Review Body on
Senior Salaries

Thirty-Eighth Annual Report on Senior Salaries 2016

REPORT No. 85

Chair: Dr Martin Read, CBE

Cm 9248

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

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Review Body on Senior Salaries

Terms of Reference

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

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

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

Our terms of reference are now as follows:

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

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

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

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

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

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

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

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

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

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

Members of the Review Body are:

Dr Martin Read CBE, *Chair*
Margaret Edwards
Sir Adrian Johns KCB CBE DL
David Lebrecht[2]
John Steele[3]
Dr Peter Westaway

The Secretariat is provided by the Office of Manpower Economics.

[2] Ex Officio: Chair Police Remuneration Review Body

[3] Ex Officio: Chair Armed Forces Pay Review Body

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Major Conclusions

- 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.
- Evidence shows that pay restraint and pension reform are not currently creating major recruitment and retention problems in the remit groups we have considered this year, nor in their feeder groups. However, morale is fragile.
- 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.
- There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.
- Greater analysis is required of where value is being added and action taken where it is not.
- 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 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.
- 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.
- Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.
- 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.
- 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

Strategic context

Introduction

General context

1.1 Senior leaders in the SSRB's remit groups are critical to the delivery of public services. The key strategic aim underpinning our work is the recruitment, retention and motivation of such people. Yet, recent years have been challenging for all involved with senior pay in the public sector, including the SSRB. Public expenditure constraints, and the Government's desire for senior leaders to set an example, have meant that successive administrations, in their annual evidence covering our remit groups, have tended to seek very constrained pay increases, or pay freezes.

1.2 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, we believe that it is necessary to take a more strategic approach, which lifts the sights of Government and remit groups above the simple question of annual basic pay increases. Therefore, in addition to considering annual pay rises this year, we have adopted a more strategic approach. The results are summarised in this Chapter.

1.3 We particularly encourage departments to be clear about their long-term objectives, their future operating model and the workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.

1.4 It should be recognised that recruitment, retention and motivation are not linked to annual pay awards in a simple or linear way. The SSRB, therefore, needs to consider a range of factors alongside basic pay and bonuses, including pensions, relative job security and the value of benefits in kind.

1.5 Particularly in an era of public sector pay restraint, approaches need to be considered which might be counter-cultural for parts of the public services. We believe that there should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. Greater analysis is required of where value is being added and action taken where it is not. 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. More attention needs to be focused on the feeder groups that will provide the next generation of leaders.

1.6 Better decision making requires better data, particularly in respect of attrition, retention and recruitment. This is all the more crucial at a time of budget limitations. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken. We strongly recommend that the quality and detail of workforce data (including for the feeder groups) receives appropriate attention over the coming year.

Remit groups considered in this report

1.7 This report makes recommendations for the Senior Military, Senior Civil Service and the Judiciary. We have also started to consider the evidence on Chief Police Officers, with a supplementary report to follow later this year. We are not making pay recommendations this year for Very Senior Managers in the National Health Service or Police and Crime Commissioners, for reasons set out later in this report.

1.8 When considering our remit groups, our terms of reference ask us to have regard to "*the funds available to departments as set out in the Government's departmental expenditure limits*". The Government plans to fund public sector workforces for a pay award of 1 per cent annually for four years from 2016-17. The SSRB does not form or express views on wider Government policy or the strategy for reducing the public sector expenditure deficit, but we note the position.

1.9 The SSRB is required to take into account "*the need to recruit, retain and motivate and, where relevant, promote suitably able and qualified people*" and *"Government policies to improve the public services".* Evidence shows pay restraint and pension reform are not currently creating major recruitment and retention problems in the remit groups we have considered this year. Morale is fragile, but pay itself is not the only driving factor. At present there is, therefore, no real sign to indicate that the Government's pay policy is unworkable in our remit groups.

1.10 We are mindful that the people not currently in the most senior grades but showing strong signs of potential to get there will often be mobile across the public and private sectors. If a future in senior public service does not look sufficiently appealing, for pay or other reasons, many may take the option to leave. The available evidence does not suggest this is occurring in our remit groups at present, but this situation needs to be kept under extremely close review.

Economy and labour market

1.11 A combination of economic and policy factors[4] have contributed to generally fragile morale in our remit groups. Intuitively, therefore, it seems possible that, at some point, serious recruitment and retention issues may arise. As background:

- The UK economy grew by an estimated 2.2 per cent in 2015. It is forecast to grow by around 2 per cent per year for the next few years. However, reduced global growth prospects, and downgraded growth forecasts, have contributed to a less positive economic outlook than when we commenced this year's review.
- Public sector debt remains at an historically high level, and the Government is committed to further fiscal consolidation.
- Generally, public sector workers have experienced substantial real-terms pay cuts in recent years. Senior public sector workers have also seen significant pay cuts. A real-terms cut of over 20 per cent in base pay and bonuses since 2010 has been typical for the SSRB's remit groups.
- The basic pay of the average public sector worker is still more than the average private sector employee. However, this difference can be broadly attributed to differences across the two sectors in the characteristics of workers and the types of jobs they do.
- By way of comparison, the best paid and therefore typically the most senior public sector workers receive lower average basic pay than their senior private sector counterparts. A significant gap remains even after taking account of employee characteristics and job types.

[4] Economic data is discussed in detail in Chapter 2.

- Over the next few years, the Government's plans for very limited nominal[5] wage growth are expected to amount to a further real-terms[6] pay cut for public sector workers. Pay restraint of such extent and duration is unprecedented in recent times.
- By contrast, in the context of a gradual tightening of the labour market, private sector pay is forecast to grow in real terms[7]. This will, all other things being equal, make private sector employment relatively more attractive.
- By 2017-18, the Institute for Fiscal Studies expects public sector pay to fall to "*much its lowest level relative to the private sector*" since at least the mid-1990s, when there were recruitment and retention problems in parts of the public sector[8].
- When the SSRB has met members of remit groups, they have often relayed to us their perception that they are being poorly treated relative to other groups. Local Authority executives and University Vice Chancellors are commonly cited as examples.
- Pension packages remain better, on average, for senior public sector workers than their private sector counterparts[9].
- However, the value of senior public sector pensions has declined over time. Major changes to pension schemes over recent years, which have led to many workers contributing more, often for delayed future benefits, alongside a substantial tightening of pension tax rules, have adversely affected morale.
- Many currently in our remit groups are relatively close to retirement age and subject to significant transitional protections in a manner that future public sector leaders will not be.

A more strategic approach

1.12 The SSRB believes workforce matters need to be considered in the context of long-term objectives, their future operating model and the pay and workforce strategies required to support them. Annual changes can then be shaped as incremental steps in a consistent direction.

1.13 Reward policy should be aligned with, and explicitly used as a lever to support the delivery of policy and budgetary reform priorities. The paybill of the SSRB's remit groups is approximately £1 billion, but the budgetary implications of the work they do stretches far wider.

1.14 Consideration should be given to using remuneration to achieve invest-to-save benefits, saving money over time. Departments may be able to use pay innovatively to employ the people who can deliver lower total costs than declining budgets require, while still delivering the required standard of public service. In such cases, serious consideration should be given to allowing them to reallocate some of the savings to average pay and bonus increases of above the 1 per cent stipulation. This means that average pay increases could be more than 1 per cent in some cases, while overall budgetary-control targets are exceeded.

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[5] In current or cash prices, not adjusted for inflation.

[6] Adjusted for Consumer Prices Index (CPI) inflation.

[7] Office for Budget Responsibility, *Economic and Fiscal Outlook – March 2016*, http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2016/

[8] Institute for Fiscal Studies (2016), *The IFS Green Budget.*

[9] The SSRB's conclusion based on Towers Watson (2014), *Comparative Pension Valuation for Review Body Remit Groups: Report on results of comparative valuation of pension benefits for illustrative individuals*

1.15 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.

1.16 Changes to pay and workforce policy are also necessary:

- Pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location. In addition, multi-year settlements should be considered. The long-term role of automatic pay increases, not linked to assessment of performance or labour market conditions, requires scrutiny.
- A renewed focus on staff and career management is required, particularly in respect of performance management and career development.
- A greater focus on promoting diversity of the workforce is also needed. The senior workforces within our remit groups do not reflect, in terms of ethnicity or gender, either the society they serve or the broader workforce for which they are responsible.

1.17 We believe senior people should be rigorously held to account, but also trusted appropriately. For example, the SSRB frequently hears accounts from senior public sector employees, with major decision-making and budgetary responsibilities, who are unable to authorise relatively trivial expenditure that would improve the working conditions or welfare of themselves or their staff. There is a fine line between ensuring senior people "set an example" and robust budgetary management on the one hand and lack of trust and denial of responsibility, which can contribute to poor morale, on the other.

1.18 Taking a more strategic approach requires a step-change in the quality and timeliness of data and evidence. Public sector employers need to understand the workforces for which they are responsible and the labour markets they are operating in. This should not only be for the SSRB's annual consideration: any large employer should be doing this routinely. Reliable and timely information is required to forecast where shortages of talented people are going to emerge and to identify what actions need to be taken. Without this, money will not be directed at the right problem areas.

1.19 Data needs to be more granular and tailored to workforce policy needs. For example, a public sector employer may know its staff attrition rates, but does it know whether the most important people are leaving? It may be filling vacancies, but is the quality of recruits declining? If certain workers need to be paid more to compete with the wider market, what actually constitutes an attractive, but not excessive, remuneration package? Specific areas of suggested focus are outlined later in this chapter.

1.20 In addition, a public sector profession may have talented leaders now, but are the future leaders motivated to remain and progress to more senior levels? The feeder groups that will supply the next generation of senior public sector leaders must be monitored closely. Better data is required and this needs careful scrutiny for early warning signs of impending problems. Employers need to understand the level of risk and plan accordingly.

Structure of this report

1.21 The remainder of this chapter discusses some of the strategic themes above in more detail: total reward; investing to save; pay policy; staff and career management; and a more evidence-based approach. Chapter 2 discusses the economic and labour market context in more detail. Chapter 3 summarises our recommendations and other key observations.

1.22 The SSRB looks across diverse remit groups, linked by being senior public sector leaders. There are valuable insights to be gained from this common perspective. It is, however, important to recognise that the SSRB takes into account differences across remit areas in purpose, context, workforce composition, career opportunities and pay systems. The remaining chapters of this report consider our remit groups individually in turn. This is with the exception of Chief Police Officers, who will be the subject of a supplementary report later this year.

Total reward

1.23 It is vital that senior public sector pay is set with reference to total reward, because other financial and non-financial factors also form important parts of the overall package. The key considerations are pay and bonuses, pensions, allowances, other in-kind benefits and the nature of the job itself. These issues are discussed in more detail below.

Base pay and bonuses

1.24 Based on comparisons with the private sector, the best paid senior public sector workers are paid on average between approximately 10 and 20 per cent less than their private sector equivalents[10]. The gap has been quite stable since at least 2012, although it appears to have shrunk since before the economic crisis, prior to 2008.

Pensions

1.25 Pensions form a greater part of the total reward package for public sector workers than private sector workers. Eighty-seven per cent of employees in the public sector had a workplace pension in 2015, compared with 55 per cent of private sector employees. Of those, 95 per cent of public sector employees had an occupational defined benefit pension, compared to only 15 per cent in the private sector[11]. Subject to scheme rules not changing, defined benefit schemes provide a relatively predictable future income stream, thereby increasing their attractiveness.

1.26 However, recent years have seen a number of changes, discussed in Box 1.1. These reforms have significantly reduced the value of public sector schemes[12], especially the change in inflation indexation and, for new entrants, the increase in the normal pension age. In particular:

- Public sector workers, especially higher-paid ones, now contribute a greater proportion of their pay to their pensions (although the military pension scheme remains non-contributory).
- Changes in pension tax relief (lifetime and annual allowances) have significantly impacted on higher earners.
- The shift from final salary to career average defined benefit schemes disproportionately reduced benefits for those with steep, as opposed to flat, career paths. This will include some of our current and many of our future remit group members.

1.27 Additionally, from 2016-17 it will no longer be possible for individuals with defined benefit pensions to contract out of part of the state pension by paying lower National Insurance contributions (NICs). This will equate to a reduction in take-home pay of around £480 per year for workers earning £40,040 or more per year[13]. For some of the

[10] A range is given because there are several alternative methodologies for estimating this, as discussed in Chapter 2.

[11] ONS, *Annual Survey of Hours and Earnings*, 2015

[12] Cribb, J and Emmerson, C *Workplace pensions and remuneration in the public and private sectors in the UK*, IFS Briefing Note BN151, http://www.ifs.org.uk/publications/7396

[13] Institute for Fiscal Studies (2016), *The IFS Green Budget*

lower-paid members of our remit groups this will, all other things being equal, largely cancel out any effect of a 1 per cent pay increase in 2016-17. However, it should be counterbalanced to some extent by an improved state pension in the future.

1.28 It is important to note that the tax relief changes also apply to private sector employees. Nevertheless, there has been a notable impact on our remit groups, for a number of reasons:

- The new tax measures are designed to target higher-value pensions. As discussed elsewhere in this report, public sector pensions remain, on average, relatively more valuable compared to the private sector.
- Many members of our remit groups remain in final salary pension schemes. The effect of breaching the annual allowance threshold can be more sudden in such cases. This is because the actuarial value of the pension can jump significantly due to increases in pay, such as through rises resulting from incremental progression or a promotion. This makes retirement planning feel less predictable.
- Private sector employers are likely to be more flexible in response to pension tax changes (for example, through converting pension funding into additional pay or bonuses) than public sector employers. Therefore, the new tax measures are felt, by public sector employees, to have a disproportionate impact.

Box 1.1: Recent pension changes

Since April 2011, the **indexation of public sector pension benefits** has been linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). As the CPI is generally lower than the RPI, this has led to a reduction in the value of pension benefits.

Since April 2015, **new public sector pension schemes** have been introduced. While the schemes remain defined benefit schemes, the value of the pension is based on career average salary rather than final salary. However, those within 10 years of normal retirement age on 1 April 2012 remain in pre-2015 schemes.

Since 2012-13, members of most public sector schemes have made greater **pension contributions**. For example, senior civil servants who were members of the Classic Civil Service Pension Scheme have seen contribution rates increase from 1.5 per cent in 2011-12 to 7.35 or 8.05 per cent in 2015-16.

The **annual allowance** is the limit determining the maximum increase in the value of tax approved benefits that a scheme member can earn over a particular tax year without incurring a tax charge. The allowance was reduced from £255,000 to £50,000 from April 2011 and further reduced to £40,000 with effect from 2014-15. In the Summer Budget 2015, the Chancellor announced that, from April 2016, the allowance would be tapered at a rate of £1 for every £2 of income received over £150,000, down to £10,000 for those with income over £210,000.

The **lifetime allowance** is the maximum amount of pension savings an individual can build up over their life from all registered pension schemes without incurring a tax liability. Since April 2012, the allowance has been reduced from £1.8 million to £1.25 million and has been reduced further to £1.0 million from April 2016.

1.29 As well as for current remit groups, tax and pension changes may have an increasingly negative impact on feeder groups. The next generation of leaders may face diminished incentives to be promoted, or to remain in the public sector at all.

1.30 Pensions converted into pay in order to reduce the tax burden do not necessarily amount to an exchequer loss, because pay is subject to tax. However, some senior individuals would welcome such an option. We encourage public sector employers to closely examine the opportunities for making pension packages more flexible and to take action where appropriate.

1.31 The SSRB also believes that, as part of effective joined-up Government, the impact of changes to pension tax arrangements on the ability of organisations in the public sector to recruit, retain and motivate personnel should be considered as those policies are being developed, rather than following their announcement.

Total financial reward

1.32 An important consideration when considering recruitment and retention is whether, and to what extent, the public sector pension offer compensates for the significantly lower salaries that exist at the top end. We are not aware of previous work to quantify this, so our exploratory work in this area is breaking new ground.

1.33 Our best overall assessment is that, for a typical senior public sector worker, the relative attractiveness of a public sector pension may compensate them in part, but not in full, for the lower pay they receive relative to private sector peers. The overall remuneration differential between the public and private sectors, in terms of pay and pensions combined, is likely to fall into the range between 0 and 16 per cent, in favour of the private sector. Therefore, an overall remuneration premium of 8 per cent in favour of the private sector is at the middle of the plausible range.

1.34 Arriving at such conclusions is a complex task, reliant on making heavy assumptions. A great deal of caution also needs to be applied in drawing general conclusions because the comparison will vary substantially across individuals. The analysis is discussed further in Chapter 2 and Appendix F.

Non-monetary reward

1.35 Financial reward is only one factor driving recruitment, motivation and retention. This applies both when making comparisons between the public and private sectors, and across different public sector jobs. For example:

- Senior leaders in the public sector may work in such jobs because they feel value from the sense of public service and because the work is worthwhile, interesting or confers social status.
- Some senior public roles offer relatively high levels of job security. However, this is not universally the case, as some senior public sector roles carry high levels of complexity and risk and are subject to intense public, media, parliamentary and Government scrutiny.
- Members of some of the SSRB's remit groups have better opportunities to move to alternative roles than others. Limited outside opportunities may make staff retention easier, although the possibility of resignation or early retirement still remains. Furthermore, limited outside opportunities may negatively affect recruitment and morale.

Investing to save

1.36 Our terms of reference include "*having regard to Government policies for improving the public services and the requirement on departments to meet the output targets for the delivery of public services*". Our advice should therefore explicitly consider the role of financial reward as a lever to support the delivery of policy and budgetary reform, and improved public sector productivity.

1.37 We believe there needs to be more focus on outcomes, in contrast to simple pay restraint. A central aim of a Government department will typically be to produce the outcomes it needs to deliver at the lowest cost or, alternatively, to achieve the best outcomes possible, given its allocated budget. It is important that overly rigid adherence to a policy where average pay-per-person increases by no more than 1 per cent does not act against this.

1.38 For example, where a department determines it can deliver some or all of its services better through funding a smaller cadre of senior people that is highly talented and better rewarded, it is possible that it may be able to exceed its budgetary reduction targets by raising average salaries per person by more than 1 per cent, to attract and retain the people needed to successfully drive through the necessary reforms. This could apply either to using pay budgets differently, or to recycling non-pay savings into pay budgets. In order to achieve the most efficient financial outcomes, departments should be actively considering where such reforms are desirable and appropriate.

1.39 The bar in terms of supporting evidence should, however, be high: plans would need to be underpinned by a robust workforce strategy, supported by compelling evidence that pay flexibility would genuinely deliver better budgetary efficiency than the alternative. We encourage departments, with any required support from HM Treasury, to present future proposals which involve using different senior pay structures as part of delivering improved overall budgetary efficiency. We would give any proposals very careful consideration.

Pay policy

1.40 Some potential areas of pay and workforce policy for strategic consideration are discussed below. The SSRB's remit groups, with their relatively small numbers, may be a good place to trial innovative approaches to workforce policy before applying them more widely across the public sector.

Pay systems

1.41 The SSRB's remit groups are each subject to different pay systems, which can be broadly categorised into spot pay, broad bands or progression pay, as discussed in Box 1.2. Different models have different pros and cons, and it is important that an employer thinks carefully about how the chosen model supports their different lines of business.

1.42 For instance, incremental pay progression offers some incentive for people to remain with the employer until they reach the top of their pay range. This may enable an employer to employ these people at lower pay for some years, while they progress upwards through the increments and acquire the full range of competences necessary to carry out the role effectively. However, while such a system may reward experience or service, this may not necessarily be a good proxy for performance or contribution.

Box 1.2: Pay systems

Spot pay systems are where the system is not designed to differentiate according to experience. They can be sub-divided into systems where all members of equivalent seniority receive the same salary (the Judiciary and Police and Crime Commissioners); and where there is some flexibility or variation across salaries at the point of appointment (Chief Constables).

Broad bands enable salaries to be set within an overall minimum and maximum. Individuals may or may not receive performance-related pay increases within these bands (Senior Civil Service and Very Senior Managers in the NHS).

Progression pay systems have pay ranges which allow for more experienced people at a certain grade to be paid more than others of the same seniority, as they progress in experience and/or competence (Senior Military).

1.43 As part of a more strategic approach employers should consider, distinctly from annual pay increases or how much they want to pay, why they use the pay system they do, and whether the arrangements are suitable for the future. In some cases, it may be more appropriate to fundamentally look at pay systems, and whether they are fit for purpose, rather than seeking to address issues through annual pay reviews.

1.44 We request that strategic consideration of the relevant pay system and its fitness for purpose in supporting the future policy agenda is explicitly covered in future evidence submissions to the SSRB.

Pay targeting and differentiation

1.45 Limited budgets put the focus on increased targeting of pay, through differential pay awards within a remit group. On 19 August the Chief Secretary to the Treasury (CST) wrote to Review Body Chairs setting out Government policy on public sector pay for 2016-17 (see Appendix C). In that letter he set out the need for such differentiation: *"The government expects pay awards to be applied in a targeted manner to support the delivery of public services and address recruitment and retention pressures."*

1.46 At the highest level, departmental budgets are allocated by HM Treasury, and the allocation of such budgets could in principle be used to target certain departmental workforces. Of more direct concern to the SSRB, departments may decide precisely how to target members of their workforce, or alternatively decide to provide a mechanism that allows for targeting decisions to be made at a more local level.

1.47 Differential pay increases could be applied though changes to: pay scale minima or maxima; progression or target points on a pay scale; consolidated base pay; allowances; or non-consolidated bonuses or contribution awards. The choice of mechanism should be based on careful analysis of what the best lever is to achieve the desired outcome.

1.48 By necessity, the appropriate targeting mechanism will depend on the nature of the pay system. For instance, it is possible to target specific groups, to target high-performing individuals through non-consolidated payments, or to move high achievers more rapidly up a pay range through consolidated awards. However, it is currently not possible to target high-performing individuals, except on appointment, in the spot pay systems within the SSRB's remit groups. It is, nevertheless, possible to target specific groups.

1.49 Pay increases can also be targeted according to a number of dimensions, including through being focused towards certain occupations, geographical areas, higher performers or jobs with certain characteristics, such as those which carry heavy responsibility or are particularly demanding or risky. This is discussed in Box 1.3.

Box 1.3: Targeting pay increases

The prospect of targeted pay increases raises the obvious question of what workforce segment should be targeted. It may be appropriate to target a defined segment, or segments, of the workforce such as:

- **Occupation, specialty or skills**: for instance, civil service finance professionals may not typically compete for the same types of jobs as policy professionals, leading to occupationally distinct labour markets.
- **Location**: many individuals will be subject to some degree of geographical immobility, meaning their labour market can be viewed as being geographically defined.

It is also possible to target pay according to:

- **Job performance**: Targeting in order to reward/incentivise good performance, retain high-performing staff and attract talented staff.
- **Job characteristics**: Level of responsibility or compensation for negative job-related factors, such as operational or reputational risk, or difficult, unpleasant or dangerous work. Conversely, employees may accept lower pay because the job is rewarding in other ways.

While there may still be good economic reasons to target according to such factors, the absence of a defined outside labour market will often make the impact on retention and recruitment less predictable.

Differential pay awards may be used to address social rather than solely economic concerns (for instance, compressing the pay distribution to increase equality) or to correct historic anomalies in pay systems (for instance, where people are being paid differently to do similar jobs).

In many of the above cases, it is important to consider whether, and through what precise mechanisms, targeted pay increases will have the desired effect on recruitment, retention and motivation. Consideration should also be given to whether targeted pay awards are the correct solution to the problem at hand, at least in the long term. A more fundamental review of the pay system or mechanisms to affect the labour supply may be preferable.

1.50 In all cases, a number of implications flow from targeting or differential pay awards:

- If targeted increases are to be meaningful, some highly valued workers will need to receive annual increases of significantly above 1 per cent in nominal terms (potentially 2, 3 or 4 per cent just to keep pace with the private sector).
- With a 1 per cent cap overall, this means that many workers will receive no or very minimal pay increases, and there will be no or very limited scope to increase pay band minima or maxima. It is important to be confident that this will not create recruitment, retention and motivation problems of a greater order than the ones being addressed.
- The increasingly complex pay distributions that result may also lead to distortions and perverse outcomes.
- The effect of targeting increases needs to be considered in the context of impacts on wider morale. Focusing on certain sections of the workforce or paying new staff at higher rates may be damaging to the motivation of individuals who are not targeted. These impacts may be most felt in situations where team working or collective ethos is particularly important.

- Retention may be less of an issue if the workforce is shrinking, as long as a sufficiently large share of the highest-quality people is retained.
- Targeted awards should support broader policy objectives. For example, some public sector employers have reported in evidence to the SSRB that business management, commercial and digital skills are increasingly required to deliver services in a modern and efficient way. Where robust evidence supports such arguments, an appropriate pay response may be justified, alongside complementary actions in areas such as training and skills development.
- The diversity impacts need to be carefully monitored. If targeted pay rises consistently disproportionately affect people of a certain age, gender or ethnicity, that should be a matter for careful investigation. Similarly, the impacts on recruitment and retention, and therefore the composition of remit groups, needs to be kept under close review.

1.51 A final observation on targeting is that the workforces within our remit, and those for other Review Bodies, have each been funded for 1 per cent pay increases. In an ideal world, where funding was being optimally targeted precisely to meet priorities, it is unlikely that a uniform position would emerge.

1.52 Departments could potentially prioritise among their own workforces. Alternatively, the SSRB could regard the funding for all of our remit groups as a single pot, and recommend allocating pay in such a way that some groups receive an average pay award of below 1 per cent, while others receive an average award of above that.

1.53 We have not attempted to take the "single pot" approach. First, none of the parties made such a proposal to us, meaning that there is no current evidence of support for it. Second, the quality, consistency and, therefore, the comparability of the evidence currently available is insufficient. Third, to effectively draw a budgetary ring-fence around those senior public sector workers that happen to be in the SSRB's remit may appear arbitrary and unfair. Finally, it may be that the benefits would be counter-balanced by those arising from a simple transparent rule for public pay restraint, and that is a matter for the Government's judgement.

1.54 It would be worthwhile, however, for the Government to consider whether, in the long term, a uniform pay target is sufficiently consistent with the intent to target resources as effectively as possible. Future departmental evidence to the SSRB on targeted pay increases should explicitly set out what type of pay targeting is needed to support its business needs and include thorough analysis of the implications. This should apply both to the groups specifically targeted, and to the workforce as a whole.

Automatic pay increases

1.55 On the basis that the SSRB believes employers need to carefully consider whether and how their pay systems reflect their current business needs, pay systems that allow individuals to receive pay rises automatically, not aligned with their performance, require careful consideration.

1.56 It is the case that automatic incremental increases, in some cases, account for a significantly greater proportion of the paybill in any given year than the proposed average maximum increase of 1 per cent. However, a complete assessment of the costs of automatic progression needs to account for the fact that when leavers at the top of the scale are replaced by personnel coming in at the bottom, that reduces the paybill.

1.57 With average pay increases so limited, it is right to consider whether, over the long term, such arrangements represent the best use of scarce funds and, particularly, whether there should be more rigorous performance management prior to increases being paid. Where automatic pay increases are maintained, departments should set out how and why it suits their business model and the means through which it will drive improved staff performance.

Non-consolidated pay

1.58 Some members of our remit groups are paid performance-related awards: up to 25 per cent of Senior Civil Servants and the same proportion of Very Senior Managers in the NHS. Non-consolidated pay awards are not pensionable. There are questions to be asked over whether the level of such awards makes them worthwhile, whether the 25 per cent limit is justified, whether they are fairly allocated, and whether they make a difference to the performance, recruitment, retention and motivation of the people who receive them, bearing in mind that such payments may be divisive in certain circumstances. To assess their significance to the individual, they need to be considered relative to current salary and net of any tax deductions.

1.59 Non-consolidated awards do provide a partial counterbalance to the non-base pay reward received by senior private sector employees, such as bonuses and share options. Furthermore, a potential advantage from an employer perspective is that because they are non-consolidated, any pay increases are not "locked in" if relative performance declines or demand for an individual's skills declines.

Multi-year settlements

1.60 To support a more strategic approach, multi-year settlements may be required to deliver meaningful changes in pay relativities, where a direction of travel is set and then supported by successive annual pay decisions over time.

1.61 Increases may be front-loaded, for example through multiple years of increases paid upfront in one go. This may be appropriate where there is evidence that a relatively small up-front investment would address immediate recruitment or retention problems, or where such increases could be used to buy in changes that produce longer-term efficiency savings.

1.62 Back-loaded settlements may also be justified. For instance, small or zero increases could be paid for several years in order to award a larger increase later on. This may be justified in cases where a more meaningful increase would make a difference but is not immediately affordable. Such settlements may also provide employees with a potential incentive to remain and await the pay uplift.

1.63 Whilst the SSRB will want to consider the full pros and cons, where multi-year approaches can be demonstrated to make best use of limited funds, we would welcome such proposals in the future.

Staff and career management

1.64 Particularly in the context of constrained budgets, effective, equitable and transparent performance management systems are needed for assessing individual contributions, and employers will need to act on the results of those assessments.

1.65 If pay is to be targeted towards top performers, those individuals need to be satisfactorily identified, and targeted pay needs to be directed to drive the desired outcomes (principally the motivation and retention of such people). Where performance is less strong, managers need to be prepared to deliver honest messages, and supported in doing so. This will require a major shift in the focus on performance management in the public sector.

1.66 Similar principles will apply where staff are rewarded or recruited on the basis of specialist skills. Pay needs to reflect performance and contribution, rather than simply qualifications or experience, and the issue of whether pay is in line with the need for such individuals should be a matter for ongoing post-appointment review.

1.67 There should also be greater focus on dealing with those that deliver least value. If pay is to be focused on those who add the most value and if there are to be suitable promotion opportunities for talented members of the feeder group, particular rigour is required in easing out those who are relatively well paid but whose contribution is more limited. This has been historically challenging.

1.68 In some cases, standard performance management methods are difficult, such as in the case of the independent judiciary. Ensuring that the right arrangements are in place to recruit high-quality people in the first place is even more critical in such roles.

1.69 A successful pay strategy requires a rigorous and coherent plan for monitoring, assessing and rewarding staff performance, and we would welcome the inclusion of such issues in future evidence to the SSRB.

A more evidence-based approach

1.70 There need to be improvements in the collection and analysis of consistent, comparable and timely monitoring data to inform strategic workforce decisions. Data needs to be more granular and tailored to workforce policy needs. Specific issues for individual remit groups are discussed in the relevant chapters, but some general priorities are as follows:

- Generally, data needs to be focused and disaggregated to such a level that it can inform pay and workforce decisions. For instance, information on levels and rates of staff exits are of far less value for workforce planning purposes if it is not possible to identify the reasons for leaving such as morale within the organisation, retirement, early retirement, or other employment. Such data also needs to distinguish between staff according to their seniority, location, type of work and levels of performance. Data on numbers of appointments needs to be supplemented with information on ease of appointment and quality of appointees.
- There are very worrying data coverage and quality issues relating to the feeder groups that will provide future public sector leaders. Departments need a clear understanding of who the feeder group is and to provide an explicit, comprehensive, data-driven view of whether the pay and reward package is sufficient to recruit, retain and motivate the senior leaders of the future. This requires data which separately identifies those individuals demonstrating the strongest potential to progress to the most senior levels.
- We have heard in a number of cases about the existence of skill shortages in specialist areas, but we have seen no solid statistical evidence of these shortages or of their impacts on public service delivery or improved public sector efficiency or productivity. Furthermore, we have not seen robust labour market analysis showing what level of pay response would make a real difference to recruitment, retention and motivation, and by what means. In the context of targeting limited pay budgets, this is a particular concern.

