Review Body on
Senior Salaries

Forty-First Annual Report on Senior Salaries 2019

REPORT No. 91

Chair: Dr Martin Read, CBE

CP 138

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

July 2019

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This publication is available at www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at The Office of Manpower Economics, 8th Floor, Fleetbank House, 2-6 Salisbury Square, London EC4Y 8JX.

Print ISBN 978-1-5286-1361-3

CCS0519265476 07/19

Printed on paper containing 75% recycled fibre content minimum.

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

Review Body on Senior Salaries

Terms of Reference

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

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

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

Our terms of reference are now as follows:

The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Home Secretary, the Secretary of State for Defence, the Secretary of State for Health and the Minister of Justice for Northern Ireland on the remuneration of holders of judicial office; senior civil servants; senior officers of the Armed Forces; Very Senior Managers in the NHS;[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; and*
- *the government's inflation target.*

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

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

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

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

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

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

Members of the Review Body are:

Dr Martin Read CBE, *Chair*
Sir Adrian Johns KCB CBE DL
Pippa Lambert
Peter Maddison QPM[2]
Dr Peter Westaway
Sharon Witherspoon MBE

The secretariat is provided by the Office of Manpower Economics.

[2] Ex Officio: Chair, Armed Forces' Pay Review Body.

Contents

Summary

1. This year, our Report focuses on just two of the six remit groups specified within our terms of reference, namely the senior civil service (SCS) and the senior military.

2. In respect of our other remit groups:

   - For a second year, Executive and Senior Managers in the NHS remain temporarily removed from the SSRB's remit. This is at our request, as we consider that the current composition of this remit group needs to be reviewed. A government decision is awaited.
   - Also for a second year, we have been instructed by the government not to review the pay of chief police officers, notwithstanding the fact that legislation places them within the SSRB's remit. We continue to believe it is sensible for chief police officer pay to be considered separately from other officers and that the government should seek our advice next year.
   - Following our review last year of police and crime commissioners' (PCC's) pay, we were not asked to conduct an annual review for this group this year.
   - At the time of writing, the government has not yet responded to our Major Review of the Judicial Salary Structure and we have not been asked to consider a pay award for this remit group this year.

3. Compared to many private sector equivalents, the pension constitutes a more important element of the remuneration package for all our remit groups. It is outside our terms of reference to make recommendations on taxation or pension policy. However, where this affects the recruitment, retention and motivation of public sector workers, it is a matter of concern to us.

4. Over the last three years, we have looked in detail at the effect of pension taxation on the remuneration of our remit groups and have highlighted its negative impact in successive Reports.[3] This year, we have carried out detailed modelling of the changes in take-home pay and total net remuneration over the last decade for representative roles in our remit groups.[4] We consider that total net remuneration is the most comprehensive, and therefore the most appropriate, measure of remuneration because it takes account of both taxation and pension contributions, as well as pension benefits accrued in the year. Our analysis reinforces the seriousness of the pension issue for all our remit groups.

5. Based on our review this year of the SCS and the senior military, we make the following broad observations:

   - There are generally enough candidates to fill senior roles and there are no widespread or immediate recruitment difficulties. However, our analysis reiterates that members of these two remit groups have seen a reduction in total net remuneration over the last decade, mainly due to the changes to the pension tax regime. This could well be detrimental to future retention and recruitment. It is certainly already affecting morale. It is quite possible that retention and recruitment

[3] 39th Annual Report on Senior Salaries 2017 (Chapter 2). See: www.gov.uk/government/publications/senior-salaries-review-body-report-2017; 40th Annual Report on Senior Salaries 2018 (Appendix G). See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf; and Supplement to the 40th Annual Report on Senior Salaries 2018. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf

[4] See: Appendix A. Take-home pay is defined as annual gross pay (base pay plus any allowance) less employee national insurance contributions, income tax, employee pension contributions and any pension annual allowance tax charge. Total net remuneration adds on the pension benefits received in the year.

could deteriorate quickly and that remedial action could then prove both urgent and expensive. We therefore believe it is important for the government to consider seriously the options around pension flexibility.

- The members of both remit groups continue to be well-motivated. This reflects their commitment to public service and the challenges and interest of their work. We are, however, seeing more indicators of low morale in both the remit groups and the feeder groups from which they are recruited. While remit group members continue to believe that their jobs are important and worthwhile, many are becoming frustrated. They have high workloads and there is some evidence that, after 10 years of below-inflation pay rises, many feel undervalued by the government.
- We continue to stress the need for the government to take a more strategic approach. We believe that annual pay settlements need to be considered by employers in the context of their long-term objectives, their future operating model, and the reward and workforce strategies needed to support them. There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. While there have been steps in the right direction, progress in taking a more strategic approach, as assessed against our strategic priorities, has remained disappointing.[5]
- We are pleased at the improving robustness and quality of the data that we receive. Better data is crucial to enable the SSRB to offer sound advice on targeting limited resources to maximise outcomes and to provide early warning of problem areas and risks.

The senior civil service

6. It has been useful to see the emerging plans for the development of a new SCS framework. However, we still feel there is a shortage of concrete proposals for reform. We would like to see greater pace and more commitment to a timetable for implementing change. We are additionally concerned that the current proposals may result in an over-complicated system that will create new problems and lead to further demoralisation of the workforce. We believe that the biggest current problem remains the lack of any form of pay progression in the SCS. We therefore recommend that the government develops and invests in a credible, robust and simple pay progression system for the SCS as a priority.

Senior Officers in the Armed Forces

7. We acknowledge the increasingly difficult environment in which members of the senior military work. We also note their perception that the rewards from a career in the military are steadily declining in relation to equivalent roles in the civilian sector. We continue to highlight the increasing impact of pension taxation changes and their potential to affect individuals' decisions to remain in the military or accept promotion. Recruitment to the senior military is exclusively by progression from the feeder group. External recruitment is not an option. Significant rises in outflow rates would inflict considerable and long-lasting damage. The monitoring of recruitment and retention, in relation to both the numbers and the quality of personnel, together with long-term workforce planning, is therefore vital. This applies to the feeder group as well as to the remit group itself. For this reason, we welcome the Ministry of Defence's commitment to improve its evidence base on why members of the remit group and feeder group choose to leave the Armed Forces.

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[5] Our strategic priorities were first highlighted in our 2016 Report. These are set out in box 1.1. This is the third year remit groups have been assessed against them.

The judiciary

8. We have previously noted that the SSRB can add significant value by undertaking periodic, detailed reviews of reward structures. We were therefore encouraged by the government's request to carry out a Major Review of the Judicial Salary Structure. We submitted our Report in September 2018. Four successive Lord Chancellors have assured us that the government would consider our recommendations seriously and in a timely fashion. However, at the time of writing, the government has yet to respond.

Executive and Senior Managers in the NHS

9. We await the outcome of the government's review of whether to expand the SSRB's remit to advise on all senior managers working across the NHS, which we would welcome.

Summary of recommendations

Chapter 2: Pensions and total net remuneration

Recommendation 1: We again recommend that pension flexibility should be examined as a matter of urgency with the aim of reducing the perverse incentives[6] that senior public sector employees may be facing.

Chapter 4: The senior civil service

Recommendation 2: We recommend an increase to the SCS paybill of 2.2 per cent, which should be allocated in accordance with the recommendations and priorities set out below:[7]

- Priority 1: To address the lack of pay progression and anomalies.
- Priority 2: To increase the pay band minima.
- Priority 3: To provide a pay increase to all those not benefitting from the increase to the minima.
- Priority 4: To help fund specialist pay.

Recommendation 3 (Priority 1): We recommend that 0.9 per cent of the paybill should be allocated to address pay progression and anomalies. This should be distributed to SCS members dependent on:

- Demonstration of sustained high performance, increased effectiveness and deepened expertise.
- Their position in the pay range.

This allocation to address pay progression and anomalies should be ring-fenced.

Recommendation 4: The Cabinet Office should provide evidence to demonstrate, in accordance with Recommendation 3, that the application of the award has resulted in higher awards to those:

- who demonstrated evidence of sustained high performance, increased effectiveness and deepened expertise; and
- who were relatively low in the pay range.

Recommendation 5 (Priority 2): We recommend that 0.2 per cent of the paybill should be used to increase the pay band minima from April 2019 to the following levels:

- Pay band 1: £70,000 (currently £68,000)
- Pay band 2: £92,000 (currently £90,500)
- Pay band 3: £115,000 (currently £111,500)

[6] Employees may face incentives to work shorter hours, decline promotion or retire early.

[7] Those SCS members who are currently subject to performance improvement measures should not receive any increase in pay. Therefore, the recommendations should not be applied to these staff until they have exited such measures.

Recommendation 6: We recommend that the pay band maxima should be reduced from April 2019 to the following levels:

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

Recommendation 7 (Priority 3): We recommend that all eligible SCS members not benefitting from the increase to the minima should receive a 1 per cent pay award. Those SCS members who benefit by less than 1 per cent from the minima increase, should receive an additional consolidated pay award to total 1 per cent.[8]

Recommendation 8 (Priority 4): We recommend that 0.2 per cent of the paybill should be allocated to help fund specialist pay, with the proviso that there is strong central control and consistency in how departments use these funds. If not all of the allocation is needed, it should be used in support of Recommendation 3.

Recommendation 9: We recommend that the government should develop and invest in a credible, robust and simple pay progression system as a priority in 2019-20, for implementation in 2020-21.

Chapter 5: Senior Officers in the Armed Forces

Recommendation 10: We recommend that all members of the senior military, including Medical Officers and Dental Officers (MODOs), should receive a 2.2 per cent consolidated increase to base pay.

Recommendation 11: We recommend that the minimum guaranteed increase to base pay (excluding X-Factor) on promotion from 1-star to 2-star does not fall below 10 per cent.

Recommendation 12: We recommend no change to the current pay arrangements for 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.

[8] We estimate this would represent an increase of 0.9 per cent to the paybill as it would not apply to everyone.

Box 1.1: **Strategic priorities**

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

Chapter 1

Report overview

Context

1.1 In recent years, we have encouraged the sponsoring departments of our remit groups to take a more strategic approach to their pay and workforce strategies. We believe that annual pay settlements need to be considered by employers in the context of long-term objectives, their future operating model, and the reward and workforce strategies needed to support them. There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. Our strategic priorities were first set out in our 2016 Report. This is the third year we have assessed our remit groups against them. While there have been steps in the right direction, overall progress has been disappointing. We return to this issue in paragraph 1.17 below.

1.2 Following the financial crisis, many private sector workers as well as public sector groups experienced zero or low pay rises, redundancy or job insecurity. However, there has been a recent increase in private sector earnings, with median annual pay settlements at 2.5 per cent in both 2018 and 2019 across the private sector. Last year, median public sector pay settlements amounted to 2 per cent.

1.3 Pensions constitute a significant and important element of the remuneration packages of public sector workers. Although still relatively generous, public sector pensions have become less valuable in recent years. This is due to a combination of the 2015 public sector pension amendments and changes to pension taxation, which have particularly affected senior employees in both the private and public sectors.

1.4 For a number of years, our remit groups, in common with other public sector workers, experienced a 1 per cent cap on pay increases. In 2018, the government announced its intention to move away from that cap. However, government departments did not provide specific pay proposals for our remit groups. We therefore made our 2018 recommendations based on the evidence we received: 2.5 per cent for the senior civil service (SCS), senior military and judiciary,[9] and increases of £5,000 for the bottom four police and crime commissioner (PCC) pay levels.[10] None of these evidence-based pay recommendations was accepted in full, with the government awarding pay awards of between 1.5 to 2 per cent to our remit groups. We have not been given clear reasons for the rationale behind these decisions. Furthermore, our recommendation for the SCS emphasised the need to target a significant part of the pay award to address anomalies in the system. This element of the pay award was reduced, thereby markedly diminishing its effect.

1.5 We completed our Major Review of the Judicial Salary Structure in September 2018. At the time of writing, the government has yet to respond.

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[9] We proposed that all our pay recommendations from the Major Review of the Judicial Salary Structure ran with effect from April 2018. However, the government asked us to make a holding recommendation for a judicial annual pay increase for 2018-19 that could be announced and implemented in advance of the government's response to the full Report. The recommendation for the judiciary was contained in a letter from the Chair of the SSRB to the Prime Minister dated 28 September 2018. See: https://www.gov.uk/government/publications/major-review-of-the-judicial-salary-structure-2018

[10] In 2018, we were not asked to make recommendations for chief police officers or Executive and Senior Managers in the NHS. The evidence we considered and the rationale for our recommendations are set out in full in our last Report, 40th Annual Report on Senior Salaries 2018. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740064/Fortieth_Annual_Report_on_Senior_Salaries_2018.pdf

General themes

1.6 For the reasons noted in the summary, our Report this year focuses on just two of the six remit groups specified within our terms or reference: the SCS and the senior military. We make the following observations based on our consideration of these two groups.

Affordability

1.7 In November 2018, the Chancellor of the Duchy of Lancaster wrote to the Chair of the SSRB to confirm the SSRB's remit in relation to the SCS for 2019-20.[11] The letter set out the government's need to balance fair pay for public sector workers with protecting funding for frontline services and ensuring affordability for taxpayers. Although we did not receive a remit letter for the senior military, we understand that this request was common across all pay review bodies and remit groups.

1.8 It has been normal practice for sponsoring departments to set out the budget they have for paybill increases and to provide us with their own thoughts on pay awards. This year, they have asked us to bear in mind 'affordability' as a general principle. As required by our terms of reference, we already do so. However, to calibrate our recommendations to our own assessment of affordability does not seem possible or sensible to us. It would require us taking a view about overall spending levels and making a number of 'political' decisions about competing priorities. We would prefer departments, on behalf of the government as a whole, to set out what they think is affordable in the round and over time, not just what is allocated in a single year's pay budget. This should lead to pay proposals from departments that are fully evidence-based and against which we can assess the data we receive on recruitment, retention, motivation and morale.

1.9 In the proposals we received, there was scant evidence on affordability and very little in the way of pay proposals. The Cabinet Office provided us with an indication of the funds that departments could afford above the 1 per cent budgeted in the last Spending Review. However, at the time of writing, we have not been provided with a pay proposal for the SCS. The Ministry of Defence (MoD) did not provide any information on affordability or a pay proposal.

1.10 In both cases, the SSRB was asked to consider compatibility with what was recommended or negotiated for the rest of the military and the civil service.[12] We are of course mindful, to the extent that we are aware of them, of awards in other parts of the public sector. However, we do not believe that simply following pay awards given elsewhere can be consistent with our duty to consider all the evidence put before us about our remit groups. Our focus is necessarily on what is required to recruit and retain enough senior leaders of suitable quality.

1.11 Our terms of reference include "having regard to government policies for improving the public service and the requirement on departments to meet the output targets for the delivery of public services". We believe that the government should consider affordability from a longer-term and wider-business perspective, rather than simply as an annual budgeting matter. Focussing solely on limiting annual pay awards does not lead to the best long-term results, either in terms of the recruitment and retention of high quality staff or in terms of business outcomes.

1.12 We stress that a short-term approach can lead to higher long-term costs. For example, demotivation of staff can result in higher turnover rates, which reduce efficiency and productivity. This was illustrated in the recent report by the Institute for Government

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[11] This letter and the Chair of the SSRB's response are reproduced in Appendices D and E.

[12] The MoD asked that the pay award be "presentationally consistent with, and linked to, the main award". The Cabinet Office asked that the "headline figure for the SCS should not be higher, on average, than that agreed for delegated grades through the annual pay remit guidance".

(IfG), which explored the effect of excessive internal staff turnover in the civil service, an issue about which the SSRB has previously raised concerns. The IfG estimated this cost to be between £36 million and £74 million each year in terms of recruitment, training and lost productivity.[13] To put this in context, a 2.5 per cent increase to the SCS paybill would cost approximately £13.3 million.

1.13 We would therefore encourage departments to focus on the efficiency and effectiveness of the public services they deliver and produce proposals setting out where innovative action over pay could support this. We consider this is an important aspect of affordability and discuss it in more detail in the individual remit group chapters.

Pensions

1.14 Compared to many private sector equivalents, the pension constitutes a more important element of the remuneration package for our remit groups. Pension changes are of increasing concern to both the SCS and the senior military. These concerns are largely a result of pension taxation policy. Due to the interplay of the annual and lifetime allowances, high marginal tax rates are arising for many in our remit groups. There are now incentives for people to leave service earlier or decline promotion and these are starting to influence individual behaviour. We therefore believe there is a risk that the recruitment and retention position could deteriorate rapidly, particularly in the feeder groups.

1.15 It is beyond our remit to make recommendations on taxation or pension policy. However, where this affects the recruitment, retention and motivation of public sector workers, it is a matter of concern to us. Over the last three years, we have looked in detail at the effect of pension taxation on the remuneration of our remit groups and have highlighted its negative impact in successive Reports.[14] This year, we have carried out detailed modelling of the changes in take-home pay and total net remuneration over the last decade for representative roles.[15] We consider that total net remuneration is the most comprehensive, and therefore the most appropriate, measure of remuneration because it takes account of both taxation and pension contributions, as well as pension benefits accrued in the year.

1.16 Our analysis shows that SSRB remit group members have seen a reduction in total net remuneration due to the changes in the pension tax regime, even before taking into account reductions in the lifetime allowance. In addition, there has been a long period of below-inflation pay rises. This could well be detrimental to future retention and recruitment. It is certainly already affecting morale. The effects are likely to increase as individuals in feeder groups become more aware of the detailed workings of the pension tax regime. As we saw with the judiciary, it is possible that recruitment and retention can deteriorate quickly if behaviour changes in the feeder groups. This looming problem was very much in evidence from the discussions we had in oral evidence this year, as set out in the individual remit group chapters. **We therefore urge the government to consider**

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[13] Moving on: The cost of high turnover in the civil service. See: https://www.instituteforgovernment.org.uk/publications/moving-on-staff-turnover-civil-service

[14] 39th Annual Report on Senior Salaries 2017 (Chapter 2). See: www.gov.uk/government/publications/senior-salaries-review-body-report-2017; 40th Annual Report on Senior Salaries 2018 (Appendix G). See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf; and Supplement to the 40th Annual Report on Senior Salaries 2018. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf

[15] See: Appendix A. Take-home pay is defined as annual gross pay (base pay plus any allowance) less employee national insurance contributions, income tax, employee pension contributions and any annual allowance tax charge. Total net remuneration is calculated as take-home pay plus the value of the additional amount added to the annual pension during the year.

seriously the options around pension flexibility.[16] We set out some possibilities in our previous Reports.[17] The issues are discussed further in Chapter 2.

Strategic priorities

1.17 In recent years, the SSRB has encouraged a more strategic approach to pay. Our strategic priorities were designed to assist departments to focus on the areas where action is needed in respect of reward for their senior employees. Workforce matters need to be considered in the context of long-term objectives, the 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. There should also be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.

1.18 An assessment of our remit groups' position in relation to our strategic priorities is set out in table 1.1 at the end of this chapter. We recognise the intention of the Cabinet Office and the MoD to address these issues and welcome their consideration of our strategic priorities in their evidence. There continues to be improvement in some areas. In particular, both departments have provided better workforce data. Nonetheless, this is the third year that there has been little or no tangible progress against some of the priorities. For example:

- There continues to be unresolved tension between national and departmental control within the SCS pay framework. While the Cabinet Office has sought to articulate how it sees the system operating, we are concerned that some of the proposals it has made will actually exacerbate the current problem. There are also tensions between a UK-wide SCS and the pay policies of the devolved administrations.
- The current performance management system in the SCS continues to be ineffective. We acknowledge that the Cabinet Office is beginning to take steps to address our concerns. However, progress in developing a robust approach to reward and career development is long overdue.
- There have been improvements to workforce data for the senior military. However, it is crucial that the MoD identifies better ways to track individual careers and measure the quality of the remit and feeder groups. Better exit interview data and more assessment of whether the feeder group is sufficient to meet future needs are also required.
- There has been little improvement in the diversity of the senior military. However, we recognise that positive steps and considerable efforts are being made to improve the diversity profile of the Armed Forces and that it will take time for changes in the recruitment of women and people from BAME backgrounds to feed through to the senior military. We also note the appointment of the first woman 3-star officer.

