



Review Body on  
Senior Salaries

# Fortieth Annual Report on Senior Salaries 2018

REPORT No. 89

*Chair:* Dr Martin Read, CBE

Executive Summary

# Summary

## Annual review findings

1. Three remit groups are reviewed in this report: the senior civil service (SCS); the senior military; and police and crime commissioners (PCCs).<sup>1</sup> There are generally enough candidates to fill these senior roles and there are no widespread or immediate recruitment difficulties.
2. However, beneath the surface we see some worrying signs. These could lead to recruitment and retention problems or reductions in workforce quality in the longer term.
3. Pension changes have had a significant impact on the morale and motivation of some members of our remit groups. As we noted in our report last year, the changes to pension taxation have resulted in some very high marginal tax rates.<sup>2</sup> These changes are creating incentives for people to leave service earlier and are starting to influence individual behaviour and decisions.
4. Pay policy for our remit groups has tended to be characterised by long periods of rigidity, followed by reactive responses to specific pressures. Given that inflation and private sector wage growth have risen, the most talented staff may become increasingly dissatisfied with their overall levels of reward. It is not currently possible to quantify the extent to which these factors will affect retention rates or the future quality of recruits. However, the risk is greatest for staff with specialist skills and in the feeder groups, where staff are typically younger and have more time to build a second career.
5. We believe that the government does not currently have an adequate grasp of the extent of the potential risks nor a strategic approach to managing them. This should be addressed as a matter of priority. In this context, we are encouraged that we have been asked to carry out a Major Review of the judicial salary structure and that a commitment has been made to consider the results seriously and in a timely manner. There have also been welcome efforts to start developing a pay strategy for the SCS, although significant further progress is required to produce and articulate a coherent strategic plan.

## The role of the SSRB

6. A body such as the SSRB can consider the unique characteristics of senior public sector roles, provide government with independent and objective evidence of early warning signs, and facilitate transfer of best practice between different workforce groups. It is consistent with the approach taken by large private sector organisations, where an executive remuneration committee or similar body is responsible for reviewing senior pay.
7. It is of some concern that the SSRB's remit group coverage has been curtailed this year. Chief police officers are defined by statute as within the remit of the SSRB. However, responsibility for this workforce has been temporarily passed to the Police Remuneration Review Body. In addition, we are not reviewing Executive and Senior Managers (ESMs) in the Department of Health's Arms' Length Bodies this year. This latter change was at our own request, as we did not believe that advising on this remit group as currently constituted was either practical or sensible.

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<sup>1</sup> A Major Review of the judicial salary structure is currently being undertaken by the SSRB and a separate report, which will include a review of the annual pay award, will be published later in 2018. Executive and Senior Managers in the NHS have been temporarily removed from the SSRB's remit at our suggestion (see Chapter 6). The Police Remuneration Review Body has been asked by the government to consider Chief police officers this year, instead of the SSRB.

<sup>2</sup> See Chapter 2 on Pay and Pensions, SSRB 2017 report.

8. In recent years, the SSRB has advocated a much more strategic approach. We believe that annual pay settlements need to be considered by employers in the context of long-term objectives, their future operating model and the reward and workforce strategies required to support them. Annual changes can then be used as incremental steps along the path towards the long-term vision.
9. While the SSRB's strategic approach has been generally welcomed by government, progress against our strategic priorities has been disappointing. Areas of concern include the quality of pay and workforce strategies; too much focus on managing basic pay increases rather than outcomes; the lack of key management data in many areas; and many unresolved tensions between central and devolved control of pay.
10. This year, we have highlighted to the government how it can make better use of the SSRB. We are of the view that a strategic approach to senior public-sector pay is essential if government is to make progress on its overarching goals of improving public services efficiently and sustainably. We remain very willing to offer advice on these matters, alongside our annual recommendations on pay and reward for the different workforces within the SSRB's remit groups.
11. We believe employers need to develop innovative pay and workforce proposals and, with the change in public sector pay policy this year, have no excuse not to do so. These proposals should be focused on long-term outcomes, rather than simply on limiting basic pay increases across the board and then reacting in an ad-hoc manner when action becomes unavoidable.
12. The SSRB could deliver considerably more value if the government genuinely embraced a more strategic approach to pay and reward and encouraged the use of the SSRB for periodic wide-ranging strategic reviews of senior pay-related issues. For this to happen, a single ministerial lead on senior public sector pay mirroring the Review Body's span of responsibility is needed. We are awaiting the opportunity to discuss these issues further with the government.

## Summary of recommendations

### *Chapter 3: Senior Civil Service*

We recommend an overall increase to the SCS paybill of 2.5 per cent, which should be allocated in accordance with the recommendations set out below.<sup>3</sup>

**Recommendation 1:** We recommend that all SCS members should receive a 1 per cent consolidated basic pay increase.

**Recommendation 2:** We recommend that an additional 0.25 per cent of the paybill should be used to increase the pay band minima for all pay bands to the following levels:

- Pay band 1: £68,000 (currently £65,000)
- Pay band 2: £90,500 (currently £88,000)
- Pay band 3: £111,500 (currently £107,000)

The 1 per cent consolidated basic pay increase set out in Recommendation 1 should be applied after the increase to the minima.