1.71 Prior to producing this report, the SSRB communicated its evidence requirements to Government departments and other evidence-providing parties. We have seen some improvements in the evidence provided to us in some areas, and are grateful for the efforts that led to this. We ask that this momentum is maintained.

1.72 The SSRB requests that departments continue to improve their evidence base for the public sector workforce, with a particular focus on total reward (basic pay, bonuses, pensions and benefits in kind), future leaders, specific skill shortages, and producing sufficiently granular data on recruitment and retention, that differentiates between staff according to their quality of performance or contribution.

1.73 In support of the above, departments working with other relevant parties, should also put in place machinery to make an assessment of the impact of past pay and reward decisions in order to inform their strategic workforce planning and submissions to the SSRB in future years.

1.74 We are grateful for the written evidence submitted to us this year, from all parties, which was essential to our deliberations. However, if the SSRB is to continue to be a useful component of this evidence-based approach, as well as good evidence and data, it needs time to fully consider it, collect supplementary information, and formulate conclusions. Government written evidence relating to all but one[14] of the remit groups on which we have been asked to make recommendations this year was submitted late, potentially undermining our ability to rigorously assess and consider it. Because the SSRB was not willing to compromise on the quality of its advice, the lateness of evidence led to this report being submitted over a month later than planned. It was also a factor in the situation, discussed in Chapter 7, where we have been unable to make pay recommendations for Very Senior Managers in the NHS this year.

1.75 We also give great weight to the oral evidence we receive from the Government and other parties. We wish to thank those who provided oral evidence this year, much of which was very high quality and delivered by people of very high levels of seniority. It is important the Government representatives who give evidence to us have personal ownership of workforce decisions and visible accountability to the employees affected, as well as personal ownership of the broader strategic direction of policy. If we are to fulfil our functions effectively, it is crucial that the SSRB receives oral evidence directly from the most senior decision-makers.

1.76 We understand that a General Election, followed by a November Spending Review, created a challenging environment in which to deliver evidence to the SSRB, and we are supportive of aligning departmental spending decisions with proposals on workforce pay. Nevertheless, we urge all departments to submit evidence in a timely fashion in future years.

[14] The exception was the Home Office's evidence on Chief Police Officers. This evidence has been provided according to its own schedule.

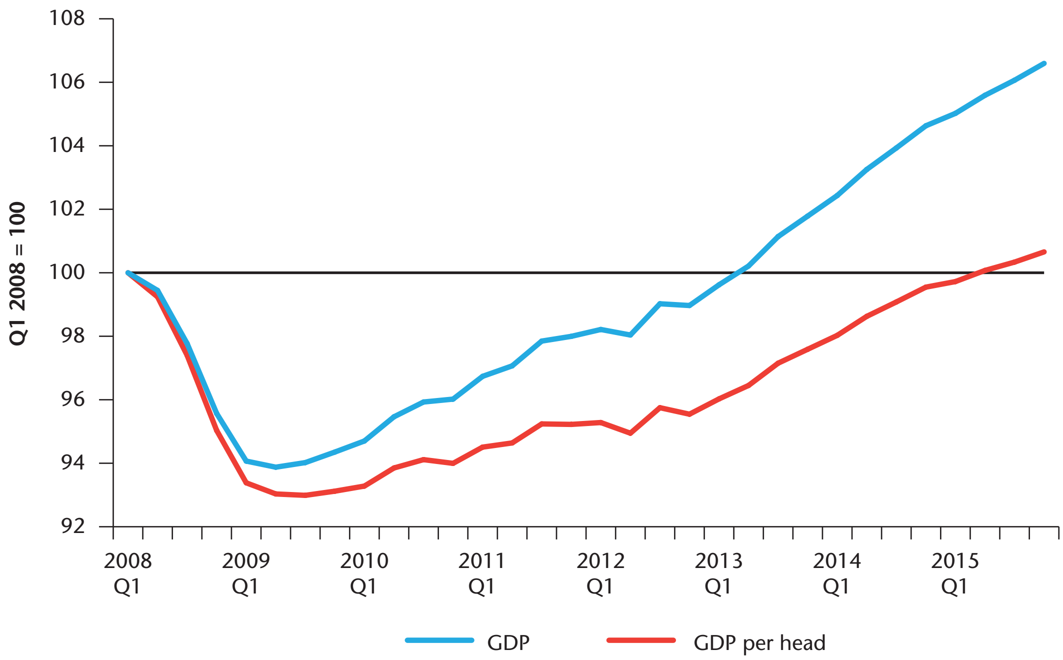
Chapter 2

Economic context[15]

The economy

2.1 Provisional estimates suggest the UK economy saw Gross Domestic Product (GDP) growth of 2.2 per cent in 2015, below the December 2014 forecast made by the Office for Budget Responsibility (OBR) of 2.4 per cent. Recent quarters have seen contractions in manufacturing and construction output, with growth driven by the private services sector. The economy is now 6.6 per cent larger than its pre-recession peak at the start of 2008, although much of this growth has been driven by population expansion, meaning that GDP per head is less than 1 per cent ahead of the position in 2008.

Figure 2.1: **GDP and GDP per head quarterly growth, UK, 2008 Q1 to 2015 Q4**



Note: Chained volume measure, seasonally adjusted
Source: ONS (ABMI and IHXW)

2.2 As with GDP per head, productivity has struggled to grow to above pre-recession levels. Having peaked in the first quarter of 2008, output per-worker and per-job fell by over 4 per cent by the first quarter of 2009. Pre-recession productivity was finally regained at the end of 2014, although it remains barely a percentage point ahead of its pre-recession level.

[15] Figures in this chapter are up-to-date as of 22 March 2016.

Figure 2.2: **Productivity, UK, 2005 to 2015**

Source: ONS output per job (LNNN), output per worker (A4YM) and output per hour (LZVB), for the whole economy, quarterly, seasonally adjusted, UK, Q4 2005-Q3 2015.

2.3 In its latest World Economic Outlook[16], the IMF forecast global growth (estimated at 3.1 per cent in 2015) to be 3.4 per cent in 2016 and 3.6 per cent in 2017. The 2016 and 2017 figures were both downward revisions of 0.2 percentage points on its previous forecasts, reflecting a weaker pick-up in emerging economies, notably Brazil, and weaker prospects for global trade growth, reflecting developments in China.

2.4 The UK's economic prospects have become more fragile over recent months. In its March 2016 Economic and fiscal outlook, the Office for Budget Responsibility (OBR) revised down its expectations for economic growth in the light of the weaker global outlook and a lower expectation for productivity. It now expects GDP growth of 2.0 per cent in 2016 and 2.2 per cent in 2017 (revised down from the November forecasts, of 2.4 per cent or 2016 and 2.5 per cent for 2017)[17].

Table 2.1: **GDP forecasts**

	Office for Budget Responsibility, year on year (March) %	**Bank of England central projection** for annual growth to Q4 (February) %	**Treasury independent median**, year on year (March) %*
2016	2.0	2.2	2.0
2017	2.2	2.4	2.2
2018	2.1	2.4	2.2
2019	2.1	–	2.3

*2018 and 2019 forecasts from February 2016

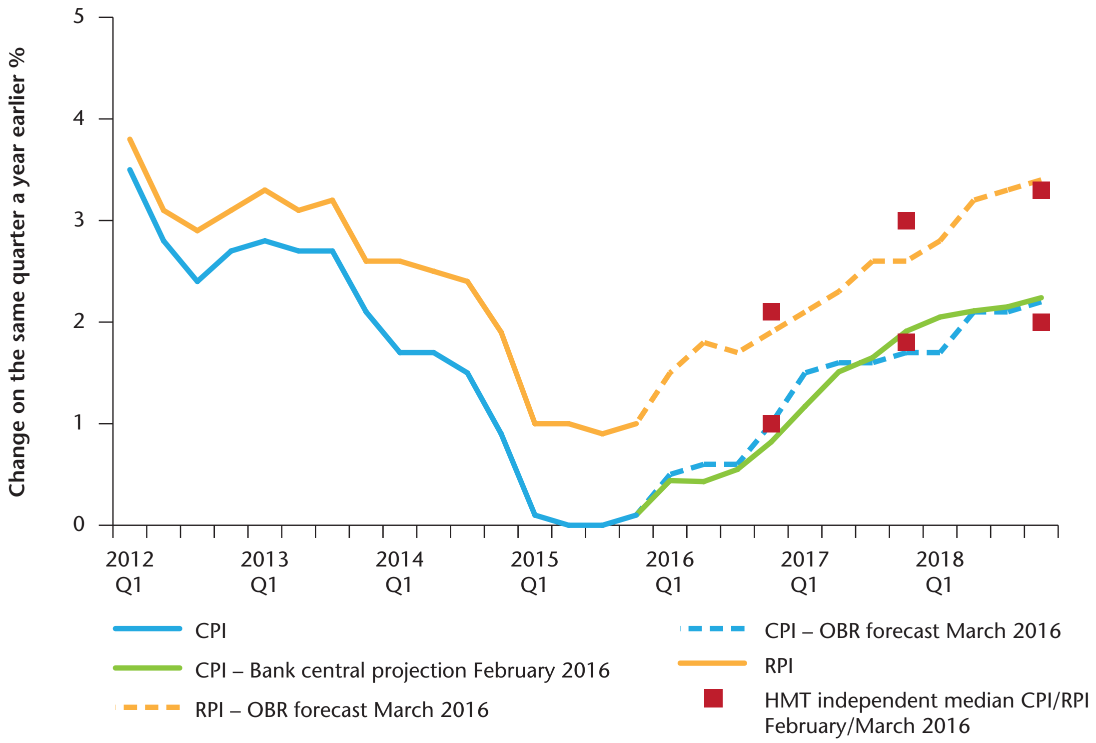
2.5 CPI inflation was stable at around zero for ten months between February and November 2015, kept low by falling energy and food prices and the appreciation of sterling. The latest available figures for February 2016 put CPI inflation at 0.3 per cent and RPI inflation

[16] International Monetary Fund, *World Economic Outlook Update*, January 2016, http://www.imf.org/external/pubs/ft/weo/2016/update/01/

[17] Office for Budget Responsibility, *Economic and fiscal outlook*, March 2016. http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2016/

at 1.3 per cent[18]. Inflation is expected to continue rising during the first half of 2016, as the oil price falls of a year earlier drop out of the 12-month comparison. The OBR forecasts CPI inflation to be 0.6 per cent in the second quarter of 2016, reaching 1.0 per cent by the fourth quarter. RPI inflation, which is usually higher than CPI inflation, is forecast to be 1.9 per cent in the fourth quarter of 2016[19].

Figure 2.3: **CPI and RPI data and forecasts, 2012 to 2018**



Source: ONS, CPI (D7G7), RPI (CZBH), quarterly, not seasonally adjusted, UK, Q1 2012-Q4 2015; Bank of England Inflation Report, February 2016; OBR (March 2016); HM Treasury (February and March 2016).

The public finances

2.6 In 2014-15, public sector spending exceeded receipts by 5 per cent of GDP, and net debt, at 83 per cent of GDP (see figure 2.4), was at its highest since 1967[20].

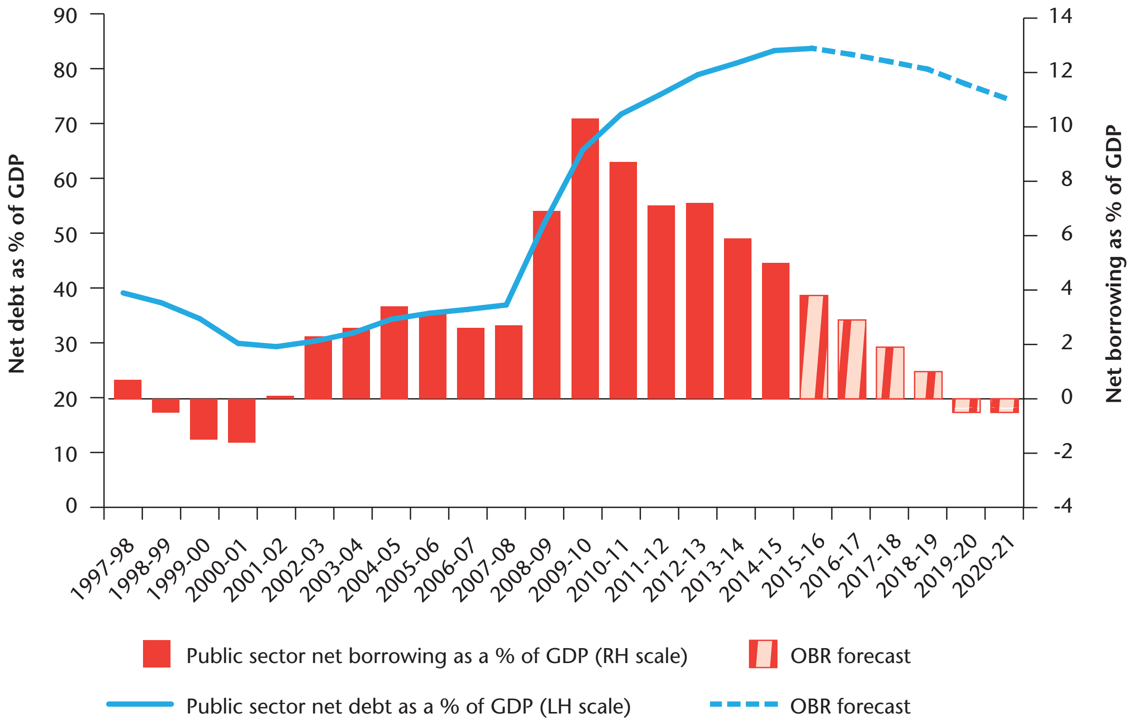
2.7 Looking ahead, the Government believes further fiscal consolidation is necessary. When the Chief Secretary to the Treasury wrote to Review Body Chairs regarding public sector pay for 2016-17, he confirmed that Government would fund public sector workforces for a pay award of 1 per cent a year for four years from 2016-17. This letter is reproduced at Appendix C.

[18] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/feb2016#retail-prices-index-rpi-and-rpij

[19] OBR, *Economic and fiscal outlook*, March 2016. http://budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2016/

[20] ONS: Public sector net debt as a % of GDP (HF6X); Public sector net borrowing as a % of GDP (J5IJ)

Figure 2.4: **Public sector net debt and borrowing as a % of GDP, 1997 to 2021**

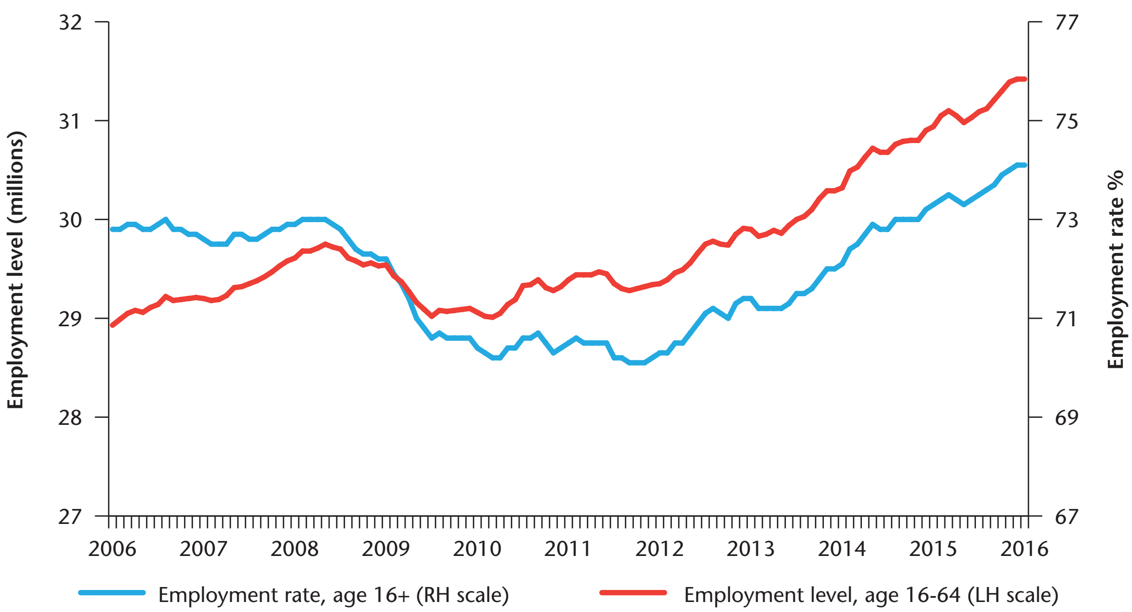


Source: ONS: HF6X; JFIJ; OBR, *Economic and fiscal outlook*, March 2016.

Employment and unemployment

2.8 The labour market continues to tighten: employment grew by 478,000 (1.5 per cent) in the year to January 2016. The employment level has now grown by 2.4 million over the last six years (since the low point of the recession), and is 1.7 million above the pre-recession peak of 2008. The employment rate is at an all-time high of 74.1 per cent. Private sector employment grew by 529,000 (2.1 per cent) in the year to December 2015, while public sector employment fell by 50,000 (0.9 per cent).

Figure 2.5: **Total employment, rate and level, 2006 to 2016**



Source: ONS (MGRZ and LF24)

2.9 The level of unemployment, measured by the Labour Force Survey (i.e. those looking for and available for work), has been falling since the end of 2011. The latest figures, for the three months to January 2016, put unemployment at 1.69 million (5.1 per cent), having fallen by 28,000 on the quarter and by 171,000 on the year.

2.10 There may be more spare capacity in the UK economy than the headline unemployment figures suggest. A measure of the excess supply of hours in the economy, or underemployment, can also be defined[21]. This measure was at a similar rate, of around 5.3 per cent, prior to the recession at the start of 2008. The underemployment rate then rose sharply to a peak of 10.3 per cent at the end of 2011, compared to a peak of 8.4 per cent in the unemployment rate. Both have fallen since then, although the underemployment rate, at 6.4 per cent in the third quarter of 2015 was still significantly above the unemployment rate, at that time, of 5.3 per cent[22].

Remuneration

Pay

2.11 Average (mean) earnings growth showed some signs of strengthening during 2015 (earnings data in this chapter includes bonuses). Private sector total earnings growth in particular was above 3 per cent for much of 2015, but fell back to 2 per cent at the end of the year, while public sector earnings growth was stable at 1 to 1.5 per cent. However, alternative sources do suggest different trends in relative public and private sector pay growth, so data on short-term trends in relative pay should be regarded with some caution[23]. Pay settlement medians were stable at 2 to 2.3 per cent through 2015, close to the previous two years, and the first figures for 2016 indicate a 2 per cent median pay review.

2.12 Annual CPI inflation is currently below 1 per cent, meaning a 1 per cent pay rise would slightly increase income in real terms, before tax and National Insurance[24]. However, over the longer term, because CPI inflation is expected to gradually rise, average 1 per cent pay increases over the next four years imply falling real-terms average pay for public sector workers, including senior staff. This assumes that public sector pay will rise at the maximum 1 per cent budgeted for.

2.13 In contrast, private sector pay growth is forecast to increase to around 3 per cent by the end of 2016, before rising further to between 3.4 and 3.6 per cent in subsequent years, implying significant real-terms average increases over coming years.

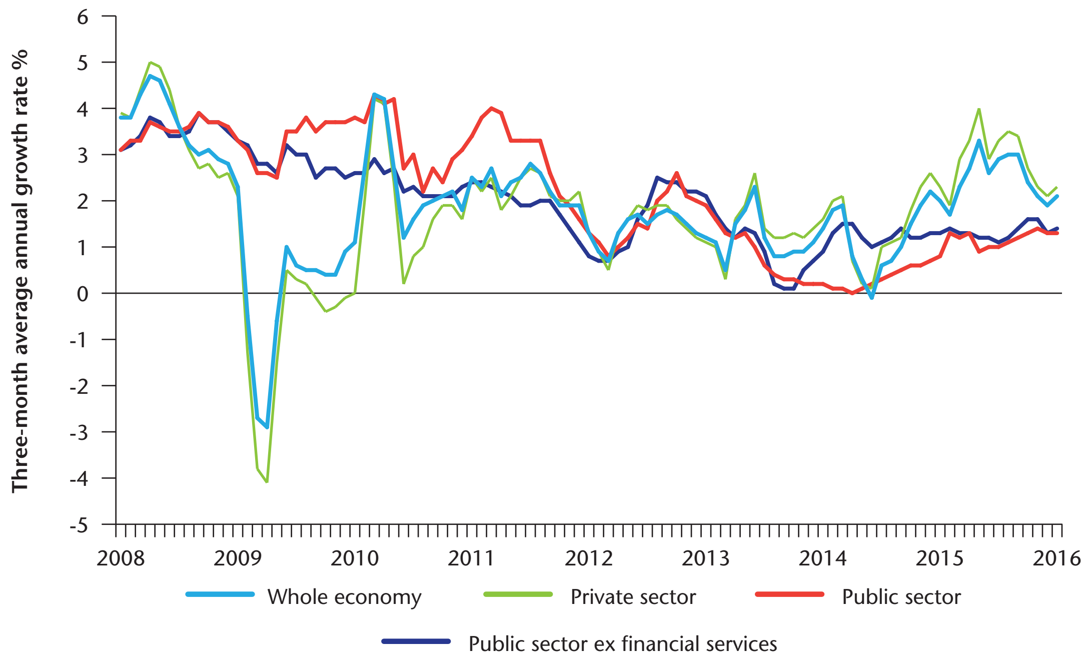
[21] This adds the hours that the unemployed would work, if they could find a job, to the change in hours that those already in work would prefer. Total surplus hours are then expressed as a percentage of the sum of hours worked, and surplus hours, to give the underemployment rate.

[22] http://www.theworkfoundation.com/Datalab/The-BellBlanchflower-Underemployment-Index

[23] Earnings data are volatile and subject to measurement error. As in previous reports, we use the ONS Average Weekly Earnings (AWE) data as our preferred source for assessing changes in average earnings, because the data are refreshed relatively frequently and therefore better for assessing trends over time. Provisional 2015 Annual Survey of Hours and Earnings data showed the change in mean weekly gross pay for all employees for April 2014 to April 2015 was 2.0 per cent in the public sector and 1.0 per cent in the private sector. Broadly equivalent figures from AWE indicate 0.9 per cent earnings growth in the public sector and 3.1 per cent earnings growth in the private sector in April 2016. In other words, the two sources suggest opposite trends in the public/private sector earnings ratio.

[24] Adjusted for inflation.

Figure 2.6: **Average weekly earnings (total pay), three-month average, 2008 to 2016**



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

2.14 When comparing levels of public and private sector pay, labour market analysts often statistically adjust the data in order to make better like-for-like comparisons, such as between people with similar characteristics or doing similar jobs. For example, public and private sector workforces have different age profiles[25], which could bias earnings comparisons unless a correction is made to account for that. Recent analysis, by the Office for National Statistics[26] shows the following:

- In 2015, average (mean) hourly **unadjusted** public sector pay was 16.1 per cent above the private sector.
- Statistically **adjusted** public sector pay was either **3.5 per cent below or 0.9 per cent above the private sector**, depending on the precise calculation method used[27].
- The above compares to similarly adjusted gaps in 2014 of -3.7 per cent or +0.6 per cent.
- It also compares to adjusted gaps in 2010 of -0.4 per cent or +4.3 per cent. This is the year when the ratio was most in favour of public sector earnings (the series goes back to 2002).

2.15 Overall, this analysis suggests that adjusted public and private sector earnings are currently broadly in line *on average*. However, the general balance has shifted in favour of private sector earnings since 2010. Similar calculations for the SSRB's remit groups are considered later in this chapter.

[25] See Figure 2 in http://www.ons.gov.uk/ons/rel/lmac/analysis-of-factors-affecting-earnings-using-annual-survey-of-hours-and-earnings/2015/art-analysis-of-factors-affecting-earnings.html

[26] http://www.ons.gov.uk/ons/rel/lmac/analysis-of-factors-affecting-earnings-using-annual-survey-of-hours-and-earnings/2015/art-analysis-of-factors-affecting-earnings.html

[27] In this and in each of the following bullets, the first figure includes an adjustment for organisation size. The second figure excludes it. It is normal ONS practice to present results both including and excluding this adjustment.

Bonuses

2.16 Considering the bonus component separately, such payments continue to make up a significant proportion of earnings in the private sector. In the year to March 2015, the average private sector employee received just over £1,800 in bonuses, compared to the average public sector bonus of just over £100.

2.17 The whole economy average bonus per employee was just over £1,500. This was 0.2 per cent lower, in nominal terms, than the previous year. The average bonus per employee in the finance and insurance industry, which accounts for nearly a third of total bonuses, was £13,100, a fall of 5.8 per cent on the previous year in nominal terms.

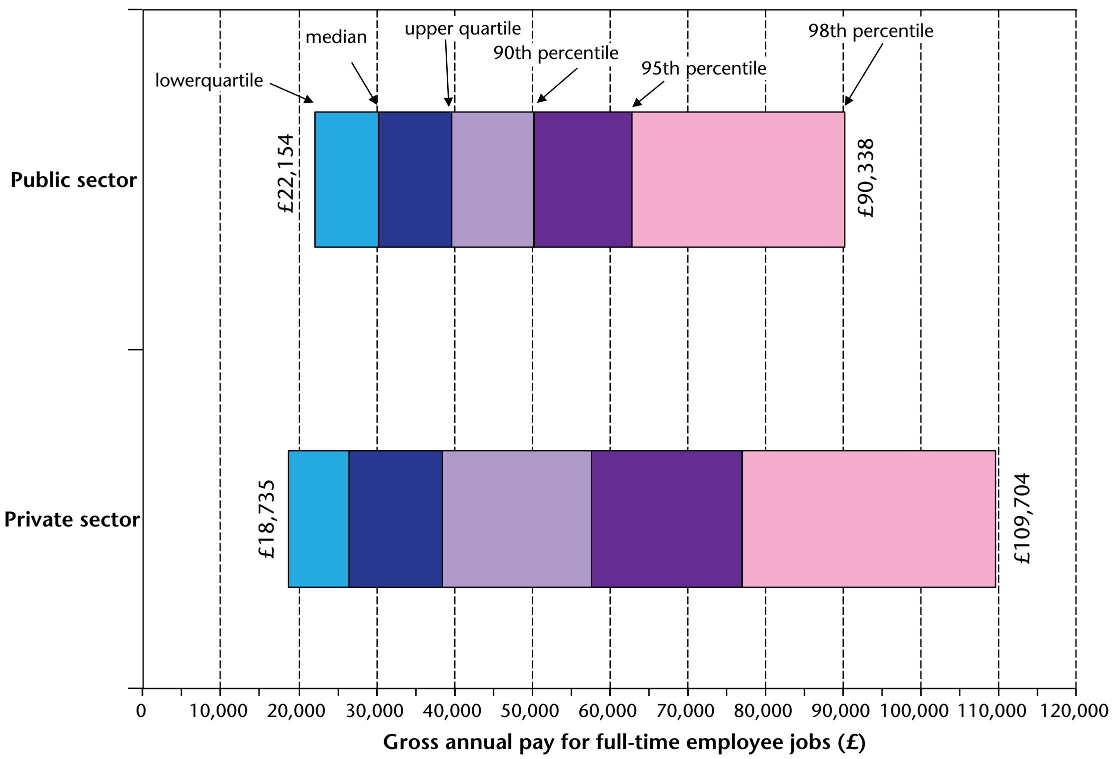
Remuneration for senior staff

Public and private sector senior pay (basic pay and bonuses)

2.18 Prior to any statistical adjustment to make better like-for-like comparisons between the two sectors, the distribution of earnings in the public sector is compressed compared to the private sector, as shown in Figure 2.7. This means that while the lowest paid in the public sector are typically better paid relative to their private sector equivalents, the most highly paid workers are paid considerably less than their private sector counterparts.

2.19 The 95th percentile of the public sector earnings distribution is roughly in line with the pay of the lowest paid workers in our remit groups. The 98th percentile can be used to approximate the typical pay received by members of the remit groups, although it is necessarily a crude measure, because large pay differences exist within and across the groups. Public sector pay, for full-time employees, at the 98th percentile in 2015 was approximately 18 per cent lower than in the private sector, at around £90,000, compared to £110,000.

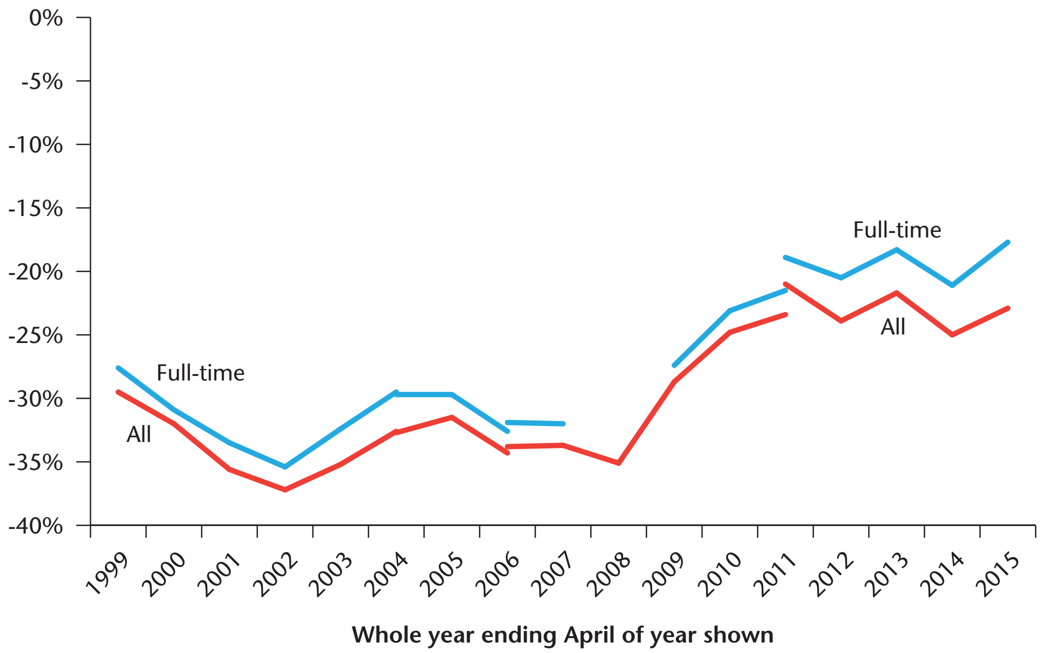
Figure 2.7: **Distribution of annual full-time employee pay in public and private sectors**



Source: ONS, Annual Survey of Hours and Earnings (ASHE) 2015. Note that source data at the 98th percentile have high coefficients of variation (>5%), meaning that some of the data in this figure should be viewed as illustrating only a broad order of magnitude.

2.20 The unadjusted pay gap at the 98th percentile between the public and private sectors seems to have narrowed since the pre-recession period. It is difficult to elicit precise trends, due to discontinuities in the data, but it appears that the gap between private and public sector full-time earnings at the top end fell from around 30 per cent in favour of the private sector prior to the economic crisis, to 18 per cent in 2015. The expected growth paths for public and private sector pay discussed above, however, suggest the gap may increase again in the coming years.

