



Review Body on
Senior Salaries

Thirty-Ninth Annual Report on Senior Salaries 2017

REPORT No. 87

Chair: Dr Martin Read, CBE

Executive Summary

Review Body on Senior Salaries

Summary

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

Box 1: Strategic priorities

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

Chapter 1

Report overview and recommendations

Introduction

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

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

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

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

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

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

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

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

The SSRB's strategic approach

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

Total reward

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

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

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

Pay and workforce strategy

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

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

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

Focus on outcomes

22. Our terms of reference say we may make recommendations, as we see fit, to ensure that the remuneration of our remit groups encourages efficiency and effectiveness. We feel strongly that there should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. Where departments can deliver the required, or better, standard of public service with a smaller workforce, serious consideration should be given to allowing flexibility to reallocate some savings to average pay increases above 1 per cent.

23. We were disappointed to receive no specific proposals or plans on this issue this year. As highlighted earlier in this chapter, **we encourage departments to consider the scope for taking innovative action over pay to improve the efficiency and effectiveness of the public services they deliver.** This could be done through piloting innovative approaches to pay in certain areas, where appropriate cost controls can be put in place, such as in parts of the civil service.

Action on poor performance

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

Performance management and pay

25. Our terms of reference ask us to make recommendations that relate reward to performance where appropriate. Last year, we said that a renewed focus on staff and career management is required, particularly in respect of performance management and career development. There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.

26. In the private sector, there has been increased emphasis on performance pay systems in recent years, as shown in Box 1.2. In contrast, only two of our remit groups (the Senior Civil Service (SCS) and Executive and Senior Managers (ESMs) in the Department of Health's Arm's Length Bodies) have meaningful performance pay systems. Even in these cases, the systems are not trusted by staff and/or are under-used by management. **Whether current pay models sufficiently incentivise good performance should be a matter of active review.**

Box 1.2: Research into Modern Pay Systems (PWC, 2016)⁴

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

Better data

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

Feeder groups

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

Targeting

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

¹ PWC (2016), Research into Modern Pay Systems: Office of Manpower Economics. <https://www.gov.uk/government/publications/research-on-modern-pay-systems-november-2016>

33. The letter from the Chief Secretary to the Treasury of 13 July 2016 said, 'As I set out to you in my letter last year, I expect to see targeted pay awards, in order to support the continued delivery of public services, and to address recruitment and retention pressures. This may mean that some workers could receive more than 1 per cent whilst others receive less, and there should be no expectation that every worker will receive a 1 per cent pay award. I am aware that this requires you to receive good, evidence-based propositions to consider.'
34. It is, therefore, surprising that not a single department proposed a specific targeted pay award to us this year. Some proposed flat across-the-board increases and others wished to delegate targeting decisions to individual employing bodies.
35. In the context of a 1 per cent pay policy, targeting pay awards is more challenging because the total amount of money available to target is relatively small. Nevertheless, **we strongly encourage well-supported proposals for targeted pay increases next year.** Where proposals are made to delegate decisions to subsidiary or sub-national levels, there should be evidence that the merits and demerits of this approach have been fully considered.
36. Recently, the OME published a report on pay targeting in the public sector², which it is hoped will be of assistance to departments and other parties in developing future proposals. Further details are provided in Box 1.3.

Central versus devolved tensions

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

² Office of Manpower Economics (2016), Targeted Pay Increases in the Public Sector: Theory and Practice. <https://www.gov.uk/government/publications/targeted-pay-increases-in-the-public-sector-theory-and-practice>

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

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

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

Diversity

39. The senior workforces within our remit groups need to reflect better the society they serve and the broader workforces for which they are responsible. For most of the SSRB's remit groups, the gender split is more, but not adequately, representative of society than the ethnic diversity breakdown. Data on other diversity aspects, such as disability, sexuality or social background, is generally lacking for our remit groups³.
40. The SSRB's terms of reference permit us to make recommendations, as we see fit, to ensure that the remuneration of those covered by the remit is consistent with the government's equal opportunities policy. In at least some of the workforce groups within our remit, such as the SCS and ESMs, average pay for women is less than that for men. Employers should be analysing the gender pay gap and ensuring they understand what factors are driving it so that any necessary corrective action can be taken to eliminate it.