**Recommendation 3:** We recommend that the pay range maxima for new recruits and those people currently paid below the new maxima are reduced for 2018-19, to the following levels:

- Pay band 1: £102,000 (currently £117,800)
- Pay band 2: £136,000 (currently £162,500)
- Pay band 3: £167,500 (currently £208,100)

**Recommendation 4:** We recommend that an additional consolidated 1.25 per cent should be allocated and should be distributed to SCS members dependent on:

- Demonstration of sustained high performance, increased effectiveness and deepened expertise.
- Their position in the pay range.
- The extent to which they benefited from the increase to the minima.

**Recommendation 5:** The Cabinet Office should provide evidence to demonstrate, in particular in relation to Recommendation 4, that the application of the award has resulted in higher awards to those:

- who demonstrated evidence of sustained high performance, increased effectiveness and deepened expertise;
- who were relatively low in the pay range; and/or
- who have benefited less or not at all from the rise in the minima.

<sup>3</sup> As noted in paragraph 3.121, those SCS members who are subject to current performance improvement measures should not receive any increases in pay.

**Recommendation 6:** We endorse the proposals to:

- Extend the eligibility of in-year awards from 10 to 20 per cent of the remit group.
- Introduce a corporate recognition scheme with awards of around £1,000, authorised at Permanent Secretary level.

This is on the proviso that these schemes are applied consistently across departments with a central audit process put in place to confirm this. We should like to be updated on the result of this audit in future years.

#### *Chapter 4: Senior Officers in the Armed Forces*

**Recommendation 7:** We recommend that all members of the senior military receive a 2.5 per cent consolidated increase to base pay.

**Recommendation 8:** We recommend that the minimum guaranteed increase to base pay (excluding X-Factor) on promotion from 1-star to 2-star does not fall below 10 per cent.

**Recommendation 9:** We recommend no change to the current pay arrangements for Medical Officers and Dental Officers (MODOs):

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

#### *Chapter 5: Police and Crime Commissioners*

**Recommendation 10:** We recommend a consolidated pay uplift of £5,000 to each of the bottom four PCC salary levels, with effect from 1 May 2018.

**Recommendation 11:** We recommend a consolidated additional allowance of £3,000 for those PCCs who take on responsibility for the governance of fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.

**Recommendation 12:** From May 2019, PCC salaries should be increased by 2 per cent, in line with the pay award for local authority staff. Pay increases, linked to the pay award for local authority staff, should continue annually until the next formal review of PCC pay.

**Recommendation 13:** PCC pay should be reviewed again in 2020-21 to enable a full assessment of the role, particularly in light of the additional responsibilities for fire and rescue. Thereafter, full reviews should be conducted on a four-yearly basis.

**Recommendation 14:** We recommend that the Home Office carries out a review of the pay structure for PCCs, with a view to developing proposals to reduce the number of salary levels to a number below the current five.

**Recommendation 15:** We recommend that PCCs who lose their seat at election are entitled to a loss of office payment equivalent to the payment received by former MPs.

### Box 1.1: Strategic priorities

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

# Chapter 1

## Report overview

### Context and general themes

- 1.1 For the last two years, the SSRB has focused on a number of strategic areas where departments need to take action with respect to their senior workforces. These were intended to help government move beyond some of its self-imposed constraints and ensure that the SSRB receives the evidence needed to offer sound advice. We have continued to use this framework for the assessment of our recommendations in this report. These strategic priorities are listed in box 1.1 at the beginning of this report.
- 1.2 In September 2017, the Chief Secretary to the Treasury (CST) wrote to the Chair of the SSRB setting out the government's intention to move away from the 1 per cent basic public sector pay award policy. The letter said that whilst the last Spending Review budgeted for a 1 per cent average increase in basic pay and progression awards, the 'government recognises that in some parts of the public sector, particularly in areas of skill shortage, more flexibility may be required.' Nevertheless, we understand that departments have generally only budgeted 1 per cent for pay rises and have been told that any additional increases would need to be funded from existing budgets.
- 1.3 The SSRB strives to provide timely advice to enable its remit groups to receive their annual pay awards on time. As acknowledged in the CST's letter, the shift to an autumn budget impacted on the timetable for the 2018-19 pay round and the submission of evidence from its stakeholders. Therefore, the SSRB has had to submit the report later this year than we have done previously.
- 1.4 In contrast to previous years, we did not receive guidance for a specific base pay award for any of our remit groups. This makes us unable to ascertain whether or not employers have a clear view of what pay award is needed to deliver their objectives, or what is affordable. If they do have a clear view, they are not sharing it with the SSRB. Either position is a matter of concern. It is fundamental to the SSRB's consideration of pay awards to understand what the employer can afford and the parameters for their recommendations. We hope that the position this year is exceptional and that at least some guiding principles are received in next year's evidence.
- 1.5 In last year's report, we noted that the manner in which the 1 per cent pay policy was being implemented was holding back necessary workforce reform for our remit groups. We recommended that all employers actively considered developing genuinely innovative pay and workforce proposals that focus on maximising outcomes for lowest cost. Despite the government signalling the end of the blanket 1 per cent pay policy, the evidence received this year appears to be largely based around proposals which could be managed within 1 per cent budgetary assumptions. However, we welcome the Ministry of Justice (MoJ) commissioning the SSRB to undertake a Major Review of the judicial salary structure and committing to consider the findings seriously and in a timely manner. Additionally, we recognise the intent from the Cabinet Office to develop a future vision for the Senior Civil Service (SCS), interlinked with long overdue reforms to the pay framework.