Figure 2.8: **Unadjusted public-private sector gross annual employee pay gap at 98th percentile, as a percentage of private sector pay 1999-2015**[28]



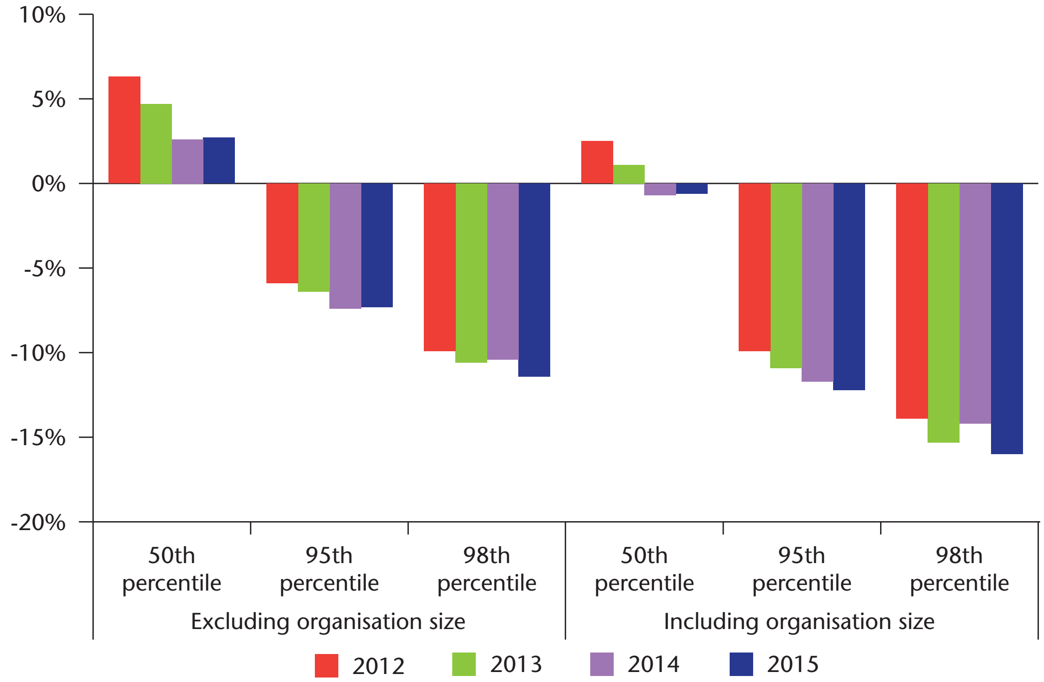
Source: OME calculations using ad hoc published ONS ASHE data. See notes to Figure 2.7.

2.21 In order to make better like-for-like comparisons between the public and private sectors, in line with Office for ONS best practice, we requested that the ONS model the adjusted pay differential at the 95th and 98th percentiles of the earnings distribution. The ONS were able to do this for the period 2012-2015[29]. The SSRB is grateful for this work.

[28] Various discontinuities in the ASHE dataset mean comparisons across years need to be made with caution. The ONS did not publish a value for the full-time gross annual pay 98th percentile in 2008. In 2004, additional supplementary surveys were introduced to improve coverage. In 2006, there were changes to the construction of geographic areas and to weighting. In 2007, there were changes to coding of occupations and weighting. Also, large businesses that return their data electronically began to be used as a separate stratum in ASHE weighting. The ASHE sample size was temporarily reduced by 20 per cent in 2007 and 2008. In 2011, ASHE used the new 2010 Standard Occupational Classification (SOC) for the first time.

[29] http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/005313averagedifferenceinhourlypaybetweenpublicandprivatesectorworkersexpressedasapercentageofprivatepayforselectedpercentilesapril2012toapril2015uk

Figure 2.9: **Adjusted average difference in hourly pay between public and private sector workers, excluding and including organisation size, as a percentage of private pay, 2012-2015**



Source: OME calculations using ad hoc published ONS ASHE data. See notes to Figure 2.7.

2.22 The ONS analysis shows that, in 2015, public sector workers at the 98th percentile of the earnings distribution earned either approximately 11 per cent or 16 per cent less than their private sector counterparts. In other words, there appears to be an identifiable "public sector effect" where senior public sector people with similar skills and characteristics, doing comparable jobs, are paid less. This effect appears to have been fairly stable, or possibly slightly increasing, since 2012.

Comparisons of real take-home earnings

2.23 As in recent years, we have asked our secretariat to calculate the combined effects of income tax, National Insurance and inflation on typical members of our remit groups and these are shown in Table 2.2. Full details of the calculations are at Appendix G.

Table 2.2: **Representative changes in take-home pay 2009-10 to 2015-16 resulting from pay, income tax, National Insurance, pension contribution changes and inflation**

Remit group		**Nominal change %**	**Real change (against CPI) %**
SCS	Pay Band 1	-9	-22
Judiciary	Circuit Judge (Band 6.1)	-7	-20
Senior Military	2-star	+8	-7
Very Senior NHS Managers (VSMs)	Chief Executive	-11	-23

Source: Office of Manpower Economics (OME)

2.24 Most of our remit group members have experienced a fall of between a fifth and a quarter in their real-terms take-home earnings between 2009-10 and 2015-16. The typical senior military member continues to be less affected than our other remit groups because the majority still benefit from annual pay progression and their pensions are non-contributory. Looking at employees working full-time across the economy as a whole, someone on median earnings in both 2009-10 and 2014-15 has experienced a fall in real earnings of 5 per cent over that period as a result of inflation, income tax and National Insurance changes[30].

Pensions

2.25 In 2014 the OME published research from Towers Watson[31] into changes in the value of public sector pension schemes, from 2010 projecting through to 2016. The changes reflected alterations to contribution rates to existing schemes and the introduction of new schemes from 2015. The impact of the changes is dependent on a range of variables, including length of service and remit group. It is important to note that the report looked at illustrative career paths rather than the overall or average position. Nevertheless, the data show that for the illustrative career paths within the SSRB's remit groups that were considered:

- The value of pensions, as a proportion of salary, has fallen for the majority of career paths.
- For the most part, the public sector pension schemes provide larger benefits, relative to salary, than the private sector. However, in many cases, the gap shrank between 2010 and 2016.

Average total financial reward

2.26 For public sector workers as a whole, taking pensions and pay together, there still appears to be, on average and for the time being at least, an overall monetary premium to working in the public sector. The Institute for Fiscal Studies (IFS)[32] calculated that taking pensions and individual and job-related characteristics into account, a median public sector worker received an overall reward premium of approximately 17 per cent of the private sector median in 2012. Of this premium, approximately 5 percentage points was due to gross annual pay, with the remaining 12 percentage points accounted for by pensions.

2.27 Because the balance in terms of relative pay growth has been in favour of the private sector in recent years[33], we would expect an equivalent figure in 2016 to be below 17 per cent, but still positive. In the 2016 Summer Budget, HM Treasury took a similar line, saying that "*Overall, levels of pay in the public sector are now, on average, comparable to those in the private sector. However, public sector workers continue to benefit from a significant premium once employer pension contributions are taken into account*."

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[30] OME calculations using ad hoc published ONS ASHE data.

[31] Towers Watson (2014), *Comparative Pension Valuation for Review Body Remit Groups: Report on results of comparative valuation of pension benefits for illustrative individuals* https://www.gov.uk/government/publications/comparative-pension-valuation-for-review-body-remit-groups

[32] IFS (2014), *Workplace pensions and remuneration in the public and private sector in the UK, IFS Briefing Note BN151*

[33] http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/005313averagedifferenceinhourlypaybetweenpublicandprivatesectorworkersexpressedasapercentageofprivatepayforselectedpercentilesapril2012toapril2015uk

Total financial reward for senior people

2.28 The position in relation to senior roles of direct interest to the SSRB will be substantially different to that at the average. Starting with pay alone, as described earlier in this chapter, the gap between the public and private sectors in 2015 was approximately -16 per cent or -11 per cent at the 98th percentile[34], depending on the precise calculation method used.

2.29 To compare pay and pensions together, we would ideally adjust the (negative) pay premium at the 98th percentile to account for any differences between the value of public and private sector pensions. We have seen no studies that have directly attempted this, and so have considered whether the studies by the IFS and Towers Watson mentioned above may help us to assess this issue. Appendix F discusses the analysis in detail.

2.30 Two approaches were considered. The first is to assume that accounting for total reward shifts the public/private differential approximately 12 percentage points in favour of the public sector. The adjustment is derived from the 2014 IFS report, based on a comparison of average public and private sector workers in 2012. Applying this adjustment to senior pay would eliminate most, or all, of the negative pay premium for senior public sector workers.

2.31 However, the 12 percentage point figure may represent an over-adjustment when considering senior employees in 2016. For instance, the data in the IFS study is now four years old, and there have been significant changes to public sector pension schemes since. Furthermore, the public sector pension premium in 2012, at the average, was in part due to the fact that many private sector workers did not have employer-provided pensions at all. This is less prevalent in the case of senior private sector workers: in April 2015, 65 per cent of Managers, Directors and Senior Officials in the private sector had a workplace pension, compared to 55 per cent of all private sector employees[35].

2.32 A second approach uses the report for the OME carried out by Towers Watson in 2014. This provides estimates of the difference in the value of public and private sector pensions, relative to earnings, for members of most of our remit groups. The picture varies substantially over time, within and across remit groups, illustrating that the nature of total reward differs heavily between individuals.

2.33 Using the Towers Watson research leads to similar conclusions to those from applying the IFS study, as discussed above, namely that:

- in terms of basic pay and bonuses alone, there is a remuneration gap between the public and private sectors at senior levels, in favour of the private sector; and
- bringing pensions into the calculation will typically reduce the size of the gap; however
- it will typically only reduce the size of the gap rather than eliminate it.

2.34 Our best estimate at this time is, therefore, that lower public sector pay at the top end of the earnings distribution is partly, but not fully, compensated for by better pensions for a typical senior public sector worker. In other words, the overall remuneration differential between the public and private sectors, in terms of pay and pensions combined, is likely to fall somewhere in the range suggested by applying the IFS findings: between 0 and 16 per cent, in favour of the private sector.

[34] As a percentage of private sector pay, taking account of individual and job-related characteristics and organisation size.

[35] Office of Manpower Economics calculation using the Annual Survey of Hours and Earnings

2.35 On the face of it, the above suggests potential recruitment and retention problems at some point in the future, especially if the position moves further against the public sector over coming years.

2.36 The analysis is initial and tentative, and we will return to this issue in future reports. We have presented more detail in Appendix F as a basis for discussion, and we would welcome suggestions from pension and labour market experts as to how we may produce more precise and robust estimates.

Chapter 3

Recommendations and proposals

Introduction

3.1 Before considering our remit groups individually in Chapters 4 to 8, we set out below our recommendations on pay for this year. We also summarise here the areas where we have made other observations on actions we believe should be taken or considered. We will review progress against those actions in our next annual report, and would welcome liaison with Government and other parties on these matters in the meantime.

Recommendations

Senior Civil Service (SCS): Chapter 4

Recommendation 1: We recommend that the Pay Band minima be increased from 1 April 2016 to: £65,000 for Pay Band 1, £87,000 for Pay Band 2 and £106,000 for Pay Band 3 (0.06 per cent of paybill).

Recommendation 2: We recommend that departments use 0.94 per cent (1 per cent less the cost of increasing the paybill minima) of the paybill for individual pay repositioning and for general awards between 0 and 9 per cent that take account of performance, job weight and challenge of role. We recommend no pay increase for those in the bottom 10 per cent of the performance distribution.

Recommendation 3: We recommend the introduction of an in-year contribution award available to up to 10 per cent of a department's workforce, worth no more than £5,000 to a single individual.

Senior Officers in the Armed Forces: Chapter 5

Recommendation 4: We recommend a 1 per cent pay award for 2-star, 3-star, 4-star officers and the Chief of The Defence Staff with effect from 1 April 2016.

Recommendation 5: We recommend no change to current pay arrangements for Medical and Dental Officers (MODOs).

- **2-star MODOs should continue to be paid 10 per cent above the base pay at the top of the MODO 1-star scale plus X-Factor;**
- **3-star MODOs should continue to be paid 5 per cent above 2-star MODO base pay plus X-Factor[36].**

The Judiciary: Chapter 6

Recommendation 6: We recommend with effect from 1 April 2016 a consolidated pay increase of 1 per cent for the judiciary.

[36] X-Factor is a pensionable addition to military pay that recognises the special conditions of service experienced by members of the Armed Forces compared with civilians over a full career.

Very Senior Managers in the NHS: Chapter 7

3.2 Although, as discussed in Chapter 7, we are unable to make a specific recommendation on pay, we wish to be explicit that this does not amount to a recommendation of a pay freeze. We highlight the following points:

- The Department of Health (DH) evidence acknowledged that the Government has made funds available for awards averaging one per cent for 2016-17.
- The Government has accepted an NHS Pay Review Body recommendation that the consolidated pay of other NHS staff be increased by 1 per cent from 1 April 2016.
- In five of the last six years, VSMs in our remit have not received an award.

Recommendation 7: We recommend that the Department of Health determines what level of pay increase is appropriate this year, for the Very Senior Managers within our remit. If a pay award averaging under 1 per cent is made, we recommend that the funding is held back to allow a potentially larger award next year.

Police and Crime Commissioners: Chapter 8

3.3 We were not asked to make a recommendation for this group this year.

Chief Police Officers

3.4 Our recommendations will be provided in a supplementary report later this year.

Proposals

3.5 In Chapter 1, we highlighted a number of proposals relevant to many or all of the SSRB's remit groups. We expect these issues to be covered in future evidence to the SSRB:

- 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.
- There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. We encourage departments, with any required support from HM Treasury, to present future proposals which may involve using different senior pay structures as part of delivering improved overall budgetary efficiency.
- 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.
- Strategic consideration of the relevant pay system and its fitness for purpose in supporting the future policy agenda should be explicitly covered in evidence submissions to the SSRB.
- Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location. We ask that future departmental evidence to the SSRB on targeted pay increases explicitly sets out what type of pay targeting is needed to support the department's business needs. It should include thorough analysis of the implications, both for the groups specifically targeted and for the workforce as a whole.
- Where automatic pay increases, not linked to improved performance or a change in job role, are used by departments, they should set out how and why it suits their business model and the means through which it will drive improved staff performance.

- Whilst the SSRB will want to consider the full pros and cons, where multi-year approaches can be demonstrated to make best use of limited funds we would welcome such proposals in the future.
- A successful pay strategy requires a rigorous and coherent approach to monitoring, assessing and rewarding staff performance. Employers should be able to demonstrate that appraisal systems and performance management arrangements exist and are effective. They should also be able to explain their approach to reward structure and career development.
- Analysis is required of where value is being added and action taken where it is not. For example, departments should be able to set out what approaches are being taken to deal with those employees who are relatively well paid, but whose contribution is more limited.
- We encourage public sector employers to examine the opportunities for making pension packages more flexible and to take action where appropriate.
- Better decision making requires better data, particularly in respect of attrition, retention and recruitment. Therefore, we request that departments continue to improve their evidence base for the public sector workforce. They should particularly focus on total reward (basic pay, bonuses, pensions and benefits in kind), future leaders, specific skill shortages and the overall morale of the organisation. Data on recruitment and retention should be sufficiently granular so that it can, for example, differentiate between staff according to their quality of performance or potential.
- 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. Employers need to understand the level of risk and plan accordingly.
- A greater focus on promoting diversity of the workforce is needed. The senior workforces within our remit groups do not reflect, in terms of ethnicity or gender, either the society they serve or the broader workforce for which they are responsible.
- Departments, working with other relevant parties, should put in place machinery to make an assessment of the impact of past pay and reward decisions in order to inform their strategic workforce planning and submissions to the SSRB in future years.
- Whilst the SSRB is supportive of taking appropriate time and care to align departmental spending decisions with proposals on workforce pay, we urge all departments to submit evidence in a timely fashion in future years. This will allow us time to give it full consideration and ensure we provide the highest-quality advice.

3.6 The specifics of the above points, and how they relate to individual remit groups, are discussed further in the relevant chapter of the report. However, there are three other proposals of relevance to individual workforces that we wish to highlight:

- We believe the Government should give serious consideration to carrying out a fundamental review of the SCS pay framework to address a range of issues, including sluggish movement within over-long Pay Bands, pay overlaps between Pay Band 1 and the grades immediately below, and the disconnect between performance and pay levels of some SCS staff relative to their peers.
- It has become apparent to us in the course of this year's annual review that a more in-depth review of judicial grades and pay would be beneficial, and we believe that a major review is justified. We would be very willing to conduct a new major review,

if the Government requested it. However, for this to be a worthwhile exercise there must be willingness from Government to engage seriously with the recommendations, in a timely fashion.

- We believe the Department of Health (DH) needs to establish a clearer operating model and pay and workforce strategy for those managers within our remit, and a clear view of what it needs and expects from the SSRB. We expect to work with Ministers and senior officials within the DH to arrive at a sensible way forward for future years.

Chapter 4

The Senior Civil Service

Introduction

Summary

4.1 There is currently no clear evidence of recruitment and retention problems to justify an award outside the parameters of public sector pay policy. However, concerns about potential future morale, recruitment and retention are sufficient to justify an award of 1 per cent, the maximum average pay increase consistent with that policy.

4.2 Morale is being adversely affected by major anomalies within the Senior Civil Service (SCS) pay system. There are very wide pay ranges, but over recent years most individuals have experienced virtually no progression within them. Furthermore, due to a range of historical anomalies and ad-hoc arrangements there is an insufficient connection, for most of the SCS, between the jobs people have, how well they perform in them and what they are paid, relative to their peers. There are also substantial pay overlaps, between SCS Pay Band 1, and the pay of individuals at the grade immediately below. These cannot generally be attributed to job market factors placing a premium on certain specialist skills.

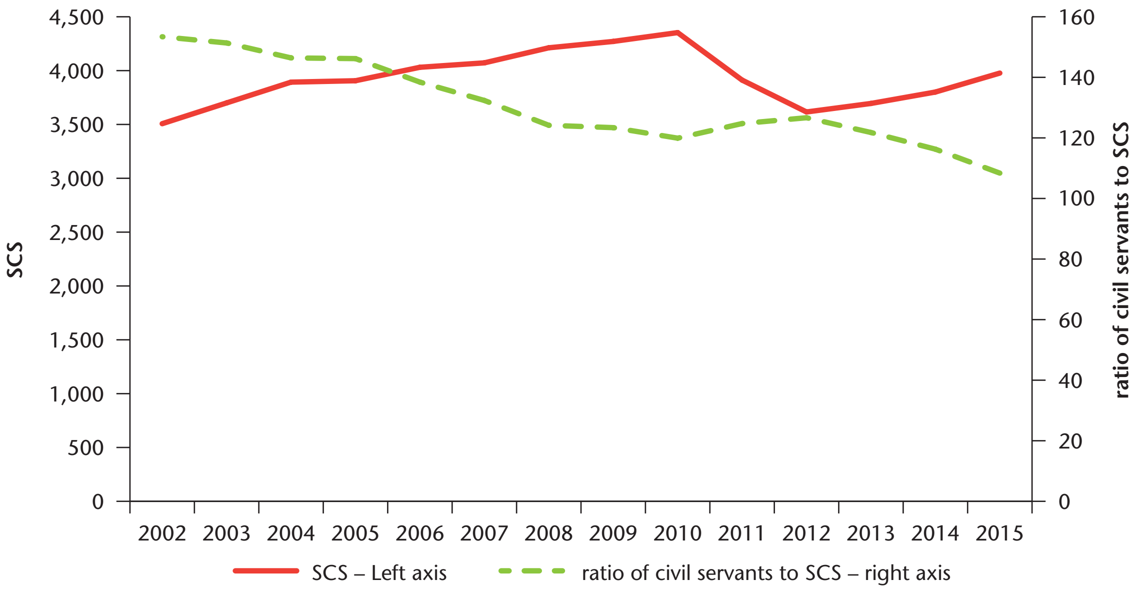
4.3 We believe the Government should give serious consideration to carrying out a fundamental review of the SCS pay framework in order to develop a system which will make tangible progress in addressing the disconnects outlined above, and which is explicitly linked to its different business needs. This should be aligned with, and build on, the Government's wider workforce strategy for the SCS.

4.4 Significant numbers of staff at Pay Band 1, which makes up the majority of the SCS, are at or very close to the band minimum. This is despite there being no evidence that their performance is weaker, or that their skills are less in demand than the majority of their better-paid counterparts. Such staff are being treated inequitably, relative to their peers and, in some cases are being paid less than the staff they manage. We recommend, pending a more comprehensive review of SCS pay, that the Pay Band 1 minimum be increased by £2,000 and the Pay Band 2 and Pay Band 3 minima be raised by £1,000. This should be centrally coordinated in such a way as to leave 0.94 percentage points of the 1.0 per cent average pay increase to be allocated flexibly by each department. This means that the average increase in the SCS pay bill will be above 1 per cent in some departments, and below 1 per cent in others.

The remit group

4.5 In 2015 there were 3,977 members of the SCS, an increase of 4.6 per cent from 2014 and the third successive year of expansion. The Government said the growth in 2015 was driven by general increases across a number of departments and the creation of the Competition and Markets Authority. In particular the Government said that the size of the SCS had grown to allow it to increase its capability in digital, project management, commercial and leadership. However, we have not been shown numbers to demonstrate this accounts for the full increase. The SCS paybill, at 1 April 2015, was £451 million, an increase of 5.4 per cent from 2014. While the number of SCS rose for the third year, the size of the civil service overall fell for the sixth successive year. The ratio of the total number of civil servants to SCS members fell from 1:116 in 2014 to 1:108 in 2015.

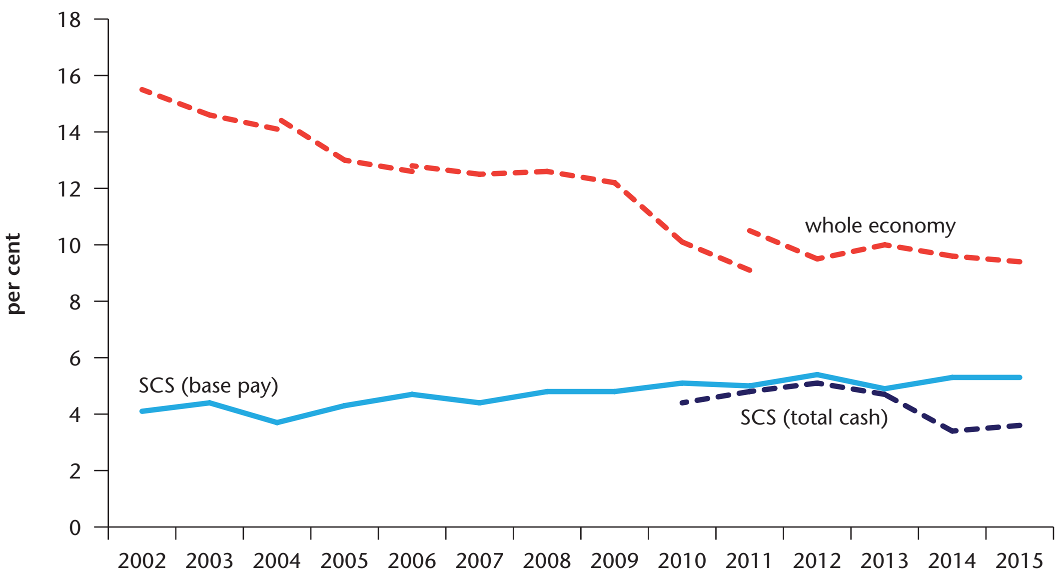
Figure 4.1: **Total SCS staff in post by year 2002-2015**



Source: Cabinet Office (SCS numbers), ONS Public Service Employment Statistics (civil service numbers)

4.6 Between 1996 and 2015 the percentage of women in the SCS more than doubled. The rate of increase has slowed more recently, with the percentage in 2015 being 38.6 per cent, up from 37.9 per cent in 2014. The gender pay gap, across all grades in the SCS, and in terms of basic salary, is 5.3 per cent in favour of men. This gap narrows to 3.6 per cent after including non-consolidated performance-related pay. This latter figure compares with 17.2 per cent[37] for full-time employees in the private sector and 9.4 per cent across the economy as a whole. However, the SCS gender pay gap has not closed over recent years.

Figure 4.2: **SCS gender pay gap 2002 -2015**



Sources: Cabinet Office (SCS), ONS Annual Survey of Hours and Earnings (ASHE) (whole economy). For an explanation of the discontinuities in the ASHE data see Figure 2.8

[37] ONS ASHE 2015 provisional results
http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates

4.7 The percentage of SCS from a Black and Minority Ethnic background was 4.1 per cent[38] in 2015, up from 4.0 per cent in 2014. The percentage peaked in 2011 at 4.3 per cent. The percentage of SCS with disabilities was 3.2 per cent in 2015, a fall from 3.4 per cent in 2014, having peaked at 3.6 per cent in 2011.

4.8 Table 4.1 sets out the current SCS pay ranges. Although each range is relatively wide, the median pay level at each grade is towards the bottom end of the scale.

Table 4.1: **SCS pay ranges and median pay by Pay Band 2015-16**

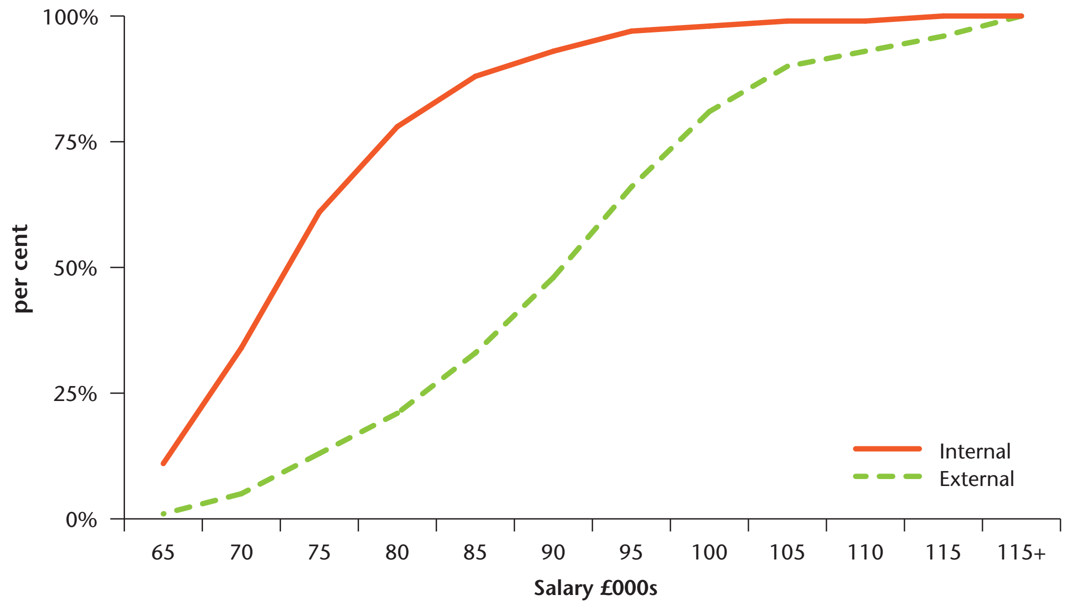
Pay Band	Number in Pay Band (£)	Pay Band minimum (£)	Pay Band maximum (£)	Median salary (£)
1	2,870	63,000	117,800	74,800
1A**	99	67,600	128,900	78,500
2	739	86,000	162,500	96,000
3	151	105,000	208,100	132,600
Total	3,859*			78,800

* This figure is lower than the total of SCS members in paragraph 4.5 because it excludes those on non-standard pay arrangements, e.g. those seconded from the NHS and paid on NHS rates.
** The Government's evidence says that Pay Band 1A is now effectively a closed grade. Existing staff will remain in the grade and may receive pay awards but departments should not recruit into it and it will eventually be removed as part of 'de-layering'. Consequently the Government has excluded Pay Band 1A from the proposed increases in pay band minima.
Source: Cabinet Office

4.9 Most members of the SCS are at Pay Band 1. Figure 4.3 shows the distribution of that group's pay. It shows that over three-quarters of those who were promoted to the SCS internally earn less than £80,000 a year, while over three-quarters of those externally hired into Pay Band 1 are paid more than that amount. Across all SCS grades, the Cabinet Office said that external appointees are paid 27 per cent more than internal appointees. Those working in internal audit, information technology, procurement and contract management and knowledge and information management are most likely to be recruited externally.

[38] In 2011 the percentage of the population of England and Wales that was non-white was 14.0 per cent. http://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/ethnicityandnationalidentityinenglandandwales/2012-12-11l

Figure 4.3: **Cumulative distribution of SCS Pay Band 1 salaries, 2015 by internal and external hiring**



Source: Cabinet Office

Government response to our 2015 recommendations

4.10 The Government accepted our recommendation for consolidated awards of between 0 and 9 per cent for all except those in the bottom 10 per cent of the performance distribution, that take account of performance, job weight and the challenge of the role. It also accepted our recommendation that departments carry out structured exit interviews with those leaving the SCS, to better understand their reasons for leaving.

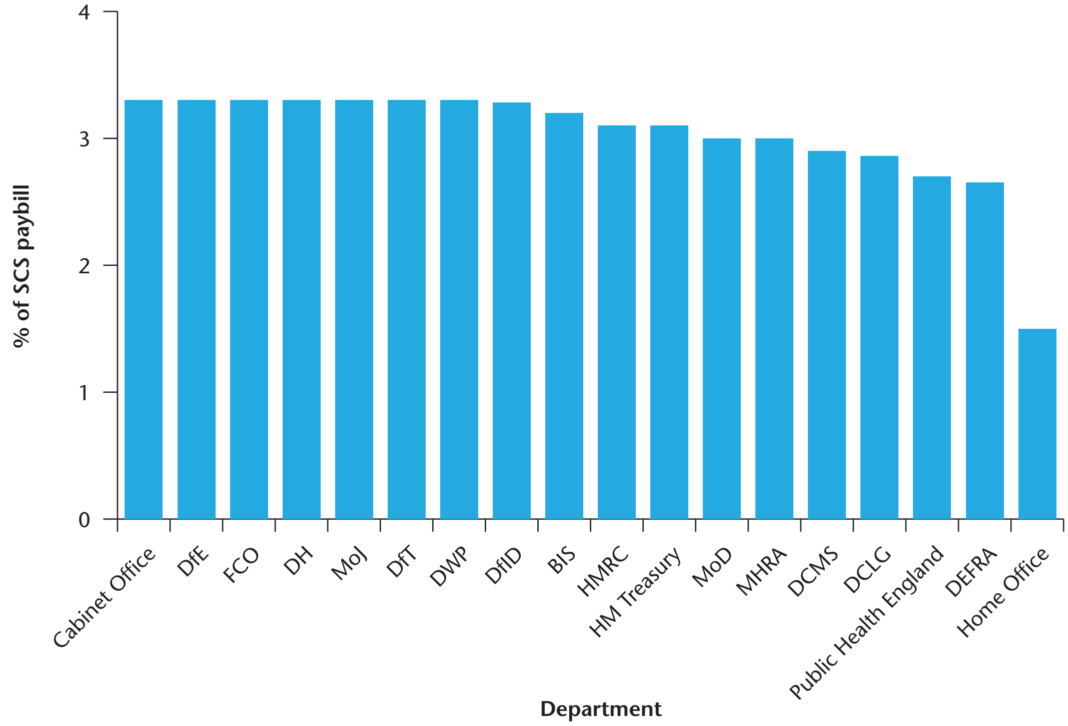
4.11 Our recommendation that the minima for Pay Bands 2 and 3 should increase by £1,000 was also agreed. However, the Government did not accept that the minimum for Pay Band 1 should increase by £2,000, because, it said, it did not give departments the necessary flexibility to target the resources available. Instead, it increased the Pay Band 1 minimum by £1,000.

4.12 The Government accepted our recommendation that departments could convert up to 0.5 per cent of the non-consolidated pay pot to address pay anomalies, but it rejected our recommendation that departments use the whole available budget for non-consolidated awards, again because in its view it did not provide sufficient flexibility.

4.13 In its evidence this year the Government said that 32 per cent of the SCS did not receive a consolidated award in 2015, and that a further 56 per cent received an award that was greater than zero but less than 2 per cent.