The value and better use of the SSRB

1.19 In our 2018 Report, we commented on our own role and considered how the government could make better use of the SSRB. In particular, we called for a single

[16] We note the impact this is having elsewhere in the public sector, particularly the NHS, the potential for which was highlighted by the Review Body on Doctors' and Dentists' Remuneration in their 2018 Report. More recently, see: *Time for a triple tax bypass to get doctors off the critical list*, John Ralfe, The Sunday Times March 10 2019.

[17] 39th Annual Report on Senior Salaries 2017 (Chapter 2). See: www.gov.uk/government/publications/senior-salaries-review-body-report-2017; 40th Annual Report on Senior Salaries 2018 (Appendix G). See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf; and Supplement to the 40th Annual Report on Senior Salaries 2018. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf

ministerial lead on senior public sector pay, mirroring the Review Body's span of responsibility. We explained that this was needed to help the government adopt a more strategic approach to pay and reward. We still await the opportunity to discuss this further with the government and as yet we have had no response to our proposals.

1.20 We do note, however, the following positive developments:

- The Cabinet Office sought engagement with us earlier in the round than is normally the case on the development of the SCS pay reforms and provided discussion papers to elicit our views. We welcome this level of engagement.
- We welcome the MoD's commitment to carry out longitudinal studies of individuals' career pathways[18] to improve the evidence base of the quality of those remaining in Service as against those leaving. The MoD and our secretariat will also be seeking improved career-tracking data.
- We were encouraged by the request to carry out a Major Review of the Judicial Salary Structure. We believe it exemplifies the value the SSRB can bring in delivering periodic, wide-ranging strategic reviews of senior pay-related issues.

1.21 We note that the Department of Health and Social Care (DHSC) is considering the expansion of the SSRB's remit to include advising on the pay of all senior managers working across the NHS. Should this be agreed, we would consider this to be a positive development. The SSRB could deliver significant value and help facilitate a strategic and coherent approach to reward.

The senior civil service

1.22 For a number of years, we have highlighted the need for an urgent and fundamental review of the SCS pay framework to address the serious flaws in the system. We have also highlighted that pay proposals have been too fixated on limiting basic annual pay increases and that there has been too little attention focussed on maximising outcomes for lowest cost.

1.23 In the evidence for our 2018 Report, the government presented the findings from its review of the SCS pay system and its proposals to move towards a future pay framework. This formed part of the government's vision for a future SCS workforce. This year, the government has provided further articulation of what a new framework would look like, stating that it wants a pay system which supports the senior leadership cadre in the civil service and meets the challenges of the future.

Government proposals for reform

1.24 The government said that its objective for this year's pay award was to move towards the new pay framework, aligned to the core principles it identified last year.[19] There was a particular focus on specialist pay, capability-based pay progression, Director General pay and performance management.

1.25 In its evidence, the government set out its commitment to developing a new pay framework. We recognise the inherent cultural and structural difficulties that need to be overcome to achieve this. In general, we welcome the direction of travel. However, we note a shortage of concrete proposals for structural reform. We would like to see:

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[18] These would track individuals over time to see how their careers have progressed.

[19] The government's stated principles are to move to a set of consistent pay ranges by professional grouping over time; to provide greater reward for high performers and those who develop capability by remaining in role; and to provide clearer rules and control on how people move through and around the SCS pay system.

- A greater pace of reform and more commitment to a timetable for implementing change.
- More urgent action in the short term to address long-standing problems, to alleviate low morale and to incentivise greater productivity through longer tenure in post.
- Simpler proposals which are easy to understand and implement and avoid the risk of creating new problems.

1.26 In the last three years, we have become increasingly conscious of the tension between the centre of government wishing to control the pay system and the delegation of responsibility to departments. Following a request in our 2018 Report, the government set out in written evidence how it saw the system operating, with departments having the flexibility to address issues specific to their areas within centrally defined principles and Cabinet Office controls. We welcome this clarification but caution that the rules need to be clearly set out and mechanisms put in place to monitor adherence to them. Overall, we consider that there remains a lack of clarity between central control and departmental responsibility for SCS pay.

1.27 In terms of the specific government proposals that have been made:

- We support the proposals to raise the minima and reduce the maxima for all pay bands. We have been encouraging the government to move in this direction for a number of years.
- We believe that the government continues to underplay the strong evidence of a problem with individuals moving roles too frequently *within* the SCS (also described as 'churn'). We understand the issue is under review. We think it should be prioritised and we therefore address this in our pay proposals.
- Churn is the main reason we wish to see faster progress in the development of a capability-based progression model. However, we strongly urge the government to keep the model simple, durable and accessible for the majority of the SCS. It should set achievable salary expectations and be easy to understand. This will support individuals remaining in post for longer, which is a key principle of the government's vision for a reformed SCS pay system. **The development of, and investment in, a credible, robust and simple pay progression system should be a priority for 2019-20 for implementation in 2020-21.**
- Specialist pay for those with highly marketable professional skills and qualifications in areas such as digital, data and technology (DDaT), finance or property is important. However, it affects a minority of the SCS. We believe that specialist pay needs to be addressed by departments within a centralised framework. We stress, however, that the development of specific specialist pay ranges or allowances should not take precedence over the establishment of a pay progression system applicable to all.
- We support the principle of non-consolidated awards to reward high performance and believe they should continue to be used where available. We welcome the removal of the forced distribution for performance management. However, we would like to receive more details of how the government plans to ensure oversight and control of the application of these awards to ensure fairness and consistency.
- We endorse the government's approach for Director General pay this year. This is on the proviso that the new pay committee is focused on handling the pay of individuals, while the SSRB retains the strategic and pay review role for the group as a whole.
- We would welcome further consideration of the Pivotal Role Allowance (PRA) process and whether it could be brought into line with the streamlined process for EU exit retention payments.

Pay recommendations for 2019-20

1.28 While recruitment remains stable overall, there are pockets of concern emerging. These include recruitment challenges in some specialist areas and concerns from the internal feeder group on whether the SCS remuneration package and the associated pension tax implications are worth the increase in responsibility. The effect of these concerns on internal recruitment to the SCS needs to be monitored closely, as the situation could change rapidly. We welcome signs that this is starting to be taken seriously.

1.29 In terms of SCS retention, there is no significant outflow. However, there continues to be strong evidence of a problem with internal churn. We are concerned about the effect of churn on SCS productivity, on the availability of expertise and on the ability of the SCS to lead and complete implementation projects effectively. Ultimately, churn leads to higher long-term costs, as quantified by the IfG Report.[20] The conclusions reached by the IfG echoed ones we have been highlighting for a number of years. **We think that the right balance needs to be found between controlled movement between roles as part of a structured approach to developing talent and managing careers, and uncontrolled movement driven by individual preferences and higher financial reward. Pay incentives should align better to support that balance. We would like to see further evidence on this next year, including data on rates of controlled movement and rates of undesirable churn.**

1.30 The remit letter from the Chancellor of the Duchy of Lancaster asked us to consider affordability.[21] The government told us that 1 per cent was budgeted for basic pay increases. The Minister for Implementation confirmed in oral evidence that some departments could afford up to 2 per cent. The government's evidence said that the headline figure for the SCS should not be higher than that agreed for the delegated grades. At the time of writing, we have not been advised what that figure is.

1.31 We note the absence of any marked recruitment and retention issues. However, there has been a prolonged period of pay restraint, during which our remit group has received pay awards below the increases in the cost of living. At present, the annual growth in public sector average weekly earnings is 2.6 per cent and the CPI inflation rate is 1.9 per cent.[22] We also note that the Minister for Implementation stated in oral evidence that below-inflation pay rises should not be accepted as the new norm. In addition, we are concerned that the morale of this remit group is low. There is an increasing sense that members feel undervalued by their employer and we are concerned that this may be damaging staff effectiveness. On the basis of all of these factors, it is our view that all eligible members of the SCS should get some form of pay award this year.[23] However, we believe that the pay award should be focussed on allocating funding to enable pay progression for those high performing members who have been developing capability, particularly those who have been stuck in the lower end of the pay range for some time.

1.32 **We therefore conclude that a 2.2 per cent increase in the SCS paybill is needed.** This paybill increase should be apportioned in order of priority as follows:

- 0.9 per cent of the paybill should be used to address pay progression and anomalies. This should be used to enable progression for those members who have been developing capability, who are low in their pay range and who have not seen significant pay rises in recent years. It also needs to address anomalies, including

[20] See: https://www.instituteforgovernment.org.uk/publications/moving-on-staff-turnover-civil-service

[21] See: Appendix D.

[22] Annual growth in public sector average weekly earnings: 2.6 per cent (three months to February 2019). CPI inflation: 1.9 per cent (March 2019).

[23] Those SCS members who are currently subject to performance improvement measures should not receive any increase in pay. Therefore, the recommendations should not be applied to these staff until they have exited such measures.

rewarding those with sustained high performance and who have increased their effectiveness and deepened their expertise. **Given that the priority for funding this year should be to address pay progression and anomalies, this allocation should be ring-fenced.**

- 0.2 per cent of the paybill should be used to increase the pay band minima.
- Those SCS members not benefitting from the increase to the minima (with the exception of those on performance improvement measures) should receive a 1 per cent pay award. We estimate this would represent an increase of 0.9 per cent to the paybill as it would not apply to everyone.[24]
- 0.2 per cent of the paybill should be allocated to help fund specialist pay. However, this is with the proviso that there is strong central control and consistency in how departments use these funds.

1.33 We are grateful for the opportunity to see the emerging plans from the Cabinet Office for the development of a new SCS pay framework which they have shared with us over the last year. This engagement has been helpful to expose the government's thinking and we appreciate the effort and commitment that has gone into it. We look forward to receiving and discussing with the Cabinet Office more developed proposals on the structure and reform of the SCS pay framework over the next year. However, while we recognise the government's intention to implement a long-term vision, our Report stresses that some immediate steps are necessary to address the pay issues currently affecting the majority of the SCS.

Senior Officers in the Armed Forces

1.34 The evidence shows that recruitment and retention of the senior military remains at satisfactory levels. At present, the senior military appears to be able to attract sufficient numbers of personnel from the feeder group and there is no evidence of a decline in the quality of these individuals.

1.35 However, evidence from the results of the 2018 Armed Forces Continuous Attitude Survey (AFCAS) and from the discussion groups we held with members of the senior military, indicates a decline in the level of morale.

1.36 We remain concerned that members of the remit group and the feeder group perceive that the rewards from a career in the military are steadily declining in comparison to equivalent roles in the civilian sector. This, together with the increasing impact of pension taxation changes, could adversely affect individuals' decisions to remain in the military or accept promotion. We share the MoD's concern that this could lead to a decline in the number and quality of those available to fill the most senior roles.

1.37 Recruitment to the senior military is exclusively by progression from the feeder group. External recruitment is not an option. Significant rises in outflow rates would therefore inflict considerable and long-lasting damage through the loss of experienced people who cannot quickly be replaced. The monitoring of recruitment and retention, in relation to both the numbers and the quality of personnel, together with long-term workforce planning, is therefore vital. This applies to the feeder group as well as to the remit group itself.

1.38 We therefore welcome the MoD's intention to improve its evidence base. We stress that information is needed on the quality of those leaving and remaining in Service, and the factors affecting decisions to leave the Armed Forces by members of the senior military and the feeder group.

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[24] Those SCS members who benefit by less than 1 per cent from the minima increase should receive an additional consolidated pay award to make a total of 1 per cent.

1.39 We note the MoD's desire for the recommendation for the senior military to be "presentationally consistent" with the pay award recommended by the Armed Forces' Pay Review Body (AFPRB) again this year. This is particularly in relation to maintaining the minimum 10 per cent increase in base pay on promotion from 1-star to 2-star. There are, however, currently no recruitment and retention issues in the senior military, unlike elsewhere in the Armed Forces. The SSRB acknowledges that the increase to take-home pay on promotion from 1-star to 2-star has declined in recent years. If different pay awards are made to the AFPRB and SSRB remit groups, we suggest the MoD considers our other proposals for maintaining the 10 per cent increase to pay on promotion.[25]

1.40 The SSRB acknowledges the increasingly difficult environment in which members of the senior military work and the current demands placed on them, and their families, in terms of the tempo of deployments and the relentless workloads.

1.41 The above considerations lead us to recommend an across the board consolidated pay award of 2.2 per cent for all members of the senior military.

1.42 We note that some components of the X-Factor appear to be affecting members of the senior military to a greater extent than previously. This is because of the increasing likelihood of overseas deployments and heavier workloads. We therefore propose to work with the MoD and the AFPRB during the next round to gather evidence and consider whether changes to the X-Factor taper arrangements for senior officers, both within the AFPRB's remit group and within our remit group, are required.

Other SSRB remit groups

1.43 Four groups mentioned within our terms of reference are not reviewed in detail in this Report.

The judiciary

1.44 In September 2018, we submitted our Major Review of the Judicial Salary Structure.[26] Running a Review of this kind necessitated a different approach to that taken for our annual pay reviews. Over a two-year period, we gathered and analysed evidence and engaged with all levels of the judiciary across the UK. This was a significant and resource-intensive undertaking, for the SSRB and our secretariat, as well as for the judiciary and the government. We are grateful for the efforts and support of all those involved.

1.45 At the time of writing this Report, the government has not yet published its response to the Major Review. While we appreciate that some time is needed to consider such complex issues rigorously, we were given commitments by four successive Lord Chancellors that the government would consider our recommendations seriously and in a timely fashion. In this context, and given the considerable efforts of all those involved, we are therefore disappointed by the lack of a response. We also note that it is now 12 years since the government last took action in respect of a major review of judicial pay.

1.46 We have also not received a request to consider an annual pay award for the judiciary for 2019-20. Our Major Review made recommendations up to 2018-19 and the annual pay award for 2018 for the judiciary was less than we recommended.[27]

1.47 Our Report highlighted unprecedented difficulties in recruiting high quality legal professionals to the judiciary. We recommended pay increases to address these. We fear

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[25] See: paragraph 5.84.

[26] Supplement to the 40th Annual Report on Senior Salaries 2018. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf

[27] The government reduced the SSRB's recommendation of 2.5 per cent to 2 per cent.

that, in the absence of government action, the difficulties may have worsened. The knock-on effects are increasing delays to cases and damage to the UK's reputation and attractiveness as an international centre for justice.

1.48 In the Major Review, we made observations on a number of issues, which, while not directly pay related, were relevant to judicial recruitment and retention. We are encouraged by the efforts of the Lord Chief Justice in respect of some of these non-pay matters. We believe the Major Review exemplifies the value that the SSRB can bring in delivering periodic, wide-ranging strategic reviews of senior pay-related issues. An update of these non-pay issues is provided in Chapter 6.

Police and Crime Commissioners

1.49 In our 2018 Report, we carried out the first full review of police and crime commissioners' (PCC's) pay since the establishment of the role in 2011. For that review, the Home Office asked us to look at three specific areas, all of which we addressed. Our main recommendations were not accepted and we have not received a satisfactory response from the Home Office as to why this was the case. It is not therefore clear to us what the Home Office wanted the review to achieve. An update is provided in Chapter 7.

Executive and Senior Managers in the NHS

1.50 The government accepted the SSRB's 2017 recommendation that it needed to develop a coherent proposition on how best to set the pay of Executive and Senior Managers (ESMs) in the DHSC's Arm's Length Bodies. We felt that the remit group was incoherently structured as it currently stands and that trying to treat it as a separate workforce was neither practical nor sensible.

1.51 A scoping study conducted by the DHSC looked at whether the SSRB's remit should be extended to include all senior health service managers. The DHSC is currently considering how to proceed. Should the decision be taken to expand this remit group, we consider that the SSRB could add significant value by looking at the senior health labour market as a whole. This would facilitate a more strategic and coherent approach to reward. However, considerable preliminary discussion with the DHSC and NHS organisations would be needed, before we were able to carry out a proper review. An update is provided in Chapter 8.

Chief Police Officers

1.52 In 2017, the Home Office advised the SSRB that, for the following two pay rounds, chief police officer pay would be considered by the Police Remuneration Review Body. The rationale for this was to enable the development of, and transition to, a new pay structure for the police as a whole. Given that chief police officers are being covered by another Pay Review Body this year, we do not include a chapter on them in this Report.

1.53 The second of these two pay rounds is now ending. We have sought clarification from the Home Office on their plans for the SSRB's future role, but with little success. We believe that there is a strong rationale for having a separate independent body to address senior public sector pay. **Moreover, the SSRB has a statutory responsibility to review chief police officer pay and we therefore expect the consideration of this remit group to return to the SSRB for the 2020-21 pay round, for which remit letters would be expected in autumn 2019.** We are mindful of the observations we made in our last review of chief police officer pay in 2017 in relation to inconsistencies in the pay system for this group and the fragile nature of both recruitment and morale.

Table 1.1: **Assessment of position for remit groups[1] against the SSRB's strategic priorities[2]**

Key	Green: Area of little concern Amber: Area of some concern Red: Area of significant concern	↑: Improving trajectory ↔: Stable trajectory ↓: Declining trajectory

SSRB priority	Assessment of position in 2019	
	Senior civil service	**Senior Officers in the Armed Forces**
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.	There has been some further articulation of a new SCS pay framework. However, limited proposals have been received and there is concern that the pace of reform remains too slow. ↔	A plan exists for future size and structure of the workforce, linked to strategic priorities. ↔
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.	The Cabinet Office has said it is continuing to reinvest savings from operating more consistent pay policies. However, no figures have been provided as to what savings have been made to date. ↔	This is a small cohort which provides limited scope for innovation in pay. Many roles are difficult to evaluate as outcomes are not easily measurable (e.g., operations/ defence engagement). ↔
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	A review of poor performance has been conducted. The removal of forced rankings will enable clear differentiation between poor and low performers. However, there remain concerns that poor performance is not being properly addressed. ↔	No evidence that it is an issue. Poor performance is tackled appropriately either by informal, appraisal, administrative or disciplinary action. There have been instances where individuals have been required to resign due to poor performance. Poor performers are also unlikely to be given a second posting. ↑

SSRB priority	Assessment of position in 2019	
	Senior civil service	Senior Officers in the Armed Forces
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.	There continues to be low staff confidence in the performance management system. Although a review has not been conducted, interim measures have been taken to address some aspects including the removal of forced rankings. However, the development of a robust approach to reward and career development is long overdue. If significant progress is not made in the next 12 months, we would expect to move this assessment to red next year. ↔	The appraisal process is robust. Progression into the senior military is based on performance and potential. Annual increments are conditional on satisfactory performance. ↑
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.	We have received good and improved workforce data. However, better data on internal staff turnover is required. If this is not forthcoming next year, we would expect to move this assessment to amber. ↔	There have been improvements to workforce data. However, it is crucial that the MoD identifies better ways to track careers and measure the quality of the remit and feeder groups. The MoD is working with the OME on this. Better exit interview data and more assessment of whether the feeder group is sufficient to meet future needs is also required. ↔
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.	Some data on the motivation and pay of the feeder group has been provided. ↔	The evidence showed that the situation is being kept under review: further analysis of data on the feeder groups was provided this year. However, there is a growing concern around retention. The MoD is working with the OME to identify better ways of tracking career paths of the feeder group and the quality of those that remain/leave. ↔

SSRB priority	Assessment of position in 2019	
	Senior civil service	**Senior Officers in the Armed Forces**
Targeting: Where evidence supports it, pay should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	The evidence shows that most departments used the anomalies pot in 2018 to target awards. However, the size of the anomalies pot was reduced, thereby markedly diminishing its effect. The Cabinet Office has set out proposals and criteria for targeting 2019 awards. ↔	n/a (targeting is argued to be inappropriate for this group.)
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.	There has been some articulation of where control in the system lies. However, there is concern that some of the proposals may exacerbate these tensions between the centre and departments. The tension between a UK-wide SCS and the devolved administrations' pay policies is a cause for concern. ↔	No evidence that such tensions exist. ↔
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.	We have seen an improved performance on gender but it is still not satisfactory. We look forward to receiving data on socio-economic backgrounds next year. ↔	Poor diversity profile, although considerable effort is being made to improve the position across the Armed Forces. There is a slight increase in the proportion of female personnel and BAME individuals in the feeder group which could eventually feed through to the remit group. ↔

Notes:

1 This year, the SSRB was asked not to conduct an annual review of the judiciary, chief police officers, police and crime commissioners and Executive and Senior Managers in Arm's Length Bodies.