- 1.6 Three remit groups are reviewed in this report: the SCS; the senior military; and police and crime commissioners (PCCs).<sup>4</sup> There are generally enough candidates to fill these senior roles and there are no widespread or immediate recruitment difficulties.
- 1.7 Morale and motivation vary across our remit groups and in some areas show signs of improvement from last year. Further statistical analysis of morale and motivation-related factors is presented in Appendix F to this report.
- 1.8 However, beneath the surface we see some worrying signs. These could lead to recruitment and retention problems or reductions in workforce quality in the longer term.
- 1.9 Pension changes have had a significant impact on the morale and motivation of some members of our remit groups. As we noted in our report last year, the changes to pension taxation have resulted in some very high marginal tax rates. These changes are creating incentives for people to leave service earlier and are starting to influence individual behaviour and decisions. These issues are explored further in Appendix G.
- 1.10 So far, the inherent motivation and goodwill of senior public sector workers have prevented significant recruitment and retention problems. However, it cannot be assumed that this will continue into the future. Last year, we recommended that public sector employers should closely examine the options for making pension packages more flexible and take action where appropriate. The limited progress we have witnessed is a matter for considerable concern. We believe action on this issue is urgently required.
- 1.11 Pay policy for our remit groups has tended to be characterised by long periods of rigidity, followed by reactive responses to specific pressures. Given that inflation and private sector wage growth have risen, the most talented staff may become increasingly dissatisfied with their overall levels of reward. It is not currently possible to quantify the extent to which these factors will affect retention rates or the future quality of recruits. However, the risk is greatest for staff with specialist skills and in the feeder groups, where staff are typically younger and have more time to build a second career.
- 1.12 To improve our ability to assess the above issues, this year we particularly focussed on those leaving the remit groups and how to improve the collection of data on those resigning from the SCS and the senior military. This was to gain a deeper understanding of who is leaving and why, and to help us assess the likelihood of a change in future retention patterns. Both the Ministry of Defence (MoD) and the Cabinet Office recognise the value in capturing this information and have undertaken to provide further data next year where it was held or feasible to do so. This focus will continue in future years and will require collaboration with the government to implement changes to enable better data to be collected.

### **The value and better use of the SSRB**

- 1.13 This year, we have looked at our own role and considered how the government can make better use of the SSRB and its expertise in future years. We have put forward proposals to the government and we look forward to receiving a response. A summary of these considerations is set out below.
- 1.14 The SSRB has existed since 1971, with one enduring purpose – to advise government on the ever-sensitive question of pay arrangements for senior public-sector leaders.

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<sup>4</sup> A Major Review of the judicial salary structure is currently being undertaken by the SSRB and a separate report, which will include a review of the annual pay award, will be published later in 2018. Executive and Senior Managers in the NHS have been temporarily removed from the SSRB's remit at our suggestion (see Chapter 6). The Police Remuneration Review Body has been asked by the government to consider Chief police officers this year, instead of the SSRB.



- 1.15 There is a strong rationale for having a separate independent body to address senior public sector pay:
- It provides reassurance that senior remuneration is being reviewed by a body which focusses on issues of particular relevance to the top public-sector roles. These include recruitment, retention, diversity, pensions, taxation and the benefits, pressures and accountabilities that come with holding senior positions.
  - It enables government and departmental ministers to get early warning from an objective and independent source of problem areas and potential risks. At times, it can also give the government reassurance that things may not be as bad as some voices might suggest.
  - The existence of a separate body is consistent with the approach taken by large private sector organisations where an executive remuneration committee or similar body is responsible for reviewing senior pay.
  - Considering senior pay across a number of public sector groups facilitates the transfer of best practice and enables comparability across these roles to be considered.
- 1.16 Historically, the government's main expectation of the SSRB, and the SSRB's main focus, has been the production of annual recommendations on increases in basic pay. However, over the last few years the SSRB has been encouraging a more strategic approach. We are of the view that pay decisions should not be made on an isolated annual basis, even in a period of restraint. We believe that annual pay settlements need to be considered by employers in the context of long-term objectives, their future operating model and the reward and workforce strategies required to support them. Annual changes can then be used as incremental steps along the path towards the long-term vision.
- 1.17 For the last two years, the SSRB has identified areas where departments need to take strategic action in respect of reward for their senior workforces. These actions are intended to help departments move beyond some of their self-imposed constraints and ensure that the SSRB receives the evidence needed to offer sound advice. The SSRB has strongly encouraged proposals to be put to us which use pay and reward as a vehicle for genuine reform.
- 1.18 While the SSRB's approach has been generally welcomed by government, progress against our strategic priorities has been disappointing. Areas of concern include the quality of pay and workforce strategies; too much focus on managing basic pay increases rather than outcomes; the lack of key management data in many areas; and many unresolved tensions between central and devolved control of pay, especially for the SCS and NHS Executive Senior Managers, (ESMS).
- 1.19 It is also of some concern that the SSRB's remit group coverage has been curtailed this year. Chief police officers are defined by statute as within the remit of the SSRB. However, responsibility for this workforce has been temporarily passed to the Police Remuneration Review Body, on the basis that it would enable the development of, and transition to, a new pay structure for the police. In practice, we understand that this review has not yet commenced and that there is little prospect of it delivering change in the near future. In addition, we are not reviewing ESMs in the Department of Health's Arms' Length Bodies this year. This latter change was at our own request, as we did not believe that trying to advise on this remit group as currently constituted was either practical or sensible. We understand that a scoping exercise is taking place on whether to expand the SSRB's remit to include Very Senior Managers in the wider NHS.