4.14 The Government also said that, as part of the 2014-15 award, most departments spent the full, or a large proportion of the 3.3 per cent non-consolidated performance-related pay pot. The Home Office was a notable exception, only spending 1.5 per cent, although it did make a successful business case to HM Treasury and the Cabinet Office to convert 0.25 per cent into consolidated base pay awards, to address retention of its lowest paid and highest-performing staff in business critical roles. Where departments made awards, they were between £7,000 (Home Office to Pay Band 1 staff) and £17,500 (HMRC to Pay Band 3 staff). Most departments either made the same cash award to all high performers or made larger payments to those in the higher Pay Bands. An exception was the Department for Culture, Media and Sport (DCMS), which only made payments to Pay Band 1 staff.

Figure 4.4: **Non-consolidated performance-related pay as a share of departmental SCS paybill from 2014-15 award**



Source: Cabinet Office

Evidence

4.15 We received both written and oral evidence from the Cabinet Office and the FDA/Prospect and written evidence from the Civil Service Commission. On 26 January 2016 we also heard directly from a number of members of SCS Pay Band 1 and some at Grade 6 and Grade 7, the grades from which the future SCS will be drawn. Pay Band 1 members spoke about being in the SCS and gave their views on pay and conditions, while the Grade 6 and Grade 7 staff talked about their future aspirations to the SCS and the factors influencing them.

Reward strategy

4.16 The Government said it developed a Civil Service Workforce Strategy to make the Civil Service more professional, dynamic and capable. It highlighted the need for a high-performing workforce that is more efficient and productive. It said that the SCS cadre will be retained and motivated by:

- maximising the value of the employer offer, with tailored reward designed to attract and motivate the best talent and senior specialists;
- providing fairness; and
- offering a coherent and fair transition to senior levels.

4.17 The Government went on to say that the reward strategy will need to be affordable and consistent with public sector pay policy and that it also needs to be transparent, in order that departments can be held accountable for their spending on pay. The Government accepted that pay restraint presents significant challenges and that the focus will be on using existing flexibilities and exploring new ones. The Government asked for the SSRB's view on the targeting of reward.

Cabinet Office proposals

4.18 The Government's proposals to us this year followed the pattern of the previous three years. For 2016-17 it argued for:

Within an average 1 per cent consolidated award:

- Increases of £1,000 to each of the Pay Band minima for Pay Bands 1, 2 and 3 (with Pay Band 1A unchanged). This would directly affect 104 staff on Pay Band 1 and 76 on Pay Band 2. There are no staff within £1,000 of the Pay Band 3 minimum. This would use 0.01 per cent of the average 1 per cent consolidated award available from the SCS paybill.
- The balance of 0.99 per cent to be used by departments for a flexible framework of general awards that reflect business need, take account of weight/challenge of role and are suitably differentiated to performance and position in the pay range.

Non-consolidated payments from existing allocation, within a cost limit of 3.3 per cent of the SCS paybill:

- Non-consolidated performance-related awards for the top 25 per cent of performers.
- The ability to convert up to a further 0.5 per cent of the non-consolidated performance-related pay pot into consolidated pay to address pay anomalies.
- Introducing a new in-year, non-consolidated award scheme, to recognise outstanding contribution, for up to 10 per cent of the SCS. This would be worth no more than £5,000 to an individual.

Other non-consolidated payments:

- Pivotal Role Allowances to help retain highly specialised staff and those responsible for delivering the biggest and riskiest projects across Government, subject to a limit of 0.5 per cent of the SCS paybill.

FDA/Prospect proposals

4.19 The proposals included in the FDA/Prospect evidence for 2016-17 were:

- A one-off realignment award, similar to that argued to have been received by Members of Parliament.
- A four year award to cover the period of current Government public sector pay policy, with a 4 per cent increase deployed at the start of the period rather than being equally spread over the whole period.
- Improved transparency on pay levels for existing and new staff.

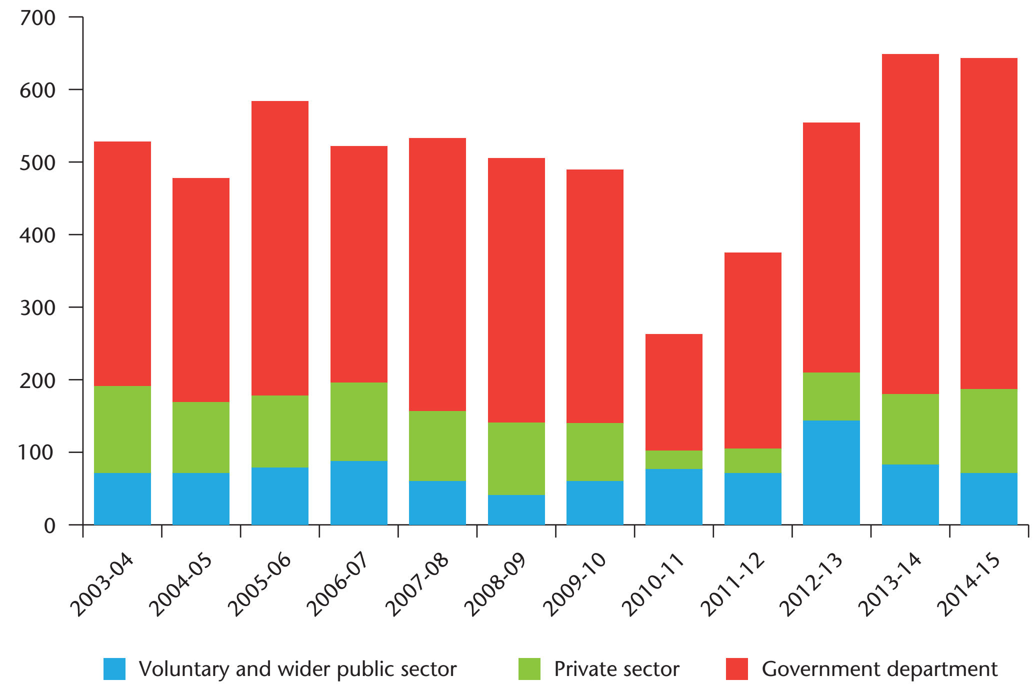
4.20 FDA/Prospect said that four more years of 1 per cent awards will result in greater disillusionment and recruitment and retention challenges. They said this would lead to the fragmentation of the SCS, which would be divisive and limit the SCS's ability to meet the needs of the Government and the population.

4.21 They argued that SCS salary increases have been held below earnings growth in the wider economy, leading to a growing overlap between the pay of the SCS and that of grades immediately below, which in turn disincentivises people from applying for promotion to the SCS. They said that changes to the civil service pension scheme, and the reduction and capping of exit payments, are greater than the reforms the Independent Parliamentary Standards Authority (IPSA) have introduced to resettlement and other allowances for MPs. They said that the SSRB should, therefore, recommend a similar one-off realignment award.

Recruitment

4.22 The majority of the SCS are in Pay Band 1, which is drawn primarily from within the Civil Service on promotion. Recruitment to the SCS has recovered from a low in 2010-11, when there were just 263 SCS entrants, approaching 650 in each of the two most recent years. Of those joining the SCS in 2014-15, 71 per cent were already civil servants, with 18 per cent from the private sector and the remaining 11 per cent from the voluntary and wider public sectors. Since 2011-12, the percentage of new entrants recruited from the private sector has increased each year, and has doubled from 9 per cent. Over 40 per cent of those in internal audit, information technology and procurement and contract management have been externally recruited.

Figure 4.5: **New SCS entrants by employment sector**



Source: Cabinet Office

4.23 The Government said that there is no general recruitment problem for the SCS, and observed that the Civil Service continues to attract talent. It cited over 20,000 applications for 820 vacancies on the Fast Stream, which recruits graduate-level entrants with high potential to progress to senior levels, in 2014.

4.24 It is, however, acknowledged in the Government evidence, that it will be a challenge to recruit key staff of the right calibre if the SCS is unable to offer competitive reward packages. In oral evidence the Cabinet Secretary said that there were problems recruiting to commercial and digital roles, and that he had reached the conclusion that it was not possible to recruit to these roles at civil service pay rates. Possible solutions were under consideration, including a pay system separate from the SCS one. An attempt to recruit 25 senior commercial experts had led to just 10 appointments even though the offer had been flexible in terms of pension, bonus, base pay and exit terms. In the Cabinet Secretary's view, a bespoke solution was needed to ensure the SCS recruited candidates of the right quality. He recognised that the existing SCS would need to be reconciled with those brought in on a separate system. He said there was also a shortage of project management skills which was being addressed by training up existing staff.

4.25 The Cabinet Secretary added that there was a new presumption that all SCS roles would be advertised externally and that attracting a strong field from outside the civil service was very important.

4.26 The FDA/Prospect said that, in the past year, departments were using local adjustments and recruiting towards the top of the pay scale to advertise jobs at a rate of pay which it described as "remotely near the level needed to hire the appropriate skills and experience".

4.27 FDA/Prospect went on to say that recruitment of those with commercial skills was done in such a way that they had a different pay and remuneration package from the rest of the civil service. They said that at the same time as external recruits are appointed towards the top of the pay scales, those promoted from within the civil service are limited to a 10 per cent pay rise on promotion at a rate of pay at or towards the bottom of the pay scale. The FDA/Prospect argued that this showed the senior management did not regard the fair treatment of existing civil servants as a priority and that Ministers were holding existing civil servants in "contempt".

4.28 Although the minimum of the SCS Pay Band 1 pay range is £63,000, the Cabinet Office estimates that there are 8,000 civil servants in grades below the SCS who are paid more than £63,000[39]. FDA/Prospect have argued that this is a disincentive to promotion to the SCS and that, to avoid increasing the size of this overlap, departments were now pressing down on pay at Grade 6 and Grade 7. It cautioned us against recommendations that would exacerbate this issue.

4.29 The Government said this year that increasing the minimum by just £1,000 in April 2015 had added 0.01 per cent to the overall SCS paybill. However, it had added 0.39 per cent to the paybill in the Department for Culture, Media and Sport, 0.35 per cent for the Cabinet Office, 0.22 per cent in the Treasury and 0.20 per cent in the Ministry of Justice. The Government claimed that to do any more would reduce departments' flexibility to make awards to the rest of their staff.

4.30 SCS Pay Band 1 members that we met also commented that their Pay Band, which spanned £63,000 to £117,800, was very wide. While some longer-standing SCS members have progressed up the pay scale to some extent, they said that those promoted into the SCS from within the civil service were usually paid towards the bottom of that range, while those recruited externally were often paid towards the top end, for jobs of similar type or weight.

4.31 When we met members of the SCS Pay Band 1 remit group, several of them did report being paid less than some of those who reported to them. They also said that the way the system operated meant that a SCS salary was heavily dependent on the salary in the lower grade at the time of promotion. This meant that high performers who were promoted after a short time at Grade 6 were less well paid as an SCS than colleagues who had been promoted after spending many years at Grade 6.

4.32 When we met the feeder group of Grade 6 and Grade 7 civil servants, they said that, based on a lack of progression in recent years, the nature of the system was such that after their 10 per cent increase on promotion to the SCS there was little chance of their pay doing anything other than remaining near the bottom of the pay range. One individual on temporary promotion to SCS had said they were not going to apply for a substantive SCS role until their Grade 6 salary was such that their pay on promotion to the SCS would be greater than that of the people they would be managing.

[39] The Cabinet Office provided data showing that increasing the Pay Band minimum to £64,000 would leave 7,000 civil servants in grades below the SCS paid more than the SCS minimum. An increase to £65,000 would leave 6,000 civil servants paid more than the SCS minimum and an increase to £66,000 would leave 5,000 civil servants paid more than the SCS minimum.

4.33 In addition to evidence from the Cabinet Office and FDA/Prospect, we also received evidence from the Civil Service Commission (CSC) on competitions at SCS Pay Band 2 and above in 2014-15. The key points were:

- There were competitions for 79 posts (down from 101 in 2013-14), attracting almost 3,200 applications. Almost all of the competitions (77) were open to candidates both inside and outside the civil service.
- For the 20 posts at Pay Band 3 and Permanent Secretary level, 27 (4.8 per cent) of the 563 applicants were deemed to be appointable. All posts were filled but, for 12 (60 per cent) of those 20 posts, there was only one appointable candidate, with no reserve.
- For the 59 posts at Pay Band 2, 104 (4.0 per cent) of the 2,628 applicants were deemed to be appointable. Six posts were not filled and, for 15 (28 per cent) of those competitions where an appointable candidate was identified, there was no reserve.
- Candidates assessed as appointable are classed as 'outstanding', 'very good', 'clearly above the minimum appointable level', or 'acceptable'. Sixty-nine per cent of those deemed to be appointable were graded as 'outstanding' or 'very good', lower than in 2013-14 (76 per cent).
- 73 appointments were made, but in 6 cases, or 8 per cent of the total, no appointment was made. These competitions were all at Pay Band 2. This represents a fall in the percentage of unsuccessful competitions from 16 per cent in 2013-14 and 11 per cent in 2012-13. The CSC said that a lack of candidates was not a factor, with the six unsuccessful competitions attracting between 13 and 188 applications, nor was the failure to use professional search companies. Low pay was cited as a factor in two unsuccessful competitions, one for a finance role and one for a digital role. There was also one competition where an appointable candidate was identified but declined the role when offered.

4.34 Commissioners reported that, in at least 12 competitions, pay was a factor in restricting the field. This was often because external salaries were much higher than in the civil service, particularly in the case of the oil and gas and legal sectors. However, the CSC also found that sometimes pay rates were higher in local government or the NHS than in the civil service.

4.35 The CSC said that there were no competitions at Pay Band 3 or Permanent Secretary level where they were unable to appoint. However, they went on to say that the £142,500 threshold, in line with the Prime Minister's headline salary, is "proving unsustainable" for some parts of the civil service where talented outsiders are being recruited to specialist posts. It highlighted Defence Equipment and Supply and the Commercial Function (led by Cabinet Office), which have been given freedoms to recruit at pay levels significantly above that threshold.

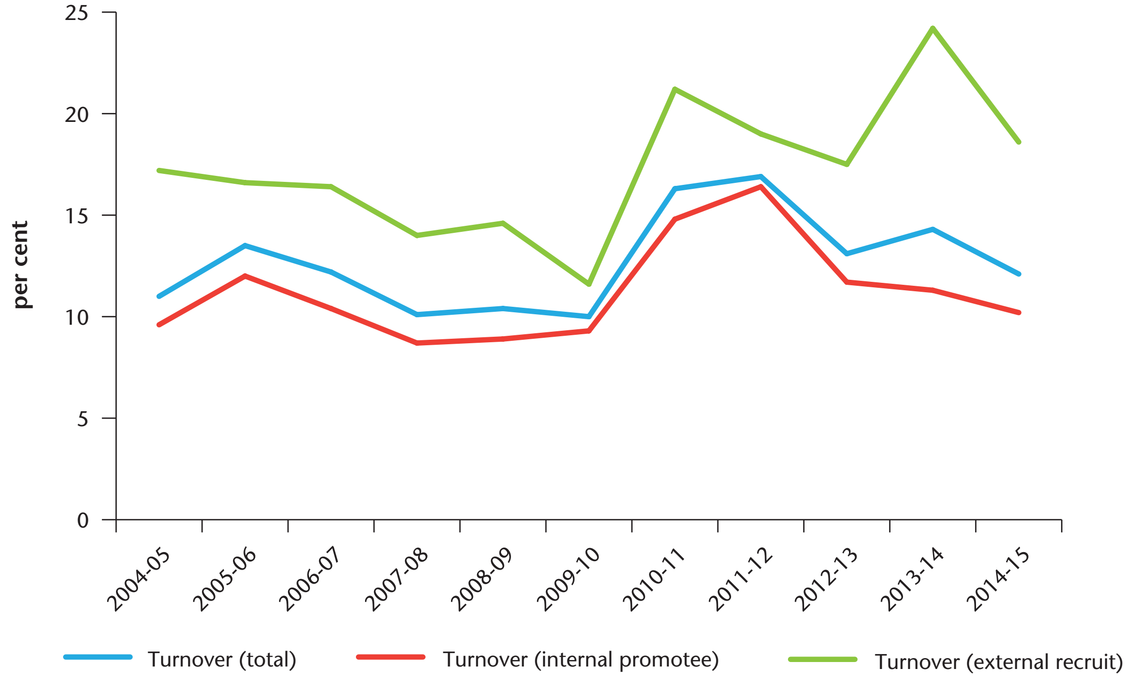
Retention

4.36 Statistics on turnover are as follows:

- In 2014-15, the turnover rate for the SCS was 12.1 per cent, a fall from 14.3 per cent in 2013-14, and the lowest rate recorded since 2009-10.
- In each of the last eleven years, those who were promoted into the SCS from within the civil service were less likely to leave than those recruited externally. In 2014-15, 10.2 per cent of internal promotes left the SCS, compared with 18.6 per cent of those hired externally.

- Those identified as 'low' performers in 2013-14 were far more likely to leave the SCS in 2014-15 than those identified as 'top' performers. Twenty-five per cent of those identified as 'low' performers in 2013-14 had left the SCS by the end of 2014-15, compared with just 5 per cent of 'top' performers.
- Turnover rates were lower in London, at 10.7 per cent, than in the rest of the country, at 14.8 per cent.

Figure 4.6: **SCS annual turnover rate 2004-05 to 2014-15**



Source: Cabinet Office

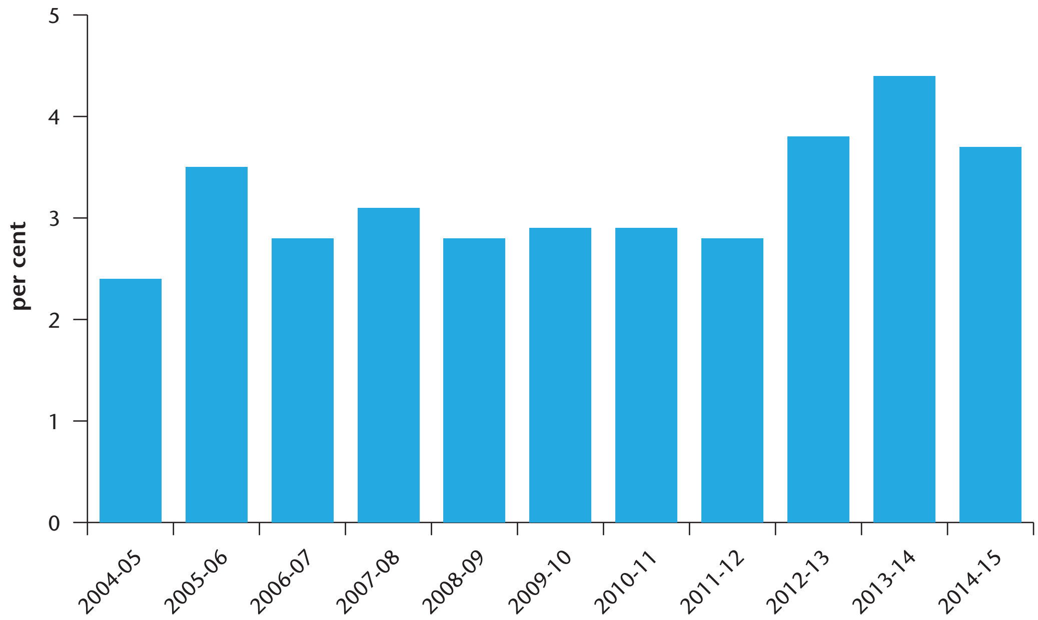
Table 4.2: **Composition of SCS turnover 2014-15**

Component of turnover	Exit rate (%)
Resignations	3.7
End of temporary promotions	2.3
Retirements	1.9
Early departures	1.8
End of contract/secondment	0.6
Other	1.8
Total	**12.1**

Source: Cabinet Office
'Other' includes death, dismissal, machinery of Government changes, movements out of the centrally managed SCS (ie to diplomatic service, or intelligence service)

4.37 In 2014-15, the resignation rate for the SCS was 3.7 per cent, a fall from 4.4 per cent in 2013-14. However, resignation rates in each of the last three years have been higher than in each of the previous eight years. 'Low' performers were far more likely to resign than 'top' performers. In 2014-15, 6.5 per cent of 'low' performers resigned compared with 2.0 per cent of 'top' performers. In contrast to turnover, the resignation rate in London (3.8 per cent) was slightly higher than in the rest of the country (3.5 per cent).

Figure 4.7: **SCS annual resignation rate 2004-05 to 2014-15**



Source: Cabinet Office

4.38 The Cabinet Office said there was not a general retention problem for the SCS but recognised that a number of challenges remained. These include holding onto talented people as the economy improves, declining SCS perceptions of pay, long salary ranges with slow movement exacerbating differences between internal and external hires, and women disproportionately occupying the lower end of the pay scales.

Exit interviews

4.39 Last year the Government accepted our recommendation that it should systematically conduct exit interviews with those leaving the SCS. It recognises that, alongside the People Survey results, exit interviews help to assess the impact that pay restraint is having on retention, motivation and discretionary effort. The Government said that it had developed an Exit Interview Toolkit for use across the civil service from April 2015.

4.40 At the time of submitting its written evidence, the exit interview data the Cabinet Office had collected covered the period between April and June 2015. In oral evidence, the Cabinet Secretary said that exit interviews for SCS staff were now routine and did show that pay was a contributory factor in some departures. Based on data subsequently provided from a small number of interviews, covering the period between April and September 2015, 40 per cent did not think their pay adequately reflected their performance, 40 per cent were dissatisfied with the total benefits package and 44 per cent did not think that their pay compared with that of people doing similar jobs in other organisations. Other factors that those leaving the service raised included work/life balance, promotion opportunities and the lack of a pay lead over some staff in the grades below the SCS.

Pensions

4.41 A new pension scheme, *Alpha*, was introduced with effect from 1 April 2015. This is still a defined benefit scheme, but those benefits will be based on average earnings over a whole career rather than on salary at the time of retirement. Those within 10 years of their normal retirement age (60 for those in the *Classic* and *Premium* schemes and 65 for those in the *Nuvos* scheme) at 1 April 2012 will remain in their existing scheme rather than transfer to the new scheme. The Government estimated that, at 1 April 2015, just over 60 per cent of SCS members remained members of the *Classic* scheme.

4.42 In 2014, the OME published research from Towers Watson[40] looking at changes in the value of public sector pension schemes between 2010 and 2016 (see the discussion in Chapter 2). The impacts of the changes are dependent upon a range of variables, including length of service and grade, but the data show for a sample of SCS careers that, while the pension was worth between 27-44 per cent of salary in 2010, this falls to 16-35 per cent of salary by 2016.

4.43 As a result of changes to the taxation of pensions announced in the 2015 Summer Budget, the Cabinet Office said that this means all those earning over £108,000 in the Alpha scheme will breach the annual allowance threshold. However, this does not mean they will necessarily face a tax charge immediately, as unused allowances from previous years can be used to offset any excess in a given year.

4.44 The FDA/Prospect said that the impact of changes to the taxation of pensions will have a significant impact on a notable proportion of SCS members. They encouraged the SSRB to recommend engagement between Government and unions on the issue. They also said that the current contributions regime was tiered such that those higher earners already paid greater contributions, as a proportion of pay, and that the new taxation arrangements would put greater pressure on higher earners to leave the scheme. They believed there was sufficient flexibility in the current pension arrangements to be able to mitigate the effects. They also said that the new Local Government Pension Scheme allowed members to choose to halve their contributions in return for reducing their pension benefits by a half.

Morale and motivation

4.45 When we met SCS Pay Band 1 employees, they commented that it was demoralising and fundamentally unfair that some of their more junior employees, doing less demanding jobs, were paid more than them. They also said that the Government took them for granted, and cited changes to the pension scheme as evidence of this. People in both SCS Pay Band 1 and the feeder groups saw little link between their pay and their performance, and felt that restricting performance bonuses to 25 per cent of SCS was arbitrary, demotivating and divisive.

4.46 There were two different surveys of senior civil servants in 2015. One was the Civil Service People Survey run by the Cabinet Office and the other was the FDA/Prospect membership survey.

4.47 The scores for the SCS from the 2015 People Survey were again generally little changed or slightly improved, compared with 2014. Again, over 90 per cent of respondents said they were interested in their work and that their work gave them a sense of personal accomplishment. There were slight improvements in the numbers agreeing that they have an acceptable workload (61 per cent) and that they achieve a good balance between work and private life (59 per cent).

4.48 Pay and benefits remain the greatest area of dissatisfaction but, for the third year in a row the scores have marginally improved. Thirty-nine per cent (38 per cent in 2014) felt that their pay adequately reflected their performance, 41 per cent (40 per cent in 2014) said they were satisfied with their total benefits package, while 30 per cent (unchanged from 2014) felt their pay was reasonable compared with that of people doing a similar job in other organisations. Dissatisfaction with pay and benefits may reflect that median nominal earnings (salary and non-consolidated performance-related pay) in 2015 were lower than in 2010 for each SCS grade. Also, base salary for senior civil servants in

[40] Towers Watson (2014), *Comparative Pension Valuation for Review Body Remit Groups: Report on results of comparative valuation of pension benefits for illustrative individuals*

London, where two-thirds of the SCS is based, is claimed by the Cabinet Office to be between 35 and 54 per cent below that of their private sector equivalents[41].

4.49 We requested data on SCS engagement scores for individual departments. The Cabinet Office supplied us with the departmental data from the 2014 and 2015 surveys, which does not indicate a clear year-on-year link between changes in engagement scores and differences in departmental practices around the payment of non-consolidated bonuses.

4.50 When we met members of the SCS Pay Band 1 remit group, attendees spoke of an incentive to provide excessively positive responses to the People Survey, because findings for their own management unit, of which they are part, are used to assess the effectiveness of their own performance. Some attendees admitted to providing inaccurate responses for this reason. As such, we can only give limited weight to the findings.

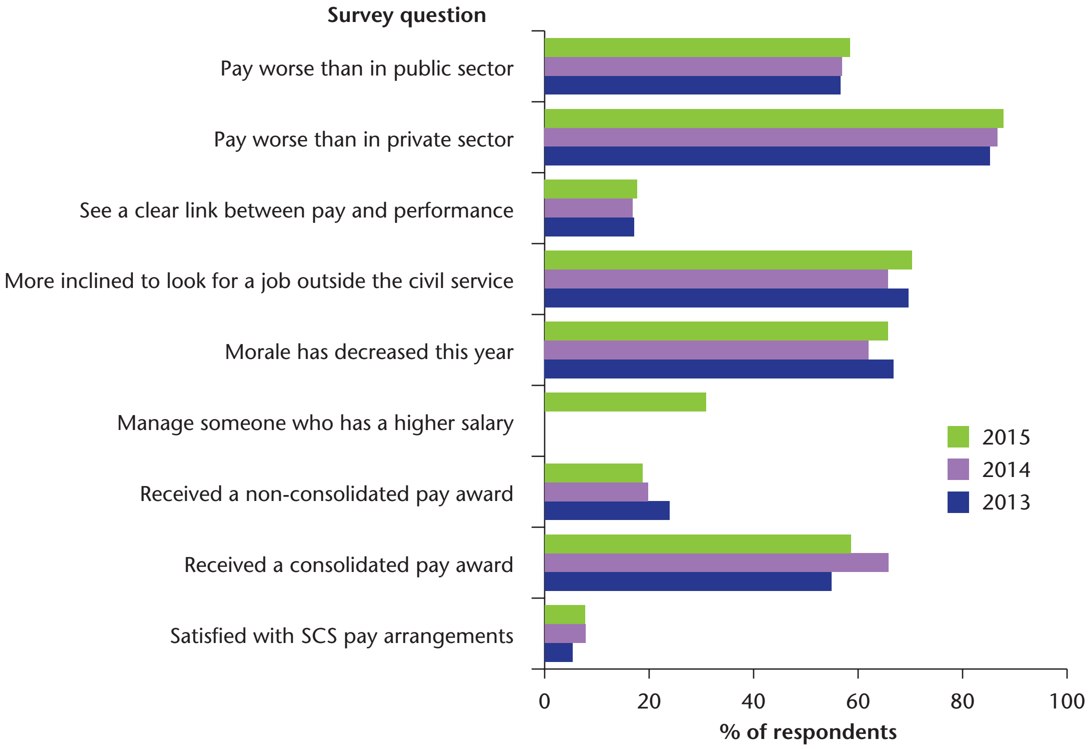
4.51 FDA/Prospect carried out a survey of 450 of their members. In contrast to the survey run by the employer, generally speaking the results for 2015 are slightly, but consistently, less positive than for 2014. Key results include:

- 92 per cent of respondents said they were dissatisfied with the pay arrangements, little changed from 2014.
- 41 per cent did not receive a consolidated pay increase in 2015, an increase from 34 per cent in 2014.
- 81 per cent did not receive a non-consolidated pay increase in 2015[42], little changed from 2014.
- 31 per cent managed someone on a lower grade with a higher salary than them (a new question this year).
- 66 per cent said their morale had decreased in the last year, compared with 62 per cent in 2014. Individuals said that the single factor with the most negative impact on them was pay restraint (cited by 51 per cent).
- 70 per cent were more inclined to look for a job outside the civil service than 12 months ago.
- 82 per cent did not see a clear link between performance and pay, including 57 per cent of top performers.
- 88 per cent thought their pay was worse than for similar jobs in the private sector, and 58 per cent said they thought their pay was worse than for similar jobs in the public sector (such as in the NHS and Local Government).

[41] Cabinet Office analysis using private sector salary data sourced from Hay Group

[42] This may be an over-estimate as, for some, the 2015-16 award had still to be determined.

Figure 4.8: **FDA/Prospect SCS pay survey results 2013-2015**



Recommendations

4.52 We carefully considered all the evidence and proposals put to us. We make recommendations according to our terms of reference, which include setting pay at levels that allow the civil service to recruit, retain and motivate sufficient people of the requisite quality. FDA/Prospect called for a one-off salary adjustment, similar to that for MPs. We have not seen evidence to suggest immediate pay realignment is necessary to address recruitment and retention within the SCS as a whole.

4.53 It is possible, based on what we have been told by the Government and other parties, that the service is having some more immediate problems recruiting and retaining staff with certain specific skills. It should, nevertheless, be stressed, we have only been presented with very limited quantified evidence that demonstrates either the existence of such shortages, or which particular skills or occupations they apply to, and so we cannot comment on the specifics of where shortages may exist. It is important, however, that recruitment of people with rare skills at higher-than-usual salaries is supported by analysis of the labour market. This should include consideration of the availability of sufficiently skilled recruits at, but not below, the proposed rate.

4.54 FDA/Prospect also said that, given the Government decision to maintain the 1 per cent pay award cap, it proposed a consolidated 4 per cent award this year rather than 1 per cent a year for each of the next four years. We are prepared to consider multi-year arrangements where there is solid evidence they would support strategic workforce planning.

4.55 However, such an award this year, if it were to be even broadly consistent with the Government's stated affordability constraints, would need to be followed by a series of awards at or close to zero. A one-off award of this nature might temporarily raise morale, but this may quickly dissipate, with the prospect of three years with little or no increase to come, and bring attendant morale problems. We do not think the evidence of benefits is sufficient to justify recommending such an award this year.

4.56 For 2016-17, the Government has again proposed increasing each of the scale minima by £1,000 at a cost of 0.01 per cent to the SCS paybill. It again proposed using the remaining 0.99 per cent of the paybill for general awards reflecting business needs, leading to a total increase of 1 per cent in the paybill.

4.57 We do not believe there is evidence of recruitment and retention problems to justify an award outside the parameters of public sector pay policy. However, concerns about potential future morale, recruitment and retention are sufficient to justify a maximum average pay increase consistent with that policy of 1 per cent.

4.58 With regard to how that increase is split between increases to the scale minima and general departmental awards, we support the principle of departments having some flexibility to vary awards within an overall framework. However, the SCS is managed as a single corporate resource, and departments, with Cabinet Office oversight, should ensure that awards are made in an evidence-based manner according to a shared general framework.

