greater flexibility for non-consolidated awards in 2018/19.**

Proposal 3 – movement around the system

33. The Government believes that the current policy on pay on level transfer and promotion is no longer working effectively, given recent changes to external recruitment policy for SCS roles (where all roles are now advertised externally as default). Some, but not all, departments are currently following a policy where SCS can get pay increases on movement (on level transfer) or increases above 10% or pay band minima (on promotion).

34. The Government believes that, from April 2018, pay policies on movement should be more consistent. As a transitional measure, we believe that internal pay decisions should not be influenced by salary levels at which jobs are advertised externally. The Government therefore proposes that, in general, for Deputy Directors and Directors, there should be no increase in pay on level transfer and that promotion increases are limited to an increase of up to 10% or the pay band minima, whichever is the greater. Promotions currently (as of 2015/16 data) bring on average an 18% salary increase (though in 2015/16, only 22% of SCS moving on level transfers received an increase in pay and 28% of SCS moving on promotion received an increase in excess of 10% or the pay band minima). We recognise there may need to be limited exceptions to this for particularly strong candidates or marketable skills but these exceptions should be approved by the relevant Permanent Secretary and Head of Profession.

35. This policy change would neutralise pay incentives that encourage SCS to move roles too early and release funding that can be used more efficiently elsewhere within the pay system. The Government would propose using the funding released through this policy change to corporately raise minima, to begin moving to a pay model with consistent ranges and to address a small number of anomalies in role. This approach would ensure the same amount of funding is in place overall but is being used more effectively, to better align to a future vision that rewards acquisition of both depth and breadth of experience.

36. **SSRB is invited to comment on this policy change, in light of the Government's overall proposal to use paybill more efficiently and ensure the right incentives in the SCS pay system overall.**

SECTION 1 - BACKGROUND AND ECONOMIC CONTEXT

37. The Chief Secretary's letter of 21 September to the Chair of SSRB set out the Treasury's overarching approach for the 2018/19 pay round. This economic context included the following points:

- The Government considers the public debt, reported by the Office for Budget Responsibility at nearly 90% of GDP, as still too high.
- Nevertheless, the Government will take a balanced approach to public spending, dealing with its debts to keep the economy strong, while also making sure it invests in its public services.
- The Government will continue to ensure that the overall package for public sector workers is fair and supports the delivery of world class public services, whilst also being affordable within public finances and fair to the taxpayer.
- The 2015 Spending Review (SR) has budgeted for public sector pay at 1%, although there is flexibility to bid for more if there is a compelling recruitment and retention argument, particularly where there are skills shortages.
- With a more flexible pay policy it is of even greater importance that recommendations on annual pay awards are based on independent advice and underpinned by robust evidence that takes into account the context of wider economic, private sector comparators and overall remuneration of public sector workers. The role of the Pay Review Bodies is therefore more important than ever.

38. This is against the following background:

- The Institute of Fiscal Studies reported earlier in the year that it expects public sector pay to fall by five percentage points relative to private sector pay between 2015 and 2020.
- SSRB estimates that taken together, inflation, tax and NI changes and the three-year pay freeze have led to SCS take-home pay dropping by around 23% in real terms between 2009 and 2016.
- Changes to pensions tax and national insurance have exacerbated to this reduction for certain groups:
    - Pensions tax regime changes mean that Defined Benefit (DB) schemes will become less attractive to SCS earning in excess of £108,000.
    - Abolition of contracting out from April 2016 has increased National Insurance paid by pension scheme members.

SECTION 2 – LAST YEAR'S SSRB RECOMMENDATIONS FOR THE SCS AND FINDINGS FROM PAY FRAMEWORK REVIEW IN 2017

Introduction

39. Earlier this year, the Government responded to the recommendations in the SSRB's report on Senior Salaries 2017. In its response, the Government welcomed the SSRB's recommendation that the Government should adopt a more strategic approach to SCS reward and carry out a fundamental review of the pay framework.

40. This recommendation links to commitments made in the Civil Service Workforce Plan (published in July 2016). The *Workforce Plan* identified five priority areas that will have the biggest impact on ensuring the Civil Service remains able to support, secure and improve the nation it serves and set out what changes are needed in the workforce to make this happen. Specifically on reward:

    "The Civil Service will develop cost effective and flexible reward structures that enable us to attract, retain and develop the very best talent. We will review the Senior Civil Service pay framework in line with Senior Salary Review body recommendations and develop a flexible reward framework for scarce skills, starting through the creation of the new Government Commercial Organisation. This will help the Civil Service to attract and retain the skills it needs to operate effectively now and in the future."

Overview of SSRB recommendations in 2017 report

41. In its 2017 report, the SSRB made the following recommendations for the SCS workforce:

Recommendations 1 to 3 for all SSRB remit groups

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 maximizing outcomes for lowest cost rather than limiting basic pay increases across the board.*

Recommendation 2*: We recommend that the 1 per cent that has been made available for basic pay increases this year is used, in full unless there is a strong and explicit alternative 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 Arms Length Bodies.*

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

<u>Recommendation 4 was made specifically for the SCS</u>

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.*

42. The Government accepted recommendations 1, 2 and 4. In line with Review Body's recommendation 3, the Government agreed to keep under review the evidence for making pension packages more flexible, alongside the fiscal implications.

SCS assessment in 2017 Report against SSRB strategic priorities

43. The SSRB also made the following assessment of the SCS against its strategic priorities:

SSRB priority	***Assessment of SCS***
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*	*Commitment to develop SCS pay and workforce strategy, but no concrete proposals.*
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.*	*Potential interest, but no firm commitment or proposals.*
Action on poor performance: *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.*
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*	*Established performance management system, but not trusted by staff. No specific commitment to review.*
Better data: *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*
Feeder Groups: *The feeder groups that will supply the next generation of senior public sector leaders*	*Limited data available. No evidence of major concerns.*

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.*	*Departments can target, but lack of general framework for doing so.*
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.*	*Tension between central and departmental control.*
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.*	*Relatively good performance on gender, but poor on ethnicity, and smaller proportion describe themselves as disabled than in 2004.*

44. The Government broadly agreed with SSRB's assessment of its performance against the strategic priorities outlined in the 2017 report, acknowledging that much of the action proposed in 2017/18 was limited and tactical, pending a wider review of the pay system. The Government welcomed SSRB's invitation to undertake further work this year to conduct a fundamental review of the SCS pay framework and what follows in this year's evidence is - in part - a response to last year's assessment.

45. The Government has made strides this year to develop its thinking in a number of key areas on the SCS workforce: notably by developing a new vision for the future workforce and pay framework, along with a set of core principles to guide change.

46. Annex A sets out an overall summary of how the Government has sought to address each of SSRB's strategic priorities in the proposals it is putting forward this year. In developing this year's proposals, the Government believes it has taken significant steps to improve performance against at least four of the SSRB's specific priorities: developing a new pay and workforce strategy, focusing on outcomes, targeting and diversity.

47. The Government recognises in some areas - on pay and performance and feeder groups, for example - it has made less progress this year. The Government has, however, noted SSRB's previous assessment and also sets out in this year's evidence what it plans to do in future to look more closely at improving performance in these areas.

Cabinet Office 2017 Review of SCS Pay

48. As agreed with the SSRB, the Cabinet Office undertook a review of current pay arrangements earlier this year. This involved a significant data gathering exercise and interviews to gather views from across government on the impact of current pay arrangements with HR Directors and Heads of Profession. This identified a set of core issues, supported by our analysis of ongoing SCS data collection; SCS responses to the Civil Service People Survey; and SCS exit interview data.

49. The Government believes the following to be the most pressing issues in the current pay system. It notes that many of these have been raised and identified as areas of concerns by the SSRB in previous years:

Core Issues	Supporting evidence[1]
Promotion (or level transfer) are seen as the only way to obtain a pay increase *This is driving SCS towards promotion too early, often before they are ready. Meanwhile, acquisition of expertise and depth of experience is not being rewarded (or seen to be rewarded).*	• Median time in current post for SCS is just under **two years**; in pay band is 3 years. • Level transfers and remaining in post do not lead to a significant increase in salary. Meanwhile, promotions, brought on average an **18% salary increase** in 2016.
Internal market issues and 'job-hopping *Departments are often bidding for talent, which exacerbates unnecessary or premature movement around the system.* *Limited flexibilities exist to review salaries once people are in the department.*	• In the three years preceding 2016 (inclusive), there were in **excess of 1,100 moves per year into or within the SCS (new entrants to the SCS** as well as moves between departments and within departments).
There are inconsistent approaches in pay policies *Pay on promotion, transfer and rules for internal appointments used by departments vary widely (see paragraphs 124 – 132 in section 4 for further details) and there are*	In 2016: • there was a 14% difference between the median at the lowest paying department and highest paying department at Deputy Director level; • a 27% difference at Director level as lowest; and

[1] SCS Database 2016, SCS exit interview data for 2016/17, Civil Service People Survey 2017, and external research.

large disparities across departments in terms of salary distributions.	● a 20% difference at Director General level. ● In 2015/16, only 22% of SCS moving on level transfers received an increase in pay and 28% of SCS moving on promotion received an increase in excess of 10% or the pay band minima
Cannot compete with the external market for some specialist skills *The gap between SCS pay and that of comparable groups in the wider public and private sectors is widening.* *Departments would welcome market segmentation looking at professional roles/job families/spot rates or ranges with a degree of flex for recruiting and retaining in specialist roles. The review also found support for Cabinet Office to look at shorter ranges, to drive greater consistency.*	● SSRB estimates that since 2009 take home pay for the SCS fell by 23% - compared to 5% and 4% for the wider public and private sectors respectively[2] This disparity worsens with seniority. ● The proportion of SCS in Commercial, Digital and Project Delivery posts has increased from 10% to 15% in the last decade. ● However, since 2012/13 the general trend in the proportion of new entrants to the SCS from outside the Civil Service has been downward (from 39% in 2012/13 to 27% in 2016/17). For appointments overseen by the Civil Service Commission, the number of external candidates has fallen from 59% in 2014/15 to 40% in 2016/17. ● Meanwhile, while a grade breakdown of non-payroll staff is not available, the number of consultants in the Civil Service and Executive NDPBs[3] increased substantially between March 2015 to March 2017 (from around 300 to 500).
The system is inefficient *Despite 1% pay increase limit, the SCS paybill is growing.*	● The SCS salary bill grew by 5% in 2015/16 and increased by over 20% in the 4 years between 2012-2016. ● This was driven primarily by an increase in headcount over this period (total 13%, which is almost all at Deputy Director and Director grades). ● Mean salary has increased by 4.4% (about 1.1% each year) & median salary by 3.2% since 2012.

[2] *Public sector pay: still time for restraint?* (Institute for Fiscal Studies, September 2017, https://www.ifs.org.uk/uploads/publications/bns/BN216.pdf)
[3] Monthly Workforce Management Information published by departments on gov.uk.