- 1.20 The SSRB believes that we could be put to more effective use by the government. We are of the view that a strategic approach to senior public-sector pay is essential if government is to make progress on its overarching goals of improving public services efficiently and sustainably. We remain very willing to offer advice on these matters, alongside our annual recommendations on pay and reward for the different workforces within our remit groups.
- 1.21 From the SSRB's perspective, a particular barrier is that its own cross-cutting set of responsibilities is not mirrored within government. There is no single Minister or administrative machinery that facilitates government-wide consideration of the sort of strategic objectives that the SSRB has been advocating. This means that decisions on senior public sector pay questions often get taken in isolation from each other, without a sense of their wider impact.
- 1.22 We are also of the view that we can add significant value by undertaking periodic detailed reviews of reward structures. A good example of this is the Major Review of the judicial salary structure that the MoJ has asked the SSRB to carry out.
- 1.23 Whilst we note the general approval of the SSRB's efforts over recent years, we feel we could deliver considerably more value if central government were to:
- underline the importance of pursuing a more strategic approach to pay and reward and encourage departments to embrace this;
  - make a senior Minister responsible for providing clear central oversight of senior pay policy across government. Such a Minister would be the natural interface for SSRB thinking on the strategic aspects of senior pay, while departmental ministers retained oversight of their own particular workforces;
  - encourage the use of the SSRB for periodic wide-ranging strategic reviews of senior pay related issues.
- 1.24 In conclusion, we believe that a much more strategic approach to senior reward in the public sector is necessary. The breadth of the SSRB's experience and the remit groups we cover provide a valuable source of expertise and advice. This should go beyond making annual pay recommendations. A single ministerial lead on senior public sector pay mirroring the Review Body's span of responsibility is needed. All this could enable government to secure even better value from the Review Body's expertise and independent voice.

## **The SSRB's strategic priorities**

- 1.25 Our strategic priorities were set out in the 2016 report and remit groups were assessed against them in the 2017 report. The priorities are reiterated at the front of this report. They were intended to promote the development of effective workforce strategies, to help government move beyond some of its self-imposed constraints and to ensure that we receive the evidence needed to offer sound advice. A summary of their status for each of the SSRB's remit groups covered in this report is provided in table 1.1 at the end of this chapter.<sup>5</sup> Because the PCC workforce is elected, only some of the principles can be applied to that group.

### *Total reward*

- 1.26 In making pay recommendations, the SSRB needs to consider a range of factors alongside basic pay and bonuses, including pensions, relative job security and the value of benefits in kind. It is beyond our remit to make recommendations on taxation or pensions policy but, where overall remuneration affects the recruitment, retention and motivation of public sector workers, it is a matter of concern to us.

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<sup>5</sup> The assessment of the judiciary against the strategic priorities will be covered in the report on the Major Review of the judicial salary structure.

- 1.27 Many of our remit group members moved to new pension schemes from 2015. The new schemes base the pension on average salary earned over a career, rather than final salary as previously. However, they remain as defined benefit schemes, which now barely exist for new entrants in the private sector.
- 1.28 The 2015 pension changes affected public sector staff at all levels. However, changes over recent years to pension taxation have specifically impacted on senior employees in both the public and private sectors. The changes mean that more senior people are exceeding annual and lifetime pension tax thresholds. For many members of our remit groups, pensions and their taxation are currently a matter of greater concern than changes to base pay. Of the groups we are reviewing in this report, pension taxation is a particular concern for the senior military, although it also affects the most senior members of the SCS. Additionally, it is a matter of widespread concern among the judiciary, and our forthcoming Major Review of the judicial salary structure will consider the impacts on that group in detail.
- 1.29 Members of our remit groups lack the flexibilities to exchange pension contributions for higher pay that exist in some roles in the private sector and, to an extent, in the Local Government Pension Scheme. In last year's report, we again encouraged the government to consider the issue of pension flexibility for public sector workers. We set out three broad options that we believe merit consideration. The first was trading off pension benefits for lower contributions, thus lowering tax liabilities. The second was changing the focus of reward packages for senior people away from pensions and more towards pay, as can happen in the private sector. The third option was to offer voluntary enrolment into defined contribution schemes.
- 1.30 As discussed in Chapter 3, there has been some progress in terms of making the third of the above options available to members of the SCS. However, there has been no progress elsewhere. These issues therefore remain a source of significant concern and are discussed further in individual remit group chapters.

### *Pay and workforce strategy*

- 1.31 Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.
- 1.32 In the remit groups considered in this report:
- The Cabinet Office has set out its vision for the SCS and linked its proposals for 2018-19 to its longer-term objectives, although considerable work remains to be done to translate this work into a complete long-term strategy.
  - The MoD has a relatively clear view of the senior military workforce needed and has a plan to deliver it.
  - The Home Office does not appear to have a clear strategic plan for PCCs.

### *Focus on outcomes*

- 1.33 There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. We are disappointed that for the second consecutive year, no specific proposals or plans have been received. The Cabinet Office has indicated that it wants to look at how productivity gains can be made as part of the ongoing review of the SCS pay framework and we look forward to hearing more details on this over the next year.

### *Performance management and pay*

- 1.34 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, career development and action in relation to poor performers. Last year, we said that current pay models needed to be reviewed to ensure that they sufficiently incentivised good performance.
- 1.35 Although the Cabinet Office has put forward proposals for further in-year recognition for the SCS, there remains a widespread lack of confidence in the performance management system and an urgent review is needed.