4.59 On the basis of the evidence we have received, we believe that, departments do require sufficient flexibility to be able to make awards to staff higher up the pay distribution. There is nevertheless a case for a meaningful increase to the Pay Band 1 minimum. This is required to narrow the overlap with Grade 6 and Grade 7 pay scales and reduce gender disparities.

4.60 The Government told us that the number of non-SCS paid more than the SCS minimum would reduce from 8,000 to 7,000, if the Pay Band 1 minimum was increased by £1,000, and to 6,000 if the Pay Band minimum was increased by £2,000 (at a cost of 0.06 per cent of the SCS paybill). The Government also said in its evidence that long salary ranges with slow movement exacerbated differences between internal and external hires, and that women also disproportionately occupy the lower end of the pay scales.

4.61 A £1,000 increase to the Pay Band 1 minimum will have little impact on the pay overlap between Grade 6 and SCS Pay Band 1, particularly once any Grade 6 pay increases have been implemented. In the absence of any effective progression within SCS salary ranges, increases to the minimum of Pay Band 1 of more than £1,000 per year would, over time, reduce the extent of arbitrary pay differentials.

4.62 Last year we recommended a £2,000 increase to the Pay Band 1 minimum, which the Government rejected because it would have a disproportionate impact on some departments, where a relatively high proportion of staff are paid at a level close to the minimum.

4.63 We have considered this issue again this year. As explained above, the overall effect on the SCS pay budget of increasing the Pay Band 1 minimum by £2,000, and the Pay Band 2 and Pay Band 3 minima by £1,000, would be small (0.06 per cent of the total pay bill). To mitigate any negative effects on individual departments, the 0.06 per cent can be regarded as centrally funded or coordinated, with the required funds coming from departments in proportion to the size of their SCS cohorts. This would leave 0.94 per cent of pay in each department for general pay increases.

4.64 The effect of increasing the scale minima is different for each department. Therefore, while the overall award averages 1 per cent across the SCS as a whole, in some departments awards will be worth more than 1 per cent of the paybill. In others, they will be worth less than 1 per cent.

4.65 To reduce pay anomalies, we recommend a £2,000 increase in the minimum for SCS Pay Band 1. We suggest that budgets are realigned as necessary, in order to mitigate any disproportionate impacts on single departments. Such an approach would be preferable to allowing departmental silos to prevent the implementation of a sensible and affordable workforce policy. On that basis, we ask that the implementation of this proposal is given particularly careful consideration this year.

4.66 We have not seen evidence to suggest that the issues of grade overlap and pay discrepancies across grades are of equal concern at Pay Bands 2 and 3, so we recommend a £1,000 increase in the minima for those groups.

4.67 The Cabinet Office estimates that the cost of increasing the SCS Pay Band 1 minimum by £2,000 and the Pay Band 2 and Pay Band 3 minima by £1,000, in addition to using 0.94 per cent of the pay bill for individual awards, will cost £4.5 million (1 per cent of the paybill). The £2,000 minimum increase will directly raise the pay of almost 200 SCS Pay Band 1 staff.

Recommendation 1: We recommend that the Pay Band minima be increased from 1 April 2016 to: £65,000 for Pay Band 1, £87,000 for Pay Band 2 and £106,000 for Pay Band 3 (0.06 per cent of paybill).

Recommendation 2: We recommend that departments use 0.94 per cent (1 per cent less the cost of increasing the paybill minima) of the paybill for individual pay repositioning and for general awards between 0 and 9 per cent that take account of performance, job weight and challenge of role. We recommend no pay increase for those in the bottom 10 per cent of the performance distribution.

4.68 This year, the Government has again proposed that departments continue to make end of year non-consolidated performance-related payments to the top 25 per cent of performers, and that it retains the discretion to stage non-consolidated performance-related payments to the top 25 per cent of performers, and convert a small portion of the non-consolidated pay pot into consolidated pay. In addition, it has proposed a new in-year performance award scheme that would allow instant in-year recognition of outstanding contribution, and would be available to staff in the 'top' and 'achieving' performance categories.

4.69 We recognise that departments may use the funds available in different ways, with some using all 3.3 per cent for awards to the top 25 per cent of performers at the end of the year, and others, such as the Home Office in 2014-15, taking the opportunity to convert some of the pot into consolidated pay. We support the principle of non-consolidated bonuses to reward high performance and believe that, given long-term restraints on pay, they should be used where they are available. However, in our view, current arrangements whereby each individual department is restricted to paying performance bonuses to a maximum of 25 per cent of SCS staff are overly rigid. Members of the SCS see this arrangement as arbitrary and unfair, and it excludes many good performers from receiving a bonus.

4.70 Overall, we support the introduction of the in-year contribution award proposed by the Cabinet Office this year, for several reasons. It makes the system more flexible by allowing a higher proportion of the SCS to be potentially eligible for non-consolidated awards. It also adds value in terms of being a new way of recognising a specific outstanding contribution, and allows such contributions to be recognised and rewarded in a timely manner, instead of waiting until the end of the year. Finally, although the choice of a 10 per cent limit is effectively arbitrary, this does provide scope for the level of contribution awards to be meaningful to the individuals who receive them, within affordability constraints.

4.71 However, there are also some issues that the Government needs to consider in implementing this award. Take-up needs to be monitored, to ensure that departments are using the new flexibility, rather than it simply acting to reduce the non-consolidated pay pot. We will also be interested to see, and it is important to monitor, whether those identified for such awards come from the top 25 per cent of performers qualifying for an end of year award, or if such awards are made to a wider range of the SCS. To be convinced that this new award is making a difference, we will need to see evidence of the latter.

4.72 In addition, a requirement to exclude the bottom 10 per cent of performers from the current year from this award will, by necessity, require that contribution awards are not provided in real time, because the bottom 10 per cent are not identified until the end of the reporting year. Therefore, we suggest excluding the bottom 10 per cent from the previous year from this award, on the basis that weaker performers should demonstrate sustained improvement before becoming eligible.

Recommendation 3: We recommend the introduction of an in-year contribution award available to up to 10 per cent of a department's workforce, worth no more than £5,000 to a single individual.

Permanent Secretaries

4.73 Permanent Secretaries, with the exception of those filling specialist and advisory roles are paid in three bands (details set out in Appendix H):

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

4.74 The Government said that, in 2015, the Permanent Secretary Remuneration Committee (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 and to address pay anomalies.

4.75 The Government said this model is based on agreed rates of pay for posts based on job size and complexity, regardless of whether it is an internal promotion or an external appointment. Like other members of the SCS, the highest-performing 25 per cent of Permanent Secretaries are eligible for a non-consolidated performance-related payment, which is assessed by the PSRC. The Government said the PSRC will take account of wider SCS pay policy and practice on the distribution of any consolidated increase. We agree that this should be the case, as it is important that the most senior members of the SCS show leadership in this regard.

Looking ahead

4.76 We note the Civil Service Workforce Strategy. As the Government correctly identifies, developing a reward strategy to support the workforce strategy is key. The evidence we have seen and heard this year suggests a number of problems with the current SCS pay system.

4.77 We believe the Government should give serious consideration to carrying out a fundamental review of the SCS pay framework to address a range of issues, including the lack of progression within Pay Bands, long pay ranges, pay overlaps between Pay Band 1 and the grades immediately below, and the disconnect between performance and pay levels relative to SCS peers.

4.78 We agree that there needs to be sufficient flexibility in the system to allow the civil service to recruit and retain specialist skills. However, this needs to be done in an overarching way, rather than developing a series of ad-hoc responses to individual issues. Targeting specialisms needs to be done on the basis of rigorous labour market analysis and without needlessly and irreversibly locking in external recruits on higher salaries. While the responses required for individual groups may justifiably differ, it is important that actions follow a thorough analysis of the overall SCS pay system.

4.79 To effectively reward the best performers, it is essential to have an effective appraisal system. We note that the existing performance management system has been in place since 2011. When we met members of the remit group it was widely believed that there was little or no link between pay and performance and that dissatisfaction with the existing performance appraisal system was widespread. We believe the Government should evaluate whether that system is proving effective.

4.80 The Government could also consider changes to the composition of the overall offer. The overall package is made up of pay, pensions, allowances and other cash and non-cash elements. Outside the public sector, employers are able to offer their employees packages that allow flexibility between, for instance, pay and pensions, to suit individual circumstances.

4.81 FDA/Prospect encouraged the SSRB to recommend engagement between Government and unions on taxation of pensions. Naturally, we do support engagement between the Government and unions on workforce matters. It is not, however, for the SSRB to recommend changes to taxation, but we do have a concern with assessing the impact that such changes have on the ability of organisations in the public sector to recruit, retain and motivate personnel. All other things being equal, we would expect pension taxation changes to have a negative effect on morale, and possibly recruitment and retention in the longer term, although it is not currently possible to say whether those effects will be significant, and they are not visible in the data presented to us this year. The situation should, however, be kept under close review.

4.82 We are in favour of transparency which allows departments to be held accountable for their spending on pay. Indeed we would go a step further and suggest that instead of focusing on an annual percentage award, it might be better to focus on overall budgets and give greater flexibility on pay within a given budgetary constraint. We believe departments should be actively encouraged to put forward any such proposals which can be demonstrated to increase overall efficiency.

4.83 To get best value from the internal civil service workforce it is important that those people with the skills and desire to reach senior positions have the opportunity to do so. This requires the civil service to ensure that the opportunities and incentives to progress are in place. Part of this will be ensuring that the package associated with being a member of the SCS is viewed positively, but also making sure that positions become available for those in the feeder group to apply for. This will also mean rigorous management of the existing SCS cohort, especially the 10 per cent performing least well.

4.84 The SSRB believes that because public servants have seen major changes to pension schemes and their tax treatment over recent years, it is vital that they are given accurate and timely information from the pension scheme administrator, in order to make informed career and retirement planning decisions. It is therefore a matter for concern that a report from the National Audit Office (NAO)[43] published in February 2016, investigating members' experience of the civil service pension administration, reported significant weaknesses in the quality and coverage of member data, and delayed and incorrect pension benefit statements.

4.85 We have noticed an improvement in the data supplied to the review body this year, which was welcome. We have asked our secretariat to continue working with evidence providers to continue this process of improvement. We look forward to seeing further helpful data and information from exit interviews as they continue to be conducted. We also believe that better use could be made than at present of the People Survey data for SCS staff in individual departments.

4.86 The SSRB would also welcome commentary next year on the steadily increasing size of the SCS.

4.87 A particular area for focus is data according to performance levels and on the feeder groups. Ideally the data on Grade 6s and 7s would be as comprehensive as it is for our remit group. For both Grade 6s and 7s and the SCS, data is already collected on both current performance and potential to progress to higher grades, but at the moment it cannot generally be linked at the individual level to factors such as staff morale and turnover. So we do not, for instance, know if the members of the feeder group identified as having the most potential to progress are exiting the civil service at a greater or lesser rate than their colleagues.

4.88 For the data to be reliably robust, the above needs to progress hand-in-hand with monitoring and evaluation of the performance assessment system. In this connection, we note the finding of the FDA/Prospect survey that 82 per cent of respondents said they saw no relationship between their performance and their pay.

4.89 We recognise that much of the data is held by individual departments, rather than centrally by the Cabinet Office, which makes this agenda more challenging. Nevertheless, we think it would be beneficial for both the Government as the employer, and the SSRB, to explore these issues further, possibly trialling approaches in chosen individual departments.

[43] https://www.nao.org.uk/report/investigation-into-members-experience-of-civil-service-pension-administration/

Chapter 5

Senior Officers in the Armed Forces

Introduction

Summary

5.1 There is currently no clear evidence that the continued period of pay restraint is having a damaging impact on the ability to retain senior members of the armed services, nor that there are insufficient numbers in the feeder group aspiring to be promoted into this remit group.

5.2 This remit group has seen below-inflation pay rises for a number of years. Although there is no evidence of current recruitment and retention problems, fragile morale and the pull of an improving economy remain risk factors. We are therefore recommending the maximum 1 per cent award for this group in line with that budgeted for by the MoD. We recommend that it is applied equally to all personnel in the senior military remit group, as the evidence we have seen does not point towards a more targeted approach being beneficial this year.

5.3 It is clear that pay and pension decisions over the last few years, together with a range of other factors have adversely affected the morale of the senior military. This is of particular concern in terms of a group that faces unique demands and pressures in doing its job. We share concerns expressed by the MoD and the remit group about the potential long-term impacts on the ability of the Armed Forces to promote the best people into the most senior roles, and to subsequently retain them. The Government should keep the retention and morale situation under close review.

The remit group

5.4 There were 128 senior officers at 2-star rank and above on 1 July 2015, a decrease of two over the year. A breakdown by rank since 2010 is given in Table 5.1. There were two female officers, both 2-star, in the remit group. No-one reported being from a Black, Asian and Minority Ethnic group.

Table 5.1: **Number of senior officers as at 1 July, 2010 – 2015**

All services	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Net change 2014-2015**
4-star	10	10	9	9	8	7	-1
3-star	28	23	22	27	27	30	+3
2-star	93	95	94	92	95	91	-4
Total	131	128	125	128	130	128	-2

Source: Ministry of Defence

5.5 In 2015-16, those in our remit group were paid between £111,567 and £260,355 with an associated paybill of £24.6 million. This included Employer's Earnings Related National Insurance Contributions (ERNIC) and Superannuation Contribution Adjusted for Past Experience (SCAPE).

Government response to our 2015 recommendations

5.6 The Government accepted our recommendation to increase the base pay of the senior military by 1 per cent. This was implemented with effect from 1 April 2015. In addition, the Government said eligible senior officers, like other members of the Armed Forces, continue to receive an increment for their pay scale, subject to satisfactory performance. Of those officers in the remit group at 1 April 2015, five were already at the top of their rank pay range and a further 21 officers had insufficient seniority to receive an increment. The MoD said it was rare for an officer not to receive an increment because of unsatisfactory performance or for disciplinary reasons.

Pay system

5.7 There are a number of aspects of the pay system and terms of service for the senior military that differ from those for our other remit groups. The senior military have a pay system that includes incremental progression and a pension scheme that remains non-contributory. These factors mean the reduction in take-home pay that individual members of the senior military have experienced has been smaller than that for other groups covered by our remit. It should be noted that there is no element of performance-related pay and that senior officers in the Armed Forces have no contract or security of employment.

Evidence

5.8 We took written and oral evidence from the MoD. In addition, on 8 October 2015, before the 2015 Strategic Defence Security Review (SDSR) was published, we held a discussion with 13 senior officers, around 10 per cent of the remit group.

MoD proposals

5.9 The MoD has proposed an increase in base pay of 1 per cent, in accordance with public sector pay policy, to be applied uniformly across all ranks. It has also proposed that the minimum increase to base pay on promotion (excluding X-Factor[44]) from 1-star to 2-star does not fall below 10 per cent. This is the gap between the value of the highest pay point for those ranks covered by the Armed Forces' Pay Review Body (AFPRB) and the lowest pay point for those ranks covered by this review body. The MoD estimates the additional cost of such an award for the senior military in 2016-17 to be £0.25 million, 1 per cent of the paybill for our remit group, an amount that is provisioned for within the Departmental budget.

Strategic context

5.10 The Department told us that, as recommended in its Defence Reform report, it had simplified structures and delegated responsibility and accountability to those best able to effect change and deliver outcomes. It also said that, to embed and build on these changes, it was working to promote effective behaviours, improving management information and increasing the focus on human capability. It was also looking to improve efficiency and effectiveness in the way the Armed Forces are equipped and supported through Defence Equipment and Support, the Defence Infrastructure Organisation and Defence Business Services.

5.11 In the 2015 Spending Review and Autumn Statement, the Government said the MoD budget would increase by 3.1 per cent in real terms between 2015-16 and 2019-20, as part of its commitment to spend 2 per cent of GDP on defence[45].

[44] X-Factor is a pensionable addition to military pay that recognises the special conditions of service experienced by members of the Armed Forces compared with civilians over a full career.

[45] https://www.gov.uk/government/news/ministry-of-defences-settlement-at-the-spending-review-2015

5.12 Following the 2012 Liability Review (which supports a reduction in the number of senior military posts at 1-star and above from 500 in 2010 to 405 in 2020), the latest estimate of the number of posts at 1-star and above was 447 at 1 April 2015. The MoD said that this was 4 per cent above its interim target of 430, and reflects the creation of new posts and the extension of temporary posts to meet Defence business needs. However, it remains on track to meet its 2020 target.

5.13 The New Employment Model (NEM) should better support lifestyle choice and reduce the impact of Service life on individuals and their families. It focuses on pay and allowances, accommodation, training and education and terms of service. One 'key deliverable' is a simpler and more transparent pay system, affecting all ranks outside our remit. It is to be implemented on 1 April 2016. The MoD said that, once the new system was in place, it would want to ensure that the relationship between the pay structures of the two remit groups remained coherent and compatible.

5.14 When the CST wrote to Review Body Chairs in August 2015, he said that the Government expects pay awards to be applied in a targeted manner. The MoD said that the Armed Forces pay structure is already differentiated and that further targeting was not judged necessary or helpful.

Recruitment and retention

5.15 The MoD reported this year that voluntary outflow, excluding normal retirements, for the SSRB remit group had fallen back in 2014-15. In the year to 30 June 2015, 22 officers were promoted into the remit group. In addition, 19 officers retired and a further five retired early. This compares to 2014, when five retired and a further nine retired early.

5.16 The Armed Forces develops its own personnel and promotes them to fill the most senior roles. Over the last year, there was a sharp decrease in outflow from the OF6 rank, one of the ranks from which our remit group is drawn[46]. Eighteen OF6 officers (or 6 per cent) chose to leave the feeder group in 2014-15 compared with 34 (or 11 per cent) in the previous year. Of those, four gave 'offer of civilian employment' as the reason for leaving, a further four cited 'opportunities outside' and a further three said they were seeking 'fresh challenges'. In addition, almost 270 OF4 and OF5 feeder group officers chose to leave in 2014-15, compared with just under 280 in 2013-14.

Table 5.2: **Officers in the SSRB senior military remit group (OF7-OF9) and the feeder group (OF4-OF6) leaving the services voluntarily, 2011-12 – 2014-15**

	Rank	July 2011–June 2012	July 2012–June 2013	July 2013–June 2014	July 2014–June 2015
Senior military	4-star OF9	0	0	0	0
	3-star OF8	0	0	3 (11%)	0
	2-star OF7	2 (2%)	3 (3%)	6 (6%)	5 (5%)
Feeder group	1-star OF6	21 (6%)	20 (6%)	34 (11%)	18 (6%)
	OF5 & OF4	264 (5%)	191 (4%)	277 (5%)	268 (5%)

Source: Ministry of Defence

5.17 The Chief of Defence People (CDP) said that there had been a spike in voluntary outflow in 2013-14 but data for 2014-15 had reverted to historical norms. However, he said that they would monitor voluntary outflow data closely, especially in light of announcements in the SDSR which might impact on service personnel and their families.

[46] We consider officers of OF4, OF5 and OF6 (or 1-star) rank to be those from which our remit group is drawn; on 1 April 2015 there were 3,680 OF4 officers, 1,080 OF5 officers and 312 OF6 officers.

5.18 The Secretary of State for Defence said that a balance had to be struck between a healthy rate of voluntary outflow and having a sufficient pool to fill senior positions. Currently, he said, the Armed Forces were able to attract and appoint to the remit group in sufficient numbers.

5.19 The Secretary of State acknowledged that those in the feeder group may be vulnerable to external job offers. The CDP said that, despite the policy to reduce the number of senior officers, the Armed Forces still needed quality individuals to come through to the highest ranks, especially as those roles that did remain had become more multifaceted and demanding. He said that the MoD needed to make sure that pay and the overall offer met the aspirations of those looking to progress to senior ranks, or they would choose to leave and develop a second career.

Pay

5.20 The nature of the senior military pay system is such that pay increases are available through incremental progression, of between 2.0 and 4.9 per cent for those paid below the scale maximum. These increases have been greater than any award recommended by this body in recent years. The MoD said that, in the past, the strongest performing officers were able to progress through the pay scale more quickly but that this system did not work effectively and was replaced by the current arrangements in 2012. The MoD said, and the predominant view of the remit group was that good performance was rewarded by promotion rather than higher pay and that the current pay system provided sufficient differentiation. The MoD view was that anything other than a 1 per cent award for all in the remit group would be neither necessary nor helpful.

Pensions

5.21 A new Armed Forces Pension Scheme was introduced from April 2015. It remains a defined benefit scheme and is the only non-contributory scheme available to those in the SSRB's remit. In line with other reformed public sector schemes, however, benefits will in future be based on average career earnings rather than final salary. It has a pension age of 60, up from 55 in the previous scheme, and a new accrual rate. Although most serving members of the Armed Forces transferred to the new scheme in April 2015, most of the current remit group will remain subject to existing Armed Forces pension arrangements because they are within 10 years of normal retirement age[47]. The MoD said that the new scheme remains amongst the best pension schemes available.

5.22 In 2014, OME commissioned research from Towers Watson[48] looking at changes in the value of public sector pension schemes between 2010 and 2016 (discussed in Chapter 2). The impact of the changes are dependent upon a range of variables, including length of service and rank. However, the data show for a sample of senior military careers that while the pension was worth between 54-60 per cent of salary in 2010, this falls to 46-51 per cent of salary by 2016.

5.23 The taxation of pensions is a matter for Government, not this review body. However, we are interested in the impact of the taxation of pensions if it affects the recruitment, retention or motivation of those in our remit groups. In its evidence, the MoD asked us to agree with it that "changes to pension tax relief announced in the Summer Budget 2015, and the lack of mitigating policy levers that currently exist, present an enduring retention risk to the military remit and feeder groups". We return to this issue in paragraph 5.45.

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[47] All those aged 45 or over on 1 April 2012 remain in either the 1975 or 2005 Armed Forces Pension Schemes.

[48] Towers Watson (2014), *Comparative Pension Valuation for Review Body Remit Groups: Report on results of comparative valuation of pension benefits for illustrative individuals*

5.24 The MoD said that of the 53 members of the Armed Forces that incurred a tax charge in 2014-15, when the annual allowance was reduced to £40,000, 23 were in our remit group[49]. The highest charge was estimated to be over £110,000. The MoD said that the effect of tapering the annual allowance threshold[50] would be mixed in the short term, because of transition arrangements and the ability to carry forward unused allowance from earlier years. In the longer term, the MoD expects a greater number of Armed Forces personnel to face a tax charge. It estimates that, in four years' time, 2-star officers and above will be affected, especially in those years when they take a promotion. The Department does not expect 1-star officers to receive a tax charge, unless they have other taxable income alongside their basic military pay.

5.25 Regarding the lifetime allowance, the MoD said that, following changes announced in the 2015 Summer Budget, transitional protection is being made available to those who may be affected by the changes.

5.26 The MoD believes that pensions are a key part of its offer, but continuing and substantial changes cause uncertainty and impact on individual pension expectations. It therefore judges this issue as a retention risk. It said it had discussed with HM Treasury the flexibilities available in the private sector where individuals can transfer pension benefits to alternative schemes or negotiate a different remuneration package to mitigate against the effect of these tax changes. However, there were no plans to change current arrangements. The MoD accepted that HM Treasury would need evidence of problems across the public sector as a whole, but argued that service personnel are aware of the reduction in the value of their pension and that this will colour their decision to accept promotion or remain in service.

5.27 When we met members of the remit group, they were concerned that they were becoming more likely to be adversely affected by changes to the taxation of pensions. Many officers have received letters telling them they had breached the annual allowance threshold, although most have not yet faced a tax charge, as they have been able to offset any breach against unused allowance from the previous three years.

5.28 We were told by the remit group that many officers, including those in the feeder groups, are looking at the pension in a more critical light. This applies especially to those in their 40s who are considering leaving the Armed Forces while they still have time to develop a second career. The pull of an alternative career is growing stronger as increasing working hours mean it is becoming more difficult to achieve a healthy work/life balance.

Morale and motivation

5.29 Members of the remit group told us that senior military roles have become increasingly about running a business with a focus on efficiency and oversight of external contractors, rather than the conduct of operations. At the time we met them, prior to the Spending Review and Autumn Statement, they felt that, as the size of the Armed Forces reduced, they were managing decline. Most, but not all, said that the current system, where senior officers have an incremental pay system and were not paid explicitly on performance, was a legitimate way of recognising increased knowledge, skills and expertise. There were a range of views expressed about whether it was still worth gaining promotion, but there was widespread agreement that the overall package was less attractive than it used to be.

5.30 Overall, the perception of those we spoke to was that the package was now less valuable than it used to be. This applies to pay, but also to the lack of support available to help the senior military to work more effectively, such as the inability to occasionally use first class rail travel when working on sensitive material, or having to fly economy-class on long

[49] The remaining 30 personnel were in the ranks covered by the Armed Forces' Pay Review Body (AFPRB)

[50] See Box 1.1 in Chapter 1

haul flights and being required to work immediately on arrival. Participants in the group also noted that senior officers were responsible for large programme budgets, but were not given any discretion over smaller administrative budgetary decisions which left them feeling neither trusted nor valued.

The Armed Forces Continuous Attitude Survey (AFCAS)

5.31 In the 2015 Armed Forces Continuous Attitude Survey[51] (AFCAS), many responses from the senior military were more positive than in 2014, for example on pension benefits, allowances, service life, workload, and the benefits from being a service family. There was an increase in those reporting high morale.

5.32 Nevertheless, the percentage of the senior military saying they were satisfied with their basic pay fell from 48 to 36 per cent, and a smaller percentage were happy with the opportunities for promotion. The percentage able to take all their annual leave fell back to 28 per cent. The majority of those unable to take all their leave again gave workload as the main cause, and the second most frequently given reason was attendance at a course or training.

5.33 The MoD also conducts a Continuous Working Patterns survey which suggests a significant increase in mean weekly hours worked from 59 hours in 2013-14 to 67 hours in 2014-15.

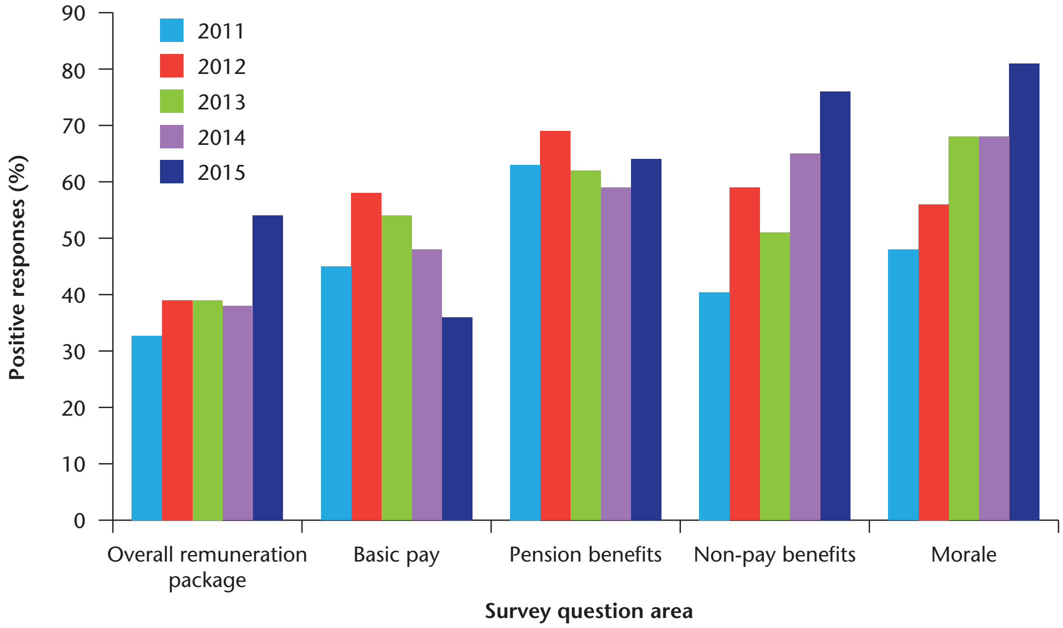
5.34 For the second year, the MoD also provided us with the responses from OF5 and OF6 officers to the AFCAS survey. These are the ranks from which our remit group are promoted. In 2015, compared with 2014, their responses on pension benefits, X-Factor, the job in general and morale were more positive. However, responses were less positive on allowances and opportunities for promotion. In contrast with the remit group, a larger proportion of feeder group officers, albeit still a minority, were able to take all their annual leave in the last year – 40 per cent in 2015 compared to 28 per cent in 2014. Those unable to do so also gave workload as the main cause, with under-manning the second most frequently given reason.

OME-run survey of the senior military

5.35 For the fifth year, our secretariat ran an on-line survey just for the remit group. This contains questions complementary to the AFCAS and replaces a survey of the senior military that the MoD used to undertake. In 2015, there were increased positive responses to the questions on the overall remuneration package, non-pay benefits, working hours, pay on promotion and X-Factor.

[51] 52 per cent response rate

Figure 5.1: **Changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale for officers at 2-Star and above, 2011-2015**



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

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

Recommendations

5.36 Like many other parts of the public sector, the Armed Forces are currently undergoing a period of substantial change, and the responsibility for driving that through lies with many of those in our remit group, who already have highly demanding jobs and who have seen deterioration of some of the less tangible aspects of the military lifestyle. It is essential that pay is set at a level that retains and motivates those senior people with the necessary skills to manage this period of change.

5.37 At the time of the previous round, the MoD had reported a sharp increase in voluntary outflow during 2013-14 and was concerned that this might herald a prolonged period of higher outflow. However, retention in both the remit group and the feeder group improved in 2014-15.

5.38 The results of the AFCAS and OME surveys for 2015 have generally improved from 2014, although there is still widespread dissatisfaction with pay. We heard from members of the remit group that they believed they could find better paid work outside the Armed Forces, but the nature of the role gave them intrinsic rewards that kept them in the service.

5.39 Especially in the light of recent pension changes, which will have greater impacts on higher earners, we recognise that there needs to be a sufficient pay incentive for personnel outside the remit group to take promotion to a higher rank. We therefore think it appropriate that the minimum pay uplift on promotion from 1-star to 2-star remains at 10 per cent. This requires a similar increase being applied to the lowest point on the 2-star scale to that on the highest point of the 1-star scale (in the AFPRB remit).

5.40 Although the data do not suggest there is a large retention problem at the moment, we do understand concerns about the impact on retention of pension tax changes, stronger earnings growth in the wider economy and the pull of an improving economy overall, especially following a number of years of pay restraint.

5.41 We therefore recommend a general 1 per cent pay increase from 1 April 2016 for our military remit group and preservation of the 10 per cent base pay differential between 1-star and 2-star rank before X-Factor. This award would add £0.25 million to the paybill.

Recommended 2-star, 3-star, 4-star and Chief of the Defence Staff pay scales

Recommendation 4: We recommend a 1 per cent pay award. The pay scales below apply for 2-star, 3-star, 4-star officers and the Chief of The Defence Staff with effect from 1 April 2016.[1,2]

	2-star	3-star	4-star	CDS
Scale point	**£**	**£**	**£**	**£**
6	**124,143**	**158,929**	**192,703**	
5	**121,760**	**154,374**	**188,925**	
4	**119,423**	**149,952**	**185,220**	**262,959**
3	**117,132**	**144,284**	**180,703**	**257,802**
2	**114,885**	**137,536**	**176,295**	**252,747**
1	**112,683**	**131,109**	**171,995**	**247,792**

[1] Figures are rounded to the nearest pound

[2] For 2-star and 3-star officers values include X-Factor which is applied at the rate of £2,568, this sum being equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale as recommended by the Armed Forces' Pay Review Body (AFPRB) from 1 April 2016

Medical and Dental Officers

5.42 In July 2015 there were four Medical and Dental Officers (MODOs). Three are 2-star officers and one is a 3-star. The 2-star MODO rate of pay is 10 per cent above the base pay at the top of the MODO 1-star scale plus X-Factor. The 3-star MODO is paid 5 per cent above 2-star MODO base pay plus X-Factor.