The system does not follow a rational structure. *There are frequent cases where SCS are paid less than the staff they manage. The link between pay and performance is also often inconsistent, despite efforts made to target consolidated and non-consolidated pay awards towards high performers.* *This is reported to be damaging confidence and impacting morale.*	● **Around 6,000 Grade 6/7s** are paid in excess of £65,000 (the current SCS minima). ● The median salary for Directors marked as "Achieving" in 2016 was around **£6,000 less** than the median for low performing Directors, whilst for Deputy Directors it was **£1000 less**. This is likely to be due to a number of factors and further detailed analysis is planned to determine the underlying causes. ● **Pay was reported as a factor for 60% of SCS who undertook an exit interview in 2017**, and 81% of those classed as "regrettable losses."[4] ● SCS responses to the Civil Service People Survey in 2017 show **a decrease in satisfaction with pay and benefits over time**.

Evidence of recruitment, retention and motivations concerns in the SCS

50. Whilst there is growing evidence that the SCS is falling behind the market and this trend set to continue, there is not yet clear evidence of an immediate recruitment and retention issue:

- SCS engagement levels are at the highest level they have been (77% in 2017, up from 76% in 2016);
- The turnover rate for SCS has increased from 14.3 per cent in 2015/16 to 14.5 per cent in 2016/17, but this remains below the all time high of 16.9 per cent in 2011/12; and
- High performers in the SCS are far less likely to resign than low performers. Low performers in 2014/15 were more likely (9.8 per cent) to have resigned by June 2017 than their top performing colleagues (6.7 per cent).

51. And the Civil Service continues to attract talent:

- Recruitment of Fast Streamers at a record high – 1,245 Fast Streamers recommended for appointment in 2016, up from 967 in 2015;
- The number of SCS roles unfilled (from those overseen by Civil Service Commission) has fallen to 5.6% from 21.5% in 2015/16, possibly due to some

[4] Regrettable losses are defined as those falling into the following areas of the performance matrix: *Early promise, High potential, Strong performer* and *Star performer.*

concerted efforts in particular by the Government Commercial Organisation;[5] and

- 70% of successful candidates in Civil Service Commissioner-chaired competitions were ranked as very good or outstanding, 19% 'clearly above' and just 12% were 'acceptable'.

52. Nevertheless, on recruitment, the Government is aware of some potential challenges. A recent report by the Institute for Fiscal Studies suggested that it could become progressively harder for the public sector to recruit highly skilled and highly educated professionals, such as teachers, doctors and Senior Civil Servants if pay restraint continues.[6] Elsewhere, we have seen the following trends:

- Of the 153 appointments made by the Civil Service Commission, 42% resulted in only one appointable candidate being identified (with no reserve candidates), up from 38% in the previous year; and
- As referenced above (paragraph 49), the proportion of successful candidates from outside of the Civil Service has been dropping. For appointments overseen by the Civil Service Commission, the number of external candidates has fallen from 59% in 2014/15 to 40% in 2016/17.

53. Some trends in resignations also indicate there may be emerging issues:

- The resignation rate increased from 3.7% in 2014/15 to 4.4% in 2015/16 and then 4.5% in 2016/17, a record high, and since 2009 the proportion of SCS saying they want to leave their organisation within one year has continued to rise (a trend that is more pronounced in London than outside London);
- Resignation rates do vary amongst specialist professions. For example, Digital (8.4%) and Commercial (7.4%) SCS roles have resignation rates much higher than the overall rate (4.5%).

Conclusions from the 2017 Framework Review

54. Overall, the Government has concluded that there is not widespread evidence of an immediate recruitment and retention concern for the SCS workforce. Nonetheless, there are growing pockets of concern – particularly with regard to specialist skill shortages – and an indication these trends may be getting worse over time.

[5] *Annual Report and Accounts 2016-17* (Civil Service Commission, 2017, page 17 http://civilservicecommission.independent.gov.uk/wp-content/uploads/2017/07/Report-v5-WEB-1.pdf); *Annual Report and Accounts 2015-16* (Civil Service Commission, 2016, page 16 http://civilservicecommission.independent.gov.uk/wp-content/uploads/2016/07/CSC-Annual-Report-WEB-Accessible.pdf)

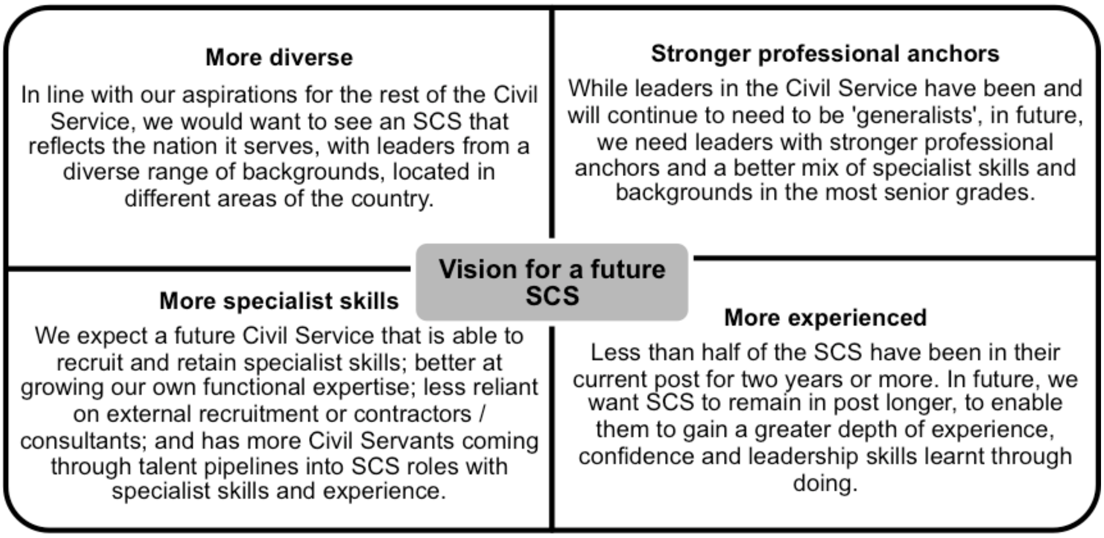
[6] *Public sector pay: still time for restraint?* (Institute for Fiscal Studies, September 2017, https://www.ifs.org.uk/uploads/publications/bns/BN216.pdf)

55. The review of the pay framework this year did, however, find common concerns and frustrations across the SCS workforce regarding the rigidity of the current SCS pay framework and the perverse incentives or random outcomes that frequently result from it. The Government believes there is scope for productivity gains to be made from exploring how new flexibilities or changes to the existing pay framework can allow current funding to be targeted and used more effectively. Looking forward, as workforce projections continue to indicate the Civil Service workforce will need to become more senior and specialist over time, the Government intends to review the SCS workforce structure and capability, looking to maximise outcomes for lowest cost.

SECTION 3: VISION FOR A FUTURE SCS PAY FRAMEWORK (AND PRINCIPLES THAT UNDERPIN THIS)

56. SSRB has indicated that pay decisions should be taken with consideration to a wider workforce strategy for the SCS, that sets out how the Government intends to develop the SCS to equipped to lead change, meet future challenges and deliver national priorities over the next few years.

57. Noting the challenges that are present in any attempt to create a ‘fixed’ vision for a workforce in a changing political context, the Government believes that over the course of this Parliament, activity needs to focus on developing the following core features in a future SCS. Many of these key characteristics have been identified previously in wider Civil Service strategies, such as the *Leadership Statement* or *Civil Service Workforce Plan*:



58. In summary: we know that the skill set of the future SCS will need to contain more specialists, with deeper experience across a broader range of professional fields. Following the launch earlier this year of the new *Civil Service Diversity and Inclusion Strategy* (see paragraph 134 - 138 for further detail), the Government also recognises the importance of ensuring the Civil Service better reflects the society it serves - at all levels - but particularly in the most senior grades.

59. These four core features of a future SCS form the basis of a future workforce vision. The Government believes, however, fundamental change of the SCS pay framework will be required (a structure based around professions, with different incentives) to support movement towards this.

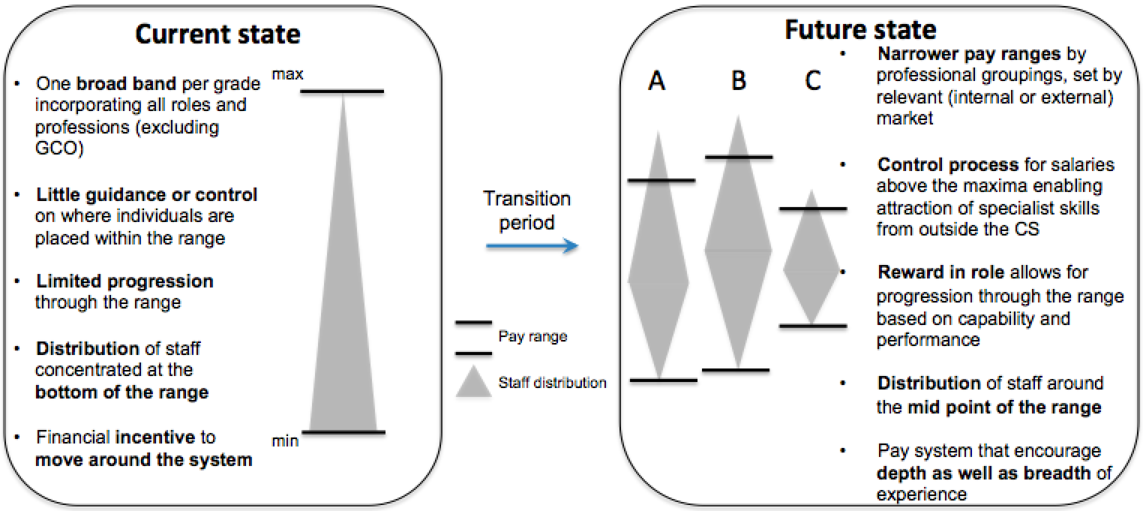
The argument for change

60. Any pay system needs to consider the appropriate starting salary based on the skills/experience brought to the role; the salary you would expect/wish to pay for someone who is fully effective; and it should have the right incentives and reward in place to ensure people develop and gain in competence (by either staying in role/grade or moving around to develop additional skills/experience).

61. The Government has concluded that the current combination of a broad banding structure, pay restraint, inconsistent application of policies and controls is not enabling these key elements of the pay system to work together effectively to maximise the productivity of the SCS or develop the workforce to meet the challenges of the future.

62. The Government's long-term ambition is for a future SCS pay framework that is based around professional groupings, with more structure, efficiency and consistency, incentivising and rewarding SCS who look to build *depth* as well as breadth of experience.

63. The diagram below outlines the core elements of the Government's plans for change and how we expect key features of the pay system to change over time:



Core principles for change

64. To meet this ambition and address the issues identified with the current pay system, in consultation with departments over the last few months, the Government has developed a set of three core reward principles to guide movement towards a new SCS pay framework in the long-term.

65. These principles are:

Movement over time to a set of narrower pay ranges by professional grouping	**Greater reward for those who remain in role**	**Clearer rules and control on how people move through and around the SCS pay system**
to make pay more consistent for most SCS roles but enable higher pay to be available, where needed, to address certain skill shortages.	*to encourage SCS to gain experience by remaining in post.*	*to bring greater rationality to pay system, encourage less movement and take advantage of savings that may be available by reducing pay increases for moves on transfer/ promotion.*

66. Further detail of these principles and the supporting rationale behind them is set out below.

67. **SSRB is asked to endorse the principles for change and vision outlined for the SCS workforce.**

Principle 1 – creating the framework

68. The first core principle – moving to consistent pay ranges by profession over time – intends to set the parameters and structure for a future SCS pay framework.