### *Action on poor performance*

- 1.36 Only limited evidence is provided on the performance of the members of our remit groups. We believe there should be further analysis and disclosure on performance, where value is being added and how action is being taken where it is not. There is little evidence that a concerted attempt is being made to identify and address poor performance where it may exist.

### *Better data*

- 1.37 Better decision making requires better data, particularly in respect of recruitment, retention and attrition. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.
- 1.38 This year, we particularly focussed on those leaving the remit groups and how to improve the collection of data on those resigning from the SCS and senior military. There have been some improvements in the quality and breadth of data we have received on this issue this year, but we have also identified areas where further improvement is required. This is discussed further in later chapters.

### *Feeder groups*

- 1.39 The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems, as is recognised by the MoD for the senior military.

### *Targeting*

- 1.40 Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.
- 1.41 The MoD remains opposed to targeted pay for the senior military as it does not believe that this is the most appropriate way to reward this group. As a result, we received no targeting proposals to comment on. The Home Office did not offer any such propositions for PCCs. For the SCS, the Cabinet Office has put forward proposals for a new framework which seeks to provide consistency across departments, whilst retaining departmental flexibility to target funding to where it will be of greatest benefit. However, the current design of the performance management system limits the scope for targeting pay satisfactorily according to performance. The Cabinet Office has indicated that it will consider, as part of its wider review, whether regional differentiation in pay is required to address specific retention and recruitment issues in certain geographical areas.

### *Central versus devolved tensions*

- 1.42 Tensions 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.

1.43 There is no sense of a planned and coordinated government approach to this issue. There is significant ambiguity regarding the division of accountability between the Home Office, chief constables and PCCs. Judicial pay is set according to a patchwork of reserved and devolved arrangements. The Department of Health is yet to decide what will replace the previous incoherent approach to the pay of NHS senior managers. For the SCS, the Cabinet Office believes that clearer rules and control on how people move through and around the SCS pay system are needed. It seeks to exercise control by restricting pay increases arising out of internal movement but there is a risk that departments, which retain significant delegated control over pay, will circumvent it. It is not clear whether the government wants a centralised management of the workforce, delegation to departments or a specified balance between the two.

### *Diversity*

1.44 The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible. Generally, progress on these issues among our remit groups has been very slow, although this in part reflects the composition of the feeder groups they draw from. Looking across the SSRB's remit groups, the position on gender diversity, although still not representative, is generally more positive than on Black, Asian and Minority Ethnic (BAME) diversity. On disability, we have only received figures for the SCS, which are lower than for the wider population.

### **The Senior Civil Service**

1.45 In previous years, we have identified a number of weaknesses with the SCS pay framework. These have included:

- An effective freezing of the pay of members of the remit group at a particular point within the pay range, regardless of skills, experience or performance.
- Significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below.
- A lack of confidence in the performance management system, particularly the forced distribution ratings.
- A resulting disconnect between pay on the one hand and seniority, performance and contribution on the other, which has not represented efficient or effective use of the pay budget.

1.46 We have also highlighted:

- Weaknesses in pay proposals in recent years which have not been designed to support a workforce strategy. There has been too much fixation on limiting basic pay increases across the board and too little attention to maximising outcomes for lowest cost.
- Tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. The current arrangements are leading to widespread inconsistencies.

### *Government proposals for reform*

1.47 In our 2017 report, we recommended that the government undertake a fundamental review of the SCS pay system which should take into account our overarching strategic conclusions as detailed earlier in this chapter. In particular, we emphasised that the government should develop more innovative approaches to pay.

1.48 The government accepted this recommendation. Work on the SCS pay framework was conducted during 2017 and identified weaknesses which aligned with those previously identified by the SSRB. The FDA and Prospect, although not engaged in the review, also concurred with this analysis. Following this work, the government has put forward a number of proposals this year. These proposals are designed to support a move towards a future pay framework which forms part of the government's overall vision for a future SCS workforce. They were shared with the SSRB only shortly before being finalised. We believe we could have made a more meaningful contribution had we been engaged earlier in the process.

### *The SSRB's views on government proposals*

- 1.49 The SSRB welcomes the government's intent to undertake reform of the SCS pay structure, and to develop a long-term vision for the SCS. We acknowledge that this work is taking place in a challenging political and economic climate, where the whole civil service faces high levels of workload and pressure. The number of people joining the SCS has been growing since 2012, and half of the SCS now have less than four years' experience at this level. These changes underscore the importance of thinking strategically about what the government wants from its senior civil service and what pay arrangements will support its vision.
- 1.50 In general, while welcoming the direction of travel, we do not believe the review has so far been sufficiently strategic in its reach. Whilst some of the proposals provide a good foundation for a reformed SCS pay structure, others do not go far enough.
- 1.51 Our remit requires us to advise on the pay of the SCS as a single cadre. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. The government needs to determine, and clearly articulate, the system that it wants, whether that be a centralised management of the workforce, delegation to departments or a specified balance between the two. It then needs to ensure that mechanisms are in place to manage it, that the rules are communicated and understood, and that there is accountability for them. If a significantly decentralised route is taken, the government will need to carefully consider how the SSRB can best play an effective role in advising on SCS pay.
- 1.52 Considering the specific government proposals that have been made:
- We support the proposal to raise the minima for all pay bands. For pay band 1, this has the potential to reduce the significant overlap with the non-SCS grades immediately below it.
  - We agree with the proposal for pay ranges based on professional groupings, although we note that clear guidelines and principles will be needed to ensure they are workable and fair; we would be happy to work with the government in developing more detailed proposals.
  - We have doubts about the application of the proposal to restrict pay increases on internal lateral moves and promotions. There would certainly be advantages in encouraging most SCS members to stay longer in their posts and develop greater specialist expertise. However, restricting pay increases on internal movement is likely to result in at least some reduction in the number of internal applicants, a rise in the numbers of external, more expensive appointments, and potentially an increase in members leaving the SCS to seek higher salaries elsewhere.
  - We consider that some of the issues with the SCS pay framework would be better tackled by offering meaningful pay progression. **A credible salary progression model within the new pay ranges is an urgent priority.**