5.43 In March 2015, the Government accepted the recommendation by the Armed Forces' Pay Review Body that the pay of Defence Medical Services up to 1-star be increased by 1 per cent. We have received no evidence to suggest that the differential should change this year for the senior Armed Forces. For 2016-17, we recommend that all 2-star and 3-star MODOs receive a pay award that maintains their current percentage differentials.

Recommendation 5: We recommend no change to current pay arrangements for Medical and Dental Officers (MODOs).

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

Looking Ahead

5.44 The senior military is unusual among our remit groups in that it has a pay system that includes incremental progression. We understand that the MoD is introducing a new pay system for all those covered by the AFPRB remit as part of its New Employment Model (NEM). We support the MoD's plan to revisit the relationship between the pay structure of the two remit groups following implementation of the NEM, as we believe that the MoD needs to give careful consideration to whether the current pay system remains the most effective way of appropriately delivering the needs of its business, and incentivising its most senior people.

5.45 The MoD asked us to comment on taxation changes. It is not for the SSRB to recommend changes to taxation, either in general or for individual public sector groups, on pay, pensions or any other aspect of remuneration. Such issues are a matter for Government. However, we do have a concern with assessing the impact that such changes have on the ability of organisations in the public sector to recruit, retain and motivate personnel. In its evidence, the MoD is clearly concerned that recent changes to pension tax policy are a threat to its ability to retain senior members of the military. All other things being equal, we would expect pension taxation changes to have a negative effect on morale, and possibly recruitment and retention in the longer term. However, although it is not currently possible to say whether those effects will be significant, they are not visible in the data presented to us this year. The situation should, nonetheless, be kept under close review.

5.46 In the private sector, organisations have the ability to offer their people an overall package that is more adaptable to changes in pensions policy than in the public sector, and we believe the Government should actively explore the benefits of – and scope for – offering its own flexibilities.

5.47 The quality of data supplied to the review body is high. We heard concerns from the MoD about its ability to retain its senior personnel and to encourage sufficient numbers of the feeder group to fill senior positions. In support of such concerns, it is important that the MoD is able to show in its evidence the impact of pay on individuals' decisions to join, remain in or leave the senior ranks of the Armed Forces. In addition, while we recognise the challenges, we do believe the MoD should be considering whether more can be done to track the quality of current senior military leaders and the feeder group over time, with a particular focus on the quality of those staff voluntarily leaving the Armed Forces prior to normal retirement age.

Chapter 6

The Judiciary

Introduction

Summary

6.1 This year we are recommending a uniform 1 per cent pay increase for the whole of the judiciary.

6.2 We carefully considered the Government's proposal for a differential pay award this year, which would give a 3 per cent award for the High Court judges and less than 1 per cent for judges in salary groups 7 and 6.2. Having looked at the evidence, and listened to views from all the parties, we were left unconvinced that this would improve recruitment and retention rates for High Court judges sufficiently to outweigh its detrimental effect on the motivation and morale of other members of the remit group. Also, we note that vacancy rates in the High Court appear low by normal standards.

6.3 A considerable number of the parties reported recruitment and retention problems to us this year, especially in the High Court. However, many judicial evidence providers have told us that factors other than pay are likely to be contributing to such problems: changes to judicial pensions; increasing outside earnings; a serious continuing morale problem; larger and more complex caseloads; current and future changes to judicial roles and legal processes; increases in litigants in person; poor information technology; and reduced budgets and administrative staff.

6.4 We believe that any consideration of changes to the current judicial salary structure should only take place in the context of a thorough analysis of consistent and comparable evidence on all parts of the judiciary on the matters covered by our terms of reference. We consider that a major structural pay review is now overdue.

6.5 In the meantime, the recruitment, retention and morale of the judiciary needs to be kept under close review. For us, and the Ministry of Justice (MoJ), to do this effectively, continued improvement in the provision of data, and its robust analysis, is required. In addition, we require reliable up-to-date evidence on practitioners' earnings in the private sector.

The remit group

6.6 Our standing remit group comprises full-time and part-time salaried judicial office holders in the courts and tribunals of the United Kingdom. Fee-paid judicial office holders are not included.

6.7 On 1 March 2015, there were 2,194 salaried judicial office holders in the United Kingdom. Twenty-nine per cent of judicial office holders in the UK are female. Of those judges in England and Wales who provided ethnicity data, 6 per cent declared themselves to be of Black, Asian or minority ethnic origin[52]. The greatest concentration of salaried judges, almost 500, is in London.

[52] The Judicial Office for Scotland said it did not hold information on ethnicity for the judiciary. In Northern Ireland all judges described themselves as 'White'.

The next SSRB major review

6.8 Ten years have now elapsed since the judicial salary structure in the courts was last updated following the 2006 major review, and eight years since the implementation of changes following the 2008 Tribunals Review. The Government is considering whether it wishes to commission another major review.

6.9 The MoJ advised us in written evidence that, subject to the outcome of the 2015 Spending Review, it aimed to begin the next major review of the judicial salary structure by the end of the 2015-16 financial year. The Lord Chancellor told us in July 2015 that he was minded to conduct one, and in January 2016 confirmed in oral evidence that he still wanted it to go ahead. When we were preparing to submit this report, the MoJ said it intended to start a major review as soon as funding was confirmed.

6.10 We last conducted a major review of the judicial salary structure in 2011[53]. The Government did not respond until 2014 because of the pay freeze and subsequent public sector pay restraint. Government then said it found many of the recommendations persuasive but that it was not able to afford to implement all of them without breaching public sector pay policy. Staged implementation of some of the recommendations was a possibility but others were problematic. We concluded last year that, because of changes to judicial roles in the interim, it was not appropriate to implement just some of the 2011 major review recommendations.

6.11 It has become apparent to us in the course of this year's annual review that a more in-depth review of judicial grades and pay would be beneficial, and we believe that a major review is justified. However, for this to be worthwhile, there must be a willingness from Government to engage seriously with the recommendations, in a timely fashion.

Government response to our 2015 recommendations

6.12 The Government accepted the recommendation in our 2015 report that salaries for the judiciary be increased by 1 per cent with effect from 1 April 2015.

Pay system

6.13 The judicial salary structure consists of nine salary groups. Further information on types of judge by salary group is set out in Appendix K. Judges receive a single rate of pay (spot pay) depending on which salary group they belong to, rather than pay from within a range or band. Therefore, they receive neither incremental progression nor performance-related pay. Table 6.1 sets out current judicial salaries.

[53] In the 2011 major review of the judicial salary structure, the SSRB made 14 recommendations. These included widening the differentials between salary groups 1-4 and group 5, decreasing the pay of salary group 6.2, and increasing the pay for salary group 7 by 0.1 per cent.

Table 6.1: **Judicial salaries and numbers in post, 2011-2015**

Salary group[1]	Salary from 1 April 2015	Numbers in post[2]					Change between 2014 and 2015
		2011	2012	2013	2014	2015	
1	£247,112	1	1	1	1	1	0
1.1	£220,655	4	4	4	4	4	0
2	£213,125	15	15	14	16	16	0
3	£202,668	47	48	44	49	51	+2
4	£177,988	141	140	141	139	136	-3
5	£142,745	96	96	97	99	99	0
6.1	£132,184	831	823	812	811	808	-3
6.2	£124,445	37	41	40	39	32	-7
7	£106,040	1,036	1,041	1,024	1,045	1,037	-8
Salaried medical members[3]	£84,260	n/a	6	7	7	7	0
Stipendiary magistrates[4]	£72,701	4	4	4	3	3	0
Total		**2,212**	**2,219**	**2,188**	**2,213**	**2,194**	**-19**

Sources: Ministry of Justice, Scottish Government and Northern Ireland Department of Justice
Notes:
[1] A list of roles within each salary group is at Appendix K.
[2] Numbers as at 31 March.
[3] Salaried medical members were added to the remit group in October 2011.
[4] The Courts Reform Scotland Act 2014 introduced the office of Summary Sheriff and abolished the office of Stipendiary Magistrate from 1 April 2016.

Evidence

6.14 For this round, we received evidence from the UK and Scottish Governments, the Chief Justices, organisations overseeing judicial appointments, a range of judicial associations and representative groups, and individual judges. A full list of those who provided evidence is given in Appendix A. We heard oral evidence from:

- the Lord Chancellor and Secretary of State for Justice;
- the Lord Chief Justice of England and Wales;
- the Lord Justice Clerk of Scotland;
- the Lord Chief Justice of Northern Ireland; and
- the Judicial Appointments Commission for England and Wales.

Strategic context

6.15 The MoJ told us that aspects of the way the judiciary worked would change over the next three to five years as part of a plan to transform the justice system. It explained that it was working jointly with the judiciary to make sure the judiciary of the future suited a reformed justice system. To increase diversity, it would increase its outreach to target underrepresented groups, and develop proposals to modernise terms and conditions for the judiciary. It was also considering, as part of a move towards new and modern ways of working, more flexible deployment and operational flexibility for judges. The MoJ added that it wanted its judicial pay policy to continue to underpin judicial independence and the recruitment and retention of high calibre judges at all levels and in all jurisdictions. It also wanted to incentivise judicial leadership and support strategic reform around the provision of judges.

6.16 The Lord Chief Justice told us that he expected the judiciary to be affected by a range of fundamental changes in the coming year. These included reform of courts administration, reform to procedure in the criminal and civil courts, and an increase in litigants in person as a result of reductions in legal aid.

6.17 He also said he wanted to set about a far-reaching programme of reform to modernise judges' terms and conditions of employment, for example by increasing significantly their flexible deployment across courts and tribunals. Furthermore, the Crime and Courts Act 2013 included provisions to extend salaried part-time working from those below High Court level to judges in the High Court and above. He added that by 2020 he wanted a simplified pay structure, the eradication of pay anomalies, and allowances for those holding judicial leadership responsibilities. He confirmed that the work of all groups of judges was increasing in volume and complexity.

6.18 In the 2015 Autumn Statement, the Chancellor of the Exchequer announced that £738 million would be invested in a reform programme for Her Majesty's Courts and Tribunals Service (HMCTS). The MoJ told us that, as part of this programme, it intended to replace paper-based processes with a single information technology system, introduce digital documentation in court, increase the use of video links and modernise the judicial estate.

6.19 The Lord Chancellor explained to us in oral evidence that the reform programme involved moving judges from the traditional court setting to predominantly digital ways of working. He predicted that a wider range of skills and attributes would be required of judges in future, including greater flexibility, the need to hear cases across legal divisions, and enhanced management skills. He stated that he wanted to use pay to support and further these changes. He added that under the reform programme, the volume of work to the lower tiers would be reduced and therefore that fewer judges would be needed. For example, with upgraded information technology, much of their paperwork would be replaced by digital documentation.

6.20 The Lord Chief Justice confirmed his understanding that the reform programme would reduce the overall complement of judges and support staff. However, he expected modernisation to increase judicial workloads. He said that the HMCTS reform programme could only succeed with the support of all judges, and that addressing morale problems was vital.

Affordability

6.21 The Spending Review 2015 required the MoJ to make savings to the Department's administrative budget of 50 per cent and overall resource savings of 15 per cent by 2019-20. The MoJ said that the cost of its pay proposal for 2016-17 was within the 1 per cent available and consistent with public sector pay policy. It estimated the paybill costs for the SSRB's judicial remit group in England and Wales as £383 million (£266 million in salaries, £85 million in Accruing Superannuation Liability Charges and £32 million in Employers' National Insurance Contributions)[54]. After accounting for Scotland and Northern Ireland, the paybill costs for salaried judiciary across the UK as a whole are some £430 million. Responsibility for the pay of the SSRB's judicial remit group across the whole of the UK lies with the UK Government.

[54] The MoJ told us that total judicial remuneration, including for fee-paid judges, was around £450m in 2014-15 and was expected to increase to around £500m in 2015-16. They said this was due to the proposed pay award, and to additional costs arising from changes to fee-paid judges' pensions. It added that 73 per cent of the total related to the permanent salaried judiciary (up from an estimated 71 per cent in 2014-15) and the rest to fee-paid judges.

Summary of headline pay proposals for 2016-17

6.22 For 2016-17, the MoJ proposed an average 1 per cent pay award, comprising:

- a 3 per cent award for salary group 4 (High Court);
- 0.55 per cent for salary groups 6.2 and 7 (District Judges); and
- 1 per cent for all other salary groups.

6.23 The MoJ explained that it proposed the differential award in favour of the High Court because the evidence available showed an emerging problem with recruitment and retention at that level. It said action should be taken to address this before it had a significant impact on the administration of justice. It added that evidence also showed that judicial office holders in salary groups 6.2 and 7 were comparatively well remunerated, so these salary groups should receive a smaller pay award to make the approach affordable within the limits set by public sector pay policy.

6.24 The MoJ commented that it recognised that a smaller pay award would not be welcomed by judges in salary groups 6.2 and 7. However, it considered it appropriate for four reasons: no recruitment or retention pressures had been identified for salary groups 6.2 and 7; in its 2011 major review, the SSRB had recommended a new salary structure which included a smaller pay increase for group 7 and decreased the pay of those in group 6.2; research showed that, on average, those joining the judiciary in group 7 receive an increase in pay; and that pay for the small number of judges in salary group 6.2 should mirror salary group 7 to maintain a consistent and logical pay structure.

6.25 In oral evidence, the Lord Chancellor explained that he expected judges in salary groups 6.2 and 7 to be willing to accept a smaller pay rise than more senior colleagues because they were less affected by pension changes. Also he believed that they would recognise that it made sense for the High Court, which upheld the high reputation of the UK judiciary as a whole, to receive particular recognition for its status.

6.26 The Scottish Government proposed a 1 per cent cap on the cost of the increase in basic pay. This is in line with public sector pay policy in Scotland.

The Chief Justices

6.27 The Lord Chief Justice of England and Wales said that, although he had always preferred to support the equal distribution of a limited pay award among judges, such an approach this year was not sustainable. He added that adherence to an increase for everyone of 1 per cent did not take into account serious problems facing the judiciary and recruitment to it at the most senior levels. He asked the SSRB to make a recommendation that increased the pay of all judges, but adjusted the differential between the High Court and the rest of the judiciary. He also stated that it was not possible to wait until the next major review to redress judicial pay and pension issues.

6.28 The Lord Justice Clerk of Scotland and the Lord Chief Justice of Northern Ireland (LCJNI) expressed a preference for a uniform award. They said any changes to differentials should only happen after a major review. The Lord Justice Clerk said that the positive impact of a differential award would be more than outweighed by the impact on the morale of the rest of the judiciary, while the LCJNI said that he was very concerned about the detrimental effect on the judiciary of any differential award.

Responses to publication of the Ministry of Justice evidence

6.29 Following publication of the MoJ's evidence to the SSRB, more than 20 judicial organisations and individual judges submitted evidence to us. The overwhelming majority of these submissions disagreed with the MoJ's proposed differential award of 3 per cent to High Court judges (salary group 4) and 0.55 per cent to judges in salary groups 6.2 and 7. Those below High Court level said the proposals would be unfair and divisive, and amounted to the judges in salary groups 6.2 and 7 bearing the burden of the higher award to the better-paid judges in salary group 4. Many of the submissions also said that a 3 per cent increase would not achieve the desired effect in terms of recruitment and retention.

6.30 The High Court Judges' Association said that while it welcomed the 3 per cent award it was not anything like sufficient to compensate them for changes in pensions and increases in outside earnings. They added that "relentless" pressure of work was another important factor likely to be affecting recruitment to the High Court.

6.31 In a supplementary submission to the SSRB, the LCJ confirmed that there was significant opposition from all the judicial associations to the MoJ's proposal, other than from the High Court Judges' Association. However, he confirmed that he stood by his original joint submission with the Senior President of Tribunals that a differential award was necessary. He added that maintaining the quality of the High Court Bench at its current very high levels was his overriding consideration.

6.32 The Senior President of Tribunals (salary group 2) wrote to the SSRB that, while he agreed with the LCJ's latest letter, he was writing on behalf of the Chamber and Tribunal Presidents on the Tribunals Judicial Executive Board (TJEB). He explained that the differential award was a matter of significant concern to the TJEB, that they considered it unjustified and not fair to groups 6.2 and 7. He added that the TJEB thought the proposal was unlikely to achieve its objectives anyway, because of the likely impact of judicial pension changes on recruitment and retention.

6.33 The Justices of the Court of Appeal (salary group 3) wrote to report a growing retention problem in the Court of Appeal. They predicted that this would be worsened by the impact of the new judicial pension scheme, the disparity of earnings with the private sector and an ever-increasing workload. They said that, as those in the Court of Appeal were drawn from the High Court Bench, Court of Appeal retention levels had a direct bearing on recruitment and retention in the High Court. Consequently, they suggested that they should receive a pay award in line with the High Court. The view of the Justices of the Supreme Court (salary group 2) was that their pay award should match whatever was awarded to the Court of Appeal. They also noted the 1 per cent increase proposed for them by the Ministry of Justice.

Recruitment

6.34 We received evidence from those responsible for recruiting judges in: England and Wales (the Judicial Appointments Commission (JAC)); Scotland (the Judicial Appointments Board (JABS)); and Northern Ireland (the Northern Ireland Judicial Appointments Commission (NIJAC)).

6.35 In its evidence, the JAC said it completed 21 selection exercises for salaried posts in 2014-15, attracting 516 applications for 99 vacancies and resulting in 98 recommendations for appointment. Two salaried vacancies were unfilled. One of these was in salary group 7[55]. The other was in the High Court Family Division, in salary group

[55] The office of Deputy Regional Valuer of the First-tier Tribunal, Property Chamber (Residential Property) in the North

4. In our 2015 report, we said that the JAC had told us that it was anxious about whether that High Court competition would succeed.

6.36 JABS ran one competition in 2014-15, for two Sheriff positions. From the 43 candidates who applied, JABS reported no difficulty in identifying high quality candidates.

6.37 NIJAC reported that it had succeeded in filling all four Northern Ireland judicial vacancies in 2014-15.

Recruitment to the High Court

6.38 The JAC said that for the 2014-15 High Court competition overall, at least as many candidates were assessed as 'outstanding' as there were vacancies. All Chancery and Queen's Bench Division posts were filled but one Family Division post was not. The JAC said it did not interpret this to mean that there was a current problem with either candidate attraction or the quality of candidates. However, it confirmed that it was concerned about the number and quality of applicants to the High Court in future.

6.39 The MoJ told us that the number of recommendations for appointment was substantially lower in 2014-15 than in the preceding year, and that no large recruitment exercises took place: 10 recommendations for appointment were made on average per exercise in 2014-15, compared with 23 in 2013-14. It said it considered the recruitment position in England and Wales to be generally healthy but that the failure to fill all salaried High Court vacancies in 2014-15 was "concerning".

6.40 The MoJ said it had previously been possible to fill vacancies in all High Court divisions in recent years. However, it believed there was an emerging problem in High Court recruitment because it had heard of compelling anecdotal evidence about the current remuneration package deterring suitable candidates from applying for High Court posts. It added that it was "not possible to fill all roles due to the breakdown of posts by division", so that while they were all filled in the Queen's Bench and Chancery, one Family vacancy remained.

6.41 In oral evidence, the Lord Chancellor said that he was proposing a differential pay award in favour of salary group 4 for 2016-17. This was because it was vital for the Government to signal its concern at High Court recruitment difficulties.

6.42 The LCJ told us that there were far fewer applications for the High Court than in previous years. The JAC data showed that there were 73 applications in 2014-15, down from 90 in 2010-11 and 144 in 2007-08. The LCJ explained that in the 2014-15 High Court competition there was only one suitable candidate for a Chancery Division vacancy, and very few for the Commercial Court and the Technical and Construction Court. He said he had serious concerns about whether the latest High Court selection process, which had closed on 19 November 2015, would fill all posts. At the time of submission, we were aware of the ratio of applicants to vacancies in 2015-16 falling further below levels of 2014-15, but not of the competition outcome.

6.43 The Lord Justice Clerk told us in oral evidence that just eight applications had been received for a senior Court of Session (High Court equivalent) position. He was concerned that he was finding it hard to persuade suitable applicants to apply and that the senior judiciary in Scotland was failing, on salary grounds, to attract suitable applicants. JABS reported that, following the creation of the post of Summary Sheriff under the Courts Reform (Scotland) Act 2014, the first set of appointments had been made from a high quality field.

6.44 The Lord Chief Justice of Northern Ireland said that he was looking to recruit three new High Court judges in the next 12 to 18 months. He said he was concerned about the future quality of candidates for the judiciary in the Northern Ireland High Court and Court of Appeal.

Recruitment below the High Court

6.45 For salary group 7, the JAC evidence showed that the ratio of applications to appointments had increased in 2014-15 compared with 2013-14 and that the quality of the field was maintained. The Lord Chancellor said that there was no evidence of recruitment problems in the lower courts or tribunals. He added that, while fewer judges in the lower salary groups would be needed under HMCTS reform, the promise of intellectually satisfying work for a stable income would continue to prove attractive.

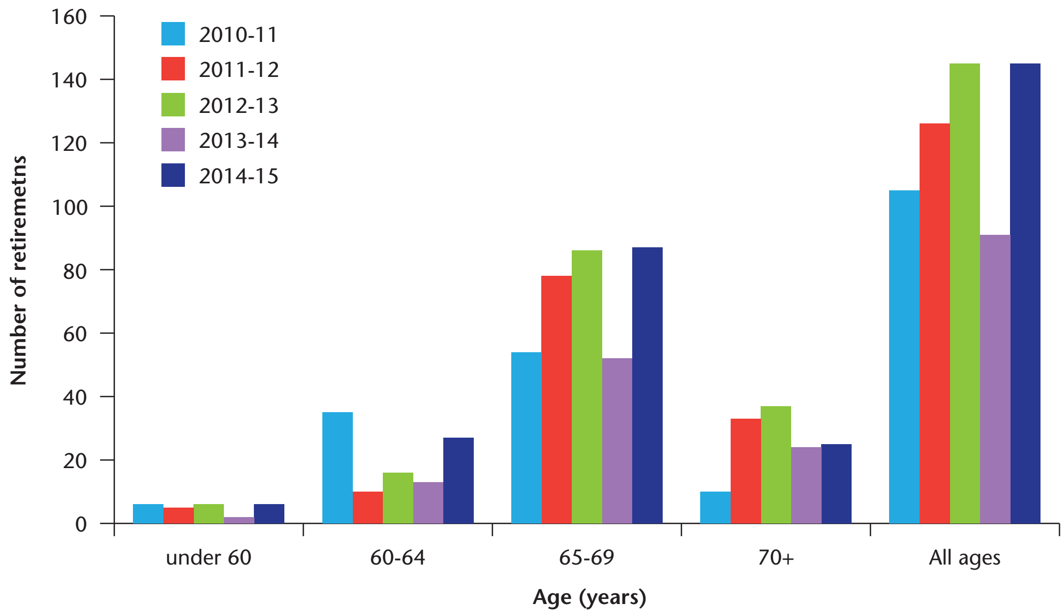
6.46 The LCJ said there were adequate numbers for the Circuit Bench (salary group 6.1) but linked this to a fall in criminal and family legal aid work. He added that, based on recent trends, he was concerned about retaining the current quality of the Circuit Bench in the future. The Association of District Judges said that the number of applicants per position available for a District Bench (salary group 7) competition had reduced from 9.7 in 2013 to 3.3 in 2015.

6.47 In its written evidence, the MoJ included data from the 2011 major review on the difference between pre-appointment earnings and judicial remuneration at the three main entry points to the judiciary (salary groups 4, 6.1 and 7). This showed the largest difference in pay was for those joining at salary group 4. It said that more recent detailed pay comparisons were not available. Some of the judicial organisations, including the Costs Judges of the Senior Courts and the High Court Bankruptcy Registrars disputed the MoJ's analysis of practitioner earnings and observed that it was unrealistically low.

Retention

6.48 The MoJ provided data covering 2010-11 to 2014-15. It said that the number of retirements and the average age of those leaving the judiciary in 2014-15 was broadly consistent with previous years (see Figure 6.1).

Figure 6.1: **Judicial retirements, England and Wales, 2010-11 to 2014-15, by age**



Source: MoJ

6.49 The MoJ said that the average age at departure overall was marginally lower than in 2013-14 (but higher than in 2012-13). However, it expressed disquiet that, for the second year in a row, two High Court judges had retired under the age of 65. It said this suggested that a retention issue was emerging at the High Court, and had been raised by senior judiciary. The MoJ added that, for the first time since departure data was first collated in 2011-12, the average age of retirement of District Judges had fallen to slightly below 65. The MoJ said it would continue to look closely at data on age of departure from this group.

6.50 The LCJ provided data on judicial retirements between 2011-12 and 2014-15 which he said showed a concerning rise in the number of judges retiring before the age of 65. He said that this was undoubtedly a consequence of the depreciation in pay and pensions and low morale. He observed that some were leaving to take up work as arbitrators or in dispute resolution abroad.

6.51 In 2014 the judiciary commissioned the first ever survey to be carried out of all salaried judges in the United Kingdom. We reported on it in detail in our annual report last year. The survey attracted a very high response rate (87 per cent). The LCJ said that based on the results from the survey female judges, those from ethnic minorities, those supporting children financially, and those appointed since 2000 were over-represented among judges considering leaving early in the next four years. However, in our view, this conclusion relied too heavily on inferences drawn from small percentage differences and on the subjective interpretation of data on the ‘undecided’ group.

6.52 The Scottish Government evidence said that 12 judges retired in 2014-15, including two aged under 65. The Lord Justice Clerk said he found “surprising” the number of retirements aged under 65. However, the data he provided showed that, of the 61 retirements in Scotland between March 2010 and March 2016, 18 in total had been before the age of 65. The average, over a six-year period, of three retirements per year under the age of 65, suggests that the trend towards early retirements is not increasing.

6.53 The Lord Chief Justice of Northern Ireland said that two judges, both over 65, had retired in 2015 and that a further 14 judges would reach compulsory retirement by 2020. He also expected a number of early retirements over the period based on an increasing trend in recent years. However, he confirmed that overall, Northern Ireland judges were not tending to leave early.

6.54 A number of judicial organisations wrote to us about retention. The Council of HM Circuit Judges (salary group 6.1) had conducted a survey of 96 retired circuit judges. The main reasons given for retirement were worry about alteration in pension arrangements and a lack of motivation because of limited salary increases. The Council said that retirements from the Circuit Bench demonstrated a worrying leakage of very experienced judges as a direct result of the continuing erosion of the value of the judicial remuneration package.

6.55 The Association of District Judges (salary group 7) provided information on exit interviews that it had conducted with district judges. Their findings were that the predominant reason for retiring was “pay no longer commensurate with responsibilities”.

6.56 The Justices of the Court of Appeal (salary group 3) wrote to us explaining that, in the last three years, seven justices had chosen to retire early from the Court of Appeal, and they predicted that more were likely to do so in the next few years. They reminded us that, in the 2014 Judicial Attitude Survey, they were the group of judges most likely to be considering early departure: 58 per cent, compared to 39 per cent in the High Court. Furthermore, 73 per cent of those in the Court of Appeal had identified limits on pay awards as the main factor that would prompt them to leave, compared with 53 per cent in the High Court.

6.57 The Lord Chief Justice confirmed that the judiciary would commission a survey of retired salaried members of the judiciary who had left in the last three years.

Morale and motivation

6.58 The results of the 2014 survey of the judiciary were overwhelmingly negative:

- Just 3 per cent of judges in the UK felt valued by the Government.
- 85 per cent of judges said that working conditions had declined in the last five years.
- Three-quarters of judges said that they had suffered a net loss of earnings and 66 per cent said that their pay and pension did not adequately reflect their work.
- Just over half said they were not certain of continuing until retirement age or were undecided whether to stay.
- A majority of judges said they would discourage suitable applicants, mainly because of pension reductions, reduced income and constant policy changes.

6.59 This year, the LCJ told us that judicial morale at all levels had continued to decline from the low level demonstrated by the 2014 survey, as clearly evidenced to him at judicial meetings in early October 2015. He said that he hoped to commission another judicial survey in 2016-17.

6.60 Among the major causes of the continuing decline in judicial morale, the LCJ cited a growth in litigants in person, cases where the litigant does not have a legal representative because they have not qualified for legal aid. He explained that far more could be required of judges in terms of court craft when individuals represented themselves, and that this was taking a toll on judicial morale.

6.61 The LCJNI said the results from the 2014 survey remained an accurate reflection of judicial motivation and morale in Northern Ireland. Of the 76 per cent of salaried judges in Northern Ireland who had responded to the survey, 89 per cent had said that working conditions had worsened in the last five years. Eighty-one per cent said that their pay and pension together did not accurately reflect the work they did and 75 per cent reported a real reduction in earnings over the last five years. Both he and the Lord Justice Clerk of Scotland expressed particular concern about the future impact of pension changes on morale. By 2016-17, the LCJNI predicted a real-terms reduction in the judicial remuneration package of nearly 50 per cent for younger judges, compared to those judges who remain in the old pension scheme.

6.62 Many judicial groups reported low levels of morale among their members this year. The 2015 annual survey of district judges in post, conducted by the Association of District Judges, showed that 56 per cent of respondents reported low or very low morale, roughly in line with last year. The Council of HM Circuit Judges reported a lack of applications from circuit judges for administrative posts such as resident or designated judges or within the Judicial College. Other judicial groups reported a similar disinclination to take on additional responsibilities. In addition, many judicial groups told us that reductions in support staff, and growing workloads from increasingly complex cases, were major causes of demoralisation among their members.

6.63 The MoJ said that it had carefully noted the concerns raised in the 2014 survey, including the discontent expressed by judges in all salary groups about the level of remuneration. The MoJ told us in oral evidence that it had been shocked to find the level of discontent among High Court judges in the 2014 survey to be similar to that of circuit and district judges. The Lord Chancellor explained that it was psychologically important for the Government to show that it genuinely valued the senior judiciary sufficiently in the form of a 3 per cent pay award. He hoped that this group would then lead on the delivery of reforms for the whole of the judiciary.

Pensions

6.64 Judicial pensions and pension taxation fall outside the scope of our recommendations. However, we recognise that they are an important element of the overall judicial reward package and that we should consider any evidence of impact on judicial recruitment and retention, and morale and motivation.

6.65 The MoJ told us that 544 members of our judicial remit group joined the New Judicial Pension Scheme (NJPS) when it was launched on 1 April 2015. It was open to all judicial office holders appointed for the first time to judicial office on or after 1 April 2015 and to judges in existing pension schemes not entitled to, or at the end of, any transitional protection.

6.66 Virtually all other members of the salaried judiciary remain in the 1993 Judicial Pension Scheme (JPS) because they were eligible for transitional or tapering protection. All judges within ten years of normal retirement age (65) at 1 April 2012 are fully protected, and those aged between 51½ and 55 at 1 April 2012 will have the option to defer joining the new scheme for a period linked to their age. The JPS is unique within our remit groups for not being registered for tax purposes with HM Revenue and Customs (HMRC). This means it is not subject to the annual and lifetime taxation allowances.

6.67 Unlike the JPS, the NJPS is a career-average pension scheme for the judiciary and is registered with HMRC for tax purposes, so bringing it into line with other public sector schemes. This means that individual judges will be allowed to claim tax relief on the contributions they make but that pension accrual will be subject to the annual and lifetime allowances.