69. The current SCS pay structure comprises of broad bands. Whilst this has in previous years given departments flexibility to respond to recruitment and retention pressures, as the data demonstrates, it has also led to stark inconsistencies and significant variation in pay levels across government (particularly for similar roles). In order therefore to bring greater coherence across the pay system, the Government would like to move to narrower and more consistent pay ranges, set by profession.

70. Bringing coherence through consistent ranges set by profession will strengthen career management for the SCS - a key feature of enabling the future vision of the SCS workforce - and help to respond to issues of inconsistency and retention across the system. This proposal will also help tackle over time the Deputy Director and Grade 6 overlap over time, creating better incentives for career progression from feeder grades into the SCS.

Proposed new pay structure: in three 'groups'

71. The Government proposes a future long-term SCS pay framework that contains three 'groups' of pay ranges:

Group A: for the majority of 'Civil Service' wide professions
Group B: higher ranges for a small number of market-facing professions
Group C: for niche, specialist roles, particular to one or only few departments

72. The 2017 review of the SCS pay framework found that the primary concern for most professions was inconsistency or retention, rather than inability to recruit. Setting a narrower range for a majority of professions (Group A) would therefore allow this issue to be addressed and bring greater consistency to salaries for similar roles over time.

73. The Government also recognises, however, that in some areas, the Civil Service is failing to compete effectively with the external market for senior, specialist skills. In such cases, approval could be given for particular professions to adopt 'Group B' pay ranges, where there is a clear and demonstrable problem of attracting key skills and competing with the external market. This would be a similar to new ranges recently agreed for senior Commercial specialists in the Government Commercial Organisation.

74. In time, the Government would also plan to set specific guideline ranges for those professions which are niche and likely to be specific to one or two departments (e.g. Medicine, Inspector of Education, Tax).

75. Within all professions, the Government is conscious there are still likely to be critical roles which may require a higher salary than the normal maxima. A 'dual key' process would therefore also be available. With the agreement of both the Permanent Secretary and Head of Profession/Function, pay could be agreed for particular roles above the set maxima. Such a control process will help to avoid 'grade drift', whilst still allowing a level of flexibility where higher salaries are deemed necessary.

<u>Directors General pay: moving to a tier structure</u>

76. The Government also considered this year as part of its pay review what arrangements may be most suitable for Directors General pay. For this grade, the Government would propose moving towards an entirely different pay structure - similar to the current structure used for Permanent Secretary pay - of three 'tiers' (significantly shorter pay ranges of £15-20k). At present (2015/16 pay data), there is a 20% difference in median salary between the highest and lowest paying department at Director General level. This proposed structure would radically reduce pay disparities at this grade, whilst recognising the different scope and skill sets required by different roles. This would allow the Senior Leadership Committee to take a view on the weight and complexity of how roles compare without taking direct decisions on pay.

77. To summarise therefore the Government would propose working towards the following pay ranges for the future SCS pay framework over the next three years:

Table 1: pay ranges proposed for 2020/21

<table>
<tr><th rowspan="2">Group</th><th rowspan="2">Deputy Director</th><th rowspan="2">Director</th><th colspan="3">Director General</th></tr>
<tr><th>Tier 1</th><th>Tier 2</th><th>Tier 3</th></tr>
<tr><td>Group A - “Civil Service Wide” Professions</td><td>£70-95k</td><td>£92-130k</td><td rowspan="3">£115-135k</td><td rowspan="3">£135-150k</td><td rowspan="3">£150k+</td></tr>
<tr><td>Group B - Market facing roles</td><td colspan="2">TBC with professions identified as market facing, to be confirmed in 2019/20</td></tr>
<tr><td>Group C - Niche / department specific roles</td><td colspan="2">TBC with departments who employ most of profession</td></tr>
</table>

78. Section 4 sets out a proposed approach to structural change that will begin moving towards this from April 2018.

79. **SSRB are invited to comment on the proposed pay ranges for “Group A” professions and the tiered approach for Directors General.**

Principle 2 and 3 – shifting the incentives

80. Principle 2 and 3 (introducing greater reward for those who remain in role and bringing greater control to movement around the system) should be considered in tandem as both will be required to lead to a fundamental shift in the incentives of the SCS pay system.

81. The 2017 pay review found a widely held perception that the only meaningful way for SCS to obtain a pay increase is through level transfer or promotion. This has created perverse incentives, where SCS may move too early in pursuit of pay, with limited flexibilities in place for departments to reward those who build depth of experience or acquire greater expertise by remaining in role.

82. The Government wants to develop a pay system for the SCS workforce that more evenly balances the incentives by encouraging and enabling reward for those who remain in post, whilst simultaneously discouraging premature movement. Following the commitment the Government made last year to review the SCS pay framework (which included a commitment to review and clarify the policies on pay on promotion, pay on appointment and movement for the SCS), the Government intends to take immediate action from 2018/19 to redress incentives of the current pay system that frequently encourage SCS to move too early. Further detail is set out in paragraphs 124 - 132.

83. In the long-term, the Government also aims to explore how further productivity gains could be made within the SCS workforce, through an overall review of future workforce projections, capability and with the intention of releasing efficiencies, that could enable a cost-effective and sustainable pay system to reward SCS who acquire new skills or grow in competence by remaining in role, driving greater long-term productivity. The Government intends to bring back proposals to SSRB to consider regarding this at the end of 2018 and we would welcome the Review Body's insights as the Government considers this work over the next year.

84. **SSRB is invited to work with the Government to determine how best to maximise outcomes for lowest cost - including funding pay awards - and consider the scope for this to improve productivity in the Civil Service workforce.**

SECTION 4: PROPOSALS FOR 2018/19

85. The Government seeks to introduce provisional steps in 2018/19 to set it on track towards the long-term vision of a future pay framework and start addressing some of the most pressing challenges in the system. In line with the SSRB's recommendation last year, it proposes to use funding more effectively, rather than focus on limiting basic pay increases.

86. For 2018/19 pay awards, the Government proposes that it reinvests savings from operating more consistent policies on pay levels for movement around the system and using these to fund structural reform (by raising minima) and limited targeted increases to address pay anomalies. This would be a new flexibility for the SCS pay system, on top of any headline award, to ensure that pay awards were affordable without additional funding. In the long-term, the Government would aim to release more funding (through addressing inefficiencies) to reward further SCS who develop their expertise and capability by remaining in role.

87. What follows in this section is detail of the specific proposals the Government would like to put forward for the SSRB's consideration, based around the three core principles for change.

Proposals for principle 1 (moving to consistent pay ranges)

88. The Government aims in the long-term to move the SCS workforce to a new pay structure, with a set of consistent pay ranges set by profession. For 2018/19, we have considered and developed proposals for:

- Pay ranges for Group A and how we intend to develop specific pay ranges for 'Group B/C'.
- An approach to transition towards these pay arrangements over time, beginning from April 2018.

<u>Pay ranges for Group A and development in future of ranges for Group B/C</u>

89. Final pay ranges for all SCS in a majority of professions (Group A) for 2020/21 are proposed as outlined in Table 1 (page 23). When compared to current salaries of existing SCS, moving to these ranges would result in an uplift in pay for 25% of the SCS workforce to attain the new "Group A" minima. 10% of the SCS cadre currently have salaries above the proposed maxima. Once the maxima have been set, the expectation would be that no consolidated increases in pay be awarded to individuals above the range maxima.

90. There remains significant work to determine which professions should be considered as ‘market-facing’ (“Group B”) or comprising of niche/specialist roles mostly confined to one or only a few Departments (“Group C”). The Government expect professions to provide evidence of recruitment and retention issues and requirement for niche skills to support their need to be considered as “Group B or C”.

91. The Finance profession have already begun work to build a case for recognition as a “Group B” profession. A summary of the evidence they have collected of their current recruitment and retention challenges can be found at Annex E. Other professions that are likely to also fall into “Group B” include Digital, Data and Technology and Project Delivery, though these professions are not yet in a position to put forward such evidence. Further analysis is still needed to understand the picture across various roles within these professions and their particular recruitment and retention concerns.

92. Once the “Group B & C” professions have been determined, appropriate minima and maxima will need to be defined for new pay ranges. The Government aims to work with professions over the next year to assess cases for ‘Group B’ pay ranges, with the intention of beginning to move staff towards these from 2019/20.

93. **SSRB are invited to comment on the Government’s view on professions which may warrant the use of different pay ranges more closely aligned to the external market, based on recruitment and retention issues and specialist skills.**

94. **SSRB are also invited to work with the Government to define pay ranges for each profession throughout 2018.**

<u>New minima for ‘Group A’ from 2018/19</u>

95. In 2018/19, the Government intends to take action to begin moving towards these new ranges, taking an approach that prioritises high performers. We would expect high performers to be moved to new minima in year one, with all other SCS receiving some form of increase, closing the gap with the proposed “Group A” minima over the three year transition period. The grade minima overall would continue to rise by £1,000 each year.

96. In 2018/19, the Government intends to take action to begin moving towards these new ranges, taking an approach that prioritises high performers. We would expect, however, all SCS to receive some form of increase, closing the gap with the proposed “Group A” minima each year. The aim would be that all staff move to new minima within the three-year transition period.

97. Changes to the minimum salary of Pay Band 1A are not being proposed. Departments have been unable to recruit to Pay Band 1A for a number of years and Pay Band 1A would not be a feature of the new pay framework. Existing staff at this grade would, however, be unaffected and departments would be able to make pay awards to them in the same way.

98. The overall cost of lifting all SCS to the proposed “Group A” minima would equate to 0.9% of the SCS paybill. It is expected that this structural change to the SCS pay system can be funded through savings made from controlling movement around the system. Within the savings made, we would expect to be able to fund movement to the “Group A” minima within the three year period and set aside a portion for departments to provide targeted reward in role (see further information below regarding proposals for Principle 2).

Treatment of maxima

99. As set out previously, professions that are able to evidence a need to be considered as “Group B or C” will be identified during 2018. The pay range maxima for some of these professions may need to be higher than what is proposed for “Group A.” The Government considered lowering the maxima for all professions or selected professions in 2018/19 (adjusting as appropriate for market facing and niche professions in 2019/20). Lowering the maxima, however, only to increase them the following year would risk undue restriction of flexibility for certain professions and an over-processing of the proposals. We also felt that defining professions as “Group B or C” should be based on evidence rather than assumption and time should be allocated during 2018 to gather and review that evidence.

100. After exploring different options for lowering the maxima, the Government believes that range maxima should not be reduced this year, but should be lowered from April 2019, once it becomes clearer which professions should warrant a different pay range and thus be in “Group B or C.”

101. **SSRB is asked to endorse the Government’s approach to transitioning to new pay ranges (beginning from April 2018).**

Other considerations

102. These new pay ranges have been developed to target pay to where it is most needed, to provide the Civil Service with a pay framework able to address specific skills shortages. In addition, the Government is also conscious that there may be particular recruitment and retention challenges in different parts of the country.

103. Departments have delegated responsibility for designing pay systems for their own staff below the SCS appropriate to their business needs and which address recruitment and retention problems; for example, many operate different pay arrangements for London. The SCS, however, as a corporate resource with centrally determined pay arrangements does not distinguish on a geographical basis.