³ In 2011 the percentage of the England and Wales population that was non-white was 14.0 per cent. <https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/ethnicity/articles/ethnicityandnationalidentityinenglandandwales/2012-12-11>. The government estimates that 17 per cent of working age adults have a limiting long term illness, impairment or disability. However, this includes people not currently in paid work. <https://www.gov.uk/government/statistics/family-resources-survey-financial-year-201415>

Individual remit groups

The Senior Civil Service

41. In previous SSRB reports, we have highlighted what we consider to be serious flaws in the current SCS pay system. We recognise that they cannot be resolved quickly, but believe the pace of reform to date has been much too slow.
42. The flaws include:
- the pay of members of the remit group being effectively frozen at a particular point on the pay scale, regardless of skills, experience or performance;
 - significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below;
 - a lack of confidence in the performance management system; and
 - a resulting disconnect between pay on the one hand and seniority, performance and contribution on the other. This cannot represent efficient or effective use of the pay budget.
43. The recruitment and retention data for the remit and feeder groups do not suggest that there is an immediate need for pay awards greater than 1 per cent in most SCS roles. However, we do not believe the lack of existing recruitment and retention problems should be grounds for complacency. Our conversations this year with members of the remit group emphasised to us their widespread and very deep lack of confidence in the pay system, regardless of whether they thought their own pay or that of their peers was reasonable. We are concerned about the demotivating effect that this might have and about how this may start to impact on staff effectiveness within the SCS remit group and its feeder groups.
44. Our remit requires us to advise on the pay of the SCS as a single cadre. However, we have become increasingly conscious of tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. Moreover, such decentralisation makes it harder for the SSRB to play an effective role when its advice is sought from, and provided to, a single central point in government.
45. For the current year, we believe that a 1 per cent increase in pay budgets for this group is justified, in accordance with Recommendation 2 which follows paragraph 1.11. However, our most important recommendation for the SCS this year is that there needs to be a formal review of the pay system. We are very willing to assist in such an exercise. We firmly believe we can add more value through advising on a full overhaul of the current system rather than tinkering with the annual distribution of a largely delegated 1 per cent of paybill. We hope that any review would take account of the overarching strategic conclusions that we published in our last report and which we reiterate in this report. In particular, we believe the focus should shift towards seeking to maximise overall outcomes for lowest cost, rather than on limiting basic pay increases across the board.

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

Senior Officers in the Armed Forces

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

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

- **2-star MODOs should continue to be paid 10 per cent above the base pay at the top of the MODO 1-star scale, plus X-Factor⁷.**
- **3-star MODOs should continue to be paid 5 per cent above 2-star MODO base pay, plus X-Factor.**

The Judiciary

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

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

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

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

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

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

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

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

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

Looking ahead

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

Table 1.1: Assessment of position for remit groups¹ against the SSRB's strategic priorities²

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

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

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

Notes:

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

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 NHS⁵; police and crime commissioners, chief police officers in England, Wales and Northern Ireland; and other such public appointments as may from time to time be specified.

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

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

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

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

- *differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;*
- *changes in national pay systems, including flexibility and the reward of success; and job weight in differentiating the remuneration of particular posts;*

⁵ NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers. The SSRB's remit group is now called Executive and Senior Managers (ESMs) in the Department of Health's Arm's Length Bodies.

- *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 Lebrecht⁶
John Steele⁷
Dr Peter Westaway
Sharon Witherspoon

The Secretariat is provided by the Office of Manpower Economics.

⁶ Ex Officio: Chair Police Remuneration Review Body.

⁷ Ex Officio: Chair Armed Forces' Pay Review Body.