2 The focus of the first strategic priority, total reward, is for the SSRB rather than evidence providers to consider. It is therefore not included in this table.

Chapter 2

Pensions and total net remuneration

Overview

2.1 Recruitment and retention for our remit groups is affected by a range of factors alongside basic pay and bonuses, including pensions, relative job security and the value of benefits in kind. It is beyond our remit to make recommendations on taxation or pension policy. However, where these have a negative effect on the recruitment, retention and motivation of public sector workers, it is important for us to highlight them.

Changes which affect total remuneration

2.2 There have been a number of changes over the last decade to taxation and pensions which affect the overall remuneration of our remit groups, notably:

- **Income tax.** From 2009-10 to 2018-19, the income tax personal allowance almost doubled. However, in 2010-11, an income limit was introduced which tapers the personal allowance by £1 for every £2 of taxable income above £100,000. In addition, a new tax rate of 50 per cent (previously 40 per cent) was introduced on earnings above £150,000 in 2010-11. This was reduced to 45 per cent in 2013-14.
- **National insurance.** The national insurance rate for those earning above the upper earnings limit (£46,350 in 2018-19) was increased from 1 to 2 per cent from 2011-12.
- **Annual allowance.** In 2010-11, the annual allowance (the amount of pension benefit that can be built up in a pension scheme in a given tax year without incurring a tax charge) was increased to £255,000, before being reduced to £50,000 in 2011-12 and to £40,000 in 2014-15. In addition, a taper was introduced in 2016-17. This reduces the annual allowance by £1 for every £2 of adjusted income above £150,000, down to a lower limit of £10,000, if the threshold income exceeds £110,000 and adjusted income exceeds £150,000.[28]
- **Pension contributions.** Member contribution rates to public sector pension schemes increased between 2012-13 and 2015-16, with the exception of the Armed Forces.[29] This was without any improvement to the benefits received, thus reducing the value of the reward package.
- **New pension schemes.** In 2015-16, career average pension schemes replaced final salary schemes for those who were more than 10 years from retirement in 2012. These schemes typically have higher accrual rates and higher pension ages. The 2015 New Judicial Pension Scheme (NJPS) is registered for tax purposes, unlike its predecessor.

Impact on total remuneration

2.3 In our 2017 Report, we illustrated how a breach of the pension annual allowance was more likely for a civil servant under the final salary scheme (Classic) than the career average scheme (Alpha), as the career average smooths accrual over the lifetime. We also showed that there was hardly any difference in take-home pay for a civil servant working full time contributing to the Alpha pension scheme relative to someone working 80

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[28] Threshold income is defined as gross pay minus the employee pension contribution. Adjusted income is defined as the threshold income plus the pension benefit.

[29] Employee contribution rates to the Civil Service Classic scheme increased from 1.5 per cent in 2011-12 to 7.35 per cent in 2015-16 for those earning £51,516 to £150,000. Member contributions to the judicial pension scheme were 1.8 per cent in 2009-10 and increased to 4.43 per cent in 2015-16. Both Armed Forces pension schemes, AFPS05 and AFPS15, have zero employee contribution rates.

per cent of full time, due to the former facing a higher effective tax rate. The reason for this stemmed from the annual allowance taper where, despite the full-time civil servant accruing a larger pension in the year, they were subjected to the annual allowance tax charge. We also demonstrated how the use of Scheme Pays by more senior judges, for example a High Court Judge, could potentially lead to them receiving a smaller pension than their less senior colleagues.

2.4 In our 2018 Report, the interplay of promotion and career progression with taxation, which depends on multiple factors such as previously accrued pension benefits, was modelled as well as the subsequent take-home pay profiles. We noted from this analysis that the annual allowance tax charge had a noteworthy reduction on take-home pay, especially for those on a final salary pension scheme, such as the Armed Forces Pension Scheme 1975.

2.5 In our Report on the Major Review of the Judicial Salary Structure, we developed the concepts of take-home pay and total net remuneration to take into account all the changes outlined above. Take-home pay is calculated as gross pay (base pay plus performance-related pay, allowances and pay premia) less employee national insurance contributions, income tax, employee pension contributions and any annual allowance charges. Total net remuneration is calculated as take-home pay plus the value of the additional amount added to the annual pension during the year.[30] We believe this is the most comprehensive, and therefore most appropriate, measure of annual remuneration.

2.6 We showed that judges who remained in the 1993 JUPRA pension scheme suffered much lower falls in total net remuneration than other judges. We also highlighted how the addition of the recruitment and retention allowance (RRA) did not close the gap in total net remuneration between High Court Judges in the NJPS and those in the 1993 JUPRA scheme. The JUPRA scheme insulated its members from the effects of both the annual and lifetime allowance charges because of its unregistered status.

2.7 Our analysis this year has extended this approach to look at how total net remuneration has changed at specific pay points within our remit groups over the last decade (see Appendix A). We have looked at higher and lower earning roles within each remit group to see how different salary levels are affected. The analysis uses the pay band minimum to filter out the effects of an individual's pay progression or promotion and focuses on how remuneration for the same role has changed over time.[31]

2.8 The analysis shows that, for the relatively lower-earning roles in our remit, such as the SCS pay band 1 and the 2-star minimum in the senior military, uplifts to pay and higher pension accrual rates have more than offset the changes in pension contributions and national insurance. These roles are not, on the whole, affected by the pension annual allowance.

2.9 However, the impact of changes in the pension annual allowance, in particular the reduction to £40,000 and the introduction of the taper, have had a significant negative impact on total net remuneration for the higher-paying roles in our remit groups. The 4-star minimum has seen a fall in total net remuneration of 3 per cent since 2009-10, while the Permanent Secretary minimum has seen no change in total net remuneration. A High Court Judge has seen a fall in total net remuneration of 17 per cent since 2009-10, even taking into account the RRA, as the new pension scheme offers a slightly lower

[30] The increased value of the annual pension is multiplied by the valuation factor of 16 that is used for calculating tax liability in a defined benefit scheme. See: Appendix A.

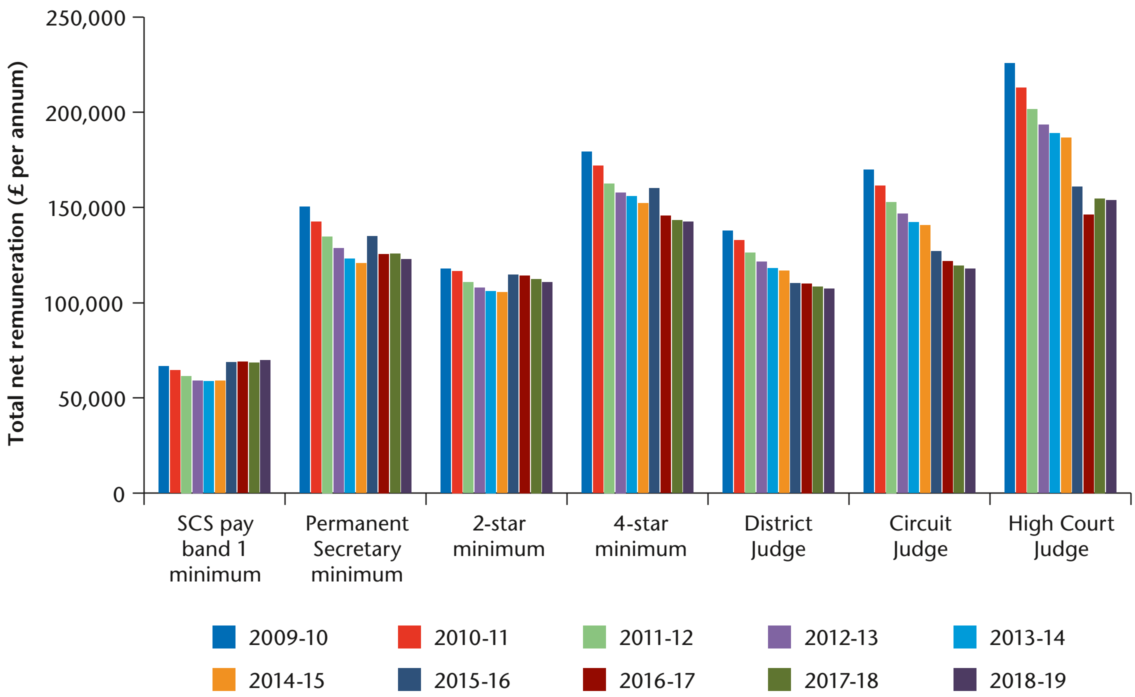
[31] We have conducted our analysis in both nominal terms (not adjusted for inflation) and real terms (adjusted for inflation). Figures quoted are in nominal terms unless stated otherwise and annual CPI inflation has been used where inflation-adjustment has taken place.

accrual rate and is fully affected by the pension tax regime, unlike the old scheme in place at the start of the period.

2.10 Once inflation is taken into account, all the roles considered see a drop in total net remuneration, except the SCS pay band 1 minimum (see figure 2.1). The 4-star minimum has seen a fall in total net remuneration of 21 per cent over the period after adjusting for inflation, while a High Court Judge has seen a fall of 32 per cent.

2.11 Further detail of the effects on total net remuneration on the senior civil service (SCS) and senior military is contained within the specific chapters while the full analysis, including the judiciary, is given in Appendix A.

Figure 2.1: **Total net remuneration (adjusted for inflation) for the SCS, senior military and judiciary, 2009-10 to 2018-19**



Source: OME, see Appendix A.

The impact of pension taxation changes on the private sector

2.12 Given the impact that the changes in pension taxation are having on our remit groups, it is worth exploring how high earners in the private sector have been affected and whether private sector employers have been able to modify how higher-paid employees are remunerated to ameliorate the impact of the pension taxation changes.

2.13 For both public and private sector employees, there has been a reduction in the amount that can be paid into a pension scheme free of income tax from £255,000 to £40,000.[32] This represents the removal of a tax break worth up to £123,000 for an individual on the highest marginal rate of income tax exploiting the maximum available pension tax relief.[33]

[32] A taper, introduced in 2016-17, reduces the annual allowance by £1 for every £2 of adjusted income above £150,000, down to a lower limit of £10,000, if the threshold income exceeds £110,000 and adjusted income exceeds £150,000.

[33] This is calculated by comparing tax relief on £255,000 at a marginal tax rate of 50 per cent in 2010-11 with that now available on a contribution of £10,000 at a marginal tax rate of 45 per cent.

2.14 The significant reduction in the ability of higher-earning employees to make tax-effective pension contributions from their pre-tax earnings has altered the incentives for employers to remunerate senior employees in the form of pension benefits.[34] The response to this in the private sector has been to limit contributions to pension schemes and to make payments as cash, taxed on receipt. This has the advantage that the payment, though taxed, will increase take-home pay. Furthermore, if invested in a financial asset, the resulting drawdown of the accumulated savings will not be subject to income tax as a pension would be (though any interest or dividends earned on the resulting savings will be).[35] In the public sector, by contrast, where contributions continue to be made to pension schemes in breach of annual allowance limits for high-earning senior employees, the taxation of the pension benefit will result in an immediate tax charge (on contributions above £10,000) and a resulting fall in take-home pay. Moreover, the pension benefit accrued will be taxed again when it is eventually paid out as pension income in future years.

2.15 Willis Towers Watson has commented that:

"The majority of companies have responded to the tapering limits by simply offering any high earners who are affected the option to substitute existing levels of pension contributions for a cash alternative. The strategy has generally been calibrated to ensure there is no additional cost for the employer (i.e., adjusted for additional national insurance contributions) but, beyond that, there has been a remarkable lack of 'innovation' in recent years."[36]

2.16 These changes have come at a time when large investors are publicly committed to reducing excess in executive compensation packages. This has meant a fall in pension provision when new packages are negotiated (and a continuation of the switch away from legacy defined benefit schemes), moving provision closer to that for the rest of the organisation and enabling a shift in the balance of packages towards other incentives such as cash or shares.

2.17 Willis Towers Watson went on to comment that:

"Anecdotally, some companies which opt to do nothing are considering the risk of a spike in turnover at the top levels as those affected may opt for retirement to crystalize their retirement benefits as they may view their employer's refusal to accommodate the tax changes as punitive."

2.18 A survey of FTSE 100 companies in May 2017 by LCP found that 90 per cent of respondents had changed their policy on pension provision as they sought to mitigate the effects of the pension taxation rules from April 2016.[37] The survey found that 84 per cent of FTSE 100 companies offered cash as an alternative to pension to employees concerned about breaching the lifetime or annual allowance. Where cash was offered, one in three companies adjusted the rate to allow for the employer's additional national insurance costs. The survey also found that the pension tax changes had prompted

[34] The UK pension tax system is based on an exempt-exempt-taxed system; the principle of contributions being exempt from tax, investment returns being exempt from tax, and withdrawals from pension being taxed. See: for example, *Future Trends in Pension Tax Relief*, Pensions Policy Institute, July 2016.

[35] In the private sector, high-paid individuals are now taxed on the receipt of a pension allowance/salary upfront, and on any returns to the investment (i.e., they are effectively subject to a taxed-taxed-exempt system), while in the public sector individuals are taxed on their pension contributions and again on their pension when paid (i.e., they effectively face a taxed-exempt-taxed system on contributions above £10,000).

[36] See: *Simplicity and senior executives' pensions*, Gary Luck, Senior Consultant Willis Towers Watson, June 2017. https://www.towerswatson.com/en-GB/Insights/Newsletters/Europe/uk-finance-matters/2017/Simplicity-and-senior-executives-pensions. Accessed 15th March 2019.

[37] *How is the tapered annual allowance affecting pensions?* LCP FTSE 100 pensions tax survey, May 2017. See: https://www.lcp.uk.com/pensions-benefits/publications/ftse-100-pensions-tax-survey/

many companies to offer guidance to their employees. Nearly all had provided written information while around half also offered seminars, or one to one guidance meetings, and one in five were providing videos or tax modeller tools.

Pension options

2.19 We consider that the current pension taxation regime poses a significant recruitment and retention risk to senior staff across the public sector. We have already seen the impact that changes in pension provision have had on recruitment to the judiciary. We note the reports of a serious effect on health service provision as some senior doctors are choosing to retire and others reduce their working hours.[38] We would also highlight the complexity of the current pension taxation system, which is creating considerable confusion for those who may be affected. We note that there is employer-funded advice available to civil servants, in particular on how to access Scheme Pays to meet the costs of tax charges through a reduction in pension. However, this reflects the complexity of the issue rather than ameliorating it.[39]

2.20 We have in our previous reports recommended that public sector employers should closely examine the options for making pension packages more flexible and take action where appropriate. For example, the Major Review of the Judicial Salary Structure said that the Ministry of Justice should consider offering judges some choice between take-home pay and employer pension contributions. This flexibility in the reward package might take a number of forms, such as the ability to offer cash instead of pension for those earning above a certain salary.

Recommendation 1: We again recommend that pension flexibility should be examined as a matter of urgency with the aim of reducing the perverse incentives[40] that senior public sector employees may be facing.

[38] See: for example, *Time for a triple tax bypass to get doctors off the critical list*, John Ralfe, The Sunday Times March 10 2019.

[39] Options to address this issue within the taxation regime have been raised with us. These include increasing the annual allowance, removing the taper, revising the valuation factor used to assess the annual input to a defined benefit scheme, or moving to a taxed-exempt-exempt system. These are all beyond our remit and are for others to consider.

[40] Employees may face incentives to work shorter hours, decline promotion or retire early.

Chapter 3

Economic context

Summary

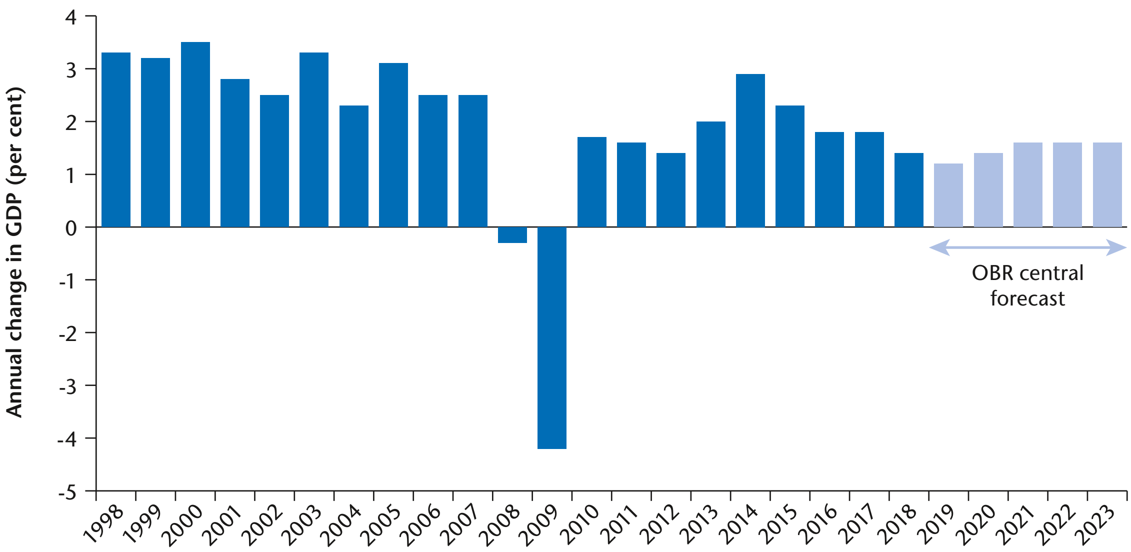
3.1 Our recommendations need to be considered in the context of the current and expected economic climate and the position on public sector finances. The current economic climate sees fairly modest economic growth, with heightened uncertainty over Brexit leading to a wide range of possible outcomes. CPI inflation is forecast to remain close to its 2 per cent target. The labour market has again delivered record employment levels, with the recent growth concentrated among full-time employees. Average earnings growth saw a long-awaited pick-up in the second half of 2018, although the level of inflation-adjusted average earnings has yet to regain its pre-recession peak. Public sector finances have improved since a year ago, following higher tax receipts.[41]

The economy and labour market

3.2 The UK economy grew by an estimated 1.4 per cent in 2018 (see figure 3.1), its slowest rate for six years, with the growth rate slowing at the end of the year. Economic growth has averaged 1.9 per cent a year since 2010, while growth in the decade leading up to the 2008-09 recession averaged 2.9 per cent.