- We are disappointed that the government has not yet brought forward proposals to address the deep and long-standing lack of confidence in the current performance management arrangements. **A fundamental review of the performance management system is overdue.**

### *Pay recommendations for the SCS 2018-19*

- 1.53 Data for the remit and feeder groups does not suggest there are any immediate issues with recruitment and retention, either amongst the remit group or the feeder grades, except in some specialist areas. However, there is clear evidence that the pay system is not working effectively. The government's proposed restrictions on SCS members moving departments in order to secure higher pay imply that, at present, some of the SCS are motivated to do just that, because of inadequate pay progression in their current role.
- 1.54 We also note the generally improved picture for pay growth in the private sector, as detailed in Chapter 2. This may make external roles more attractive to SCS members and create recruitment and retention pressures, particularly amongst those staff whose skills are most transferable to outside the civil service.
- 1.55 We believe that a 2.5 per cent increase in pay budgets is justified. The first 1 per cent should be an across the board consolidated pay award for all SCS members, other than those subject to performance improvement measures. The next 0.25 per cent should be used to raise the minima for all pay bands. A final 1.25 per cent should be used to address anomalies, including rewarding those with sustained high performance and who have increased their effectiveness and deepened their expertise. This should apply, in particular, where staff are relatively low in their pay range and have not seen significant pay rises in recent years. Those SCS members who are subject to current performance improvement measures should not receive any increase in pay. Therefore, the above pay recommendations should not be applied to these staff until they have exited such measures.<sup>6</sup>
- 1.56 However, we do not wish to see a continuance of the inconsistent application of awards that has previously occurred. The Cabinet Office should, therefore, put in place a monitoring system to ensure that these pay awards have been fairly and appropriately distributed by departments in accordance with the principles we have recommended. We would like to see evidence on the application of these awards next year.
- 1.57 Overall, we welcome the intention shown by the Cabinet Office to start reform of the SCS pay framework. However, there is a long way to go. We encourage the government not to lose momentum or focus and we look forward to receiving more developed proposals in the forthcoming year on the development of the new framework.

### **Senior Officers in the Armed Forces**

- 1.58 At present, recruitment to and retention of the senior military remains at satisfactory levels. The senior military continues to attract sufficient numbers of personnel from the feeder group and there is no evidence to suggest a decline in the quality of these individuals.
- 1.59 However, we stress again this year that the situation in the feeder group needs to be kept under careful review. Although voluntary outflow rates in the OF4 and OF5 ranks have fallen over the last year, the numbers in the OF6 rank choosing to leave the Armed Forces has increased. There is anecdotal evidence to suggest that increasing workloads, reducing promotion opportunities and changes to pension taxation are causing more individuals

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<sup>6</sup> SCS members who have received a "low" performance box marking, but who are not subject to performance improvement measures are not excluded from these recommendations, meaning that Recommendations 1, 2 and 3 would apply to them. However, it is not expected that Recommendation 4 would apply to them.

in the feeder group to consider whether or not they want to serve for a full career. The MoD reported that senior management is now spending significantly more time on career counselling people in this group.

- 1.60 We share the MoD's concern that members of the remit group and the feeder group perceive that the military offer is becoming less attractive in comparison to equivalent roles in the civilian sector. This presents an ongoing risk to the Services being able to attract and retain sufficient numbers of high quality individuals required to fill the most senior ranks in the military.
- 1.61 We understand the argument for broad comparability with the pay award recommended by the Armed Forces Pay Review Body (AFPRB) this year. We acknowledge the importance of an across the board award in maintaining morale and ensuring that all members of the senior military are seen as being valued. We note that there are signs of increasing discontent within the group, driven in part by the pension taxation changes. Some concern also remains about the adequacy of incentives for the best members of the feeder group to continue to seek progression in the future. All that said, the fact remains that the senior military, unlike some other cadres within the Armed Forces, is not currently experiencing problems with recruitment or retention and overall morale is high.
- 1.62 The above considerations lead us to recommend an across the board consolidated pay award of 2.5 per cent for all members of the senior military.