104. Data outlining regional differences in pay for the SCS is provided in this year's supporting data pack. As part of its wider review of the SCS workforce structure and capability over the next year, the Government will consider whether there are specific localities where there are recruitment and retention issues and there may need to be more flexibility.

Proposals for Principle 2 (Greater reward in role)

105. To support movement to the new framework through this principle in 2018/19, the Government has considered the incentives created in the system through use of existing SCS consolidated and non-consolidated funding. Set out below are a combination of proposals to maximise possible outcomes through existing flexibilities and new flexibilities the Government intends to introduce this year (within existing budget constraints).

Approach to pay awards in 2018/19

106. In previous years, the Government has used a proportion of consolidated awards for the SCS to raise pay band minima, with the remainder being left to departments to provide maximum flexibility to target awards. Departments have valued this flexibility to determine pay awards to meet their own business needs and the Government maintains the position that departments should have the most flexibility available to designate base pay awards.

107. In previous years, Departments have worked within a flexible framework to make awards of up to 9 per cent to their SCS, taking account of performance, job weight and challenge of role. In 2018/19, the Government would want this framework to continue to operate and as the raising of pay range minima would be funded this year out of savings created from controlling movement around the system, departments will have all of their consolidated award available to target within this framework.

108. This year, departments will be strongly encouraged to target base pay awards at high performers and those lowest down the pay scale; an approach which many have already taken for a number of years. They will also be encouraged not to provide consolidated awards to those higher than the

proposed new maxima (particularly when these come in to force as part of the move towards narrower pay ranges in 2019/20).

109. **SSRB are invited to comment on the Government's approach to continuing to allow Departments a flexible framework for making pay awards within existing budgets.**

Addressing pay anomalies

110. In addition, the Government proposes that a small amount of money reinvested from restricting movement around the system should be made available to Departments to address particular pay anomalies.

111. Under this proposal, funding will be made available to Departments to reposition individual salaries. Clear criteria will be issued to Departments to guide how and when such repositioning may be appropriate and Departments' allocation of base pay awards will be monitored through an appropriate process and governance structures.

On non-consolidated performance related pay awards:

112. For 2018/19, the Government wishes to extend Departments' flexibility for granting non-consolidated pay awards within existing SCS performance management structures.

113. The Government proposes this year to enable greater flexibility for Departments to grant in-year contribution awards by increasing the proportion of staff eligible to receive these 10 per cent (current limit as introduced in 2016/17) to 20 per cent from 2018/19, within the same allocated funding. This follows positive feedback from Departments on the introduction of in-year awards in 2016. In 2016/17, all but three departments used the full in-year flexibility to recognise outstanding contribution.

114. Such an approach acknowledges the key role in-year awards play in recognising specific examples of exceptional performance and feeds into established research on the positive impact of in-year rewards (that suggests in-year awards encourage more effective incentives by making reward more tangibly available year-round and increase motivation by allowing employers to provide employees with immediate and formal recognition).[7]

[7] *Show me the money! The behavioural science of reward* (CIPD, 2015, https://www.cipd.co.uk/knowledge/culture/behaviour/reward-report); *Traditional targets and bonuses often don't improve performance in an organisation* (J Appelo, LSE Business Review, 2016 http://blogs.lse.ac.uk/businessreview/2016/08/11/traditional-targets-and-bonuses-often-dont-improve-performance-in-an-organisation/); *Why Companies Should Pay Bonuses Twice a Year* (S. Kumar, TIME, 2015, http://time.com/3948426/annual-bonus/).

115. Regarding the current limits on end-year non-consolidated pay awards (namely, that Departments cannot grant end-year non-consolidated pay awards to any SCS outside the top 25% of performers), the Government proposes that these remain in place for 2018/19, given the inextricable links between these and the existing SCS performance management system. As part of considering further changes that may enable greater productivity gains within the SCS workforce during 2018/19, however, the Government intends to review the impact of current SCS performance managements as part of this work.

116. **SSRB are invited to comment on the Government's proposals for enabling departments greater flexibility for non-consolidated awards in 2018/19.**

Continuing use of Pivotal Role Allowances

117. The Government proposes continuing to maintain the current pivotal role allowance (PRA) flexibility as a transitional measure to retain SCS in highly specialised roles and those delivering the riskiest major projects across departments.

118. PRA was introduced in April 2013 as a tactical solution to retain business critical staff during the period of pay restraint. The allowance is removable and non-pensionable and is strictly controlled within a financial limit of 0.5 per cent of the overall SCS pay bill. Applications must meet four criteria:

- Where the role is critical to delivering the strategic goals of the organisation.
- Where there is potential to make a disproportionately large impact on the business if left unfilled.
- Where the role requires specific skills that are not easily available in the Civil Service.
- Where there is a flight risk.

119. Since April 2013, 65 cases have been agreed for SCS staff responsible for delivering the Government's priorities. This has enabled departments to retain (amongst others) those leading major transport infrastructure projects and sustainable energy programmes, those protecting the borders and national security, those providing modern digital services to the public and departments and those in highly technical defence roles.

120. The Government has monitored the application of these allowances and notes that PRAs are being used as intended and removed at the end of a project or where the roles have ceased to be pivotal to the organisation. This has ensured that money is being recycled for future cases.

121. While the PRA process has been underutilised by departments (more than half of the existing funding pot for PRAs is currently unspent), for now, the Government believes PRAs remain a useful additional flexibility to retain key SCS in specialist roles and delivery major projects where there is a significant flight risk. The Government will, however, continue to monitor and review the appropriateness of the process as it begins to move towards a new long-term pay framework. In the meantime, the Government will also continue to review the process, to identify further opportunities for streamlining existing controls.

Introduction of a corporate recognition scheme

122. The Government also proposes the introduction of a new corporate recognition scheme. The aim of this scheme will be to further acknowledge and reward exceptional contributions to cross-government initiatives from SCS that go above and beyond their day-to-day roles.

123. The scheme will grant small one-off recognition awards (c. £1,000) to SCS of any grade, nominated to and approved by the Cabinet Secretary via their Permanent Secretary. The scheme will operate in-year with awards made on a rolling basis, funded from the existing (yet underused) PRA pot, to a maximum of 0.1% of the current 0.5% PRA funding per annum.

Principle 3: Movement around the system

124. In order to control movement around the system, internal 'poaching', staff moving too quickly, and to create savings that can be reinvested into existing SCS, internal pay decisions should not be influenced by salary levels at which jobs are advertised externally. From 2018/19, the Government proposes that all departments will begin to apply the following SCS pay policies consistently for Deputy Director and Directors:

- That no increase is given for moves on level transfer; and
- On promotion, SCS receive no more than 10% increase or the minimum of the new grade.

125. Flexibility will, however, be available in cases where internal candidates are moving to roles with greater scale or responsibility for increases to be offered, with agreement from the Permanent Secretary and relevant Heads of Profession.

126. Background and the evidence for this proposal for the SSRB's consideration is outlined in the section that follows.

127. **SSRB is invited to comment on this policy change, in light of the Government's overall proposal to use paybill more efficiently and ensure the right incentives in the SCS pay system overall.**

Background to current SCS pay policies

128. In its commitment to review the SCS pay framework, the Cabinet Office undertook to *"review and clarify the policies for pay on promotion, pay on appointment and pay on movement. All SCS appointments below Permanent Secretary level are now open to external candidates as well as existing staff. The review will consider whether the existing central guidance, last reviewed in 2010, remains appropriate."*

129. Cabinet Office guidance, in place since 2010, is that:

"For individuals promoted to a job in a higher pay band, their base pay will increase by the better of:

- *the minimum of the higher band; or*
- *a promotion award of up to 10% (or up to 5% on promotion from PB1 to PB1A or PB1A to PB2*
- *Where a post is advertised externally and an existing civil servant is successfully recruited to the post, appointment should be within 10% of the advertised circa salary level or salary range (even if this is not on promotion). Where existing civil servants are already paid more than the maximum advertised, this may mean that the individual does not receive a pay rise."*

Current practice on pay increases for SCS on movement

130. The following conclusions emerged on the impact of existing pay policies and how SCS are moving around the system from the review of SCS pay undertaken earlier this year:

- Departments have used pay increases on movement to address short-term needs because the pay system is otherwise inflexible (with only limited tools available to tackle retention issues or reward staff for remaining in role). This has, however, has led to random and unequal results.
- Various approaches are being taken to advertising salaries at the outset with some departments using the whole range, others using a circa rate or smaller pay ranges.
- Differing application is then being applied by departments on the treatment of internal staff based around the 2010 Cabinet Office rules.
- The move to an 'external by default' recruitment policy for the SCS has resulted in advertised rates being pitched higher than previously. A pay on appointment/promotion policy that allows departments to offer internal candidates within 10% of the advertised rate has meant that in many cases

internal candidates are getting pay increases in excess of the 10% or pay band minimum (whichever is higher) norm.

- 73% of all recruitment into the SCS in 2016/17 is from internal moves and therefore we need to consider this in setting policies.
- It is clear that a differential approach is taking place as, in 2015/16, 22% of SCS moving on level transfers appeared to receive an increase in pay and 28% of promotions within SCS (to Director or Director General) received an increase in excess of 10% or pay band minima.

<u>The case for a more consistent approach</u>

131. There are three main reasons why the Government believes this principle is the right approach to be putting forward for 2018/19:

- *The current guidance on pay on movement/transfer that have been in place since 2010 was made for a different time.* It does not reflect the current context and challenges of the SCS pay system, specifically:
  - Most jobs are now advertised externally (however it is still the case that almost three quarters of new entrants into the SCS are internal). This was not the case when the original policies were introduced.
  - Of those jobs externally advertised, some but not all departments are following a policy where SCS get increases on movement. The practice of how salaries are advertised (i.e. full range, smaller range, circa rate) is also inconsistent. In practice, only around 22% of SCS received an increase through a level transfer in 2015/16 and 28% received an increase above 10% or pay band minima on promotion.
  - The system has been able to develop and operate without sufficient control. We cannot be sure the ‘right’ staff are being rewarded compared to other moves or those who remain in role.
- *The inconsistent application of these pay policies are exacerbating the wrong incentives.* We want to move to a pay system that values *depth* as much as breadth of experience, with neutral incentives (i.e. money is not the main factor, or an additional factor, that encourages SCS to move roles). The evidence shows that the median time in post for SCS is two years and in grade is three years and the anecdotal view is that movement remains too frequent, which is damaging the development of the SCS cadre and organisation overall.
- *Current practice has a potentially disproportionate impact on women.* Whilst 42% of those SCS who moved on transfer last year were women, they made up only 34% of those who received a pay increase. 38% of those promoted were female. Women, however, made up only 24% of those who got a higher than standard salary increase on promotion (higher than 10% or the pay band min).
- *Efficiencies can be re-invested to support wider pay reform***.** Tackling inefficiencies on pay on movement will generate efficiencies to make

structural changes elsewhere by narrowing ranges and targeting pay anomalies.