3.3 Economic growth is expected to fall back further in 2019, to 1.2 to 1.3 per cent (see table 3.1). The Office of Budget Responsibility (OBR) forecasts assume a relatively smooth exit from the EU. Figure 3.2 illustrates the uncertainty around the central growth forecast – the solid line shows the OBR's median forecast, with successive pairs of lighter shaded areas around it representing 20 per cent probability bands. It implies a roughly one-in-five chance of the economy shrinking in 2020 and a similar probability of growth exceeding 2.5 per cent.

Figure 3.1: **Gross Domestic Product, year on year growth, 1998 to 2023**



Source: ONS, GDP, year on year growth, chained volume measure (IHYP), seasonally adjusted, 1998 to 2018. OBR; Economic and fiscal outlook, March 2019.

[41] We have considered the economic data available at the end of April 2019.

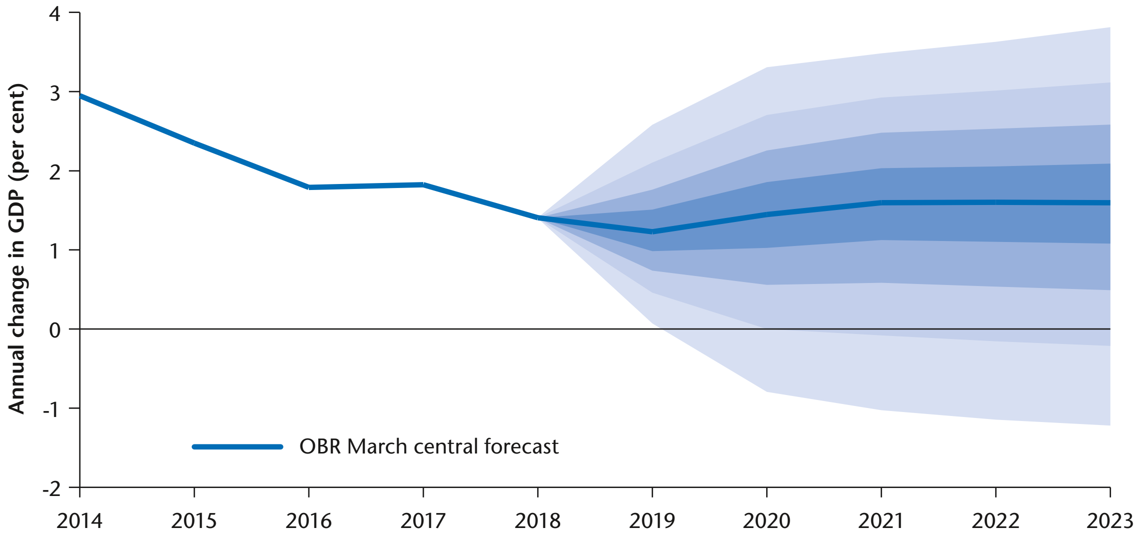
Table 3.1: **GDP forecasts, year on year growth, 2019 to 2023**

	Office for Budgetary Responsibility, March 2019 %	Bank of England central projection, February 2019 %	Treasury independent median, February/April 2019[1] %
2019	1.2	1.2	1.3
2020	1.4	1.5	1.5
2021	1.6	1.9	1.7
2022	1.6	–	1.7
2023	1.6	–	1.7

[1] 2019 and 2020 are medians of forecasts made in the three months to April 2019, while 2021 to 2023 are medians of forecasts made in the three months to February 2019.
Source: OBR, Economic and fiscal outlook, March 2019; Bank of England, Inflation Report, February 2019; HM Treasury, Forecasts for the UK economy, February/April 2019.

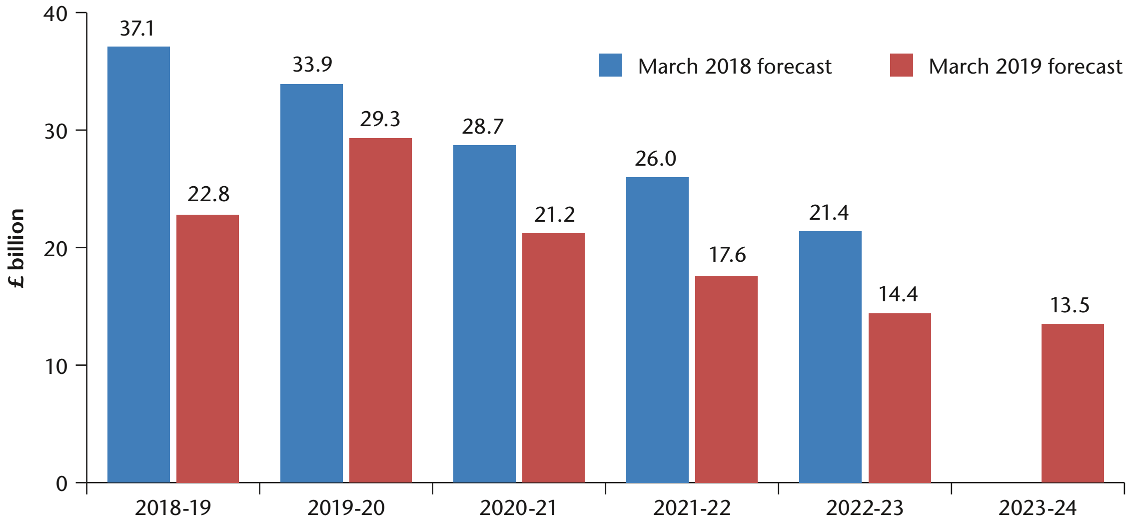
3.4 Public finances have performed significantly better than expected at the time of the spring statement in March 2018, due to both lower spending on welfare and debt interest than expected and stronger tax revenues (from income tax, NICs, corporation tax and VAT). This reduced the public sector net borrowing requirement for 2018-19 by £14.3 billion. The stronger fiscal starting position, coupled with higher expected tax receipts in future, and lower expected debt repayments, have improved the fiscal outlook in every year of the forecast (see figure 3.3).

Figure 3.2: **GDP growth forecast fan chart, year on year growth, 2014 to 2023**



Source: OBR, Economic and fiscal outlook, March 2019.

Figure 3.3: **Public sector net borrowing forecasts, 2018-19 to 2023-24**



Source: OBR, Economic and fiscal outlook, March 2019.

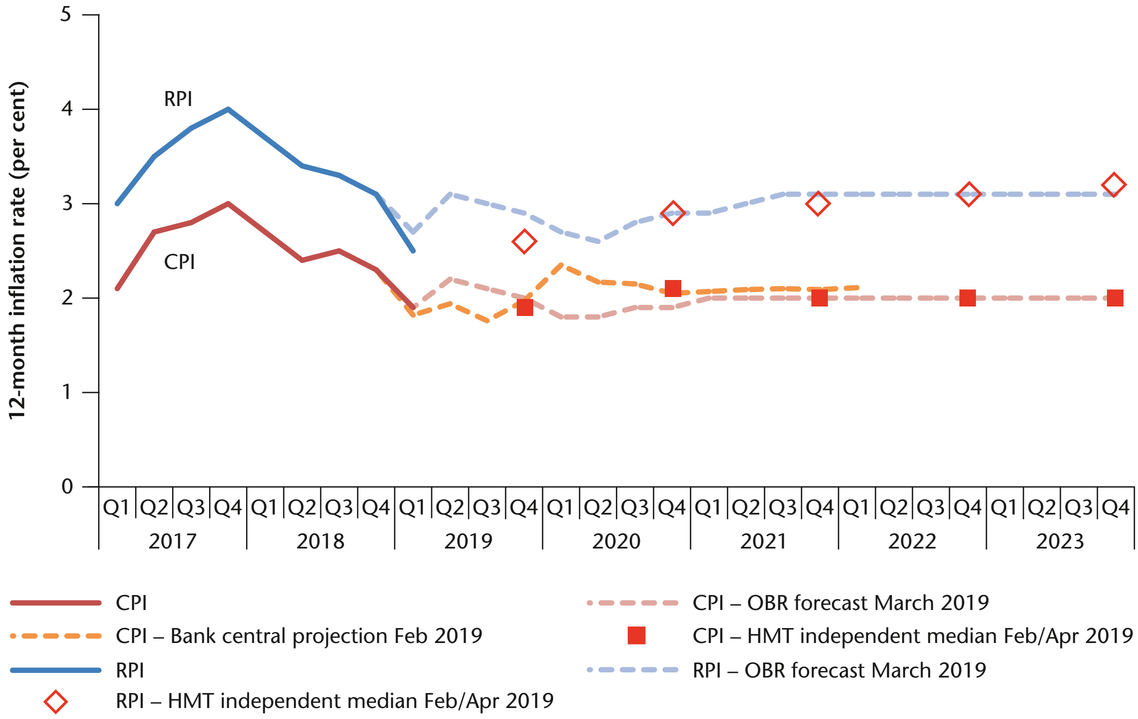
3.5 The latest figures put CPI (consumer prices index) inflation at 1.9 per cent in March 2019, having averaged 2.5 per cent over 2018. CPIH (CPI including housing) inflation was at 1.8 per cent, and the RPI (retail prices index) rate of inflation was 2.4 per cent in March 2019. Forecasts indicate that CPI inflation will remain close to 2.0 per cent during 2019 and 2020 (see table 3.2 and figure 3.4).

Table 3.2: **Inflation forecasts, four-quarter growth, 2019 to 2023**

	Office for Budgetary Responsibility, March 2019 %		Bank of England central projection, February 2019 %	Treasury independent median, February/April 2019[1] %	
	CPI	**RPI**	**CPI**	**CPI**	**RPI**
2019 Q4	2.0	2.9	2.0	1.9	2.6
2020 Q4	1.9	2.9	2.1	2.1	2.9
2021 Q4	2.0	3.1	2.1	2.0	3.0
2022 Q4	2.0	3.1	–	2.0	3.1
2023 Q4	2.0	3.1	–	2.0	3.2

[1] 2019 and 2020 are medians of forecasts made in the three months to April 2019. 2021 to 2023 are annual averages (rather than Q4) of forecasts made in the three months to February 2019.
Source: OBR, Economic and fiscal outlook, March 2019; Bank of England, Inflation Report, February 2019; HM Treasury, Forecasts for the UK economy, February/April 2019.

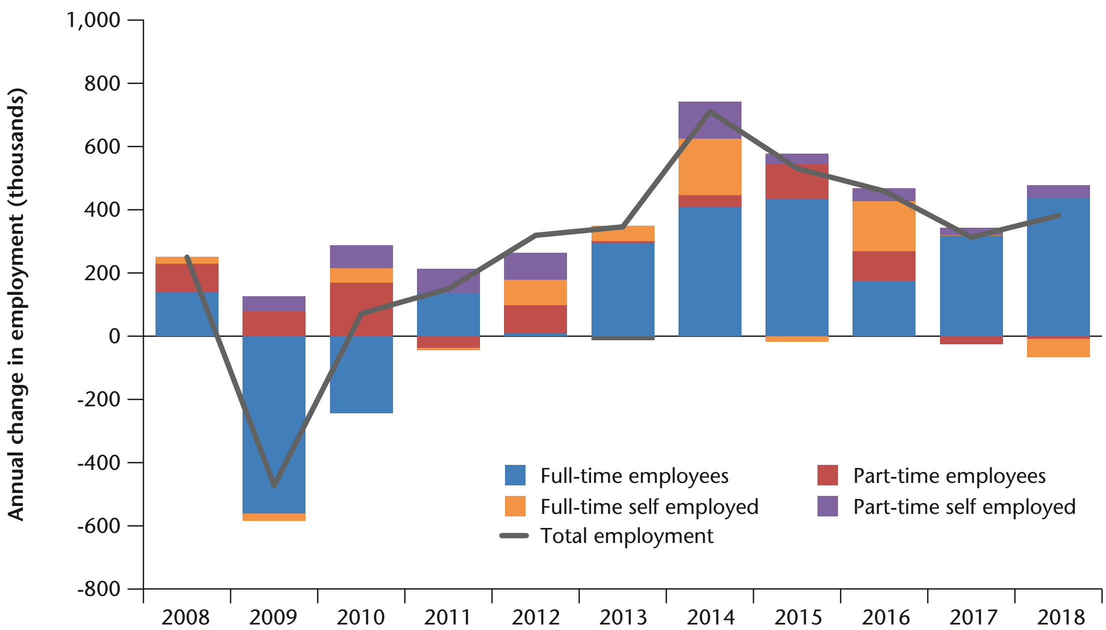
Figure 3.4: **CPI and RPI forecasts, 2017 to 2023**



Source: ONS, CPI (D7G7), RPI (CZBH), quarterly, not seasonally adjusted, UK, Q1 2017-Q1 2019; OBR, Economic and fiscal outlook, March 2019; Bank of England, Inflation Report, February 2019; HM Treasury, Forecasts for the UK economy, February/April 2019.

3.6 Employment has continued to rise, by 457,000 (1.4 per cent) over the year to February 2019 to 32.7 million. The employment rate was at 76.1 per cent in the three months to February, the highest employment rate since comparable records began in 1971. Figure 2.5 shows how this recent employment growth has been dominated by full-time employees, in contrast to much of the post-recession employment growth which had been largely in part-time and self-employed jobs. This suggests a further strengthening in labour demand.

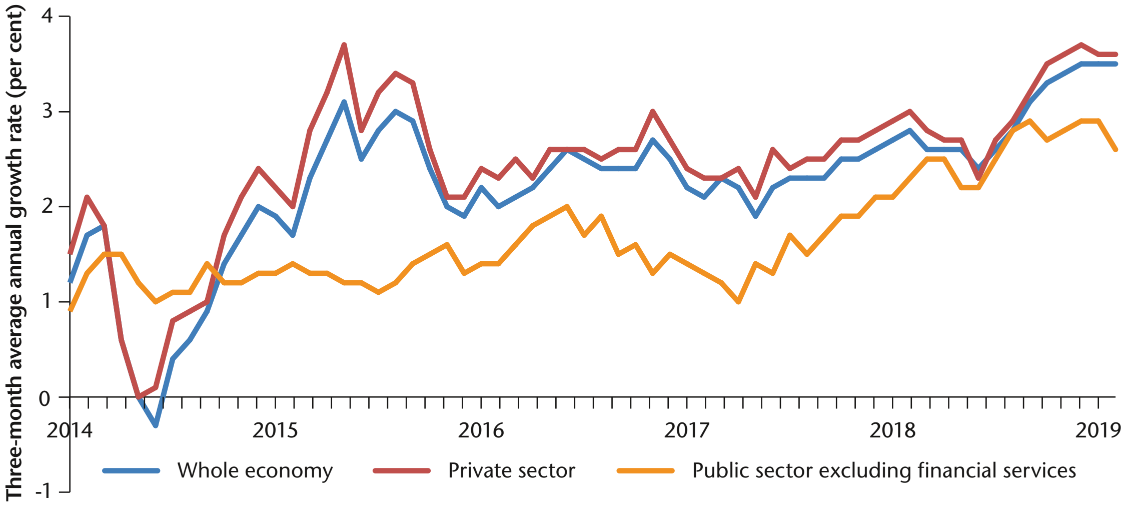
Figure 3.5: **Annual change in employment, 2008 to 2018**



Source: ONS, full-time employees (YCBK), part-time employees (YCBN), full-time self-employed (YCBQ), part-time self-employed (YCBT), all in employment (MGRZ), annual change, seasonally adjusted, UK, 2008-18.

3.7 Whole economy average annual earnings growth was 3.5 per cent in the three months to February 2019, the highest rate for 10 years – since the months before the recession (see figure 3.6). Private sector average earnings growth was 3.6 per cent in the three months to February 2019, while public sector average earnings growth (excluding financial services) was 2.6 per cent. Median pay settlements in the private sector picked up to 2.5 per cent in 2018, and have remained at this level in 2019, while public sector pay settlements were at 2 per cent last year.

Figure 3.6: **Average weekly earnings growth (total pay), three-month average, January 2014 to February 2019**

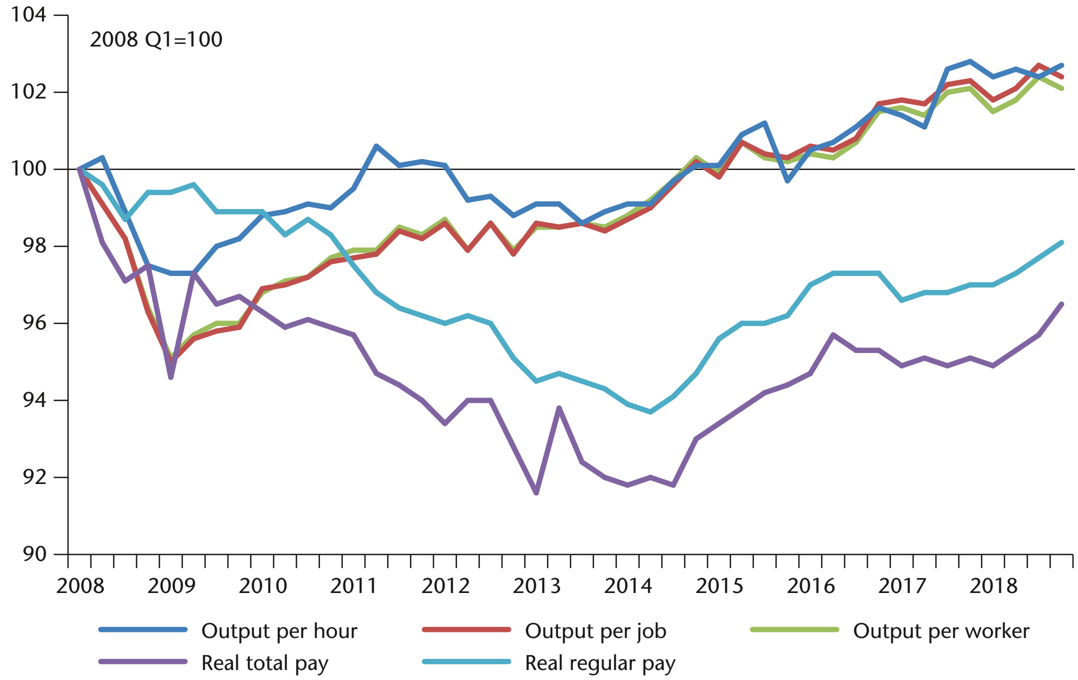


Source: ONS, average weekly earnings annual three-month average change in total pay for: the whole economy (KAC3); private sector (KAC6); public sector excluding financial services (KAE2); monthly, seasonally adjusted, GB, 2014-19.

3.8 The pick-up in average earnings growth, combined with small falls in inflation, meant that once adjusted for inflation, average earnings growth was positive throughout 2018, compared to falls in 2017. Inflation-adjusted earnings growth averaged 0.6 per cent in 2018, compared to -0.2 per cent in 2017.

3.9 Productivity growth has been weak since the 2008-09 recession, with output per worker only 2.1 per cent above the level seen in 2008 (see figure 3.7). Economists generally expect inflation-adjusted wages to track productivity growth over the longer term. However, inflation-adjusted average earnings have failed to keep pace with even this slow rate of productivity growth, with inflation-adjusted average earnings 2 to 3 percentage points below pre-recession levels.

Figure 3.7: **Productivity growth and inflation-adjusted average earnings growth, 2008 to 2018**



Source: ONS, output per job (LNNN), output per worker (A4YM) and output per hour (LZVB), whole economy, quarterly, seasonally adjusted, UK, 2008-18; real total weekly earnings (A3WX), real regular weekly earnings (A2FC), annual three-month average change, monthly, seasonally adjusted, GB, 2008-18.