### **Police and Crime Commissioners**

- 1.63 The role of a police and crime commissioner (PCC) appears both larger and more complex than many anticipated when the first PCCs were elected in 2012. It has evolved and continues to do so. New statutory functions, for example the commissioning of local victims' services, have impacted on the role and workload. The effect of other legislative changes, in particular in relation to the governance of fire and rescue services, cannot be fully assessed at this stage but could also be significant.
- 1.64 There is no lack of candidates for these roles, for which elections are held every four years. However, a high number of willing applicants for the role does not necessarily mean there is a secure or diverse supply of quality candidates. This risk is heightened in the current context where the purpose and function of the PCC role is still maturing. Individual PCCs are granted significant powers and largely left to work out for themselves how to exercise them. We believe that pay levels should reflect the quality of candidates that need to be attracted to an important role of this nature.
- 1.65 Although there are some common core responsibilities within the PCC role, other aspects differ in scale depending on the size of the police force area. There therefore remains a strong rationale to retain pay differentiation across different police force areas. However, for such a small and non-hierarchical workforce, the current structure of five pay levels is unnecessarily complex. We believe that a more streamlined structure, with no more than three pay levels, would be more suitable. However, we have received neither propositions nor evidence that would allow us to recommend precisely what shape the new structure should take. We urge the Home Office to consider a reduction in the number of levels as part of the next PCC pay review.
- 1.66 PCC salaries have been unchanged since the role was created. We consider that, after six years, an increase in pay is justified. This is primarily to properly recognise the weight of the PCC role and to help ensure that high quality candidates are attracted to it in the future. It will also help to realign PCC pay with that of other senior public sector workers, and will partly compensate PCCs for increases in the cost of living.



- 1.67 In addition, whilst we retain the view that being a PCC in a larger and more complex police area does justify a higher level of reward, the core responsibilities which are part of every PCC role suggest the current levels of pay differentiation are too wide. We therefore recommend that each of the bottom four pay levels should be uplifted by an identical cash amount of £5,000. We do not recommend change in pay for the top band, which will remain significantly higher.
- 1.68 Although it is too early to assess the impact of bringing fire and rescue governance into the PCC role, we believe that this will be a significant duty to undertake. Whilst we would not wish to see PCCs seeking these responsibilities simply in order to secure more pay, the added responsibility should be given some recognition in the pay structure. We therefore recommend an additional consolidated pay uplift of £3,000 for those PCCs that take on responsibility for fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.
- 1.69 This is a small remit group, with a limited evidence base on which to make annual uplifts in the pay award. We do not think it necessary or proportionate to conduct a full review of the pay of this remit group every year and recommend a review in 2020-21 to fully assess the impact of fire and rescue governance. This should be preceded by an automatic uprating of pay in 2019-20. Because of the nature of the role, we believe pay increases should be aligned with those in local government. Pending the next formal review, we therefore recommend that PCC salaries are increased in line with pay awards for local authority staff. Given the current two-year local authority pay settlement, this implies a pay increase of 2 per cent from 1 May 2019. This link should continue to be applied annually to PCC pay increases until the next formal review of PCC pay. Subsequent reviews should then be conducted every four years.
- 1.70 Whilst we understand the role of a PCC is unique, a number of our strategic priorities for senior workforces still apply. It is evident that the Home Office has no clear workforce strategy for PCCs and that it has limited engagement with them. We would encourage the Home Office and the Association of Police and Crime Commissioners (APCC) to have a more active and constructive dialogue in order to address areas of concern. During our current review, PCCs have expressed, for example, concern about the reimbursement of expenses they incur and a request to have a loss of office payment introduced. Both of these issues could have been raised and potentially resolved without recourse to the SSRB. We therefore propose that, following liaison with the APCC, the Home Office conducts a review of the rules and guidance relating to expenses incurred by PCCs, while undertaking their duties. We also recommend the introduction of a loss of office payment for PCCs, using the arrangements for MPs as guidance.

### **Other SSRB remit groups**

- 1.71 Three groups mentioned within our current Terms of Reference are not reviewed in this report.
- 1.72 The government accepted the SSRB's 2017 recommendation to develop a coherent proposition on how best to set the pay of ESMs in the Department of Health's Arm's Length Bodies. It agreed with our recommendation that ESMs are removed temporarily from our remit. We understand that a scoping exercise is being undertaken to consider whether the SSRB's remit should be extended to cover Very Senior Managers (VSMs) in the wider NHS. An update on the position is provided in Chapter 6.
- 1.73 The Home Office advised the SSRB that, for the 2018-19 and 2019-20 pay rounds, a single evidence submission would be made for all police ranks and consideration of chief police officer pay for this period would therefore be considered by the Police Remuneration Review Body. The rationale for this was to enable the development of, and transition to, a new pay structure for the police. However, we understand that this

review has not yet commenced and that there is little prospect of it delivering change in the near future. **We therefore suggest that the remit should be restored to the SSRB for 2019-20 to enable the remit group to be considered alongside other senior public-sector workers.**

1.74 A Major Review of the judicial salary structure is currently being undertaken by the SSRB and a separate report, which will include a review of the annual pay award, will be published later in 2018.

### Timing of future reviews

1.75 We are grateful for the written evidence submitted to us this year and understand that the late submission of it was due to the decision to move the autumn budget. The SSRB is not willing to compromise on the quality of its advice. In order to avoid delays to remit groups being awarded pay rises, we request that all departments submit robust evidence in a timely fashion in future years.

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

SSRB priority in 2017 report	Assessment of position in 2018		
	Senior Civil Service	Senior Officers in the Armed Forces	Police and Crime Commissioners <sup>3</sup>
<b>Pay and workforce strategy:</b> Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Cabinet Office has conducted an initial review of the pay framework and linked its proposals for 2018 to its future vision. However, considerable further progress is required. ↑	A plan exists for the future size and structure of the workforce, which is linked to strategic priorities. However, the SSRB's strategic priorities were not addressed in the evidence provided. ↓	No clear workforce strategy.
<b>Focus on outcomes:</b> There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	Some proposals to make savings from operating more consistent pay policies. However, detailed costings were not provided and there is concern about the ability to generate savings. ↑	No proposals were made in respect to taking new action over pay. However, we recognise that this is a small group with limited scope to produce flexible pay proposals. ↔	n/a No scope for workforce reconfiguration.