6.68 On 5 April 2016, the annual allowance threshold[56] reduced from £40,000 to £10,000 for those earning over £210,000. The MoJ told us that this change reduced the overall remuneration of all NJPS members, other than those in salary group 7 based outside London. The MoJ explained that it was carefully considering the implications for the salaried judiciary of this change to the annual allowance. It added that an actuarial calculation would need to be carried out for each judge in order to provide an accurate assessment of the impact of taxation on pension value.

6.69 In oral evidence, the Lord Chancellor said that the Government had undertaken to do what it could to mitigate the impact of necessary pension changes on judges. The MoJ explained that the pension tax changes for those in the NJPS would mean a reduction of £14,000 in total compensation for new High Court judges, and for circuit judges, £4,500. The MoJ added that paying this additional tax charge was not the only option for NJPS members. As an alternative, the pension scheme could pay the tax ('scheme pays'), with a reduction in the gross pension at retirement by an actuarially calculated factor. However, the High Court Judges' Association commented that this option involved a high rate of interest causing an additional reduction in pension value. They also stated that several serving High Court judges had decided to give up the judicial pension.

6.70 The LCJ said that the changes to pensions and fiscal arrangements made the pension for senior judges one of the least generous available in the public sector on current rates of pay. However, we have not been able to verify this information. The LCJ added that judicial morale was continuing to decline, in large part because of concern at reduced pension values. The LCJNI endorsed the LCJ's comments on the impact of pension changes on morale. The Lord Justice Clerk wrote that he viewed the combined effect of

[56] See Box 1.1 in Chapter 1.

the new judicial pension arrangements and the tax treatment of pension contributions with particular concern. He said that the 2015-16 recruitment exercise for the Court of Session would test if the significant reduction in the value of the total remuneration brought about by these changes would lead to fewer applicants.

6.71 Many judicial organisations wrote to us about their concerns at the impact of pension and pension tax changes. Among them was the Council of HM Circuit Judges which told us that advice it had received from the Judicial Pensions Committee showed that circuit judges in the NJPS, as well as High Court and senior circuit judges, would be drastically affected by the 2016 reduction in the annual allowance threshold. They calculated that a circuit judge would pay £7,000-£9,000 per annum in pension tax depending on whether past years' relief could be carried forward.

6.72 In their evidence, both the Association of District Judges and the Association of High Court Masters said that the introduction of the NJPS, which was less valuable than the old scheme, would have a disproportionate effect on younger judges. Concerns were expressed about future morale, recruitment and retention problems on the District Bench.

6.73 In addition, upper tribunal judges observed that the tax treatment of the NJPS was the main contributor to perceived judicial recruitment and retention problems. They estimated that members of the NJPS would pay 12 per cent of their salary in pension tax. They said that a one-off award of 3 per cent to salary group 4 would not affect the tax liability of High Court judges and so was not an effective and proper measure for addressing recruitment problems. The Justices of the Court of Appeal told us that one of the two main obstacles to recruitment and retention at High Court level was the introduction of the NJPS and said it would worsen retention of younger Justices of the Court of Appeal.

6.74 The LCJ and a number of judicial representative groups said that analysis showed that the annual pension of High Court judges would be smaller than for circuit judges or district judges. The LCJ provided data showing for 2015 NJPS members that the pension per annum for a High Court judge would be £41,000, for a circuit or upper tribunal judge £48,000, and £49,000 for a district judge or first-tier tribunal judge. He said this was inequitable and inappropriate. We requested further information from the office of the LCJ on how these figures were arrived at but we were unable to obtain the detailed underlying analysis that we required.

6.75 In 2014, OME commissioned research from Towers Watson looking at changes in the value of public sector pension schemes between 2010 and 2016 (discussed in Chapter 2). The data show for a sample of judicial careers that, while the pension was worth between 38-44 per cent of salary in 2010, this falls to 29-36 per cent of salary by 2016.

Recommendations

6.76 Historically, the main parties have proposed a single unified award for the whole of the judiciary on the basis of the longstanding and cherished principle of judicial collegiality. As recently as 2013, there was complete unanimity among our main judicial parties that if only 1 per cent of paybill were available, then all judges should receive the same increase, since any other option would damage motivation and unity. Only last year, the MoJ proposed an across the board 1 per cent pay settlement to reflect the view of the senior judiciary in previous years that, in the context of pay restraint, it was fairer and less divisive to treat all judges the same.

6.77 This year, the MoJ has proposed a differential award that would favour High Court judges but allocate less than 1 per cent to judges in salary groups 6.2 and 7. We note that some of the main parties, such as the Chief Justices of Northern Ireland and Scotland do not agree with the proposal, citing the divisive impact across the rest of the judiciary. The vast majority of judicial representative organisations have told us that it is not the right way forward.

6.78 In the light of the evidence provided and within the context of our terms of reference, we have considered all aspects of the Government's pay proposal for a differential award in favour of the High Court. We took seriously the emerging signs of recruitment problems, such as the unfilled post in the Family Division of the High Court and reports of a falling ratio of applicants to vacancies in the High Court. However, we also felt the evidence at present was rather limited.

6.79 In addition, we reviewed carefully the arguments against such an award. First, we note that the overwhelming majority of posts in the High Court remain filled. Moreover, the evidence of recruitment problems appears to concern only a limited number of posts. The evidence we do have indicates that, although there was one unfilled position in the High Court in 2014-15, the quality of those appointed to the remainder of the High Court vacancies was undiminished. Furthermore, the evidence from various parties on recruitment below the High Court contained some apparent contradictions, meaning we cannot be entirely clear on the picture below that level.

6.80 Moreover, a differential award would risk damaging judicial morale in the other salary groups. There is important anecdotal evidence that judicial morale is now at least as low as at the time of the 2014 Judicial Attitude Survey.

6.81 It is our view that the pension changes which are affecting all of our remit groups cannot be grounds for us to support a differential award that favours the High Court. The MoJ provided us with information on the proportion of judges in the High Court who are still members of the old Judicial Pension Scheme, which is not registered with HMRC for taxation purposes. The MoJ said that a greater proportion of High Court judges in England and Wales were completely or partly protected from the pension changes than for the judiciary as a whole.

6.82 Finally, and in our view importantly, there is not compelling evidence that a 3 per cent award just for salary group 4 would have the desired effect and improve recruitment and retention in the High Court. Data from the last major review, provided by the MoJ this year, showed that High Court judges were already heavily underpaid relative to their private sector counterparts: a Queen's Counsel becoming a High Court judge was estimated in 2010-11 to have a median pay cut on appointment of 68 per cent (or 59 per cent with pension value taken into account).

6.83 Consequently, our conclusion is that there is insufficient evidence of recruitment, retention or motivation problems to justify a differential pay award at present. In addition, we are wary of damaging judicial morale further at this delicate time by proposing a differential award which we have been warned will be divisive. We also think it would be more sensible to look at judicial pay relativities as part of a wholescale comprehensive review. However, we do believe that concerns about judicial morale, recruitment and retention in future are sufficient to justify a 1 per cent award.

6.84 We therefore recommend that, with effect from 1 April 2016, salaries for the judiciary should be increased by 1 per cent. The resulting amounts are set out in Table 6.2.

Recommendation 6: We recommend with effect from 1 April 2016 a consolidated pay increase of 1 per cent for the judiciary (see Table 6.2).

Table 6:2: **Recommended judicial salaries from 1 April 2016**

Salary group	Recommended judicial salaries from 1 April 2016
1	£249,583
1.1	£222,862
2	£215,256
3	£204,695
4	£179,768
5	£144,172
6.1	£133,506
6.2	£125,689
7	£107,100
Salaried medical members	£85,103

6.85 We will continue to keep the position under close review and invite the parties to submit further evidence on the specific issues raised this year. A major review would consider these themes in more detail and gather more complete evidence on whether a salary re-alignment was justified.

Looking ahead

Improved evidence

6.86 We would like to receive improved evidence on the judiciary that is consistent and comparable. In the context of the concerns reported to us this year, particularly about High Court recruitment, we will continue to monitor closely all available information from all three recruitment bodies on their competitions, particularly those at High Court level. As we sometimes received contradictory evidence on vacancy and candidate numbers from different bodies this year, we would also seek a more consistent evidence base. We are prepared to work with the MoJ and the judicial associations on this. We also need reliable data on pay comparisons between the judiciary and the pool of legal practitioners from which they are drawn, at all levels. For this reason, we particularly welcome the MoJ saying this year that it would value conducting further comparative research on pay as part of a major review.

6.87 Last year, the LCJ said the judiciary was considering a survey of retired judges and we encouraged them to conduct one. This year, he confirmed that one had been commissioned. We look forward to receiving the results. As we said last year, we would also recommend that the Chief Justices arrange exit interviews with those who retire early or resign so as to understand which issues influence decisions to leave. We also regard regular judicial attitude surveys as essential and welcome the LCJ's intention to undertake another one this year.

6.88 We are particularly keen this year to work with the parties to determine how we can receive comparable and consistent information on the impact of pension and pension tax changes on recruitment and retention within the judiciary.

Future pay and pension flexibilities

6.89 There are alternative models of pay setting that might be appropriate for the judiciary and which we would be keen to explore with the parties in future years. One approach would involve strategic, long-term multi-year settlements. In our view, the far-reaching and major programme of courts and tribunals reform could provide the MoJ with the opportunity to consider the options for delivering pay reform to a smaller cadre of better remunerated people.

6.90 Private sector organisations have the ability to offer their people an overall package that is more adaptable to changes in pension policy than typically available in the public sector. In our view there would be merit in the Government similarly exploring the scope for flexibilities.

The next SSRB major review

6.91 A judicial morale problem, and concerns about recruitment and retention, cannot be dealt with in a single pay round while public sector pay policy restricts awards to an average of 1 per cent. We believe a more strategic approach is required. A satisfactory, enduring, pay structure for the judiciary, with each salary group occupying an optimum position within it, would ideally be based on a thorough analysis of consistent and comparable evidence from all parts of the salaried judiciary.

6.92 This year, many judicial groups have put a case to us to be moved to a higher salary group. We had recommended re-grading for some of them during the 2011 major review, while others began making their representations to us more recently. Many reported that they were now dealing with a heavier and more complex caseload, or that the nature of their work had changed profoundly. The submissions we received this year emphasised to us that all parts of the judiciary have experienced significant changes since the last major review was conducted over four years ago, let alone since the judicial salary structure was last actually altered.

6.93 Therefore, we are supportive of a major review of the judicial salary structure. However, we are in no doubt that a major review will be a heavy undertaking for all those involved. For it to be a worthwhile exercise, there must be willingness from Government to engage seriously with the recommendations in a timely fashion.

Chapter 7

Very Senior Managers in the National Health Service

Context

The remit group

7.1 The SSRB's remit includes some Very Senior Managers (VSMs) in the National Health Service in England. These are mainly employed by national Arm's-Length Bodies (ALBs) responsible for commissioning or monitoring services. The remit also includes Commissioning Support Units[57] and some Ambulance Trusts[58]. The organisation employing the greatest number of VSMs in the remit is NHS England, with 183 VSMs at 1 April 2015. A full list of organisations employing VSMs in the SSRB remit is set out in Table 7.1.

Table 7.1: **NHS VSMs in the SSRB's remit on 1 April 2015, by employing organisation**

Organisations	VSMs on 1 April 2015
NHS England	183
NHS Business Services Authority[59]	62
Ambulance Trusts	31
NHS Trust Development Authority	40
Health Education England	25
NHS Blood and Transplant Authority	7
Monitor	15
National Institute for Health and Clinical Excellence	6
NHS Health and Social Care Information Centre	8
Care Quality Commission	18
Human Tissue Authority	5
NHS Litigation Authority	4
Human Fertilisation and Embryology Authority	3
Health Research Authority	1
TOTAL	**408**

Source: Department of Health

Our 2014 report

7.2 In 2014, we recommended that the VSMs in our remit receive a 1 per cent pay increase, although we went on to say that if the pay of other groups in the NHS was increased by less than 1 per cent, we realised that the Government would wish to take this into account when considering our recommendation.

[57] Commissioning Support Units (CSUs) provide a range of non-clinical support services to those commissioning services. Currently governed by NHS England, CSUs are expected to become autonomous organisations in 2016.

[58] NHS Ambulance Trusts that have not become NHS Foundation Trusts remain in the remit. These are London, East Midlands, East of England, North West and Yorkshire.

[59] The VSMs employed in NHS Commissioning Support Units, which are hosted by the NHS Business Services Authority, are in the SSRB's remit. The number of VSMs comprises 4 VSMs in the Business Services Authority and 58 in the Commissioning Support Units.

7.3 In March 2014, having rejected a recommendation from the NHS Pay Review Body (NHSPRB) to make a 1 per cent consolidated award, the Government rejected our recommendation and said that "*as system leaders, very senior managers must set an example of pay restraint and also that their pay should be subject to greater restraint than that of staff delivering front-line NHS services. In the view of the Government, this can be achieved only by a zero pay award in 2014/15*"[60].

Our 2015 report

7.4 The then Parliamentary Under Secretary for Health wrote to the SSRB on 28 August 2014 to set out the review body's remit for VSM pay for that pay round. In it, he explained that the Government would not ask the SSRB to make a recommendation on VSM pay for 2015-16. Therefore, in 2015 we did not make a pay recommendation for VSMs in our remit. No pay rise was implemented for them that year.

7.5 In the August 2014 letter, the Parliamentary Under Secretary for Health also invited the SSRB to comment on the emerging findings from a departmental review of the 2012 VSM pay framework. At that time, the findings were expected to be available by the end of September 2014. However, he wrote again to the SSRB in October 2014 to advise us of a significant delay. He said that it was essential to have the SSRB's input at the appropriate time, but emerging review findings would not be available until early 2015.

7.6 At the time of submitting our 2015 report, we had not seen the review findings. We said we welcomed the opportunity to comment on the review of the 2012 VSM pay framework but were disappointed that the delay to the review meant we had been unable to comment as part of our activity in 2015. We said we looked forward to doing so as part of our work programme for the 2016 round.

This year

Our 2016 remit

7.7 On 5 November 2015, the Parliamentary Under Secretary of State for NHS Productivity wrote to us and said that our advice is valued very highly and considerable importance is attached to our role. He went on to say that outline proposals for a new pay framework would be submitted as part of the Department's evidence.

7.8 The written evidence, requested for the end of September, was delayed in coming to us, and we received it on 29 January 2016. We discussed it at our next scheduled meeting on 4 March 2016. The evidence said that the Department of Health (DH) intended to introduce a new pay framework in April 2016. This was an outcome of the review of the 2012 pay framework, which we understand had been approved by both the Permanent Secretary and the Secretary of State.

Our response

7.9 We are very disappointed that, after recognising the importance of the involvement of the SSRB, the Government has given us no opportunity to consider the review of the 2012 framework.

7.10 In addition, the evidence provided to us did not sufficiently explain the rationale for the introduction of the 2016 framework. We understand that the DH appointed an organisation, QCG Ltd, to carry out a pay benchmarking review on its behalf, which informed the new framework. However, at the time of writing, we have not seen QCG's report to the DH. We had no contact whatsoever with QCG in the course of their review.

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[60] Prime Minister's Written Statement on 13 March 2014.

7.11 The DH asked us to make a pay recommendation to ease transition to the new framework. However, the proposals lacked detail in a number of areas, such as an explanation of why the DH believed there was a case for using the full 1 per cent increase in the pay bill budgeted for this year, and how the targeting of any award might happen in practice. Ambulance Trusts were not mentioned in the evidence despite being within our remit. DH said it was considering giving ALB Remuneration Committees a greater degree of flexibility and accountability for a number of pay decisions and sought our "*advice and ideas about how ALBs might develop the remit of their Remuneration Committees and use their VSM paybill more creatively*". Yet we were left with an insufficiently clear view of the DH's vision for these committees and, correspondingly, what role would be left for the SSRB. The evidence described individuals in specialist information technology roles being paid well below the private sector, without specifying whether and how this was creating difficulties and what corrective actions were under consideration.

7.12 Managers in Partnership (MiP), the staff association that represents health service managers, said it had been briefed by the DH on the proposed framework and broadly speaking agreed with the proposal to reduce the number of responsibility levels. However, it felt the proposed framework needed further development and that the DH should delay its introduction, pending further discussions with MiP.

7.13 In the circumstances, we do not feel we have sufficient evidence to be able to advise on the suitability of the new pay framework and any transition arrangements that the DH may put in place. The SSRB, therefore, is unable to make any recommendations on the pay of Very Senior Managers in the NHS this year.

7.14 Although we are unable to make a specific recommendation on pay, we wish to be explicit that this does not amount to a recommendation of a pay freeze. We highlight the following points:

- The DH evidence acknowledged that Government has made funds available for awards averaging one per cent for 2016-17.
- The Government has accepted an NHS Pay Review Body recommendation that the consolidated pay of other NHS staff be increased by 1 per cent from 1 April 2016.
- In five of the last six years, VSMs in our remit have not received an award.

Recommendation 7: We recommend that the Department of Health determines what level of pay increase is appropriate this year, for the Very Senior Managers within our remit. If a pay award averaging under 1 per cent is made, we recommend that the funding is held back to allow a potentially larger award next year.

7.15 We look forward to the DH describing and explaining in evidence to the SSRB next year the nature of any award it makes to VSMs for 2016-17.

Looking ahead

7.16 We noted in our 2015 report that it is important that the organisations with VSMs covered by our remit are able to recruit and retain high quality managers. The SSRB remains strongly of this view and our decision not to make pay recommendations this year was not taken lightly.

7.17 We believe the DH needs to establish a clearer operating model and workforce strategy for those managers within our remit, and a clear view of what it needs and expects from the SSRB. We expect to work with Ministers and senior officials within the DH to arrive at a sensible way forward for future years.

7.18 We are also happy to work with the DH to establish how they might develop a more comprehensive data picture to support their workforce strategy and pay proposals, as we believe it will be mutually beneficial. Areas where better data and information are needed include: how the position on recruitment, retention and morale is changing over time; the quality of the workforce, especially those leaving for other roles; shortages of specialist staff and their implications; and the supply of capable and qualified future leaders for these organisations.

Chapter 8

Police and Crime Commissioners

The remit group

8.1 There are 41 directly elected Police and Crime Commissioners (PCCs) in England and Wales. The first PCCs were elected in November 2012, with the next elections due on 5 May 2016[61]. In 2011, the SSRB made recommendations, accepted by the Government, that the pay of PCCs should be between £65,000 and £100,000 and be broadly linked to the size and complexity of the respective police force. Those pay levels are set out in Appendix H and have been in place since PCCs were first elected in November 2012.

Our previous recommendations

8.2 We first considered the pay of PCCs as part of our annual remit in 2014. In both our 2014 and 2015 reports we recommended, and the Government accepted, that the pay of PCCs should remain unchanged.

8.3 In 2011, we recommended that the SSRB be asked to carry out a full review of the PCC roles and their remuneration before the 2016 PCC elections. In our 2015 report we said we stood by to undertake such a review if asked.

Our 2016 remit

8.4 The Home Secretary wrote to us on 21 October 2015 (see Appendix E) to say it was the Government's intention to further develop the role of PCCs, for example by enabling fire and police services to work more closely together with an increased role for PCCs. The Home Secretary went on to ask that we delay a full review of PCCs until the proposed changes to their role are in place, which she anticipates will be at some point during their next period of tenure (2016-2020).

8.5 The Home Secretary said that it was difficult to envisage circumstances where she would accept a recommendation to increase PCC pay this year and has requested that we refrain from conducting a review of PCC pay this year. We did not receive evidence from either the Home Office or the Association of Police and Crime Commissioners.

8.6 Whilst we understand that the Government may still be developing its proposals to extend the role of PCCs, we believe it would be helpful for us to look at PCC pay for our 2017 report, pending a full review once the nature of the PCC role is clearer.

[61] There will be no PCC election in Greater Manchester in May 2016 as the role of PCC will become part of the responsibilities of the directly elected mayor due to be elected in 2017.

Appendix A

List of those who gave evidence and information to the SSRB

The senior civil service

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

Senior officers of the Armed Forces

The Secretary of State for Defence
Ministry of Defence
Chief of the Defence Staff
Chief of Defence People
Senior military discussion group

The judiciary

The Lord Chancellor and Secretary of State for Justice
The Right Honourable the Lord Thomas of Cwmgiedd, Lord Chief Justice of England and Wales and The Right Honourable Lord Justice Vos
Judicial Appointments Commission (England and Wales)
Judicial Appointments Board for Scotland
Northern Ireland Judicial Appointments Commission
Lord Justice Clerk of Scotland
Lord Chief Justice of Northern Ireland
Ministry of Justice (including information from the Northern Ireland Courts and Tribunals Service)
Scottish Government
Senior President of Tribunals
Justices of the Supreme Court
Justices of the Court of Appeal
Association of High Court Judges
Chairman of Council of Judges in Northern Ireland
Council of HM Circuit Judges
Upper Tribunal Judges
Sheriffs' Association
Council of Immigration Judges
Association of District Judges
Council of HM District Judges (Magistrates' Courts)
London Association of District Judges
Council of Employment Judges
Industrial Tribunals and The Fair Employment Tribunal of Northern Ireland
Association of High Court Masters (including Registrars, Costs Judges and Principal Registry District Judges)
County Court Judges, District Judges, District Judges (Magistrates' Courts) and Society of Masters in Northern Ireland
Masters of the High Court of Justice in Northern Ireland
Council of Appeal Tribunal Judges
Salaried Judiciary of the Mental Health (Health, Education and Social Care) Primary Tier Tribunal and Salaried Tribunal Judges' Association
Judge Advocate General
Written evidence from four individual judicial post holders

Very Senior Managers in the National Health Service

Department of Health
Managers in Partnership

Appendix B

Website references for publications

This SSRB report can be found at:
https://www.gov.uk/government/organisations/office-of-manpower-economics

Evidence submitted to the SSRB by the Cabinet Office:
https://www.gov.uk/government/collections/senior-civil-service-performance-management-and-reward

Evidence submitted to the SSRB by the FDA/Prospect:
http://www.fda.org.uk/Our-work/Pay_and_Reward.aspx

Evidence submitted to the SSRB by the Ministry of Justice:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/492029/senior-salaries-review-report-2016-2017.pdf

Appendix C

Letter from the Chief Secretary to the Treasury to Review Body Chairs of 19 August 2015

CHIEF SECRETARY TO THE TREASURY

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

Jerry Cope (NHSPRB); Paul Curran (DDRB); Peter Knight (Prison Services RB); David Lebrecht (Police/NCA PRB); Martin Read (SSRB); Patricia Rice (STRB); John Steele (AFPRB)

c/o Office of Manpower Economics
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

19th August 2015

Dear Jerry, Paul, Pete, David, Martin, Patricia and John,

PUBLIC SECTOR PAY 2016-17

Thank you for your work on the 2015-16 pay round. It is clear to me that the pay review bodies play an invaluable role in making independent, evidence-based recommendations on public sector pay, as well as providing expert advice and oversight in relation to wider reforms to pay policy and allowances. I am grateful to you and your colleagues for the careful thought you give to this work, and look forward to receiving your advice and recommendations during the 2016-17 pay round and beyond.

2. Savings from public sector pay and workforce reform made a significant contribution to reducing the deficit over the course of the last Parliament, saving around £8bn. The new government's Summer Budget last month set out that a further £20 billion of consolidation in public sector spending will be required to deliver a surplus by 2019-20. Whilst the deficit and debt are being reduced, the government will need to continue to ensure restraint in public sector pay. Without

such restraint, reductions would need to come from other areas of spend, resulting in negative impacts on public services and jobs. At a time of difficult decisions, the government's pay policy will help to protect the jobs of thousands of front line public sector workers.

3. As you will have seen, the government announced at Budget it will fund public sector workforces for a pay award of 1% a year for four years from 2016-17. The government expects pay awards to be applied in a targeted manner to support the delivery of public services, and to address recruitment and retention pressures. This may mean that some workers could receive more than 1% while others could receive less; there should not be an expectation that every worker will receive a 1% award. The relevant departments will submit in their evidence to you proposals covering the needs of their different workforces.

4. The Budget also set out that the government will continue to examine pay reforms and modernise the terms and conditions of public sector workers. This will include a renewed focus on progression pay, and considering legislation where necessary to achieve the government's objectives. Over the course of the Parliament, I look forward to the pay review bodies playing an important role in advising the government on how best to achieve pay reforms.

5. The relevant Secretaries of State will write to you shortly with a detailed remit covering these points and I look forward to receiving your recommendations.

With best wishes,

GREG HANDS

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Appendix D

Letter from the Parliamentary Under Secretary of State for NHS Productivity to the Chair of the Senior Salaries Review Body of 5 November 2015

Department of Health

From the Lord Prior of Brampton
Parliamentary Under Secretary of State for NHS Productivity (Lords)

Richmond House
79 Whitehall
London
SW1A 2NS

Tel: 020 7210 4850

Dr Martin Read (Chair)
Senior Salaries Review Body
8th Floor
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

Email: neil.higginbottom@bis.gsi.gov.uk

5th November 2015.

Dear Martin,

Senior Salaries Review Body (SSRB) Remit 2016/17-Arm's Length Bodies (ALB) Very Senior Managers (VSM)

I am writing as a follow up to the letter you received from the Chief Secretary to the Treasury (CST), Greg Hands on 19 August 2015 and our meeting on 16 September 2015 to set out the SSRB remit for ALB VSMs for the 2016/17 pay round.

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

Context for the 2016/17 remit

I ask that when considering your recommendations to government, it is done so within the context of the Chancellor's statement in the summer budget that:

- the government will need to ensure restraint in public sector pay; and
- the government will fund an average pay award of 1% for four years from 2016/17.

The financial landscape for ALBs over the next few years will be determined by the outcome of the current Spending Review (SR) which will conclude in November 2015. While the exact detail of the SR is not known it is clear that ALBs will face significant challenges to deliver efficient operating models and prioritisation of work programmes with reduced administration budgets.

Detail of Remit

Within the context of this challenging financial landscape we would welcome your recommendations on the best use of the 1% funding committed by government. We do not expect an across the board 1% pay award to VSMs but expect that the 1% is used in a targeted way. Our outline proposals for a new pay framework which we aim to introduce in April 2016 will be submitted as part of our evidence. Your recommendations are sought on how best to target the 1% available to ease transition to the new framework through the targeting of the pay award to the introduction of the new framework.

During our meeting on 16 September we had a constructive discussion about the longer-term strategic approach to ALB pay and reward and talked about the potential for greater ALB VSM paybill control. With this in mind, and within the context of the targeting of pay awards, I would welcome your independent advice and ideas about how ALBs might use their VSM paybill more creatively. In addition, your views would be welcomed on the role that increased transparency through annual accounts for example could play as part of any VSM paybill delegation.

I have agreed to provide oral evidence, if required, at a date to be agreed with my office.

Yrs Ev, Dai.

DAVID PRIOR

Appendix E

Letter from the Home Secretary to the Chair of the Senior Salaries Review Body of 21 October 2015

Home Office

Home Secretary

2 Marsham Street
London SW1P 4DF
www.gov.uk/home-office

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

21 October 2015

Dear Dr Read,

PCC PAY REVIEW 2016-17

Firstly, I would like to thank the Senior Salaries Review Body for its work on the 2015-16 pay round in respect of Police and Crime Commissioner (PCC) pay.

You will be aware that I accepted the SSRB's recommendation, in your initial 2011 report, for the Review Body to complete a full review of the PCC role in time to take effect for the second round of national elections in 2016.

In line with our 2015 manifesto commitment, it is our intention to further develop the role of PCCs as we move towards PCCs' second period of tenure. For example, it is our intention to enable fire and police services to work more closely together with an increased role for PCCs, and we have recently set out our proposals to give effect to this commitment.

As things stand, however, PCCs are yet to assume these further responsibilities and any substantive changes to the role will not be in place in time for consideration as part of this year's pay review round. I appreciate the difficulties inherent in requesting the Review Body to prospectively assess an expanded role for the purposes of determining pay.

In light of this, I would ask that you delay conducting a full review of the PCC role until our intended substantive changes to the model are in place. Given that these changes will require primary legislation, you will appreciate that I am not able to say with any degree of certainty when this will be, although I would anticipate than an enhanced PCC role will be in place at some point during their next period of tenure (2016-2020).

This leads me to the question of whether the Review Body should conduct another annual review in respect of PCC pay – as you have done for the last two pay rounds – for this year's round. Given the overarching context of the current public sector pay position and the fact that I am having to ask the police to make further savings, it is difficult to envisage circumstances in this year's pay round where I would accept a recommendation to increase PCC pay.

Therefore, for the reasons set out in this letter, and being mindful of the finite resources of the Review Body, I would also formally ask that you refrain from conducting an annual review of PCC pay during this year's round. I acknowledge that, of course, this will result in a pay freeze for PCCs for this year.

I can reassure you that I will keep our position on these issues under review and I will write to you again ahead of the next pay round for 2017-2018 to update you on the progress of our planned reforms to the PCC model.

The Rt Hon Theresa May MP

Appendix F

Total financial reward differentials between senior public and private sector staff

Introduction

Purpose of this appendix

As discussed in Chapter 2, the Office for National Statistics (ONS) has provided estimates of pay differentials for the 98th percentile of earners in the public and private sectors, adjusted for individual and organisational characteristics. However, we have not identified any studies that provide equivalent, directly comparable, calculations of the pension differential for 'high' earners.

This appendix looks at different potential methodologies for analysing differences in 'total financial reward' between senior employees in the public and private sectors.

In principle, total financial reward consists of pay, pensions and other in-kind benefits, such as private health insurance, cars and travel and accommodation expenses. Because in-kind benefits are difficult to systematically compare, due to data limitations and the various different forms they take, consideration here of total financial reward is limited to pay and pensions. Allowance is made, as far as possible, for differences in individual characteristics and/or job-related factors, in order to make like-for-like comparisons.

Introduction to methodology

Comparing the value of public sector (typically defined benefit (DB)) schemes and private sector (typically defined contribution (DC)) schemes is methodologically challenging, due to the differing nature of such schemes.

In DB schemes, the employee usually[62] makes a contribution to 'buy in' to the scheme. Benefits are accumulated according to a specific accrual rate, which is a fraction of current or final salary, every year. At retirement age, an annual pension is provided, the size of which depends on the individual's earnings, the accrual rate and the length of service. The employer's financial contribution during the working lifetime is in the form of a commitment to fund the future pension.

Under DC schemes, the employee and employer both make a monthly financial contribution to a pension fund, which is then invested and generates a return. One example of a DC scheme is an annuity, where pension benefits post-retirement are obtained through purchasing an annuity on retirement using the accumulated pension pot.

The contribution of a DC scheme to an employee's remuneration can most simply be measured as the financial value of the employer's contribution. However, in the case of a DB scheme, the employer's contribution is in the form of an accrual rate. This means that it cannot be directly measured in financial terms. Conversely, the future value of DC schemes is dependent on factors which cannot be predicted with total accuracy, such as investment returns and annuity rates.

[62] Some DB schemes are non-contributory.

It is, however, possible to convert DC and DB schemes into a common currency, to allow comparison of employee value of the two types of schemes. Two potential types of comparison are to:

1. assume the same pension benefits post-retirement and compare the employee contributions that would, given any associated employer contributions, be required to generate such benefits; or

2. assume the same explicit (DC) or implicit (DB) employer and employee contributions in both schemes and compare the expected pension benefits post-retirement.

Using the first approach, it is possible to consider a hypothetical example where, over one year, a private sector employee pays a share of salary towards his/her DC scheme and the employer adds to (for example, matches) this contribution. Assume that this contribution leads to a £1,000 per year pension benefit post-retirement. Also assume a public sector employee working for the same year, in a DB scheme, gains £1,000 per year of post-retirement pension through accruing additional pension entitlement.