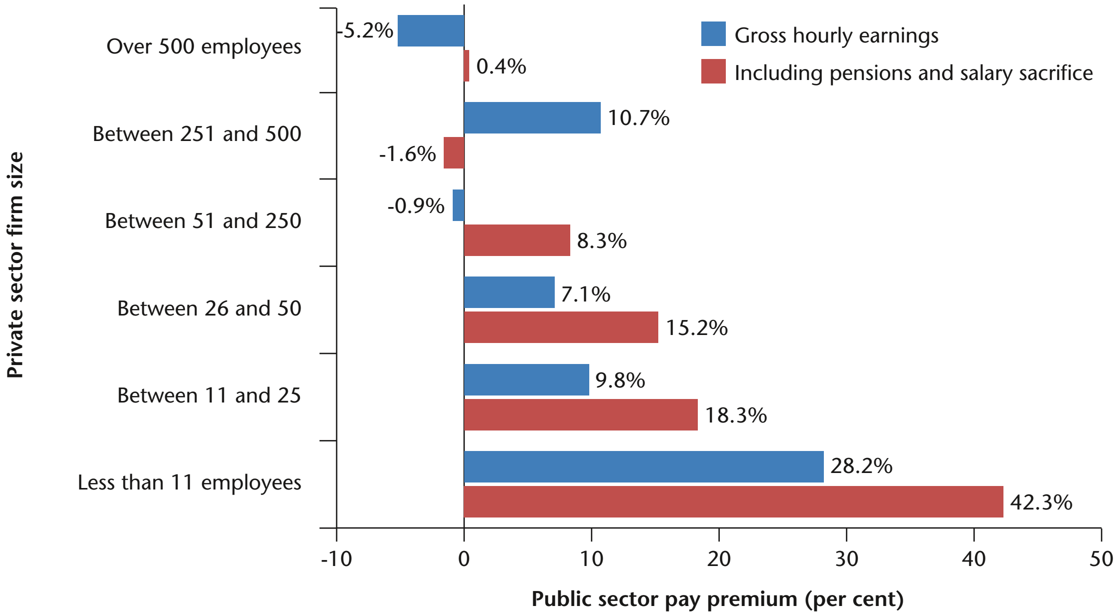
Comparing public and private sector senior pay

3.10 The overall picture of public and private sector average earnings does not take account of the types of jobs done in the public and private sectors – employees in the public sector tend to be higher qualified, concentrated in professional roles, and more experienced. The ONS undertook some analysis based on 2017 ASHE data which attempted to take account of these factors.[42] This showed that for employees in the upper skill occupational group, public sector employees were paid less than employees in large private sector firms, but more than employees in small (less than 50 employees) private sector firms (see figure 3.8). The private sector premium for large organisations disappeared when pensions were taken into account (with the value of pensions defined as the employer pension contribution).[43]

[42] This analysis controls for sex, age, region, full or part-time work, permanent or temporary status and job tenure. Source: ONS, Public and private sector earnings in the UK, 2017. See: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/analysisoffactorsaffectingearningsusingannualsurveyofhoursandearnings/2017

[43] This is less comprehensive than the measure of pensions we use in our analysis.

Figure 3.8: **Average percentage difference in mean hourly earnings of employees in upper skill occupations, public sector compared with private sector, UK, 2017**

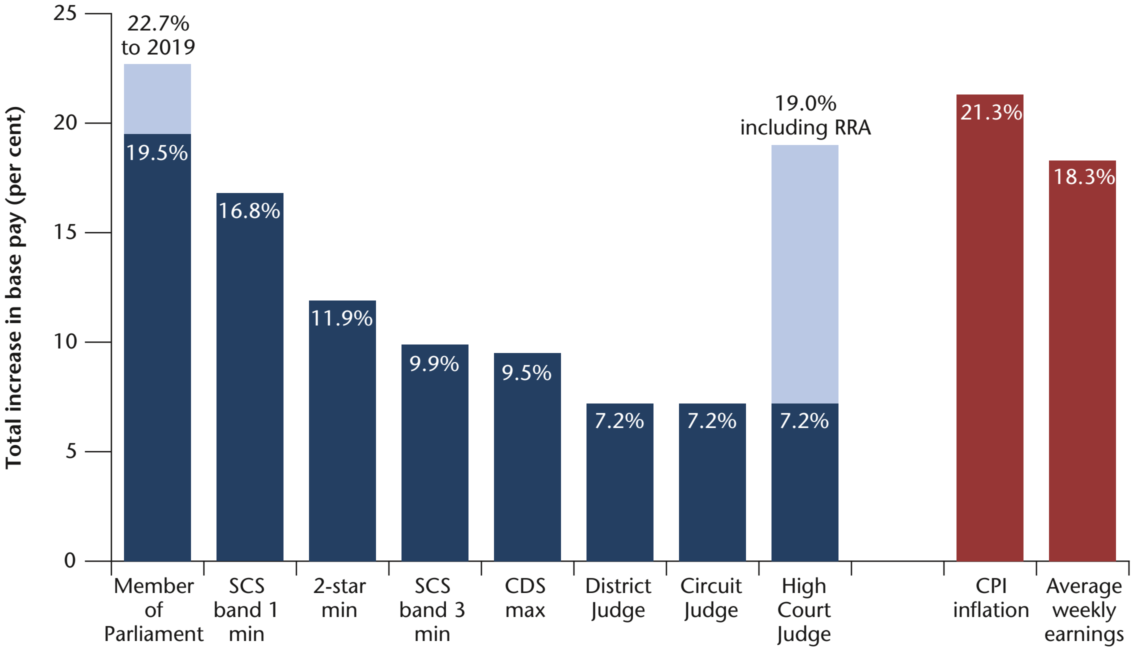


Source: ONS, Public and private sector earnings in the UK, 2017.

3.11 Figure 3.9 shows pay growth for some of the pay rates in our remit groups over the last decade (since 2009) and how this compares to inflation and average earnings, as well as to the growth in pay for Members of Parliament.[44] None of our remit groups have seen basic pay keep up with inflation or average earnings. High Court Judges in the 2015 New Judicial Pension Scheme received a temporary non-pensionable recruitment and retention allowance of 11 per cent from 2017. There is further analysis on trends in take-home pay and total net remuneration in Appendix A.

[44] Following a Report by the Independent Parliamentary Standards Authority, MPs' pay has been uprated in line with public sector average earnings growth since 2016. See: http://www.theipsa.org.uk/media/1272/mps-pay-in-the-2015-parliament-final-report.pdf

Figure 3.9: **Growth in basic pay, 2009 to 2018**



Source: SSRB Reports, 2010 to 2018; House of Commons Library briefing paper number 08535, Members' pay and expenses and ministerial salaries 2018-19; ONS, consumer price inflation (D7BT), quarter 2, 2008-18; average weekly earnings (KAB9), quarter 2, 2008-18.

Conclusions

3.12 GDP growth remains subdued compared to pre-recession levels and the future economic picture is particularly uncertain. The labour market is increasingly tight, with upward pressures on pay across the economy. While inflation is expected to remain close to 2 per cent, we note that our remit groups, in common with many other workers, have experienced an extended period of pay restraint and seen a significant erosion in the inflation-adjusted value of their remuneration packages over recent years.

Chapter 4

The Senior Civil Service

Summary

Background

4.1 For a number of years, we have highlighted the need for an urgent and fundamental review of the senior civil service (SCS) pay framework to address the serious flaws in the system. We have also highlighted that pay proposals have been too fixated on limiting basic annual pay increases and that there has been too little attention focussed on maximising outcomes for lowest cost.

4.2 In the evidence for our 2018 Report, the government presented the findings from its review of the SCS pay system and its proposals to move towards a future pay framework. This formed part of the government's vision for a future SCS workforce. This year, the government has provided further articulation of what a new framework would look like, stating that it wants a pay system which supports the senior leadership cadre in the civil service and meets the challenges of the future.

Government proposals for reform

4.3 The government said that its objective for this year's pay award was to move towards the new pay framework, aligned to the core principles it identified last year.[45] There was a particular focus on specialist pay, capability-based pay progression, Director General pay and performance management.

4.4 In its evidence, the government set out its commitment to developing a new pay framework. We recognise the inherent cultural and structural difficulties that need to be overcome to achieve this. In general, we welcome the direction of travel. However, we note a shortage of concrete proposals for structural reform. We would like to see:

- A greater pace of reform and more commitment to a timetable for implementing change.
- More urgent action in the short term to address long-standing problems, to alleviate low morale and to incentivise greater productivity through longer tenure in post.
- Simpler proposals which are easy to understand and implement, and avoid the risk of creating new problems.

4.5 In the last three years, we have become increasingly conscious of the tension between the centre of government wishing to control the pay system and the delegation of responsibility to departments. Following a request in our 2018 Report, the government set out in written evidence how it saw the system operating, with departments having the flexibility to address issues specific to their areas within centrally defined principles and Cabinet Office controls. We welcome this clarification but caution that the rules need to be clearly set out and mechanisms put in place to monitor adherence to them. Overall, we consider that there remains a lack of clarity between central control and departmental responsibility for SCS pay.

[45] The government's stated principles are: to move to a set of consistent pay ranges by professional grouping over time; to provide greater reward for high performers and those who develop capability by remaining in role; and to provide clearer rules and control on how people move through and around the SCS pay system.

4.6 In terms of the specific government proposals that have been made:

- We support the proposals to raise the minima and reduce the maxima for all pay bands. We have been encouraging the government to move in this direction for a number of years.
- We believe that the government continues to underplay the strong evidence of a problem with individuals moving roles too frequently *within* the SCS (also described as 'churn'). We understand the issue is under review. We think it should be prioritised and we therefore address this in our pay proposals.
- Churn is the main reason we wish to see faster progress in the development of a capability-based progression model. However, we strongly urge the government to keep the model simple, durable and accessible for the majority of the SCS. It should set achievable salary expectations and be easy to understand. This will support individuals remaining in post for longer, which is a key principle of the government's vision for a reformed SCS pay system. **The development of, and investment in, a credible, robust and simple pay progression system should be a priority for 2019-20 for implementation in 2020-21.**
- Specialist pay for those with highly marketable professional skills and qualifications in areas such as digital, data and technology (DDaT), finance or property is important. However, it affects a minority of the SCS. We believe that specialist pay needs to be addressed by departments within a centralised framework. We stress, however, that the development of specific specialist pay ranges or allowances should not take precedence over the establishment of a pay progression system applicable to all.
- We support the principle of non-consolidated awards to reward high performance and believe they should continue to be used where available. We welcome the removal of the forced distribution for performance management. However, we would like to receive more details of how the government plans to ensure oversight and control of the application of these awards to ensure fairness and consistency.
- We endorse the government's approach for Director General pay this year. This is on the proviso that the new pay committee is focused on handling the pay of individuals, while the SSRB retains the strategic and pay review role for the group as a whole.
- We would welcome further consideration of the Pivotal Role Allowance (PRA) process and whether it could be brought into line with the streamlined process for EU exit retention payments.

Pay recommendations for 2019-20

4.7 While recruitment remains stable overall, there are pockets of concern emerging. These include recruitment challenges in some specialist areas and concerns from the internal feeder group on whether the SCS remuneration package and the associated pension tax implications are worth the increase in responsibility. The effect of these concerns on internal recruitment to the SCS needs to be monitored closely, as the situation could change rapidly. We welcome signs that this is starting to be taken seriously.

4.8 In terms of SCS retention, there is no significant outflow. However, there continues to be strong evidence of a problem with internal churn. We are concerned about the effect of churn on SCS productivity, on the availability of expertise and on the ability of the SCS to lead and complete implementation projects effectively. Ultimately, churn leads to higher long-term costs, as quantified by the IfG Report.[46] The conclusions reached by the IfG echoed ones we have been highlighting for a number of years. **We think that the right**

[46] See: https://www.instituteforgovernment.org.uk/publications/moving-on-staff-turnover-civil-service

balance needs to be found between controlled movement between roles as part of a structured approach to developing talent and managing careers, and uncontrolled movement driven by individual preferences and higher financial reward. Pay incentives should align better to support that balance. We would like to see further evidence on this next year, including data on rates of controlled movement and rates of undesirable churn.

4.9 The remit letter from the Chancellor of the Duchy of Lancaster asked us to consider affordability.[47] The government told us that 1 per cent was budgeted for basic pay increases. The Minister for Implementation confirmed in oral evidence that some departments could afford up to 2 per cent. The government's evidence said that the headline figure for the SCS should not be higher than that agreed for the delegated grades. At the time of writing, we have not been advised what that figure is.

4.10 We note the absence of any marked recruitment and retention issues. However, there has been a prolonged period of pay restraint, during which our remit group has received pay awards below the increases in the cost of living. At present, the annual growth in public sector average weekly earnings is 2.6 per cent and the CPI inflation rate is 1.9 per cent.[48] We also note that the Minister for Implementation stated in oral evidence that below-inflation pay rises should not be accepted as the new norm. In addition, we are concerned that the morale of this remit group is low. There is an increasing sense that members feel undervalued by their employer and we are concerned that this may be damaging staff effectiveness. On the basis of all of these factors, it is our view that all eligible members of the SCS should get some form of pay award this year.[49] However, we believe that the pay award should be focussed on allocating funding to enable pay progression for those high performing members who have been developing capability, particularly those who have been stuck in the lower end of the pay range for some time.

4.11 **We therefore conclude that a 2.2 per cent increase in the SCS paybill is needed.** This paybill increase should be apportioned in order of priority as follows:

- 0.9 per cent of the paybill should be used to address pay progression and anomalies. This should be used to enable progression for those members who have been developing capability, who are low in their pay range and who have not seen significant pay rises in recent years. It also needs to address anomalies, including rewarding those with sustained high performance and who have increased their effectiveness and deepened their expertise. **Given that the priority for funding this year should be to address pay progression and anomalies, this allocation should be ring-fenced.**
- 0.2 per cent of the paybill should be used to increase the pay band minima.
- Those SCS members not benefitting from the increase to the minima (with the exception of those on performance improvement measures) should receive a 1 per cent pay award. We estimate this would represent an increase of 0.9 per cent to the paybill as it would not apply to everyone.[50]
- 0.2 per cent of the paybill should be allocated to help fund specialist pay. However, this is with the proviso that there is strong central control and consistency in how departments use these funds.

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47 See: Appendix D.

48 Annual growth in public sector average weekly earnings: 2.6 per cent (three months to February 2019). CPI inflation: 1.9 per cent (March 2019).

49 Those SCS members who are currently subject to performance improvement measures should not receive any increase in pay. Therefore, the recommendations should not be applied to these staff until they have exited such measures.

50 Those SCS members who benefit by less than 1 per cent from the minima increase should receive an additional consolidated pay award to make a total of 1 per cent.

4.12 We are grateful for the opportunity to see the emerging plans from the Cabinet Office for the development of a new SCS pay framework which they have shared with us over the last year. This engagement has been helpful to expose the government's thinking and we appreciate the effort and commitment that has gone into it. We look forward to receiving and discussing with the Cabinet Office more developed proposals on the structure and reform of the SCS pay framework over the next year. However, while we recognise the government's intention to implement a long-term vision, our Report stresses that some immediate steps are necessary to address the pay issues currently affecting the majority of the SCS.

Introduction

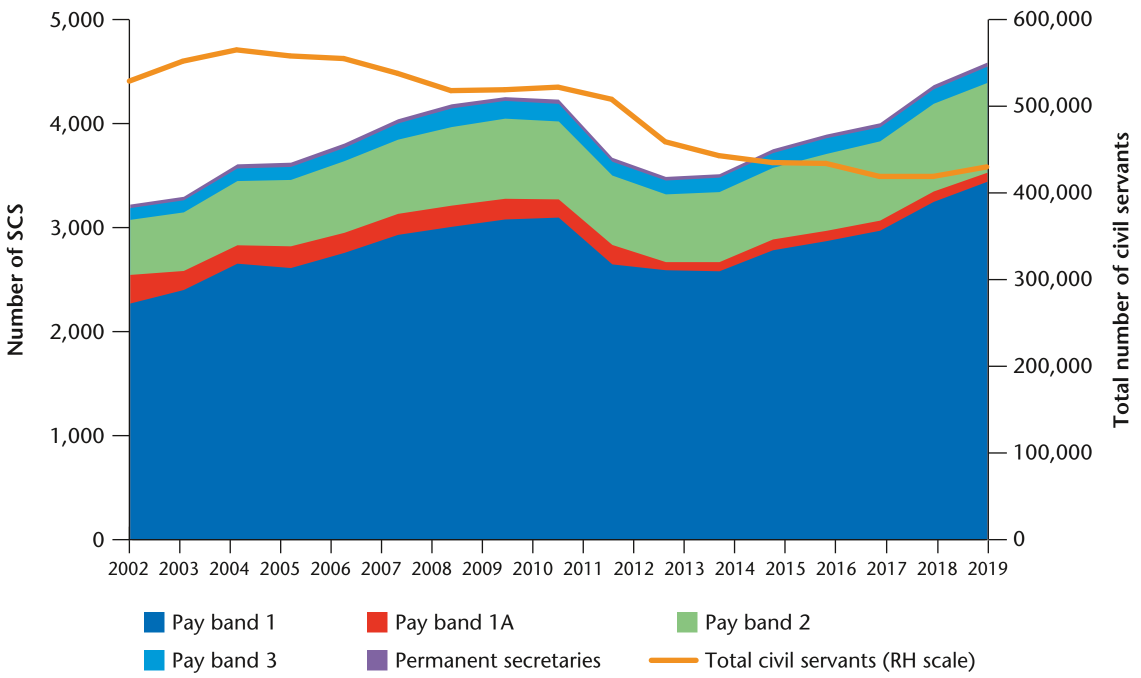
Structure of the chapter

4.13 We are grateful to the Cabinet Office for the quantity and quality of the data they have provided this year. The key findings and updates are presented in the main body of this chapter, with further detail provided in a data annex at the end of the chapter.

The remit group

4.14 In the first quarter of 2018, there were 4,589 members of the SCS, an increase of 322 (7.5 per cent) from 2017.[51] This is the largest the remit group has been since the SCS was created in 1996. There are now 94 civil servants for every member of the SCS, a ratio which has fallen steadily over the last 20 years from 170 civil servants for every SCS in 1998. Figure 4.1 shows the size of the remit group over time.

Figure 4.1: **Total SCS staff by grade (headcount), 2002 to 2018**



Source: SSRB Reports, 2003-18. ONS, Public Sector Employment by Sector, Civil Service, GB, headcount (G7D6), quarter 1.
Note; SCS numbers are UK based, while whole civil service numbers are GB only.

4.15 Overall, the SCS accounts for 1.1 per cent of the civil service. However, the proportion varies across departments from 14.5 per cent at the Northern Ireland Office to 0.3 per cent at the Department for Work and Pensions.

[51] The quarter 2 2017 SCS headcount in our 2018 Report was recorded as 4,374. Following a data cleansing exercise, this figure has been adjusted to 4,413.

4.16 The composition of the SCS in 2018 was as follows: [52]

- 69.2 per cent were based in London.
- 43.1 per cent were women.
- 5.7 per cent were from a Black, Asian and Minority Ethnic (BAME) background.

4.17 Around half of the SCS (50.3 per cent) have been in the remit group for less than four years. This figure is largely unchanged from 50.7 per cent in 2017. However, it is an increase from 43.8 per cent in 2015 and 46.6 per cent in 2016. The median tenure of SCS members in their current post remains at just under two years and the median time they have spent in their current pay band is just over three years.