SSRB priority in 2017 report	Assessment of position in 2018		
	Senior Civil Service	Senior Officers in the Armed Forces	Police and Crime Commissioners <sup>3</sup>
<b>Action on poor performance:</b> Greater analysis is required of where value is being added and action taken where it is not.	The proposals put more emphasis on rewarding high performers but there is little evidence on how poor performance is being identified or addressed. ↔	May not be an issue but no evidence presented. ↔	n/a Directly elected role.
<b>Performance management and pay:</b> There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	Established performance management system, but not trusted by staff. Increase in use of in-year awards. Commitment to review in 2018. ↔	May not be an issue but no evidence presented. ↔	n/a No career structure and accountability is to the electorate rather than an employer.
<b>Better data:</b> Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good and improved workforce data. Better exit interview data is required. ↔	Good basic workforce data, but needs to respond to emerging data needs. Better exit interview data and more detailed analysis of whether the feeder group is sufficient to meet future needs is required. ↔	Some data was provided but it remains difficult to make robust evidence-based pay recommendations for this group.
<b>Feeder groups:</b> The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Some data on motivation and pay of feeder group provided. Further work required. No evidence of major concerns. ↔	Further analysis of data on the feeder group presented this year. However, there is growing concern around future retention, in particular as a result of pension taxation. The situation needs to be kept under review. ↔	n/a Elected body: not possible to identify or target the feeder group.

SSRB priority in 2017 report	Assessment of position in 2018		
	Senior Civil Service	Senior Officers in the Armed Forces	Police and Crime Commissioners <sup>3</sup>
<b>Targeting:</b> Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	The new framework seeks to provide consistency across departments whilst retaining departmental flexibility to target. However, the current system limits scope for strategic targeting of awards. ↑	Targeting consistently argued to be inappropriate for this group. Whilst there is an argument for this, it leads to a highly rigid pay system over the long term. ↔	The current system differentiates pay in relation to the size of the police force. No new propositions for targeting were made.
<b>Central versus devolved tensions:</b> Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	Tension between central and departmental control not resolved by new proposals. ↔	No evidence that such tensions exist. ↔	No management of PCCs by central government. Significant ambiguity regarding division of accountability between the Home Office, chief constables and PCCs.
<b>Diversity:</b> The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Relatively improved performance on gender but still not satisfactory. ↔ Despite increases in numbers, still poor on ethnicity, in particular in relation to Permanent Secretaries. ↓	Positive steps and considerable efforts are being made to improve the diversity profile of the Armed Forces as a whole. However, in an organisation like the Armed Forces which promotes from within, it will take some time before significant improvements in the diversity profile feed through. ↔	n/a Few initiatives to improve diversity. However, limited exercisable control due to party political control of many of the candidates who are elected by the public.

Notes:

- <sup>1</sup> The SSRB was asked not to conduct an annual review of Executive and Senior Managers in Arm's Length Bodies. The judiciary will be covered in a separate report.
- <sup>2</sup> All the SSRB's strategic priorities are set out in box 1.1. The focus of the first strategic priority, total reward, is for the SSRB rather than evidence providers to consider. It is therefore not included in this table.
- <sup>3</sup> Police and crime commissioners pay was not reviewed in 2017 and, therefore, no assessment on trajectory is provided.

# Review Body on Senior Salaries

## Terms of Reference

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

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

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

Our terms of reference are now as follows:

*The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Home Secretary, the Secretary of State for Defence, the Secretary of State for Health and the Minister of Justice for Northern Ireland on the remuneration of holders of judicial office; senior civil servants; senior officers of the Armed Forces; Very Senior Managers in the NHS;<sup>7</sup> police and crime commissioners, chief police officers in England, Wales and Northern Ireland; and other such public appointments as may from time to time be specified.*

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

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

- the need to recruit, retain, motivate and, where relevant, promote suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment, retention and, where relevant, promotion of staff;
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the government's departmental expenditure limits; and
- the government's inflation target.

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<sup>7</sup> NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers. The SSRB's remit group is now called Executive and Senior Managers in the Department of Health Arm's Length Bodies.

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

- *differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;*
- *changes in national pay systems, including flexibility and the reward of success; and job weight in differentiating the remuneration of particular posts; and*
- *the relevant legal obligations, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief and disability.*

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

- *to ensure that, as appropriate, the remuneration of the remit groups relates coherently to that of their subordinates, encourages efficiency and effectiveness, and takes account of the different management and organisational structures that may be in place from time to time;*
- *to relate reward to performance where appropriate;*
- *to maintain the confidence of those covered by the Review Body's remit that its recommendations have been properly and fairly determined; and*
- *to ensure that the remuneration of those covered by the remit is consistent with the government's equal opportunities policy.*

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

Members of the Review Body are:

Dr Martin Read CBE, *Chair*  
Margaret Edwards  
Sir Adrian Johns KCB CBE DL  
David Lebrecht<sup>8</sup>  
John Steele<sup>9</sup>  
Dr Peter Westaway  
Sharon Witherspoon

The Secretariat is provided by the Office of Manpower Economics.

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<sup>8</sup> Ex Officio: Chair Police Remuneration Review Body.

<sup>9</sup> Ex Officio: Chair Armed Forces Pay Review Body.