In the above case, the public sector and private sector workers accumulate the same additional future pension benefits over the year. The relative value of the schemes can then be assessed by comparing employee contributions to the schemes. If, for instance, the private sector worker is contributing 10 per cent of his/her gross pay to the DC scheme while the public sector employee is contributing 5 per cent to the DB scheme, the public sector pension can be argued, all other things being equal (including basic pay), to be worth an additional 5 per cent of gross pay relative to the private sector one.

Moving on to the second approach, it is possible to construct a hypothetical example where both schemes involve the same employee contributions, for instance 4 per cent of gross pay this time. We can then estimate which employee would gain the most additional pension through working an extra year. If the private sector worker, also taking into account any employer contribution, generates £800 a year of additional pension while the equivalent public sector figure is £800 per year, the public sector pension can, again, be argued to be worth twice the proportion of gross pay as the private sector one.

Data requirements and assumptions[63]

A number of assumptions are required in either of the scenarios above. In both cases data or assumptions are required about factors such as: retirement age; inflation indexation; discount rate; salary progression; and employee contribution rates. Additional assumptions are required to predict pension tax implications.

Furthermore, in order to estimate the future pension value of a DC scheme in the first example above, assumptions are required relating to factors such as future investment returns and annuity rates. The second example involves estimation of the implicit current value of employer contributions under a DB scheme, which requires information on current DB pension schemes (for example, accrual rates and whether the schemes are based on final or average salary) and assumptions about the future design of schemes and life expectancy.

Remainder of this appendix

The variables listed above will influence the estimated value of the future benefit streams that the pensions will provide. The examples used are intended to provide a relatively intuitive account of how DB and DC schemes may be compared. Studies that have tried to apply these principles more formally to the comparison of DB and DC schemes are discussed below.

[63] Please note this is an illustrative list and it is not comprehensive.

We then go on to consider whether the studies on pension differentials that do exist, in combination with what we know about pay differentials, may help us to compare total reward for senior people across the public and private sectors. We arrive at some broad and very tentative conclusions.

Studies that analyse pension differentials

'Workplace pensions and remuneration in the public and private sectors in the UK', Institute for Fiscal Studies, 2014[64]

This report showed that **on average**, in 2012, public sector workers are paid 15.1 per cent more per hour than their private sector counterparts[65]. This pay differential is reduced substantially, to +4.6 per cent, once characteristics such as age, gender, education, experience and region are taken into account.

Adding pensions into the calculation increases the differential from +4.6 per cent to +16.8 per cent. The main reasons include:

- **Pensions coverage**: a much higher percentage of public sector workers are covered by employer pension schemes compared to private sector counterparts;
- **Type of pension schemes**: a much higher percentage of public sector workers are covered by DB schemes, which are on average more generous than DC ones.

The report, however, also identifies public sector pension schemes as becoming less generous over time.

The paper calculates the value of being a member of a pension scheme as the increase in the estimated present discounted value (PDV) of the pension income between now and one year's time, minus any employee contributions paid to the scheme. The PDV[66] of a DB pension is calculated as the present value of: any lump sum paid at the Normal Pension Age (NPA); plus the annual pension between the NPA and death; plus the annual pension paid to any surviving partner until their death; minus employee contributions. The calculation depends on factors, including: the survivor's pension; the annual rate at which members build up pension benefits; the discount factor; the final salary; the number of years in the pension scheme; and the number of years until NPA, until death and until partner's death.

The PDV of a DC scheme is the present value of: the combined employee and employer contribution rate, multiplied by earnings, subjected to a real investment return until the point at which an annuity is bought (at a certain rate), providing a stream of income until death; minus employee contributions.

In order to calculate the value of employer-provided pensions, the IFS study uses the Labour Force Survey (LFS) and Annual Survey of Hours and Earnings (ASHE) to extract and link (according to characteristics) information on hourly pay, gender, sector, education group, age, pension coverage, contributions paid by employees and employers, and type of scheme.

For DB schemes, the study uses data on pension tenure, pay growth, accrual rate, lump sum and NPA. The British Household Panel Survey (BHPS)[67] data has pension tenure and scheme information, which was linked to LFS data based on similar individual characteristics of workers. For pay growth, the study uses the average (median) hourly wage growth observed at different ages over the period from 1994 to 2006 in the LFS.

[64] http://www.ifs.org.uk/publications/7396

[65] In this appendix, a positive pay differential (denoted by a +) indicates a differential in favour of the public sector. i.e. public sector remuneration exceeds that in the private sector. A negative (-) figure indicates a differential in favour of the private sector.

[66] A 2 per cent real-terms (after accounting for inflation) discount rate is used.

[67] For years before 2001 the study imputed both pension tenure and type of pension scheme from the 2001 BHPS and for years after 2005 it used 2005 BHPS data.

For DC schemes, the study takes the rate of employee and employer contributions from the ASHE dataset, calculating the average contribution rate observed for a particular group of individuals based on their characteristics (gender, age, sector etc.). An annual investment return is assumed of 2 percentage points above CPI inflation.

'Comparative pension valuation for Review Body Remit Groups', Towers Watson report for the Office of Manpower Economics, 2014[68]

This report provides comparative valuations of pension benefits for 'illustrative' individuals from different Pay Review Body remit groups. Therefore, this study has the advantage of being focused specifically on the SSRB remit groups, in addition to those for other review bodies. However, the focus is intentionally on a small number of illustrative career paths: the report does not attempt to calculate averages across the piece.

Three reference points are used: 2010, 2013 and 2016. The 2010 figures use the Retail Prices Index (RPI) for inflation indexation. The 2013 figures use the Consumer Prices Index (CPI) as the inflation index, and account for increased employee contributions required in DB schemes in 2013 compared to 2010. The 2016 figures again use the CPI, and also take into account pension scheme reforms implemented from April 2015 and changes to contracting out from National Insurance contributions for public sector pension members from 2016.

This study estimates the Net Present Value of the benefits to individuals as the value of benefits arising over workers' whole careers, expressed as a percentage of the value of the individual's total salary over that career, net of employee cost. It shows that pension values vary greatly within and across schemes, depending on factors including the employee's career path, the age of entry, the age of leaving, the age of retirement, pay progression / promotion increases and the length of service.

In order to compare DC schemes to DB schemes, the analysis assumes that the investment return[69] is, on average over a career, the same as the long-term discount rate for valuing defined benefit schemes.

Moreover, as far as possible, the analysis uses the same financial and demographic assumptions for public and private sector pension schemes, in order to identify differences in the absolute value of pension benefits, as opposed to differences relative to income. This extends to the use of the same public sector earnings profiles for both public and private sector pension scheme valuations. The report presents the gross values of benefits, before any tax adjustments.

Some financial assumptions used are: CPI inflation at 2 per cent per annum; a 3 per cent real-terms discount rate; RPI inflation at 1 per cent per annum above CPI; pay increases of 1 per cent above CPI; and promotion and progression pay increases based on current pay scales for the relevant career paths.

The analysis uses three comparator pension schemes: a DB scheme, a DC scheme and a representative mid-level scheme. The latter is a weighted average of the two types of schemes, which moves closer towards a typical DC scheme for the later reference dates, to reflect recent trends away from DB schemes in the private sector.

The analysis takes information for the public and private schemes from Towers Watson surveys, such as the Towers Watson *2013 FTSE100 DC Survey* and the *UK Top Executive Remuneration Survey*.

[68] Towers Watson (2014), *Comparative Pension Valuation for Review Body Remit Groups: Report on results of comparative valuation of pension benefits for illustrative individuals*

[69] Net of expenses and the cost of purchasing annuities

Comparing total reward of top earners

Pay

As discussed in Chapter 2, the top 2 per cent of earners in the public sector are paid less than their private sector counterparts; this remains true also when the data are statistically adjusted to account for differences in individual and job-related characteristics, to make better like-for-like comparisons.

The ONS uses a regression model to make statistical adjustments which enable the influence of separate factors on hourly earnings to be better identified. This, in turn, allows improved like-for-like comparisons to be made between the public and private sectors. The factors can be grouped by:

- individual characteristics such as age and gender;
- job-related characteristics such as sector, occupation, region of employment, job tenure, job status; and
- size of employer.

Table F.1 shows that, in 2015, the unadjusted gross annual pay differential, at the 98th percentile, between the public and private sectors was -22.9 per cent. Accounting for the variables listed above, except for employer size, the hourly pay differential is -11.4 per cent. This arguably understates the size of the gap, because larger organisations, which are more prevalent in the public sector, tend also to pay more. Once a further adjustment for employer size is made, the differential rises to -16.0 per cent. There is no single 'right' figure to use, but the two adjusted estimates of -16.0 per cent and -11.4 per cent are used below.

Table F.1: **Average public sector hourly pay differential (full-time and part-time), as a percentage of private sector pay, at the 98th percentile, 2012-2015**

Variables	2012 (%)	2013 (%)	2014 (%)	2015 (%)
Gross annual pay only (unadjusted)	-23.9	-21.7	-25.0	-22.9
Hourly pay, adjusted for individual and job-related characteristics	-9.9	-10.6	-10.4	-11.4
Hourly pay, adjusted for individual and job-related characteristics and organisation size	-13.9	-15.3	-14.2	-16.0

Source: 'Average difference in hourly pay between public and private sector workers expressed as a percentage of private sector pay for selected percentiles, April 2012 to April 2015, UK', Annual Survey of Hours and Earnings and Monthly Wages and Salaries Survey.

Pensions and total reward: using the IFS analysis

The IFS study suggests that taking pensions into account increased the public sector premium, at the median in 2012, by approximately +12 percentage points. Making heavily simplified assumptions, we can apply the same adjustment to the 98th percentile in 2015. This reduces the adjusted public-private sector differential from -16.0 per cent to approximately -4 per cent, or from -11.4 per cent to around zero.

The above calculation is a crude one. In particular, there are some reasons to believe that an adjustment of +12 per cent may be too large:

- The premium at the median may have fallen since 2012, the year on which the IFS study is based, as public sector pension arrangements have changed. For instance, since 2012 public sector schemes have shifted from final-salary to average-salary schemes, and required contribution rates have risen.
- It is likely that top earners have significantly different pension arrangements to the average: for instance, the IFS figure partly reflects the fact that, in 2012, many private sector workers did not have meaningful pensions. This is likely to be less frequently true for senior public sector workers.

Pensions and total reward: using the Towers Watson analysis

Next we check whether the above conclusion is consistent with the 2014 analysis by Towers Watson. The report considers four relevant categories: the Senior Civil Service; the Judiciary; the Senior Military; and NHS Very Senior Managers.

To illustrate how to interpret the results of this work, Table F.2 shows an example of an individual who joins the Civil Service Fast Stream at age 23, is promoted to Senior Civil Service Pay Band 1 at age 39 and remains at that level until retirement at age 60. In 2016, this individual's pension is worth 16 per cent of pay, relative to a representative mid-level comparator private sector pension worth 13 per cent of pay[70]: a 3 per cent public sector pension premium.

Table F.2: **Pension differential of a Senior Civil Service career path in 2010, 2013, and 2016**

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

Source: Towers Watson (2014) (F1 career path) and OME calculations

The Towers Watson report presented three or four examples of career paths for each workforce group relevant to the SSRB. Table F.3 illustrates existing differences in pension generosity in the public sector compared to the private sector for these career paths.

At the extreme, the individual in the career path I3 of NHS Very Senior Managers is the worst off compared to their private sector counterparts in 2016, whereas the individual in the career path H1 of the Senior Military is the best off. While there may be some common reasons for differences, such as the Senior Military pension scheme continuing to be non-contributory, it is important to recognise that these estimates are highly sensitive to the examples chosen.

In order to calculate total reward differentials, we again use the ONS pay differential figures from table F.2, for years close to the benefit valuation reference years in the Towers Watson analysis. We combine the ONS estimate including an adjustment for organisation size (-16.0 per cent) with the Towers Watson pay differentials for certain occupations, chosen because they represent the largest pension premium in the Towers Watson work (H1 career path in the Senior Military professional group), and the most negative pension premium (I3 career path in the Very Senior Managers professional group). These figures are used because they represent extremes of a very wide range.

[70] The same earnings profiles were used for both public and private sector pay. This was an assumption in the Towers Watson work to allow consistent comparisons of the absolute rather than relative value of pensions.

Table F.3: **Public sector pension differentials for representative members of professional groups in the SSRB remit group**

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

Source: OME calculations based on Towers Watson (2014).

Table F.4: **Potential pay and pension differentials, as a share of pay**

	2013 (ONS) 2013 (TW) (%)	2015 (ONS) 2016 (TW) (%)
(a) Hourly pay differential at 98th percentile, adjusted for individual and job-related characteristics and organisation size	-15.3	-16.0
(b) Highest pensions premium, based on Senior Military H1 career path	32.0	33.0
(a) + (b) 98th percentile highest total reward premium, based on Senior Military H1 career path	**16.7**	**17.0**
(c) Lowest (most negative) pensions premium, based on NHS Very Senior Managers I3 career path	-5.0	-11.0
(a) + (c) 98th percentile most negative pensions premium, based on NHS Very Senior Managers I3 career path	**-20.3**	**-27.0**

Source: OME calculations based on Tables F.2 and F.3, TW=Towers Watson

It is not advised to draw conclusions about individual SSRB remit groups. However, this analysis puts the 'total reward' public sector premium for the SSRB's remit groups in 2016 somewhere between approximately +17.0 per cent and -27.0 per cent. While these represent the extremes of the range, using the majority of estimates in Table F.3 implies a negative total reward premium for public sector workers.

Once again, many simplifying assumptions are required to generate these estimates, on top of the numerous assumptions that were required to complete the Towers Watson analysis itself. For instance:

- We have generalised from a few specific examples of career paths for the SSRB's remit groups in order to provide a single value for the SSRB's professional groups.
- The analysis combines general earnings data for the public sector at the 98th percentile with pension differentials for specific public sector occupations, when the composition of the two groups will not be identical.

- The pay and pensions calculations are also calculated using slightly different denominators (private sector earnings in the former case, and public sector earnings in the latter case).

Concluding remarks and further research

The studies analysed provide good examples of methodologies and approaches that could be used to estimate pay differentials for high earners. However, only very broad and tentative conclusions can presently be drawn from these studies in terms of total reward differentials for employees at the 98th percentile.

Based on the IFS analysis, we conclude that the overall remuneration differential between the public and private sectors, in terms of pay and pensions combined, is likely to fall into the range between 0 and 16 per cent, in favour of the private sector. For example, an overall remuneration premium of 8 per cent, in favour of the private sector, is at the middle of the plausible range.

Using the Towers Watson estimates provides a wider range still of possible outcomes, although it is perhaps reassuring that the narrower IFS-based range falls entirely within the Towers Watson-based one.

Overall, it appears likely that, for many senior public sector workers, accounting for pensions reduces, but does not completely eliminate, the negative public-private sector pay differential. However, further tailored research would be required to produce more definitive estimates.

Appendix G

Take-home pay – full calculations

Example 1 – VSMs

A Chief Executive in an Arm's Length Body paid £155,000 in 2009–10. Pay was unchanged until April 2013 when it increased by 1 per cent and has not changed since. He/she is a member of the NHS pension scheme making a personal contribution of 8.5 per cent in 2009–10, increased in stages to 14.5 per cent in 2015–16.

	2009–10		2015–16	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	155,000		156,550	
Performance Pay				
Total Pay	**155,000**		**156,550**	
Pension Contribution	***13,175***	***£155,000 x 8.5%***	***22,700***	***£156,550 x 14.5%***
Personal Allowance	6,475		0	*the Personal Allowance of £10,600 reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit*
Taxable Pay	135,350	£155,000 – £6,475 – £13,175	133,850	£156,550 – £22,700
Income Tax	***46,660***	***(£37,400 x 20%) + (£97,950 x 40%)***	***47,183***	***(£31,785 x 20%) + (£102,065 x 40%)***
National Insurance	***4,747***	***(£5,715 x 0%) + (£38,160 x 11%) + (£111,125 x 1%) – (£35,100 x 1.6%)***	***5,923***	***(£8,060 x 0%) + (£34,325 x 12%) + (£114,165 x 2%) – (£34,216 x 1.4%)***
Take-home Pay	**90,418**	**£155,000 – £13,175 – £46,660 – £4,747**	**80,744**	**£156,550 – £22,700 – £47,183 – £5,923**

Change in take-home pay between 2009–10 and 2015–16	£	(%)	Calculations (between April 2009 and February 2016)
Nominal	**–£9,674**	(–11%)	
Real (based on RPI)	**–£24,736**	(–27%)	***RPI increased by 22.9%*** *£80,744/1.229 = £65,682*
Real (based on CPI)	**–£20,839**	(–23%)	***CPI increased by 16.0%*** *£80,744/1.160 = £69,579*

Example 2 – SCS

A senior civil servant in pay band 1 was paid £67,000 (placed in the 36th percentile for performance against objectives – i.e. for eligibility for non-consolidated performance-related pay (NCPRP)). Pay was then frozen for three years and increased by 1 per cent in each year since 2013–14. In 2015-16 NCPRP was only available to the best performing 25 per cent and so he/she is no longer eligible. He/she is a member of the Principal Civil Service Pension Scheme making personal contributions of 1.5 per cent in 2009–10, increased in stages to 7.35 per cent in 2015–16.

	2009–10		2015–16	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	67,000		69,030	
Performance Pay	6,080		0	
Total Pay	**73,080**		**69,030**	
Pension Contribution	***1,005***	***£67,000 x 1.5%***	***5,074***	***£69,030 x 7.35%***
Personal Allowance	6,475		10,600	
Taxable Pay	65,600	£73,080 – £6,475 - £1,005	53,356	£69,030 – £10,600 – £5,074
Income Tax	***18,760***	***(£37,400 x 20%) + (£28,200 x 40%)***	***14,986***	***(£31,785 x 20%) + (£21,571 x 40%)***
National Insurance	*3,928*	*(£5,715 x 0%) + (£38,160 x 11%) + (£29,205 x 1%) – (£35,100 x 1.6%)*	*4,173*	*(£8,060 x 0%) + (£34,325 x 12%) + (£26,645 x 2%) – (£34,216 x 1.4%)*
Take-home Pay	**49,387**	**£73,080 – £1,005 – £18,760 – £3,928**	**44,798**	**£69,030 – £5,074 – £14,986 – £4,173**

Change in take-home pay between 2009–10 and 2015–16	£	(%)	Calculations (between April 2009 and February 2016)
Nominal	**–£4,589**	**(–9%)**	
Real (based on RPI)	**–£12,946**	**(–26%)**	***RPI increased by 22.9%*** *£44,798/1.229 = £36,441*
Real (based on CPI)	**–£10,783**	**(–22%)**	***CPI increased by 16.0%*** *£44,798/1.160 = £38,603*

Example 3 – Judiciary (Circuit Judge Salary Group 6.1)

He/she was paid £128,296 in 2009–10. Pay was then frozen for three years and increased by 1 per cent in each year since 2013-14. He/she is a member of the Judicial Pension Scheme (JPS) making contributions of 1.8 per cent in 2009–10, increased to 4.41 per cent in 2015–16. As the JPS is a non-registered scheme, members do not qualify for tax relief on their contributions.

	2009–10		2015–16	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	128,296		132,184	
Performance Pay				
Total Pay	**128,296**		**132,184**	
Pension Contribution	***2,309***	***£128,296 x 1.8%***	***5,829***	***£132,184 x 4.41%***
Personal Allowance	6,475		0	*the Personal Allowance of £10,600 reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit*
Taxable Pay	121,821	£128,296 – £6,475	132,184	
Income Tax	***41,248***	***(£37,400 x 20%) + (£84,421 x 40%)***	***46,517***	***(£31,785 x 20%) + (£100,399 x 40%)***
National Insurance	***4,480***	***(£5,715 x 0%) + (£38,160 x 11%) + (£84,421 x 1%) – (£35,100 x 1.6%)***	***5,436***	***(£8,060 x 0%) + (£34,325 x 12%) + (£89,799 x 2%) – (£34,216 x 1.4%)***
Take-home Pay	**80,258**	**£128,296 – £2,309 – £41,248 – £4,480**	**74,402**	**£132,184 – £5,829 – £46,517 – £5,436**

Change in take-home pay between 2009–10 and 2015–16	£	(%)	Calculations (between April 2009 and February 2016)
Nominal	**–£5,856**	(–7%)	
Real (based on RPI)	**–£19,735**	(–25%)	***RPI increased by 22.9%*** *£74,402/1.229 = £60,523*
Real (based on CPI)	**–£16,144**	(–20%)	***CPI increased by 16.0%*** *£74,402/1.160 = £64,114*

Example 4 – Senior Military

A 2-star on the 2nd point on the scale in 2009–10, paid £105,400. Although the pay scale was then frozen for three years and increased by 1 per cent in each year since 2013–14, he continued to benefit from incremental progression each year until 2014–15 when he reached the top of the pay scale. He is a member of the Armed Forces Pension Scheme which is a non-contributory scheme.

	2009–10		2015–16	
Gross Income	**£**	**Calculations**	**£**	**Calculations**
Base Pay	105,400		122,914	(assumes an annual increment from April each year until 2014-15)
Performance Pay				
Total Pay	**105,400**		**122,914**	
Pension Contribution	***0***		***0***	
Personal Allowance	6,475		0	*the Personal Allowance of £10,600 reduces where income is above £100,000 – by £1 for every £2 of income above the £100,000 limit*
Taxable Pay	98,925	£105,400 – £6,475	122,914	
Income Tax	***32,090***	***(£37,400 x 20%) + (£61,525 x 40%)***	***42,809***	***(£31,785 x 20%) + (£91,129 x 40%)***
National Insurance	***4,251***	***(£5,715 x 0%) + (£38,160 x 11%) + (£61,525 x 1%) – (£35,100 x 1.6%)***	***5,251***	***(£8,060 x 0%) + (£34,325 x 12%) + (£80,529 x 2%) – (£34,216 x 1.4%)***
Take-home Pay	**69,059**	**£105,400 – £32,090 – £4,251**	**74,855**	**£122,914 – £42,809 – £5,251**

Change in take-home pay between 2009–10 and 2015–16	£	(%)	Calculations (between April 2009 and February 2016)
Nominal	**+£5,796**	**(+8%)**	
Real (based on RPI)	**–£8,167**	**(–12%)**	***RPI increased by 22.9%*** *£74,855/1.229 = £60,892*
Real (based on CPI)	**–£4,555**	**(–7%)**	***CPI increased by 16.0%*** *£74,855/1.160 = £64,504*

Appendix H

Existing salaries for the SSRB remit groups

Salary bandings of Permanent Secretary posts, September 2015

Pay band	Pay range (£000s)
Roles (£190,000 – £235,000)	Chief Executive of the Civil Service (230-235) Head of the Civil Service (195-200)
Tier 1 roles (£180,000 – £200,000)	HM Treasury (185-190) HM Revenue and Customs (185-190) Ministry of Defence (185-190) Foreign and Commonwealth Office (180-185) Department for Work and Pensions (180-185) Ministry of Justice (180-185) Home Office (180-185) National Security Advisor (160-165)
Tier 2 roles (£160,000 – £180,000)	Department for Transport (170-175) Department for Energy and Climate Change (165-170) Security Service (165-170) Scottish Government (160-165) Welsh Government (160-165) Secret Intelligence Service (160-165) Department for Communities and Local Government (160-165) Department for Business, Innovation and Skills (160-165) Department for the Environment, Food and Rural Affairs (160-165) European and Global Issues Adviser (160-165) Department for Education (160-165) Department for International Development (160-165) Department of Health (160-165) Government Communications Head Quarters (160-165) Treasury Solicitor (160-165) First Parliamentary Counsel (vacant)
Tier 3 roles (£142,000 – £160,000)	HM Treasury 2nd Permanent Secretary (160-165) Northern Ireland Office (155-160) Department for Culture, Media and Sport (150-155) HM Treasury 2nd Permanent Secretary Tax (150-155) Office for National Statistics (150-155) Chair of Joint Intelligence Committee (145-150)
Specialist roles (may attract skills or market premium)	Chief Executive Defence Equipment & Support (285-290) Chief Defence Materiel (220-225) Chief Medical Officer (205-210) Director for Public Prosecutions (200-205) Government Chief Scientific Adviser (175-180)

Senior civil servants in pay bands, median salaries and pay ranges, 2015

Pay band	Pay range (£)	Median salary (£)	Number in band
Permanent Secretaries	142,000 – 200,000	160,000 – 164,999	35
3	105,000 – 208,100	132,600	151
2	86,000 – 162,500	96,000	739
1A	67,600 – 128,900	78,500	99
1	63,000 – 117,800	74,800	2,870
Total		78,800	3,894

Note: the above total of SCS members is lower than the total staff currently in post (3,977). The difference consists of SCS members in non-standard pay bands and with non-standard contracts, e.g. those paid at NHS rates.
Source: Cabinet Office

Senior officers of the Armed Forces

	Value of scale points (from 1 April 2015)			
Scale point	CDS (£)	4-star (£)	3-star[2] (£)	2-star[2] (£)
6		190,795	157,355	122,914
5		187,054	152,845	120,555
4	260,355	183,386	148,468	118,241
3	255,250	178,914	142,856	115,972
2	250,245	174,549	136,174	113,747
1 (Minimum)	245,338	170,292	129,811	111,567
Numbers in post[1]	1	6	30	91

[1] Numbers in post supplied by the MoD, and relate to numbers in post as of 1 July 2015.
[2] This includes X-Factor which is applied at the rate of £2,543, this sum being equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale from 1 April 2015.
Source: Ministry of Defence

Police and Crime Commissioners (PCCs)

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

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

Members of the judiciary

Salary group	Salary from 1 April 2015 (£)	Number in post on 31 March 2015
1	247,112	1
1.1	220,655	4
2	213,125	16
3	202,668	51
4	177,988	136
5	142,745	99
6.1	132,184	808
6.2	124,445	32
7	106,040	1,037
Salaried medical members	84,260	7
Stipendiary magistrates	72,701	3
Total		2,194

Sources: Ministry of Justice and Scottish Government.

The 2012 VSM pay framework – salary bands for the organisations' chief executives 1 April 2015

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

Source: Department of Health

The 2006 VSM pay framework
Pay for VSMs in Special Health Authorities (SpHAs) 2015-16

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

Pay for VSMs in Ambulance Trusts (ATs) 2015-16

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

Source: Department of Health

Appendix J

NATO rank codes and UK service ranks – officers

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

Source: Ministry of Defence

[1] These officers belong to our remit group.

Appendix K

Judicial salary structure at 1 April 2015[71]

Group 1

Lord Chief Justice

Group 1.1

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

Group 2

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

Group 3

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

Group 4

High Court Judges[72]
High Court Judges (Northern Ireland)[73]
Outer House Judges of the Court of Session
Vice-Chancellor of the County Palatine of Lancaster[74]

Group 5

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

[71] Alphabetical order within salary group.

[72] Includes the posts of President, Employment Appeal Tribunal and the Presidents of the Upper Tribunal (Tax and Chancery Chamber, Administrative Appeals Chamber and Lands Chamber) who are High Court Judges.

[73] High Court Judges in Northern Ireland are also known as Puisne Judges. Includes the post of President of the Upper Tribunal (Immigration and Asylum Chamber), who is a High Court Judge in Northern Ireland.

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

Recorder of Belfast[75]
Recorder of Liverpool
Recorder of Manchester
Senior Circuit Judges
Senior District Judge (Chief Magistrate)
Sheriffs Principal
Specialist Circuit Judges, Chancery, Mercantile, Patents & Technology & Construction Court
Vice Presidents of the Upper Tribunal (Immigration and Asylum Chamber) (former Deputy Presidents, Asylum and Immigration Tribunal)

Group 6.1

Chamber President of First-Tier Tribunal (War Pensions and Armed Forces Compensation Chamber) (former President, Charity Tribunal)
Chief Bankruptcy Registrar
Chief Chancery Master
Circuit Judges
County Court Judges (Northern Ireland)[76]
Deputy Chamber Presidents (Health, Education & Social Care Chamber)
President, Appeals Tribunal (Northern Ireland)
President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
President, Lands Tribunal (Northern Ireland)[77]
Regional Employment Judges (formerly Regional Chairmen, Employment Tribunal)
Registrar of Criminal Appeals
Senior Costs Judge
Senior District Judge, Principal Registry of the Family Division
Senior Judge of the Court of Protection
Sheriffs
Social Security and Child Support Commissioner (Northern Ireland)
Upper Tribunal Judges (Administrative Appeals Chamber, Immigration and Asylum Chamber[78], Lands Chamber and Tax and Chancery Chamber)
Vice-President, Employment Tribunal (Scotland)

Group 6.2

Chairman, Mental Health Review Tribunal (Wales)[79]
Deputy Senior District Judge (Magistrates' Courts)
Principal Judge, First-tier Tribunal (Property Chamber)
Surveyor Members, Lands Tribunal (Northern Ireland)
Surveyor Members, Lands Tribunal (Scotland)
Surveyor Members, Upper Tribunal (Lands)
Vice-Judge Advocate General
Vice-President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)

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

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

[77] This role is currently carried out by a High Court Judge.

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

[79] The Welsh Assembly Government is responsible for the Chairman of the Mental Health Review Tribunal (Wales) post

Group 7[80]

Assistant Judge Advocates General
Chairmen, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
Chief Medical Member, First-tier Tribunal, Social Entitlement Chamber and Health, Education & Social Care Chamber
Coroners (Northern Ireland)
Costs Judges
District Judges
District Judges of the Principal Registry of the Family Division
District Judges (Northern Ireland)
District Judges (Magistrates' Courts)
District Judges (Magistrates' Courts) (Northern Ireland)
Employment Judges (England and Wales and Scotland)
Judges of the First-tier Tribunal (Health, Education & Social Care Chamber, Immigration and Asylum Chamber[81], Property Chamber, Social Entitlement Chamber, Tax Chamber and War Pensions and Armed Forces Compensation Chamber)
Masters and Registrars of the Senior Courts
Masters of the Supreme Court (Northern Ireland)
Presiding District Judge (Magistrates' Courts) (Northern Ireland)[82]

Other

Salaried Medical Members, Social Entitlement Chamber[83]

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

[81] These judges are also called Immigration Judges.

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

[83] This post is paid £84,260.

Appendix L

Glossary of terms and abbreviations

General

Accrual rate	The rate at which future benefits in a defined benefit pension scheme accumulate
Base pay	Basic salary, excluding non-consolidated bonuses, allowances, value of pensions, etc
CSR	Comprehensive Spending Review
CIPD	Chartered Institute of Personnel and Development
CPI	Consumer Prices Index
GDP	Gross Domestic Product
Office for Budget Responsibility	Created in 2010 to provide independent and authoritative analysis of the UK's public finances
ONS	Office for National Statistics
Pay Band	A salary range with a minimum and maximum within which posts are allocated
RPI	Retail Prices Index
SSRB	Senior Salaries Review Body
Take-home pay	Basic salary and any performance-related pay less income tax, National Insurance and, where appropriate, pension contributions

Senior civil service

Civil Service Commission	Oversees appointments to senior positions within the SCS to ensure fair and open competition for jobs.
MHRA	Medicines and Healthcare products Regulatory Agency
SCS	Senior civil service/servants

Senior officers in the armed forces

AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
CDS	The Chief of the Defence Staff
MoD	Ministry of Defence
MODOs	Medical and dental officers
X-Factor	The X-Factor is an addition to military pay that recognises the special conditions of service experienced by members of the armed forces compared with civilian employment

The judiciary

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

NHS Very Senior Managers

DH	Department of Health
MiP	Managers in Partnership
SpHA	Special Health Authority
VSMs	Very Senior Managers

Police and Crime Commissioners

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

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