4.18 In 2018, the government published recommendations on how employers can measure the socio-economic background in their workforce. The intention was to establish baseline socio-economic data for the whole of the civil service by March 2020.[53] We have previously requested data on the socio-economic background of the SCS to enable an analysis of socio-economic trends to be considered. **We therefore look forward to receiving this data, alongside a comparison to the wider civil service, in future years.**

Government Commercial Organisation

4.19 The government established the Government Commercial Organisation (GCO) in 2017 as the central employer of commercial specialists, with the aim of raising commercial capability across the civil service. The GCO has its own remuneration framework, which is designed to mirror the private sector, with a focus on higher base pay and performance related pay and reduced pension benefits. Staff on GCO terms have an approximate 20 per cent salary uplift relative to those received by civil servants.

4.20 All externally recruited members are placed on GCO terms and conditions. Internal applicants are assessed pre-appointment with those scoring an 'A' having a choice of transferring to GCO terms and conditions and staff scoring a 'B' remaining on existing civil service terms. As a result, staff in the GCO are either on GCO terms and conditions or remain on their existing terms (equivalent to SCS or grade 6 and 7 terms).

4.21 As of 30 October 2018, there were 341 people employed by the GCO, with 35 per cent of the eligible employees accepting GCO terms.[54]

SCS pay and the pay system

4.22 As shown in figure 4.2, the overall SCS paybill at 1 April 2018 was £531 million (an increase of 9.0 per cent over the previous year, due largely to the expansion in SCS numbers). This overall increase can be broken down as follows:

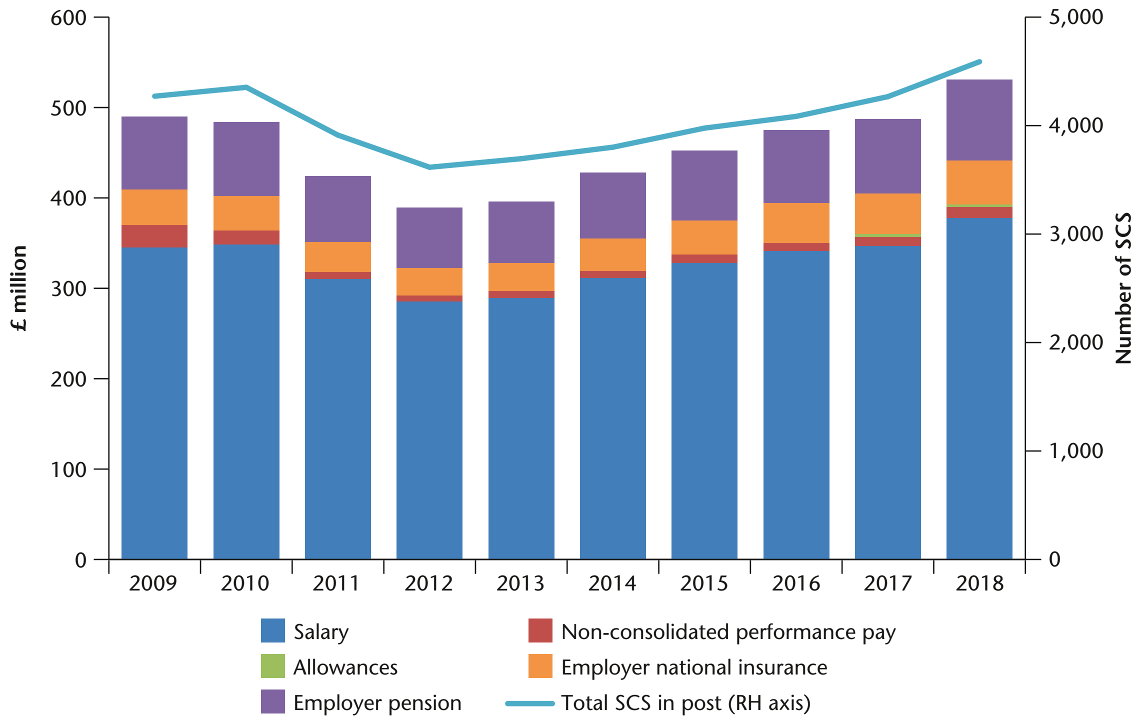
- An increase in the base paybill of 9.1 per cent, largely driven by the increase in numbers (although the increase in full-time equivalent base pay was only 1.7 per cent).
- An increase in non-consolidated performance pay of 11.4 per cent.
- An increase in employer national insurance payments of 8.6 per cent and an increase in employer pension contributions to HM Treasury of 8.4 per cent.

[52] Further details on the composition of the SCS are set out in the data annex.

[53] See: https://www.gov.uk/government/publications/socio-economic-background/socio-economic-background-seb

[54] This does not equate to 35 per cent of the GCO as not all members are eligible for GCO terms.

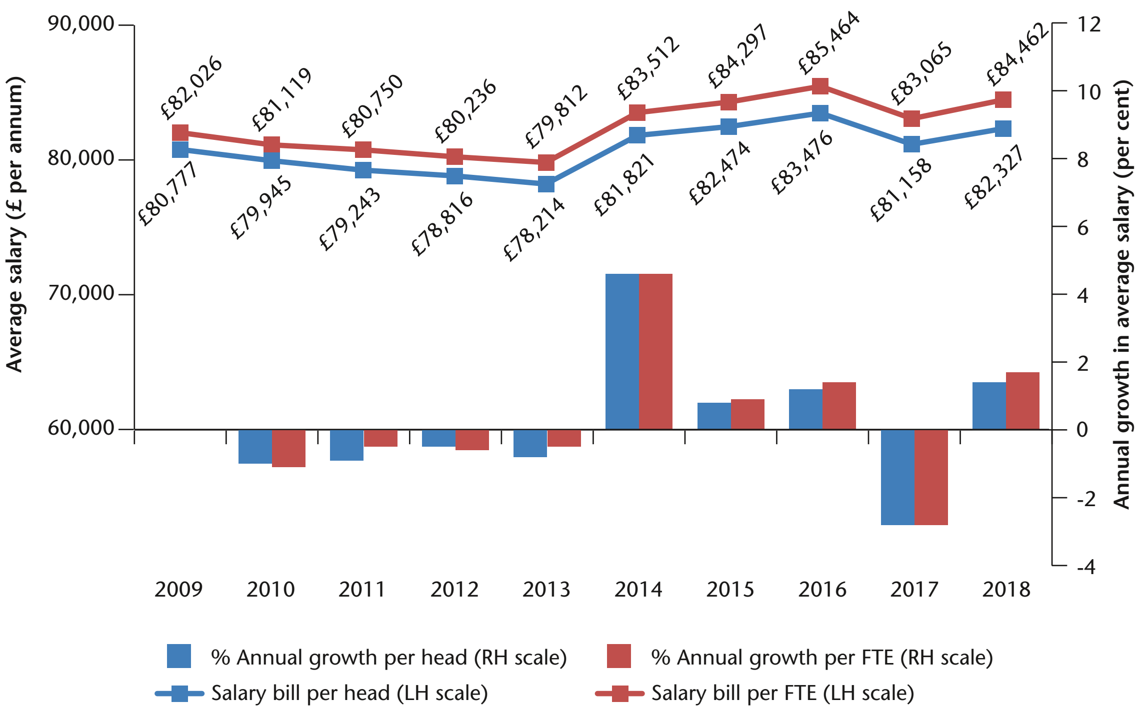
Figure 4.2: **SCS paybill, 2009 to 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.
Notes: Non-consolidated performance pay includes both in-year and end-of-year payments for 2017 and 2018 only. Prior to 2017, it refers to end-of-year payments only. Non-consolidated allowances are shown and available for 2017 and 2018 only. 2017 figures have been revised down since last year.

4.23 The increase in the paybill per full-time member of the SCS of 1.7 per cent between 2017 and 2018, followed a 2.8 per cent fall in 2017 (see figure 4.3). Average full-time pay increased from £83,065 to £84,462. This will have been affected by patterns of recruitment, leavers and grade restructuring, as well as pay increases for those in post.

Figure 4.3: **Average earnings in the SCS, 2009 to 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.
Note: Does not include employer national insurance or pension contributions and not adjusted for inflation

4.24 Table 4.1 presents the current SCS pay bands. It shows that the median pay level at each grade is towards the bottom end of the scale.

Table 4.1: **SCS pay bands and median pay by pay band, 2018-19**

Pay band	Number in pay band	Pay band minimum £	Pay band maximum £	Median salary (excl. bonus pay) £
1 (Deputy Director)	3,440	68,000	117,800	76,200
1A (Deputy Director)	87	68,000[1]	128,900	80,000
2 (Director)	863	90,500	162,500	99,800
3 (Director General)	156	111,500	208,100	134,500
Permanent Secretary	40	150,000[2]	200,000	167,500[3]
Total	**4,586**[4]			

1 The minimum for pay band 1A was increased in line with the increase to pay band 1 following a recommendation by the SSRB. The government has restated in its evidence that this is a closed grade and departments should not recruit into it. Pay band 1A is discussed further in paragraph 4.25
2 The Permanent Secretary minimum is taken as the bottom of the Permanent Secretary tier 3 pay band and the maximum is the top of the tier 1 pay band.
3 Midpoint of £5,000 pay band. Calculated from Cabinet Office figures.
4 This figure is lower than the total of SCS members in paragraph 4.14 because it excludes three members who are not assigned to pay bands.
Source: Cabinet Office supporting data to the SSRB, unpublished.

4.25 In our 2018 Report, we highlighted that the number of SCS members in pay band 1A continued to increase despite recruiting restrictions imposed since April 2013. The government subsequently carried out a review. In 2018, there were 87 SCS members in pay band 1A, a decrease of 27 in comparison to 2017. The government said departments will continue to re-categorise pay band 1As to pay band 1 and it is confident that the grade will become obsolete over the coming years.

4.26 Table 4.2 shows the salary distribution of SCS members and how individuals are clustered toward the bottom end of the pay ranges. In 2018, around three-quarters of SCS in pay band 1 were paid below £86,000 which would be the midpoint of the proposed pay band. In pay band 2, close to 70 per cent of SCS are below the proposed midpoint of £114,000. In pay band 3, around 60 per cent are below the proposed £141,500 midpoint.

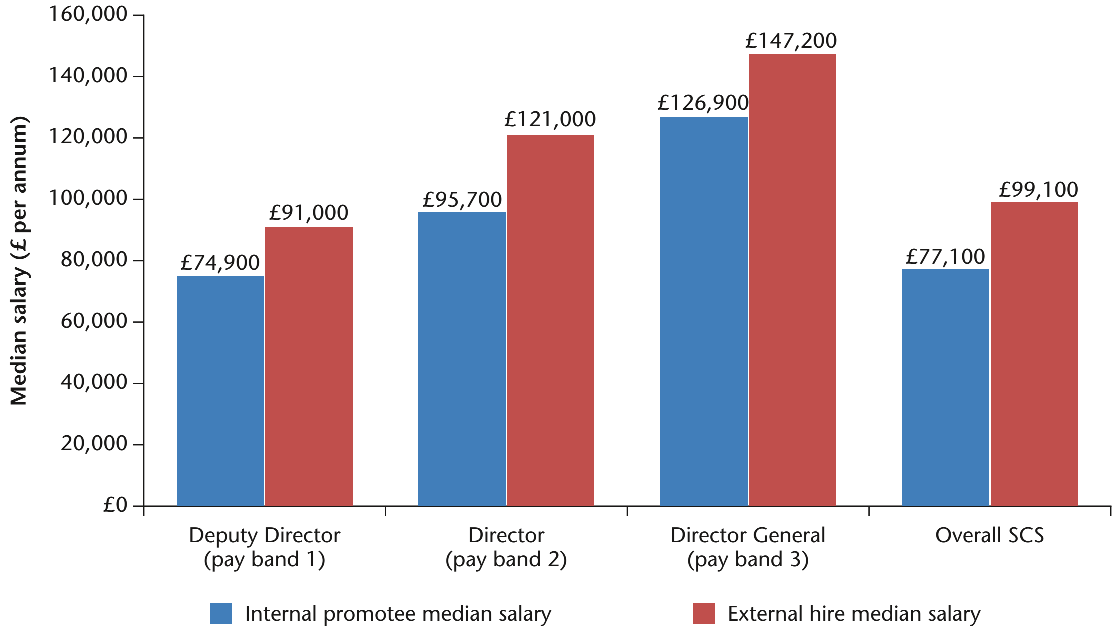
Table 4.2: **Distribution of SCS members by £10,000 salary band, 1 April 2018**

Salary range	Deputy Director (pay band 1)		Director (pay band 2)		Director General (pay band 3)	
	Number	Cumulative proportion	Number	Cumulative proportion	Number	Cumulative proportion
£70,000 or less	560	16%				
£70,001-£80,000	1,650	65%				
£80,001-£90,000	600	83%	10	1%		
£90,001-£100,000	370	94%	410	51%		
Over £100,000	220	100%				
£100,001-£110,000			110	64%		
£110,001-£120,000			100	76%	20	13%
£120,001-£130,000			80	86%	40	40%
£130,001-£140,000			60	93%	30	60%
£140,001-£150,000			30	96%	20	73%
Over £150,000			30	100%	40	100%
Total	3,400		830		150	

Source: Cabinet Office supporting data to the SSRB, unpublished.

4.27 There continued to be a substantial pay differential between members of the SCS who were promoted internally and those who were recruited externally, as shown in figure 4.4. The gap in median base pay between internal promotees and external hires across the SCS as a whole in 2018 was 28.5 per cent, having closed marginally from 29.1 per cent in 2016. Although these roles are not like for like, the difference is not wholly accounted for by the recruitment of those with specialist skills and experience on specialist pay rates. The difference was substantial in all pay bands – 21.5 per cent in pay band 1, 26.4 per cent in pay band 2 and 16.0 per cent in pay band 3.

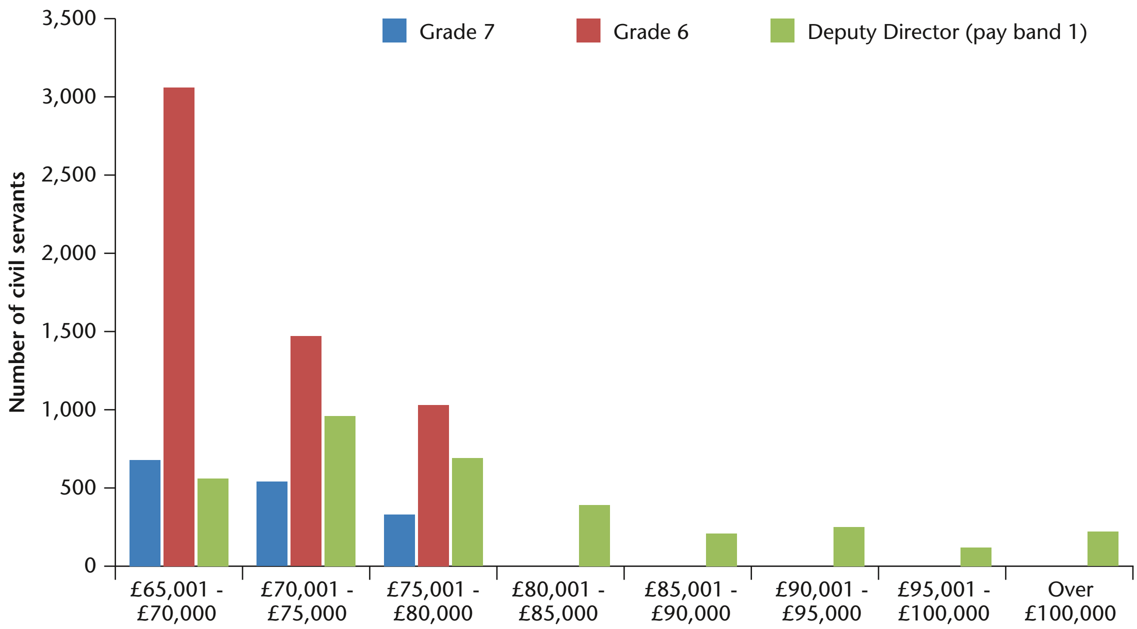
Figure 4.4: **Current SCS median base salaries for internal promotees and external hires, 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.28 Figures from the Cabinet Office show that, as at 31 March 2018, there were 4,630 civil servants below the SCS who were paid more than the SCS pay band minima of £68,000. Figure 4.5 illustrates the substantial overlap in salaries of pay band 1 with the two grades below. This means that a considerable proportion of those in SCS pay band 1 are managing people paid more than them. This underlines the problem of the lack of any pay progression.

Figure 4.5: **Distribution of SCS pay band 1, grade 6 and grade 7 salaries, April 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.29 The best performing 25 per cent of the SCS are eligible for non-consolidated performance awards.[55] Such awards are capped at £17,500. In addition to end-of-year non-consolidated awards, departments have the flexibility to recognise outstanding contribution by making in-year, non-consolidated awards to up to 20 per cent of SCS staff.[56] All non-consolidated bonuses are limited to 3.3 per cent of the organisation's SCS paybill.

4.30 As set out in paragraph 4.19, the GCO has its own remuneration framework. Table 4.1 below sets out the GCO pay ranges.

Table 4.3: **Government Commercial Organisation pay ranges by specialist level, 2018-19**

Specialist level	Number at each specialist level on GCO terms	Base pay minimum £pa	Base pay maximum £pa
Commercial lead (grade 7 equivalent)	10	58,176	74,000
Associate commercial specialist (grade 6 equivalent)	70	65,000	96,909
Commercial specialist (SCS pay band 1 equivalent)	55	90,000	131,300
Senior commercial specialist (SCS pay band 2 equivalent)	30	130,000	193,819

Source: Cabinet Office, supporting data to the SSRB, unpublished.
Note: Numbers are rounded to nearest five.

Pension schemes

4.31 Of all civil servants that are in a pension scheme, around three-quarters (78 per cent) are now in the career average, defined benefit Alpha pension scheme introduced in April 2015. This proportion has increased from 69 per cent in 2017. Those within 10 years of their normal retirement age at 1 April 2012, which was at age 60 or 65 in previous schemes, have remained in legacy schemes, usually the Premium or Classic final salary schemes. Others have transitioned to Alpha since April 2015, or will do so in future.

4.32 The Partnership pension scheme, a defined contribution scheme, was introduced in October 2002 as an alternative to the main pension scheme arrangements for new joiners. Eligibility was restricted by joining date. From April 2018 all civil servants were able to switch to Partnership if they wished. However, only a small proportion have done so: 3.0 per cent of those earning over £70,000 have taken up this option, compared to 2.2 per cent of all civil servants.

[55] See: paragraph 4.97 for proposed changes to the performance management system, including removal of the restriction on the number of SCS being placed in the top performance box.

[56] The proportion of SCS staff eligible for these awards was increased from 10 to 20 per cent in 2018.