Further considerations

132. The following considerations have been made regarding implementation of this proposal:

- This policy will not stop all movement of SCS, but will reduce movement to ensure it is of benefit to the individual's development and the department's business needs.
- A process for 'exceptional cases' would still be available where individuals could get a pay increase on transfer/promotion for moving into a role of greater scope or responsibility (with approval from the Head of Profession and Permanent Secretary and transparent reporting to the Chief People Officer).
- Disparities between internal/externals would only be kept during the 'transition' to a new pay framework. In time and as we increase the insights used, consistency of the SCS pay framework and specialist capability of internal staff, there should be less and less need for the Civil Service to external advertise at high levels for specialist skills it needs from the outside.

SECTION 5: WIDER PROGRESS RELATED TO THE SCS WORKFORCE

133. Finally, this section outlines progress in a number of areas outside the work outlined to reform the SCS pay framework for the SSRB to note this year:

Diversity and Inclusion

134. The Civil Service Diversity & Inclusion Strategy, published on 16 October, builds on the commitments set out in the Workforce Plan, including the ambition for the Civil Service to be the most inclusive UK employer by 2020. Previous initiatives have been focused on improving how women and minority staff operate and engage in the Civil Service - implying a deficit model where staff from diverse backgrounds need to learn to operate in a system. The Government's new strategy takes a more progressive, strength-based approach which responds to the systemic issues that cause the barriers to diversity and inclusion in the Civil Service and values diverse views and ways of working as important to delivering better outcomes for a diverse UK.

135. The Civil Service is more diverse now than at any time in its history. The proportion of civil servants who declare a disability (9.9%) and those who are from a Black, Asian or minority ethnic background (11.6%) are at record highs. Successful activity to improve diversity and inclusion in the Civil Service in the last few years has included:

- Doubled the number of participants on the Future Leaders and Senior Leaders programmes and have now reached our ambition to have at least proportionate representation (compared to the representation at grade) of BAME, Women, LGBO[8] and disabled colleagues.

- Implementing recommendations from the independent Bridge Group report, which set out in detail how we could increase social mobility in the Civil Service's flagship graduate scheme, the Fast Stream. This includes expanding outreach to cover more highly ranked universities, offering better incentives for interns to apply, shortening the length of the assessment process to under 12 weeks, and opening regional assessment centres.

- Our commitment for fairer and transparent recruitment and selection has put us in a stronger position to increase future hires into Director General grade of ethnic minority and/or disabled people.

[8] The Office for National Statistics reports Civil Servants' sexual orientations as Heterosexual / Straight, Gay / Lesbian, Bisexual or Other. The term LGBO is used to refer to staff who report belonging to one of the last three groups."

136. The Government acknowledges, however, that the Civil Service still needs to go further on improving representation, especially in the more senior grades.

137. Women currently make up over 40% of the SCS which is greater than the representation of female executives and Board Directors in the FTSE 100 companies (26%), but Ethnic Minority and Disability representation at SCS level is unacceptable, at 4.8% and 3.6% respectively.

138. The new Strategy sets out a number of areas where the Government now intends to target future action by:

- Publishing targets for the Civil Service as a whole (on flow of ethnic minority and disabled staff into the SCS), and for departments (no mandate to publish but they can if they want) with accountability for delivery.
- Establishing a Task Force - to identify, recruit and develop people with Perm Sec potential from ethnic minority and disabled backgrounds.
- Establishing a programme focused on increasing Ethnic Minority representation.
- Refocusing the Disability Inclusion Programme so it drives effort towards increasing flow of disabled people entering the SCS.
- Publishing SEB measures and begin to baseline across the CS
- Increasing and maintaining the grade proportionate representation of diversity in our accelerated development schemes.
- Establishing industry standard metrics for inclusion across the CS.
- Establishing quality standards for inclusive leadership - to be incorporated into competency framework (and its future evolution)
- Taking forward a programme of culture audits to help departments, functions and professions know where they need to take action and on what.

Pensions

139. In line with the SSRB’s recommendation that workforce employers should examine the options for making pension packages more flexible, The Government has been considering the options available to bring more flexibility to the pensions arrangements in the Civil Service, given the impact of recent pension tax changes on the value of the pension offer for many senior civil servants.

140. While most individuals would still be better off remaining in the pension scheme, individuals affected by annual and/or lifetime allowance issues may wish to consider the Partnership pension scheme as an alternative to their current scheme. Until now this has not been available to everyone - members of staff who joined before 2002 and are in the

transitionally protected group of the Principal Civil Service Pension Scheme (usually Classic) were not eligible to join Partnership.

141. The Government will extend the eligibility of the Partnership pension scheme to all members of the Civil Service pension scheme arrangements from 1 April 2018.

142. The Government will continue to explore the possible options to bring more flexibility to pension arrangements in the Civil Service, taking account of fiscal considerations.

Senior pay controls

143. Pay proposals continued to be subject to the following controls:

I. Chief Secretary sign off process for all packages of £142,500 and above (or any other defined threshold that may be agreed by the Chief Secretary), performance awards of more than £17,500 and Pivotal Role Allowance applications (where the approval of Minister for Government Resilience and Efficiency is also required).
II. Cabinet Office approval to pay above SCS Pay Band 1 maximum.

144. HM Treasury reviewed the controls process over the summer and will issue revised guidance to departments to take effect from 1 January 2018. The aim of the policy and the process remain essentially the same, but Treasury has taken the opportunity to clarify, add detail and update certain areas of the senior pay controls. The principal changes are:

- The threshold will increase to £150,000;
- Contract extensions for the same individuals on identical terms will no longer require approval through the usual process, unless the last approval was undertaken more than five years before or the individual was appointed on an interim basis;
- Secondments into the Civil Service - where the departmental contribution towards the remuneration package is £150,000 and above - should be considered within the scope of the guidance unless otherwise agreed by the Cabinet Office and Treasury teams; and
- NHS Very Senior Managers will be removed from this system and controlled instead by the Secretary of State for Health will report biannually to the Treasury.

Corporate talent schemes

145. The Civil Service continues to grow its own talent and identifying future members of the SCS. There are three main corporate talent schemes:

I. **Senior Leaders Scheme (SLS)** - To accelerate the development of the pipeline for future leaders from the SCS1 cadre for key Director & DG roles.

- SLS started in 2012 with 48 participants. 12 cohorts to date across five years, with participant numbers remaining steady until the 2017 and 2018 intake where numbers doubled to 95 and 96 respectively, reaching our aim of 2-3% of the SCS1 population;
- In 2014/15 the percentage of SLS participants that have resigned (1.7%) was lower than the resignation rate for DDs overall (3.3%).

II. **Future Leaders Scheme (FLS)** - To improve corporate visibility of the Grade 6/7 talent pool and accelerate their development to SCS.

- FLS started in 2013 with 86 participants. 31 cohorts to date across four
- The number of participants has increased year on year, and doubled in 2017 to to reach 1% of G6/7 population (370-400). This has continued for the 2018 intake where 408 candidates have gained a place on the scheme.
- In 2014/15 the percentage of Future Leaders Scheme participants that resigned (1.7%) was lower than the resignation rate of G6/7s overall (2.3%).

III. **Civil Service Fast Stream -** An accelerated career path to leadership and supported development with a graduate employer that consistently ranks in the top five of The Times Top 100.

- Recruitment of Fast Streamers at a record high – 1,245 Fast Streamers recommended for appointment in 2016, up from 967 in 2015.
- The percentage of those that declined the offer in 2016 is down to 22% from 23% in 2015;
- There were 2,215 Fast Streamers across all schemes as at 31 March 2016.
- 26 applications per appointment for the Fast Stream in 2016.
- The resignation rate of Fast Streamers has been higher than that of their HEO/SEO counterparts in the last two years – 5.7% vs 2.3% in 2015/16.

146. In addition there is a High Potential Development Scheme to accelerate the development of Directors with the greatest potential to progress to Director General and potentially beyond and an Individual Development Programme to equip high potential DGs for the step-up to Permanent Secretary.

Permanent Secretaries

147. A robust framework for starting pay on appointment applies to Permanent Secretaries. The three-tiered model is based on agreed rates of pay for posts, based on job size and complexity. This applies regardless of whether it is an internal promotion or an external appointment.

148. As for other members of the SCS, the highest performing (‘Top’ 25%) Permanent Secretaries are eligible for a non-consolidated performance related payment. This is assessed by the Permanent Secretary Remuneration Committee (PSRC) comprised of an independent chair, external members and includes the Cabinet Secretary, the Chief Executive of the Civil Service and the Permanent Secretary to HM Treasury.

149. The PSRC considers Permanent Secretary performance on the basis of a wide range of robust evidence and feedback, including from the relevant Secretary of State/Minister and Lead Non Executive Director and a variety of business performance metrics. The Non-consolidated performance related pay for Permanent Secretaries is currently set at £17,500. The Prime Minister approves PSRC’s recommendations for consolidated base pay and non-consolidated performance pay.

150. PSRC used the 1 per cent average award available for Permanent Secretaries to provide flat rate increases for those in the top two performance groups.

151. PSRC also considered proposals to raise the Permanent Secretary pay band minimum to £150,000 from £142,000. This followed a review into Permanent Secretary pay which showed that the lower end of the pay band was not being used and that all recent Permanent Secretary appointments had been comfortably above £150,000. In light of this, and after consulting the SSRB, the change was implemented.

Permanent Secretary pay structure from 1 April 2017

Tier	Minimum (£)	Maximum (£)
1	£180,000	£200,000
2	£160,000	£180,000
3	£150,000	£160,000

152. The salary bandings of Permanent Secretary posts (as at October 2017) is at Annex C.

Exit interviews

153. SSRB agreed in their 2017 report that the Government should continue to emphasise the importance of departments undertaking exit interviews with all SCS resigning from the Civil Service. This year Cabinet Office has continued its concerted efforts to improve departments' compliance with the standard exit interview process.

154. Data is available for 83 SCS exit interviews between October 2016 and end of September 2017. Due to data collection timelines with departments, we do not yet have the confirmed number of SCS resignations for this same period. We therefore cannot currently calculate the number of returns as a proportion of all SCS exits.[9] For the previous year 2015/16 we received 66 SCS exit interviews, 37% of total exits for that year.

155. Our analysis of data from these interviews shows the following headlines. A copy of the full analysis is included in slides 24 to 27 of the accompanying data pack:

- 28% exits went to private sector, 25% to the wider public sector;[10]

[9] This analysis will be updated once annual figures on SCS resignations are available.
[10] Of the remaining leavers: 8% went to the Charity/Non Governmental sector; 7% to Consultancy; 7% to Local Government; 6% to NED roles; 6% were undecided; 12% did not report their destination.

- Career development ‘elsewhere’ was the most cited reason for resignations (57%), a change from 2015/16 when the top 3 reasons cited were all related to pay and benefits;
- However, pay remains a factor for 81% regrettable losses and 60% of all exits;
- Pay was a larger motivating factor for SCS moving to the private sector (76%) compared to those going to wider public sector (52%) or becoming a consultant or NED (36%); and
- Around a third of exits indicate that they may come back in future and 83% rated their experience in the Civil Service as Good or Very Good.

156. These headlines and full underpinning analysis have been used to inform this year’s Government evidence. However, analysis has focused on certain areas for which higher quality data is available. The Government acknowledges that efforts should continue to maximise the quantity and quality of exit interview data available as a signpost to potential recruitment and retention issues.