Table 4.4: **Civil service pension scheme membership, November 2018**

	Salary (FTE)			
Scheme	**Up to £70,000**		**Over £70,000**	
Alpha	373,300	78.1%	7,400	74.7%
Nuvos	4,900	1.0%	200	2.0%
Premium	67,800	14.2%	1,500	15.2%
Classic plus	2,300	0.5%	100	1.0%
Classic	20,000	4.2%	600	6.1%
Partnership	10,300	2.2%	300	3.0%
All	478,200		9,900	

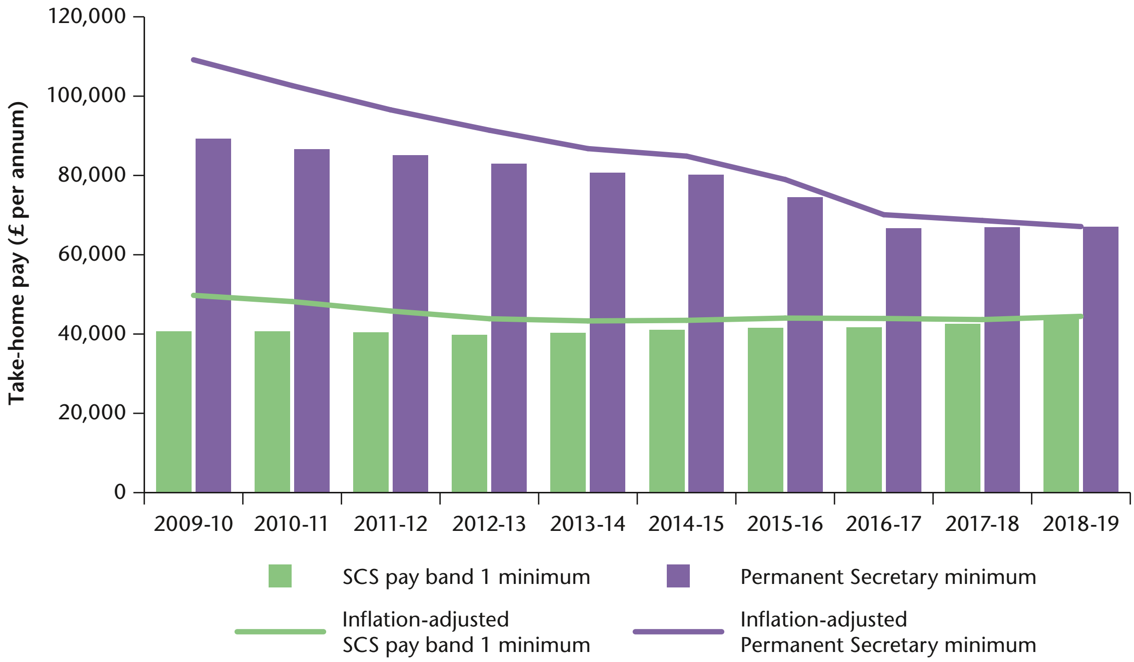
Source: Cabinet Office written evidence.
Notes: Includes all civil servants, not just SCS.
Contribution rates are 4.6 per cent for those earning up to £21,636, 5.45 per cent for those earning £21,637 to £51,515, 7.35 per cent for those earning £51,516 to £150,000 and 8.05 per cent for those earning £150,001 and above. Members can choose how much they contribute to the Partnership scheme.
Columns may not add up due to rounding.

Remuneration analysis

4.33 Figure 4.6 models take-home pay for the pay band 1 and the Permanent Secretary pay band minima over the period 2009-10 to 2018-19. Take-home pay is defined as annual gross pay (base pay plus any allowance) less employee national insurance contributions, income tax, employee pension contributions and any annual allowance tax charge. This analysis uses the pay band minima because it enables a single point to be tracked over time. This does not reflect the experience of individuals, who may have started the period above the minimum, but experienced lower pay growth.

4.34 Take-home pay for the pay band 1 minimum increased by 9.3 per cent over the period 2009-10 to 2018-19. This increase was due to a combination of basic pay increases and a higher personal tax allowance. This was offset by higher pension contributions. Take-home pay for the Permanent Secretary minimum fell by 24.8 per cent over the period, as this group was hit by the income tax personal allowance taper and the pension annual allowance by the end of the period. These latter two factors meant this group was facing very high marginal tax rates. Inflation over the period was 22.3 per cent, so the pay band 1 minimum saw a fall in take-home pay of 10.6 per cent after adjusting for inflation, while the Permanent Secretary minimum saw a fall in take-home pay of 38.5 per cent.

Figure 4.6: **Take-home pay for pay band 1 and Permanent Secretary minima, 2009-10 to 2018-19**

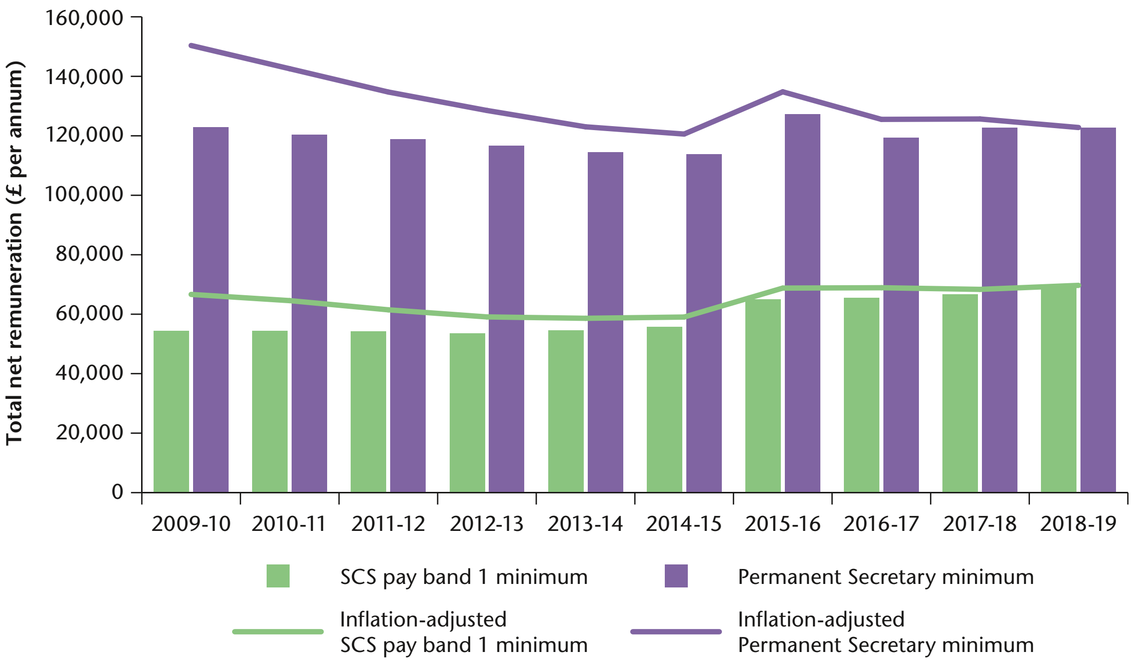


Source: OME analysis, see Appendix A.

4.35 Figure 4.7 models total net remuneration, which we consider to be the most comprehensive, and therefore the most appropriate, measure of remuneration because it takes account of both taxation and pension contributions, as well as pension benefits accrued in the year.[57] Total net remuneration increased in 2015-16 for these groups, as the new pension scheme has a higher accrual rate. The pay band 1 minimum saw a rise in total net remuneration of 27.9 per cent over the period, or 4.6 per cent when adjusted for inflation. The higher pension accrual was not enough to offset the higher pension contribution and pension taxation for the Permanent Secretary minimum salary, which saw a fall in total net remuneration of 0.1 per cent, or 18.3 per cent when adjusted for inflation.

[57] See: Appendix A for further details of the method and assumptions used.

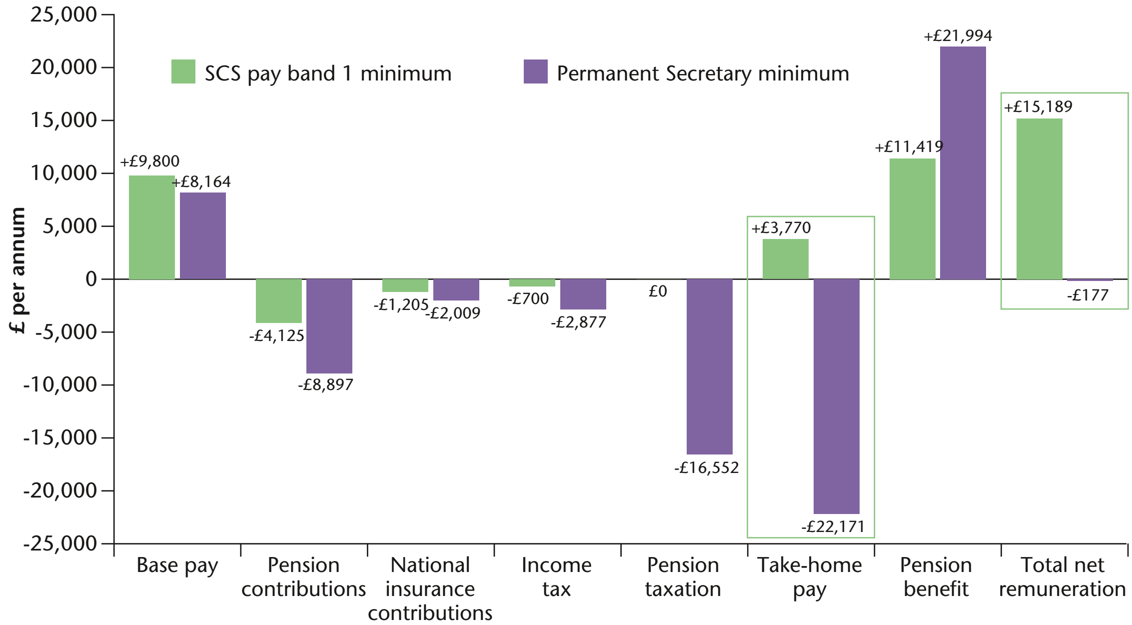
Figure 4.7: **Total net remuneration for pay band 1 and Permanent Secretary minima, 2009-10 to 2018-19**



Source: OME analysis, see Appendix A.

4.36 Figure 4.8 shows how the reduction in take-home pay due to higher pension contributions was more than offset by the increases to the pay band 1 minimum over the period. Total net remuneration for both roles was enhanced by the higher pension value due to the higher accrual rate, but this was not enough to offset the pension tax and higher contributions for Permanent Secretaries. This in-year analysis does not take into account either the increased pension age or the lifetime allowance, both of which would lower the lifetime value of total remuneration.

Figure 4.8: **Make-up of the change in total net remuneration for the SCS, 2009-10 to 2018-19**



Source: OME analysis, see Appendix A.

Government response to our 2018 recommendations

4.37 The government said that it accepted most of our 2018 recommendations in principle, as follows:

- A consolidated award of 1 per cent to all SCS members.
- An increase in the minima for pay bands 1, 2 and 3.
- Agreement in principle that pay band maxima should be reduced. However, it said further consultation was needed before taking this forward.

4.38 However, the government did not accept our recommendation for an additional consolidated 1.25 per cent to be allocated and distributed to SCS members to reward those with sustained high performance and who had increased their effectiveness and deepened their expertise, in particular those staff who were relatively low in the pay range. The government accepted the recommendation to set aside further money to address such pay anomalies. However, it said that 1.25 per cent would significantly move away from the coherence with the approach for the delegated grades and reduced the figure to 0.25 per cent.

4.39 The recommendations we made in our 2018 Report were designed to address issues and anomalies which had arisen in SCS pay from an extended period of pay restraint. We were disappointed that the government prioritised funding of an overall pay award over addressing anomalies in the pay range. The SSRB would have placed more emphasis on addressing anomalies than on an across-the-board pay award and would have liked this to have been reflected in the government's application of the award.

4.40 A further unfortunate consequence of applying the award in this way was that, in reducing the anomalies pot and increasing the pay band minima, the pay differential between new SCS members and those high performing SCS members who were low in the pay range decreased.

4.41 In practice, the use of the anomalies pot varied across departments. Only 13 out of 18 departments made explicit use of it. Five did not use it at all.

4.42 Table 4.5 sets out the observations we made in our 2018 Report and our interpretation of the subsequent response to them.

Table 4.5: **The SSRB's observations in the 2018 Report**

The SSRB's observations	The government's response
The government must create a salary progression process within new pay ranges, which rewards sustained high performance, deepening expertise and increasing effectiveness. This needs to be a priority for 2019.	There are no proposals for a pay progression model this year. However, consideration of one is underway with an undertaking that a full proposal will be provided in the 2020 evidence.
The new minimum for pay band 1 is applied to pay band 1A. The government must consider its approach to pay band 1A and provide a clear proposal on the future of this grade in the next pay round.	Confirmation that recruitment to pay band 1A has stopped. The 2017 increase in numbers was down to data classification issues. Pay will be increased in line with that of pay band 1.

The SSRB's observations	The government's response
A fundamental review of the performance management system is long overdue.	A review of poor performance was conducted. There was not a holistic review of the performance management system. The government has proposed some interim changes for 2018-19 with a new performance management system scheduled for implementation in 2020-21.
A central audit process should be implemented to ensure fair and consistent application of the in-year and corporate recognition awards. We would also like to see evidence of the use of in-year awards and the corporate recognition scheme in future years and for these awards to be reviewed as part of the review of the performance management system.	The Cabinet Office provided details of the application of each element of the pay award across departments. This highlighted variances in the application of the awards.
We look forward to receiving more detailed data in future evidence to enable us to comment on, and make recommendations for, the GCO.	Further evidence on the GCO was included in the 2019 evidence. No proposals were made but the Cabinet Office confirmed that the GCO is within the SSRB's remit and stated that future proposals would be put to the SSRB.
The government needs to determine and clearly articulate, the system that it wants, whether that be a centralised management of the workforce, delegation to departments or a specified balance between the two. It then needs to ensure that mechanisms are in place to manage it, that the rules are communicated and understood, and that there is accountability for them. If a significantly decentralised route is taken, it will need to carefully consider how the SSRB can best play an effective role in advising on SCS pay.	The government evidence seeks to articulate its vision for the management of the system. It says that departments need flexibility to manage their business and operational priorities effectively within centrally set guidance and rules.
There should be no additional centralised pay controls put in place. However, it is important that current controls are enforced to ensure equitable treatment.	Further controls to restrict pay rises on movement around the system were implemented.

4.43 The government said that the Permanent Secretaries Remuneration Committee had made awards in line with the SCS for 2018, namely:

- A 1 per cent flat rate increase was made to those in the top two performance groups.
- 0.25 per cent was used to increase the minimum of tier 2 from £160,000 to £162,500.
- 0.25 per cent was used to increase the salaries of five well-established and strongly performing Permanent Secretaries in tier 2 who, following the increase to the tier 2 minimum, were now only just above the new minimum.

Context to our 2019 review

4.44 In its written evidence, the Cabinet Office noted that, while the public sector 1 per cent pay policy had been lifted, the last Spending Review had budgeted an average 1 per cent increase in basic pay and progression pay awards for specific workforces. There would still be a need for pay discipline over the coming years to ensure affordability of public services.

4.45 In both written and oral evidence, the Cabinet Office set out further details of the government's ambition to professionalise the civil service and its core capabilities. These were based on the 28 recognised professions in the civil service and 13 functions.[58] The government said that it expected all SCS roles to be aligned to a profession.

4.46 The written evidence also set out a number of wider developments to the SCS workforce. These included:

- The Civil Service Leadership Academy completed its first year in operation. The Academy offers events and learning interventions to support the development of leadership skills.
- The development of career frameworks and career pathways for 10 priority professions.
- The introduction of a new 'Success Profile Framework' for use during recruitment in order to attract and retain people of talent and experience from a range of sectors. This replaced the competency-based system of assessment.

2019 proposals

Government proposals

4.47 The government reiterated its vision for a future SCS workforce and the three principles around which the SCS pay framework was being reformed:

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

4.48 In its evidence the government made the following pay proposals:

- For pay bands 1, 2 and 3, the minima to be increased (at a cost of 0.2 per cent of the SCS paybill) and the maxima to be decreased, resulting in the pay ranges set out in table 4.6.

[58] A function delivers a defined and cross-cutting set of services through roles, standards and processes to a department and the civil service as a whole. Strong central leadership within a function sets the standard for quality of delivery in departments. Examples of functions include commercial, finance, human resources and legal. A profession is a group of individuals with common professional skills, experience and expertise. In many cases the profession may be linked to a professional body that regulates membership and governs accreditation. The profession provides a career anchor for individuals and acts as a body to guide professional development and progression. Examples of professions include corporate finance, government economic profession, and digital, data and technology profession.

Table 4.6: **Proposed pay ranges for 2019-20**

	Pay band minimum		Pay band maximum	
Pay band	**Current £pa**	**New £pa**	**Current £pa**	**New £pa**
1	68,000	70,000	117,800	102,000
2	90,500	92,000	162,500	136,000
3	111,500	115,000	208,100	167,500

Note: Increases to pay band 1 will also apply to pay band 1A.

- The headline figure should not be higher than that agreed for the delegated grades.[59] However, at the time of writing, we have not been told what this figure is.
- The majority of the award should be targeted to address current and future problems and priorities.
- End-of-year non-consolidated performance awards, capped at £17,500, should be made to those assessed as top performers, with the previous restriction that this be limited to 25 per cent of the workforce to be lifted this year. Departments also have the flexibility to make in-year awards up to £5,000, restricted to only 20 per cent of the SCS. The cost of these two payments should be limited to 3.3 per cent of the SCS paybill.

4.49 Other plans outlined in the government's evidence included:

- Development of a new approach to specialist pay, including specialist pay ranges for 'market-facing' and 'niche' roles.
- Establishment of a pay committee to oversee the implementation of the individual Director General pay, including recommendations made by the SSRB.
- Development of a capability-based reward system.
- Introduction of changes to the PRA process.

4.50 We did not receive any specific proposals to address the core issues of promotion (or level transfer) being seen as the only way to get a pay increase, or internal market issues and 'job hopping', which had been identified in the Cabinet Office's 2017 review of the SCS pay framework. Last year, the government proposed to restrict pay increases for moves on level transfer and to restrict pay increases on promotion as a response to these core issues. We have not been supplied with any evidence as to how effective these pay controls have been but note that they were only introduced in the autumn of 2018.

4.51 We did not receive any specific proposals in relation to Permanent Secretaries or the GCO this year. In its written evidence, the government confirmed that those in the GCO on both GCO terms and SCS terms were within the remit of the SSRB. It confirmed that proposals on their remuneration will be shared with the SSRB in future and the GCO pay cycle would be adjusted to enable evidence to be incorporated in the government's next submission to the SSRB.

Other proposals

4.52 In their evidence, the FDA and Prospect proposed:

[59] According to the Civil Service Pay Guidance 2018-2019 the headline figure was for average pay awards. We note that this is different to the headline figure for the SCS which is for paybill costs.

- That transition to new pay ranges should be paused until the performance management framework is replaced.
- That the proposals to reduce the pay maxima for all pay bands should be rejected.
- That greater clarity on the correct level of flexibility for departments was needed, as well as on how the interface between professions will work and on consideration of the specific needs of the devolved nations of Scotland and Wales.