157. For this reason, we have launched a review this year of the end-to-end SCS exit interview process, engaging with departments to understand the barriers they face when undertaking SCS exit interviews; and to co-design solutions, so that we can continue to improve the rate and quality of responses across those SCS resigning. From our work thus far, we initially conclude that the current process and products are fully fit for purpose; however more can be done to help departments improve response rates by communicating the importance of exit interviews to those resigning and their line managers; and refine the year-round process for returning exit interview data to Cabinet Office.

EU Exit

158. The vast majority of civil servants are not engaged directly on EU Exit work and continue to deliver important public services with dedication and skill. For those who are affected, planning and managing the UK’s successful exit from the EU is a significant task and has placed an immediate pressure on resources. The Civil Service has been increasing its capacity and capability to meet this challenge, bringing on its own talent, investing in specialist skills and sourcing external support where necessary. The majority of additional roles required are, and are likely to continue to be, at delegated grades. However, where additional capability is required at SCS level, the focus is likely to be on scarce specialist skills, often with a strong external market (i.e. trade, commercial, digital, project delivery etc.). We will ensure that the new pay ranges reflect the ability to recruit into these roles where required.

Annex A – Assessment against SSRB Priorities for 2018/19

SSRB priority	***SSRB assessment of SCS in 2017***	***How the priority has been addressed in 2018 proposals***	***Activity planned in the long-term by Government for this SSRB priority***
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.*	*Commitment to develop SCS pay and workforce strategy, but no concrete proposals.*	Future workforce vision and plans for reform of SCS pay framework (based around three core principles) set out in this year's evidence and will form foundation for work to implement change to SCS pay over the next three years.	The Government will continue to use the SCS workforce vision and core principles outlined in this year's evidence as it looks to consider further productivity gains that could be made through a wider review of the structure and capability of the SCS workforce.
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.*	*Potential interest, but no firm commitment or proposals.*	This year's proposals focus on using existing funding more effectively to make marginal productivity gains and maximise outcomes. In addition in 2018/19, the Government proposes introducing a new flexibility from reinvesting savings (from operating more consistent pay policies) to begin funding structural reform of the pay system.	The Government will consider during 2018/19 further productivity gains that can be made through a holistic review of the SCS workforce structure and capability to explore options to further improve outcomes at lowest cost.
Action on poor performance: *Greater analysis is required of where value is being added and*	*Little direct evidence. Data shows higher performers less likely to leave, but accuracy of data unclear.*	The Government acknowledges that current pay arrangements for the SCS do not adequately differentiate performance and has taken an approach to the development of this year's proposals that prioritises high performing SCS (e.g.	The Government intends to consider the potential implications of future changes to the workforce structure and capability on the wider SCS performance structures. How this impacts processes in place to identify and tackle poor performance will be considered as part of this.

action taken where it is not.		prioritising their movement to new pay range minima).	
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*	*Established performance management system, but not trusted by staff. No specific commitment to review.*	This year's proposals aim to maximise the effectiveness of existing funding available within the boundaries of the current SCS performance management system, as well as offering new opportunities to reward outstanding contributions (e.g. the corporate contribution scheme).	SCS performance management structures will be reviewed next year, as part of the wider review of SCS workforce structure and capability.
Better data: *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*	This year as part of the review of the SCS pay framework, significant analysis has been undertaken of the impact of current pay arrangements on the workforce. Headlines from this are outlined as part of this year's evidence, along with the usual workforce data the Government has provided to the SSRB in previous years.	The Government will continue to improve the quality of its data, including a further review of the exit interview process to maximise compliance. Recruitment and retention data will continue to be monitored for the SCS.
Feeder Groups: *The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data*	*Limited data available. No evidence of major concerns.*	The Government will continue to run three main corporate talent schemes and ensure they are attracting and supporting the development of a diverse range of staff within feeder grades.	The Government is committed to growing its own Civil Service talent and identify future members of the SCS. Strengthening professional anchors in the Civil Service as part of the SCS pay framework review will support the development of stronger career

relating to them needs careful scrutiny for early warning signs of impending problems		Data continues to indicate no significant recruitment and retention concerns at this level, though situation will continue to be monitored.	pathways, developing talent pipelines into SCS roles with a more diverse range of skills and experience.
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.*	*Departments can target, but lack of general framework for doing so.*	The new pay framework as outlined in this year's Government evidence has been developed with the aim of targeting funding to where it will be of greatest benefit (e.g. to retain and motivate high performance) or is most needed (address pay anomalies in the existing system). This year, the Government has considered how existing funding for the SCS is being used and developed proposals to ensure it is maximising effective outcomes.	In the long-term, the Government will continue to move in the long-term to a new pay framework that tailors reward arrangements by professional grouping, to ensure funding is being targeted at the skills we are short of and to retain the very best performers, while motivating the whole SCS cadre.
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.*	*Tension between central and departmental control.*	The Government has recognised the need to develop a more comprehensive overall SCS pay framework for departments to operate within, to drive greater consistency in the approach taken across government to the SCS cadre. At the same time, proposals for this year - as far as possible – have aimed to increase the flexibilities available to departments to allow them to effectively reward and target senior leadership in their organisation.	The Government has also recognised the increased importance of functions and professions in driving career development and improving capability across departments. It will work over the course of the next year to consider the need for specific pay ranges for particular professions, ton increase the role of professions and functions in pay decisions for the SCS in future.
Diversity: *The senior workforces within our*	*Relatively good performance on gender,*	Publication of this year's Diversity and Inclusion Strategy sets out how the Government intends to	The Government intends to continue to push forward activity as outlined to improve

remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	*but poor on ethnicity, and smaller proportion describe themselves as disabled than in 2004.*	drive activity to improve representation at all levels in the Civil Service, including amongst the more senior grades. This year's proposals on pay (and the long-term vision for a future pay framework) have also taken due regard to the impact these may have on different groups within the SCS.	representation at all levels in the Civil Service (particularly to improve performance on ethnicity and disability) and inclusivity in the workplace. The impact of proposals this year on different parts of the SCS workforce will continue to be monitored.

Annex B - SCS PAY 2017/18 – APPLICATION OF AWARD BY MAIN DEPARTMENTS

Department	Consolidated base pay award, including action to target award describing: • *Mechanisms for reflecting performance and position in pay range.* • *Any specific actions to make higher awards to top 25% performers.* • *Any action or contingencies for targeted repositioning to retain scarce skills or to address other pay anomalies.*	Total cost of raising staff to new minima from 1 April 2017 as a proportion of 1% average award (e.g. it cost 20% of the 1% award)	Non-consolidated performance pay pot. *Confirming whether or not the full 3.3% pot is being used for end year and in year contribution awards.*	End year non-consolidated performance related pay for 2016/17 performance *Specifying the level of individual end year awards by pay band (for 2016/17 performance).*	In year contribution awards for 2016/17 performance (within the framework set by Cabinet Office). *Including information on: number of awards (currently limited to 10% of departmental SCS cadre); Level of individual awards (capped at £5,000); actions and behaviours being rewarded and timing of award. (i.e. throughout year or at specific review points e.g. mid-year, quarterly etc.)*
BEIS	Given that performance is recognised in annual performance awards it was agreed that the fairest approach was for an even amount to be paid to staff determined by grade. The increases paid with effect from 1 April 2017 (excluding the bottom 10% of performers) were therefore: Deputy Director: £732 Director: £832 A total of £20,000 was set aside to address pay anomalies.	Nil. As the minima in both former BIS and former DECC were already higher than the new DD minimum, no funds were spent raising staff to the new minima from 1 April 2017.	The full 3.3% pot was used.	Deputy Director: £8,250 Director: £9,250 DG: up to £10,250	A total of 19 (10% of the BEIS SCS population as at 1 April 2017) in-year awards/near misses have been paid. All awards were £4,000 11 of these awards were paid to 'near miss' performers ie staff just below the top 25% assessed staff in the 2016-17 performance year. A further 8 of these were paid as in-year awards, rewarding specific, discrete 'one off' pieces of work.
Cabinet Office	- SCS pay award based on average pay awards limited to up to 1%. - SCS pay range minima increased so anyone who was earning below the new minima was automatically uplifted to the new minima. - Tiered-approach used to weight pay award towards staff below the Whitehall median	15%	The full 3.3% pot was used.	£10,000 for all SCS grades	Up to 15 in-year bonus awards – full 10% flex All awards are capped at £5,000 The actions and behaviours being awarded are all that are as per the criteria mentioned above: - End year near misses - Corporate contribution - Cross-departmental

<table>
<tr><td></td><td><table>
<tr><th>Performance Marking</th><th>Consolidated Award Below Median*</th><th>Consolidated Award Above Median*</th><th>Consolidated Award Above Referral**</th></tr>
<tr><td>Top</td><td>1.5%</td><td>1.25%</td><td>0%</td></tr>
<tr><td>Met</td><td>1%</td><td>0.75%</td><td>0%</td></tr>
<tr><td>Low</td><td>0%</td><td>0%</td><td>0%</td></tr>
</table>
and staff above the median but below the Cabinet Office referral points.
- Individuals whose pay fell above the Cabinet Office Referral points did not receive a consolidated increase (please see table below for details of consolidated percentages)

- In line with Civil Service wide policy, award of non-consolidated, one-off payments were paid to those with ‘Top’ performance rating
- Performance bonuses of £10,000 were paid to all top performers (25% of the SCS populations)</td><td></td><td></td><td></td><td>- Project milestones
Awarded at specific review points on a quarterly basis.</td></tr>
<tr><td>Department for Communities and Local Government</td><td>• For SCS1s, pay awards were based on a matrix that took into account both performance and position in the pay range. Used the G6 max as a break point. Awards of between 0.7% and 1.6% granted, with exceptional performers at the bottom of the range receiving 1.6%
• For SCS2s, a matrix approach was also used, taking into account both performance and position in the pay range. Directors who were exceptional received a £2,000 award; those who</td><td>15.7%</td><td>The full 3.3% pot was used.</td><td>SCS1 - £9,000
SCS2 - £12,000
SCS3 - £15,000</td><td>• Full 10% limit used
• 6 awards were granted, 4 at £3,000 and 2 at £5,000
• 5 of the awards were end-year near misses and the remaining award based on the delivery of specific objectives (exceptional leadership).</td></tr>
</table>

	were Good and with salaries below £90k received £1,100 and those who were Good and above £90k received £600 • DGs received 1%				
Department for Digital, Culture, Media and Sport	DCMS paid at 1% of the median for the grade, which was a fairer means of rewarding and recognising performance, resulting in employees near the bottom of the pay range receiving a proportionately higher award and was consistent with our approach for the delegated grades. DCMS also sought to award targeted increases for three employees to be equal with the base salary of other directors in order to retain skills. DCMS also looked to use the remaining pot targeted to low pay at SCS Pay Band 1. This was achieved by uplifting employees to an artificial breakpoint for top and mid-performers, the value of which was determined by the remainder of the pot. This rewarded top performers, enabling them to progress more quickly through the pay ranges.	13.9%	The full 3.3% pot was used.	Individual end year awards were only awarded to top performers at SCS PB1 this was at £8.090 per individual. There were no payments end year awards made at SCS PB2 or PB3	Issued five in year awards (limited to 10% of departmental SCS cadre of 45) and the level of the award were capped at £5,000. The awards were issued throughout the year, one in October 2016 and four in February 2017
Ministry of Defence	Increase determined by the performance group assessment and percentage progression across the pay band. Therefore high performers at the bottom of the pay scale receive the biggest annual pay increase. Not planning on targeting awards.	11%	The full 3.3% pot was used.	SCS1 - £10,600 SCS2 - £12,500 SCS3 - £15,500	Planning to implement 2018/2019. Proposals to be worked up.
Department for Education	DfE made flat rate consolidated awards to those with an ‘achieving’ and ‘top’ performance rating so that those at the lower end of the pay scale received a larger percentage pay award. Repositioning of individuals to spot rates who were relatively low in the payband but had	6%	The full non consolidated performance pot was used for end year and in year	SCS1 - £7,000 SCS2 - £9,000 SCS3 - £15,000	14 in-year awards were made at values of up to £5k – full 10% flex used Awards were primarily given to end year near misses but others received awards for their wider contribution.

	sustained high performance was also done.		contribution awards.		
Defra	Base pay awards based on a matrix approach with higher awards for top performers and those below the median for each pay band. Targeted higher awards for those SCS who have been stuck on the Pay Band 1 minimum for a number of years due to annual increases to minima. No base pay increases for the highest earners – salaries over £100k at PB1, £120k at PB2 and £140k at PB3 - and those moderated as low performers.	13.33%	Approximately 3.2% of the non-consolidated pot is used.	SCS1 - £11,000 SCS2 - £13,000 SCS3 - £15,000	• Full 10% limit used • Awards made to 9 roles, including 1 jobshare role, so 10 payments made in total. • Awards were £5,000 each. The 2 SCS in the job-share role received £2,500 each. • Awards recognised corporate contribution and going the extra mile. • Payments were made in March 2017.
Department for Exiting the European Union	The consolidated increase was awarded evenly amongst SCS staff irrespective of; grade, position in pay range or performance i.e. 1% each – excluding those staff in 'must improve'. Chose to use the non-consolidated pot to differentiate awards based on performance.	17.32%	The full 3.3% was used for in year and end year awards.	SCS1 - £10,000 SCS2 - £11,000 SCS3 - £11,000	Made four in year awards in line with the 10% cap. The awards were all £4,750 and were made at the end of the year. The awards were a mix of end of year near misses and specific departmental contributions.
Foreign and Commonwealth Office	Awards for SCS/SMS 1 and 2 staff differentiated by performance level and whether below/above FCO median pay. Awards made after increase to minima. Awards for SCS/SMS3 staff differentiated by performance level.	32% of 1% used for increased minima.	3.3% used in full	Awards of £11,400 irrespective of pay band.	Did not pay in-year awards
Department of Health	Breakpoints applied at each Pay Band. Those whose salary was below their respective break point received a consolidated award of £1,000. Those above the respective break point received no award. Additional targeted consolidated awards of	3% of the available funding (1%) was used to raise staff to the new minima	The full 3.3% was used for in year and end year awards.	Awards of £10,500 applied to those assessed in Performance	The Department implemented the SCS In Year Contribution Award Scheme from Performance Year 2016/17. 12 awards of £5,000 were made – the full 10% limit Award criteria

	£5,000 were applied to staff particularly low in their respective pay range and with two years consecutive performance assessed in Performance Group 1, including Performance Year 2016/17 (Total of 5 individuals).	from 1 April 2017		Group 1 for Performance Year 2016/17. No differentiation by grade.	Short term contribution: Nominations considered quarterly with an award no greater than £1,000, e.g. : • An exceptional level of commitment, resolution and delivery to get a job done in challenging circumstances. • Exceptionally high standards of customer service/delivery, either in a strategic or operational role. • Short term special efforts to produce results in a positive, influential and constructive manner. • Short term increased job weight managed with flexibility and commitment to delivery. Sustained contribution: Nominations aligned to mid-year and end of year performance reviews with awards of up to £5,000 for exceptional delivery and contribution over a period of more than 3 months, e.g.: • An outstanding contribution over and above what would be expected for the job and of the person concerned/in a particularly demanding situation. • Enhanced level of contribution and implementation of ideas which led to improved departmental/Civil Service performance, greater efficiency, improved teamwork, cost savings, etc. • Taking on an additional work area/project for a high level of absence over a number of months with no/minimal impact on delivery, demonstrating flexibility, integrity, contribution and leadership. • Making a clear significant contribution to the Departments Diversity and Inclusion agenda. • Demonstrating leadership and improving engagement within DH. • Making an outstanding contribution to delivering

					against the wider Health agenda. • Nominations will be considered on a quarterly, mid year and end of year basis.
Home Office	Higher value awards were targeted at those nearer the start of the pay ranges. SCS1 minima increased to £66,000. No specific actions to pay higher awards to those in the top 25%. Insufficient funds for targeting scarce skills or anomalies.	3%	Home Office non-con pot is 2.8% and being used in totality.	SCS1 - £7,000 SCS2 - £10,000 SCS3 - £13,000	21 awards (9% of 10% limit) Highest value = £5,000 Lowest value = £3,000 Corporate contributions Project milestones Additional responsibilities Demonstration of leadership behaviours Spread throughout the period November 16 to March 17
Department for International Development	Pay deal was differentiated with a 0.8% increase across the board to those who were performing to an acceptable level and eligible and those Deputy Directors salaries increased to £73,900 if they were below this level.	0%	Full 3.3% used.	SCS1 - £5,000 - £7,000 SCS2 - £6,000 - £8,000 SCS3 - £7,000 - £9,000	Used full 10% flex £2,000 to £9,000. Near misses and significant excellence Paid at mid-year.
Department for International Trade	With the 1% average award, a matrix approach was operated to differentiate on performance and position in range. The highest increases were available for those who achieved 'Top' performance and were in the lower quartile of the pay range. Approximately 20% of the overall 1% average award was held back to target specific pay anomalies – this was spent on 5 members of staff identified as having anomalous pay relative to their peers.	8.4%	Full 3.3% used	SCS1: £9,500 SCS2: £11,500 SCS3: £15,000	n.b. as DIT was not created until part way through the 2016/17 performance year, its predecessor UKTI fell under the allocation given to former BIS. DIT awarded 1 in year award to a SCS member of staff following the creation of the department in its own right. This was at £1,000 and in recognition of covering the Chief Economist post in a critical period and contribution to building DIT's analyst profession. The timing of this was ad hoc.

<table>
<tr><td>Ministry of Justice</td><td>SCS staff received consolidated performance awards of £700 for a “top” performance marking (top 25% of SCS workforce), £500 for an “achieving” marking (65% of workforce), and nil for “low” (10% of workforce).
In addition, targeted action uplifts averaging around £7,500 have been applied to nine key posts.
In total these increases account for approximately 80% of the budgeted 1% award.</td><td>20%</td><td>The full amount of the 3.3% pot continues to be used for end-year awards to the top 25% of SCS performers (approx. 90% of the pot) and in-year awards (approx. 10%).</td><td>SCS1 - £10,000
SCS2 - £12,500
SCS3 - £15,000
.</td><td>An in-year scheme was launched in November 2016 –full 10% flex used
23 individuals received in-year bonuses.
The individual awards ranged from £450 to £3,200.
Awards were made mainly for project milestones and corporate contribution such as leading on key strategy projects, resolving major challenges and high quality operational leadership.
Awards were submitted for Perm Sec approval on a monthly basis.</td></tr>
<tr><td>HM Revenue and Customs</td><td>Consolidated award for all SCS, including further targeting to raise salaries to:
SCS1 National - £69,000
SCS1 London - £72,500
SCS2 - £91,500</td><td>2%</td><td>Using entire 3.3% for end of year and in year rewards.</td><td>SCS 1 - £9,500
SCS 2 - £12,500
SCS 3 - £17,000</td><td><table>
<tr><td></td><td>SCS1</td><td></td><td>SCS2</td><td></td><td>T</td></tr>
<tr><td>Bonus</td><td>Sum</td><td>Number</td><td>Sum</td><td>Number</td><td></td></tr>
<tr><td>1000</td><td>7000</td><td>7</td><td></td><td></td><td>7</td></tr>
<tr><td>2000</td><td>28000</td><td>14</td><td>2000</td><td>1</td><td>3</td></tr>
<tr><td>2500</td><td>2500</td><td>1</td><td></td><td></td><td>2</td></tr>
<tr><td>4000</td><td>4000</td><td>1</td><td></td><td></td><td>4</td></tr>
<tr><td>4500</td><td>4500</td><td>1</td><td></td><td></td><td>4</td></tr>
<tr><td>5000</td><td>5000</td><td>1</td><td>5000</td><td>1</td><td>1</td></tr>
<tr><td>Grand Total</td><td>51000</td><td>25</td><td>7000</td><td>2</td><td>5</td></tr>
</table>
Awards paid in 2016/17 for exceptional corporate contribu term, immediate government priorities, while maintaining
Bonuses paid throughout the year to provide immediate re
These awards represent 8% of the 10% of SCS limit. HMI but was constrained by 3.3% cost limit.</td></tr>
</table>

Department for Transport	Dft continued with previous years' policy of dividing the range of salaries in each band into quartiles, from 1 (lowest) to 4 (highest). Pay awards for DfT and its Executive Agencies were as follows: Quartile 1 – 1.4% Quartile 2 – 1.2% Quartile 3 – 1.0% Quartile 4 – 0.7% The SCS1 and SCS2 minima was increased by £2,000, rather than £1,000 to help with the SCS affected by the Grade6/SCS1 and SCS1/2 overlaps. Staff who were not eligible were those who: - Were assessed in the 'Low' performance group - Became substantive SCS after 1st October 2016 - Were promoted within SCS after 1st October 2016 - Were paid above the maximum of their pay range - Had left the Civil Service by 1st June 2017 These additional eligibility criteria allowed the Department to award higher pay awards to those lower down the scale than would have otherwise been possible.	3%	The full 3.3% pot was used.	SCS1 - £14,000 SCS2 - £15,500 SCS3 - £17,000	The full 10% of SCS limit was used - 19 awards of £5,000 each for outstanding contribution during the year and delivery against the Department's objectives, such as delivery of financial efficiency targets in a challenging stakeholder environment. Eligible individuals were reviewed at year end and awards were paid in the same month as the pay award.
HM Treasury	After raising pay levels to the new pay band minima's, the HM Treasury Pay Committee agreed to award flat rate basic pay increases at SCS rated in group 1 and group 2, with effect from the 1 April 2017. These were £700 for PB1,	10%	3.29% of the non-consolidated pay post was used to award	SCS1 - £8,750 SCS2 - £12,000 SCS3 - £15,000	• Nine £5k (10% of SCS staff) individual in-year contribution awards made to recognize outstanding contribution. These were awarded to end year near misses and paid in July 2017

	£1,100 for PB2 and £1,400 for PB3. A very small number of pay anomalies were also addressed. In line with Cabinet Office guidance the Pay Committee considered individuals' position in the pay range and recent pay history, as well as any market intelligence on professional or specialist skills and relativities across the Department and the wider SCS.		end and in-year awards		
Department for Work and Pensions	DWP 2016/17 approach: • Uplift to new pay band minima • PB1 'Achievers' & 'Top' performers uplifted to £69k • PB2 'Achievers' & 'Top' performers uplifted to £92k • Flat cash award of £650 to PB1s, PB2s and 3s above 'target' rates [excluding Low performers] • Small balance retained for repositioning to reflect increased responsibility in grade. • No specific action to make higher awards to Top 25%	6.63%	The full 3.3% was used	SCS1 - £10,000 SCS2 - £12,500 SCS3 - £15,000	• 15 individual awards made (less than the 10% limit) • All awards £5,000 • Awards made for 'exceptional work', 'significant contributions' to key achievements, 'significant leadership and personal contribution', 'successful delivery' across a range of areas including Universal Credit, People & Locations, Operations and Finance. • In-year awards introduced mid-2016. Awards made January through March 2017.

Annex C - Allocation of Permanent Secretaries to Pay Tiers (in £5,000 bands)

Roles £190,000 - £235,000	
JJH Head of Civil Service – (195 – 200)	JAM Chief Executive of Civil Service – (230 – 235)

Tier 1 Roles (£180,000 - £200,000)	
Tom Scholar HMT – (185 – 190)	Stephen Lovegrove MOD – (180 – 185)
Simon McDonald FCO – (180 – 185)	Richard Heaton MOJ – (180 – 185)
Robert Devereux DWP – (185 – 190)	Philip Rutnam HO – (180 – 185)
Jon Thompson HMRC Chief Exec – (185 – 190)	Mak Sedwill National Sec. Adviser – (185 – 190)
Edward Troup HMRC Exec Chair – (170 – 175)	

Tier 2 Roles (£160,000 - £180,000)	
Leslie Evans SG – (165 – 170)	Jonathan Slater DFE – (160 – 165)
Alex Younger Secret Int. Service - (160 – 165)	Matthew Rycroft wef Jan 2018 (160-165)
Melanie Dawes DCLG – (160 – 165)	Chris Wormald DH – (165 – 170)
Bernadette Kelly DFT – (160 – 165)	Jeremy Fleming GCHQ – (165 – 170)
Andrew Parker Secret Service* (165 – 170)	Jonathan JonesTSOL – (160 – 165)
Antonia Romeo DIT – (160 – 165)	Shan Moran WG – (160 – 165)
Clare Moriarty DEFRA (160 – 165)	CO PM Adviser – (160 – 165)
Philip Rycroft DExEU* (160 – 165)	Sue Owen DCMS - (160 – 165)
Alex Chisholm BEIS (175 – 180)	

Tier 3 Roles (£150,000 - £160,000)	
Charles Roxburgh HMT 2PS – (155 – 160)	Charles Farr CO JIC Chair – (150 – 155)
Jonathan Stephens NIO – (155 – 160)	Patsy Wilkinson HO 2PS – (155 – 160)
John Pullinger ONS – (150 – 155)	

Specialist/Advisory Roles (may attract skills or market premium)	
Sally Davies DH - Chief Medical Officer – (210 – 215)	PV wef March 2018 BEIS/CO – Gov. Chief Scientific Adviser – Interim DG in role
Alison Saunders CPS - Director Public Prosecutions – determined by Judiciary panel (200 – 205	Crawford Falconer DIT 2PS – (260 – 265)

Tony Douglas MOD – CE Defence Equipment & Support – (285 – 290)	Elizabeth Gardiner CO First Parliamentary Counsel* (140 – 145)

* These Perm Secs receive some form of allowance in

Annex D – the Government Commercial Organisation

The Government Commercial Organisation (GCO) is a business unit in the Cabinet Office and the employer of all Commercial specialists at Associate Commercial Specialist (which is broadly equivalent to Grade 6) and above.

Following the Commercial Capability Reviews in early 2015 it was identified that there were too few senior commercial leaders with the required experience and expertise leading to a review of reward against the other sectors to understand our overall market position. This review alongside the evidence gained from failed recruitment campaigns led to the recommendation to adopt a new market-aligned commercial pay and grading model. The proposal also brought our senior commercial capability under a single central employer to improve capability, coordinate recruitment and enhance talent through a compelling career path and development offer.

The GCO Remuneration Framework was designed to enable the GCO to attract and retain the best Commercial experts externally to enhance the commercial capability in the Civil Service. The terms and conditions of the GCO are designed to mirror a private sector arrangement and to be cost neutral when compared to the Civil Service arrangements, but with a greater focus on higher base pay and performance related pay rather than pension benefits. The GCO operates an auto-enrolment compliant Defined Contribution pension scheme. A wide variety of evidence was used, including benchmarking data from a range of sources and our experience from failed external recruitment campaigns to inform the pay bands for the GCO. The agreed pay bands for the GCO were as follows:

Specialist Level	Base Pay Minimum	Base Pay Maximum	Non-consolidated Performance Related Pay Potential
Senior Commercial Specialist	£130k	£190k	20%
Commercial Specialist	£90k	£130k	20%
Associate Commercial Specialist	£65k	£95k	15%

Departments have been transitioning their Commercial Specialists across in the following waves into the GCO:

Date	Wave	Departments
1st February 2017	1	Department for Work and Pensions
1st April 2017	2	Ministry of Justice, Home Office, Central Commercial Teams, Department of Digital, Culture, Media and Sport
1st July 2017	3	Crown Commercial Service, Ministry of Defence, Department of International Trade, Department for International Development
1st September 2017	4	Department of Health, Department for Education, Department of Business, Energy and Industrial Strategy

1st November 2017	5	Department of Transport, Foreign and Commonwealth Office, HM Revenue and Customs

New recruits are recruited on to GCO terms and conditions whilst staff who transition across into the GCO and score an A at the Assessment and Development Centre have a choice as to whether they want to accept GCO terms or remain on their existing equivalent Civil Service terms. Individuals who achieve a B at the Assessment and Development Centre remain on their existing equivalent Civil Service terms. This means we have three populations of staff in the GCO:

- population 1 - those who are on GCO terms and conditions whose pay is determined by the GCO RemCo with no collective bargaining rights.
- population 2 - those who remain on their existing equivalent SCS terms whose pay is determined by the GCO RemCo but is informed by the Senior Salaries Review Body (SSRB).
- population 3 - those who remain on their existing equivalent G6 terms whose pay is subject to collective bargaining with the Trade Unions.

As at 30th September 2017, there were 220 people employed by the GCO, who are a combination of those who transitioned across and direct external hires. Whilst the GCO terms and conditions were designed to enable us to attract new recruits from the external market, they were also offered to eligible Civil Servants. Of the eligible population 28% have opted to take on GCO terms and conditions.

The first GCO pay remit was implemented on the 1st April 2017 and was only eligible for individuals on GCO terms and conditions. During the salary review process up to date benchmarking was assessed to understand if there had been any significant change since moving to the new reward model. This demonstrated that the market had moved by 1% at the Senior Commercial Specialist level and 5% at the Associate Commercial Specialist level, and the GCO Remuneration Committee decided to increase the pay band maxima for both of these grades by 1% to ensure we continued to remain attractive in the market place. The revised maxima for the SCS grade is £191,900 and for the Associate Commercial Specialist level is £95,950. Those that were eligible also received a 1% pay increase and a Performance related payment which was linked to outcomes they delivered.

Since the introduction of GCO terms, from the evidence we’ve had so far, we have been able to attract and retain Commercial experts externally who are helping to enhance the Commercial capability in the Civil Service.

Key GCO demographic data as at 30.9.2017

Workforce breakdown

Grade	# of Employees
Senior Commercial Specialist	27
Commercial Specialist	97
Associate Commercial Specialist	96
Total	220

External recruitment

As at 30.9.2017, 34 external recruits have been recruited and started working for the GCO.

Diversity data

TABLES - WORKFORCE DIVERSITY				
	Rate	**Workforce**	**CS and SCS grades**	**ACS grade**
% Female	100.0%	41.5%	40.9%	48.4%

Due to small numbers further breakdown by other protected characteristics is unavailable.

Median salary data

Grade	Median Salary Existing Equivalent Terms	Median Salary GCO Terms
SCS	£138,481**	£177,500
CS	£85,000	£118,961
ACS	£64,107	£84,040

** excludes those on ‘25’ contracts

Annex E - Summary of recruitment and retention concerns of the Government Finance function

- The Government Finance Function is confident that it is a 'market facing' profession with regards to pay and has compiled a strong business case to provide evidence for this based on the above context.

- Strong financial leadership is vital for delivering departmental objectives within pay constraints. Finance plays a strategic role in supporting high profile priorities such as exiting the EU and delivering agreed Spending Review efficiencies. Government Finance therefore needs to recruit and retain highly capable senior leaders.

- The Financial Management Review in 2013 highlighted the need to strengthen leadership capability across the function. This led to the establishment of a cross-functional approach to talent and resourcing at senior levels through the Financial Leadership Group (FLG). The FLG talent strategy focuses on growing and retaining talent internally through cross government talent forums and development programmes for Deputy Directors and Directors.

- This approach will not be sufficient to strengthen the pipeline to the most senior roles in Government Finance in the short term, as priorities outstrip supply of internal talent. To meet demand we also need to attract new talent from the external market who have the specialist skills required which has proved difficult.

- Finance Leadership Group has observed **difficulties in recruiting externally** through recent campaigns. The centrally coordinated SCS1 campaigns over the past two years have suggested that it is challenging to compete with the wider labour market for highly qualified finance professionals, as the current pay offer makes it hard to attract these individuals or retain them if recruited. The skills we require typically attract a premium allowance in other sectors. Where we have been able to attract external applicants through these campaigns, these individuals have agreed salaries that were between 41% and 53% above the SCS band minima.

- The recruitment challenges are exacerbated by **increasing retention issues with high performing finance SCS.** The turnover rate for SCS in Finance was 20.1% compared with 14.7% for the overall SCS population within the Civil Service for the 16/17 period. The data suggests leavers are talented finance leaders (those on the top line of the talent grid), that the function wants to retain. 70% per cent of SCS2 leavers in the past two years were on the top line of the talent grid (data from central records of leavers held by the Government Finance Function People and Capability team); 57% of SCS1s.

- An increasing trend is leavers exiting for the wider public sector and third sector where salaries are often higher, and more in line with the external market, than the Civil Service. Of those recorded leavers, 64% of SCS2s left for wider public sector or third sector roles; 57% of SCS1s. Although lacking in formal exit data, anecdotal evidence shows pay as a contributory factor in these. A continuation of the current trend will lead to a critical shortage of specialist skills in senior finance roles with a likely adverse impact on delivery.

- The function is currently managing the retention risk through the use of bulk Pivotal Role Allowances (PRA), an existing pay flexibility. Finance is the only function to have bulk applications approved which evidences the urgent requirement to address pay challenges. To date, 10 PRAs have been awarded in 7 months. This is 21% of all PRAs currently in place. Awarding PRAs is a short term approach that has limitations. The approach will not be sufficient to manage the overarching pay risks across the function. This is due to the volume of applications this would be required against limited departmental budgets, and the PRA being linked to the role not the individual.

- **External benchmarking** over a two year period indicates a growing gap between salaries for senior finance professionals in the Civil Service and those in the private sector and wider public sectors, with the majority of SCS1 and SCS2 finance leaders paid below the lower quartile benchmark for equivalent roles across the board. Market insights are particularly pertinent for Finance roles due to their direct equivalence in other organisations.