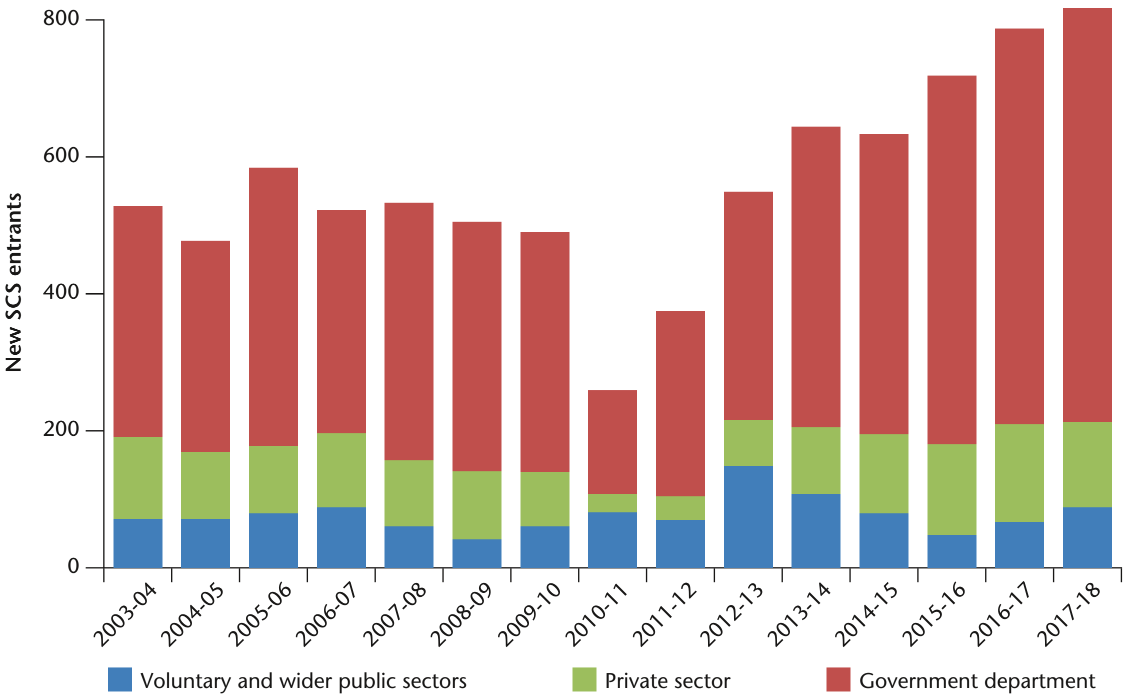
Evidence

4.53 We received written and oral evidence from the Cabinet Office, the FDA and Prospect and the Civil Service Commission (CSC). We also heard directly from members of SCS pay bands 1, 2 and 3 and held separate sessions for those working in the Scottish and Welsh governments. An additional session was held with members of the Future Leaders Scheme (FLS), a group identified as having the potential to become members of the SCS. Those already in the SCS talked about their experiences and gave their views on pay and conditions. The FLS participants talked about their SCS aspirations and the factors influencing them.

Recruitment

4.54 The number of new entrants to the SCS in 2017-18 was the highest since at least 2003-04. The majority of the SCS are in pay band 1, and are drawn primarily from within the civil service. Recruitment trends over time are shown in figure 4.9. Of those joining the SCS in 2017-18, 74 per cent were already civil servants (up from 73 per cent in 2016-17), with 15 per cent from the private sector (down from 18 per cent in 2016-17) and the remaining 11 per cent from the voluntary and wider public sectors (up from 9 per cent in 2016-17).

Figure 4.9: **New SCS entrants, by previous employment sector, 2003-04 to 2017-18**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.55 The proportion of the SCS recruited externally varies greatly by profession. Fewer than 10 per cent of those working in the areas of statistics, legal and policy were recruited externally while over 40 per cent of those in commercial, property, DDaT and knowledge and information management roles were new entrants to the civil service.

4.56 The government said that in some areas, for example in the DDaT profession, the SCS was failing to compete effectively with the external market for senior specialist skills, even when the maximum salary was offered. As at 1 May 2019, three professions had submitted business cases which identified specific roles within their areas facing recruitment and retention issues.[60] In oral evidence, the Civil Service Chief Executive acknowledged that high levels of external recruitment at senior levels in specialist areas could not be sustained in the long run and that the internal pipeline needed to be developed.

4.57 The CSC, which chairs selection panels for all externally advertised competitions at SCS pay band 2 and above, gave the following update on recruitment:

- There were competitions for 164 posts in 2017-18, a slight increase from 162 in 2016-17 and 158 in 2015-16.
- All but six of the 2017-18 competitions were open to candidates from both inside and outside the civil service.
- The 164 competitions resulted in 159 appointments.

4.58 The quality of appointees remained high. Candidates assessed as appointable are classed as 'outstanding', 'very good', 'clearly above the minimum appointable level', or 'acceptable'. Of those appointed in 2017-18, 71 per cent were graded as 'outstanding' or 'very good', largely unchanged from 2016-17, when the corresponding figure was 70 per cent.

4.59 Of the 164 posts filled in 2017-18, 31 per cent only had one appointable candidate identified, a decrease from 42 per cent in 2016-17. The CSC concluded in its written evidence that the civil service did not have difficulty filling its senior roles as only 3 per cent of vacancies were unfilled in 2017-18. However, it did state that while there was no hard evidence, pay was mentioned by Commissioners as a possible constraining factor in some competitions.

Retention

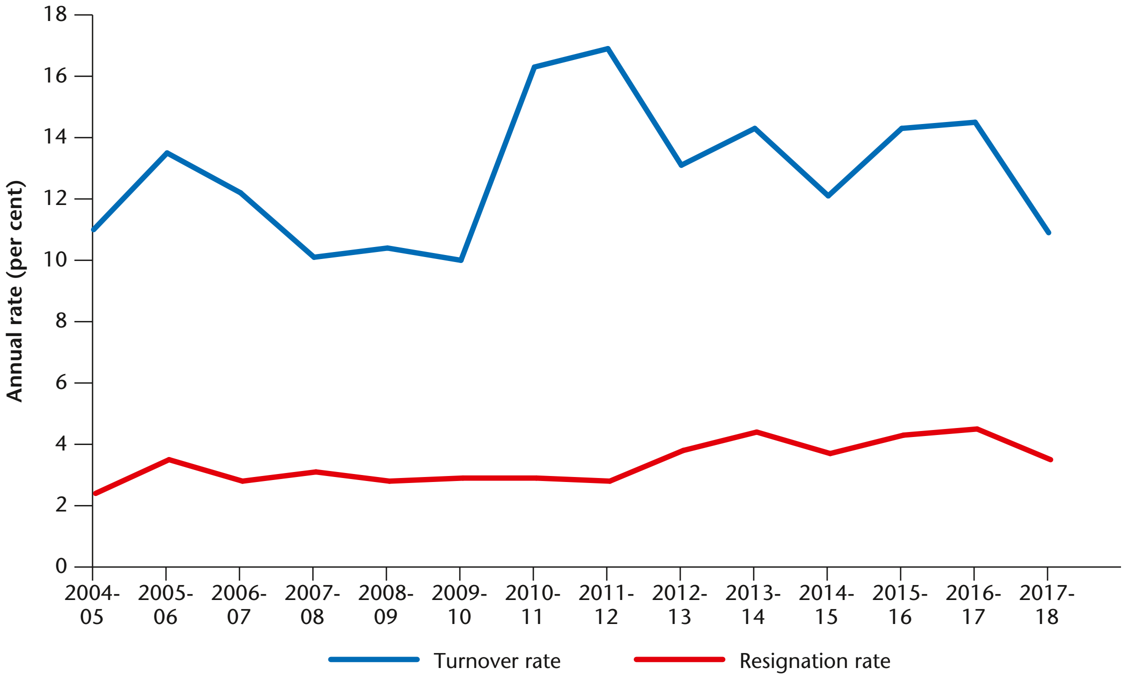
4.60 In 2017-18, the total external turnover rate for the SCS was 10.9 per cent, a decrease from 14.5 per cent in 2016-17 and 14.3 per cent in 2015-16.[61] This was the lowest it had been since 2009-10. In comparison, the turnover rate for the civil service as a whole was 7.2 per cent.

4.61 In 2017-18, the resignation rate for the SCS was 3.5 per cent, a decrease from 4.5 per cent in 2016-17. In comparison, the resignation rate for the civil service as a whole was 3.3 per cent. These rates are low and we note that in some areas of the private sector, such low rates would be considered worrying.

[60] Business cases had also been received for niche senior Ofsted inspector roles and Chief Scientific Advisors.

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

Figure 4.10: **SCS annual turnover and resignation rates, 2004-05 to 2017-18**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.62 While external turnover rates remained stable, the Minister for Implementation said in oral evidence that internal turnover (i.e. staff moving between different roles and different departments) was high and was a problem that needed to be addressed. As noted in paragraph 4.17, the median tenure of SCS members in their current post remains at just under two years. This underlines the effect of high turnover on productivity.

4.63 This issue was echoed in a report by the IfG on staff turnover in the civil service, published in January 2019. The report, which reiterated issues previously raised by the SSRB, highlighted that in some areas of the civil service, including the SCS, staff turnover was at a consistently high level. Increasingly, this was due to internal job movement, both between roles and departments. It found that the main drivers behind this churn was Whitehall's open internal jobs market coupled with managers' inability to reward those who stay in post. Movement of staff around Whitehall appeared to be largely unplanned, driven by individuals' perceptions of how they can most quickly advance their career and raise their salaries rather than where the organisation needed skills and experience.[62]

4.64 In every year since at least 2004-05, those who were previously promoted into the SCS from within the civil service were less likely to leave than those recruited externally. In 2017-18, 9.8 per cent of internal promotees left the SCS, compared with 14.8 per cent of those hired externally. However, this difference may result from those externally hired only intending to spend a relatively short period in the civil service before returning to the wider labour market. Further details of the variations in turnover and resignation rates are set out in the data annex to this chapter.

4.65 Following a recommendation from the SSRB, the government has been conducting exit interviews with those leaving the SCS since 2015. Between October 2017 and September 2018, data was collated from 77 SCS exit interviews (52 per cent of total resignations for this period). This was largely unchanged from the previous year, when 83 interviews were conducted. We note that the Cabinet Office has reviewed this process and introduced new interview forms, on which we were given the opportunity to comment.

[62] See: https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_staff_turnover_WEB.pdf

We understand that this is therefore a transitional year and we look forward to receiving improved data in this important area next year.

4.66 For the second year running, the top reason for leaving related to career development and the second highest reason related to how pay compared with other organisations. Full details are given in the data annex (figure 4.20).

4.67 Of those completing exit returns in 2017-18, 50 per cent were defined as 'regrettable losses'.[63] This figure was broadly consistent with 46 per cent in 2016-17.

Morale and motivation

4.68 We received evidence from two different surveys of the SCS conducted in 2018. One was the Civil Service People Survey for the whole civil service run by the Cabinet Office. The other was the FDA and Prospect survey of their SCS membership. While neither of these surveys are a perfect measure of morale and motivation, the data remains useful and worthy of comment.

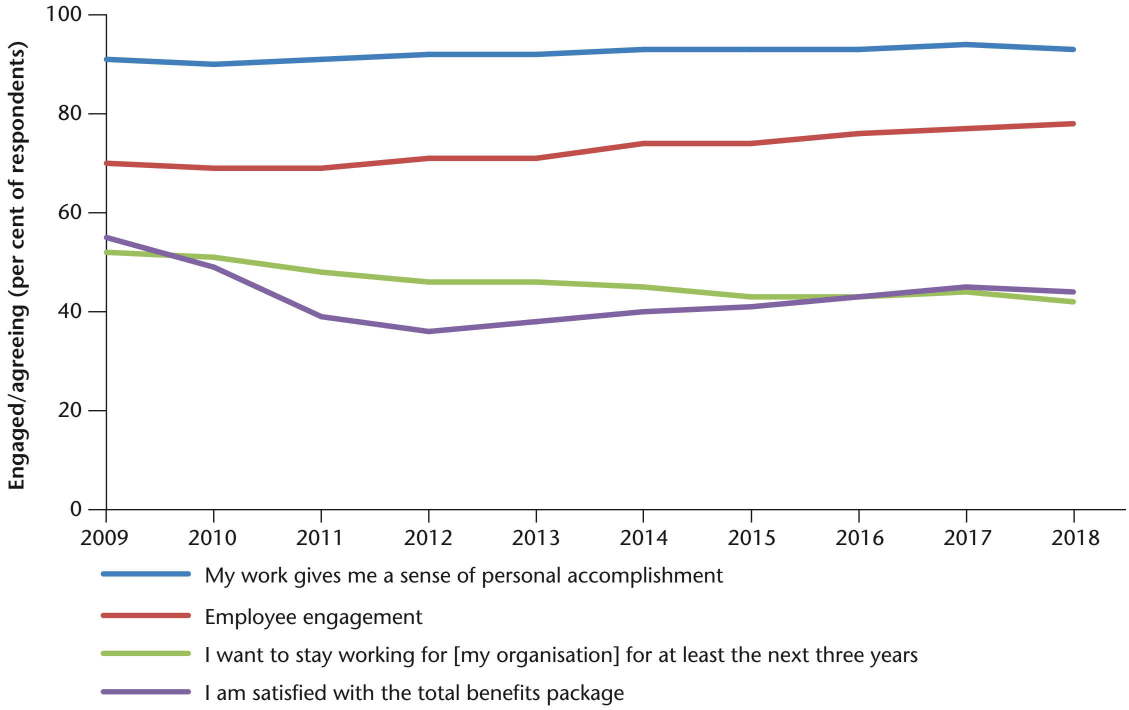
4.69 The engagement index[64] of 78 per cent for the SCS was largely unchanged from last year (77 per cent) having steadily increased since 2009 (70 per cent). The score compares favourably with the engagement index for the wider civil service of 62 per cent and reflects the high levels of intrinsic motivation of our remit group. However, we have been told for a number of years by members of the remit group that there is an incentive to answer the People Survey positively, since the unit-level results are used to assess the effectiveness of the SCS members leading them. The engagement score could, therefore, have a bearing on the prospects of receiving a non-consolidated bonus.

4.70 Other measures of motivation and morale show a fairly steady picture. A consistent 93 per cent of SCS say that their work gives them a sense of personal accomplishment. Under half (42 per cent) report that they want to stay working for their organisation for at least the next three years, a figure which has declined slowly over the last decade. Less than half of SCS members (44 per cent) say that they are happy with the total benefits package, down from 45 per cent in 2017 but higher than the level seen between 2011 and 2015.

[63] This is defined by an individual's position in the 'talent grid' i.e., if they are considered to have high potential for promotion. Assessment of the position in the talent grid is a separate process to performance management marking and the two are not necessarily linked.

[64] The engagement index is calculated as the average score across five questions: I am proud when I tell others I am part of [my organisation]; I would recommend [my organisation] as a great place to work; I feel a strong personal attachment to [my organisation]; [my organisation] inspires me to do the best in my job; and [my organisation] motivates me to help it achieve its objectives.

Figure 4.11: **Civil Service People Survey: SCS measures, 2009 to 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.71 The FDA and Prospect survey was based on a relatively small sample, covering under 6 per cent of the SCS population. A summary of the findings from the survey is as follows:

- 99 per cent of respondents said they did not consider the current reward framework fit for purpose, with 97 per cent saying they did not think it was fair or equitable.
- 39 per cent of respondents said they managed someone on a lower grade who had a higher salary than them, an increase from 36 per cent in 2017.
- 67 per cent of respondents said their morale had decreased in the last year, compared with 56 per cent in 2017. The single factor that had the most negative influence on morale was pay (cited by 41 per cent).
- 66 per cent of respondents said they were more inclined to look for a job outside the civil service than they were last year, around the same figure as in 2017 (65 per cent).

4.72 More details of the response to the FDA and Prospect surveys between 2013 and 2018 are set out in the data annex (figure 4.21).

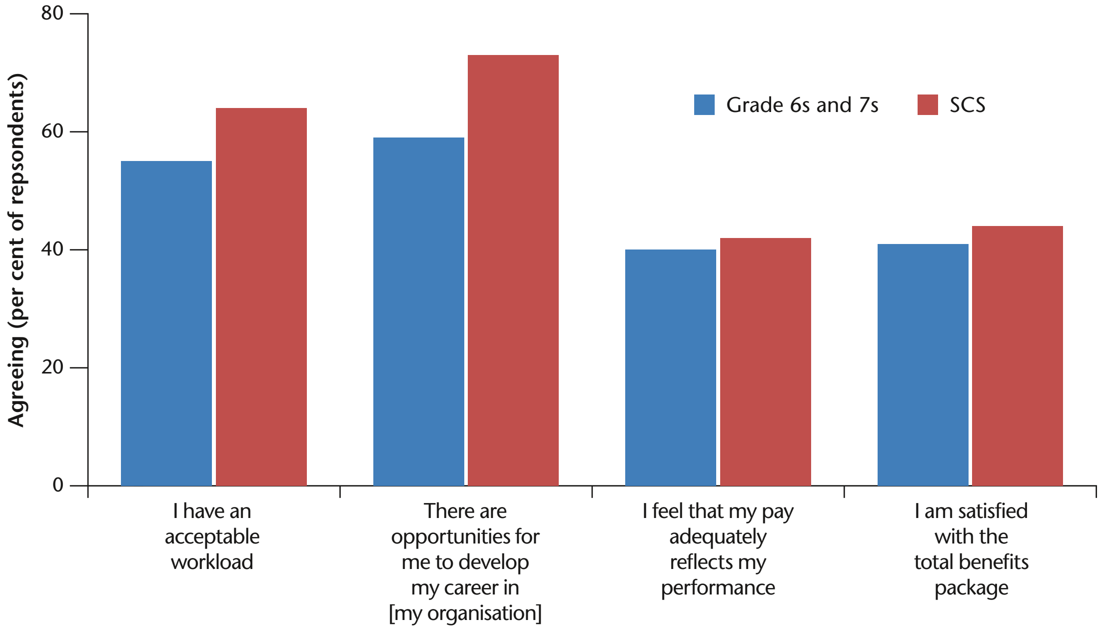
Feeder group

4.73 As set out in paragraph 4.54, the majority of the SCS were promoted from within the civil service, with 15 per cent joining from the private sector and 11 per cent from the wider public sector in 2017-18. In November 2018, we met with a number of civil servants on the FLS who were at grade 6 and 7 with the potential to reach the SCS.

4.74 Many of the participants questioned whether promotion to the SCS was worth their while. The relatively small increase in pay was not seen as sufficient given the substantial increase in workload and responsibility and a perceived reduction in flexible working opportunities.

4.75 Figure 4.12 shows comparative engagement levels for grades 6 and 7 with the SCS. This evidence, drawn from the Civil Service People Survey, suggests engagement and satisfaction levels are generally lower among grades 6 and 7 than in the SCS.

Figure 4.12: **Engagement and satisfaction, grades 6 and 7 and SCS, 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.76 Staff turnover rates for grades 6 and 7 are 5.6 per cent, lower than the 10.9 per cent for the SCS. Resignation rates are also lower: 2.8 per cent in comparison to 3.5 per cent.

Evidence: Total reward

Pay and pay ranges

4.77 The government reiterated in its evidence this year that, in the long term, it wants to have a new SCS pay structure with more consistent and narrower pay ranges. It said it wishes to make quicker progress in narrowing the pay ranges and reducing the overlap between grades 6 and 7 and pay band 1, issues about which the SSRB has previously raised concerns. The government therefore proposed moving towards new pay ranges in 2019-20 rather than in 2020-21, which is what it suggested in its 2018 evidence. This year, the government has also proposed a reduction to the maxima in line with the SSRB's 2018 recommendations. The proposed pay ranges for 2019-20 are set out in table 4.5 above.

4.78 The FDA and Prospect supported increases to the minima but did not think the pay band 1 proposal of £70,000 was sufficiently competitive: in oral evidence they proposed a figure of around £75,000. They also objected to the reduction of the maxima at this time and proposed waiting for a pay progression system to be implemented before shortening the pay ranges.

4.79 In oral evidence, the government said that initial modelling of increasing the minimum for pay band 1 suggested the overall cost would be around 0.2 per cent of the SCS paybill. However, this would vary by department.

4.80 In oral evidence, the Chief Executive said that departments wanted the flexibility to apply and target the pay award to address issues specific to their area. The Cabinet Office would ensure consistency and coherence of the application of the awards in respect of centrally defined underlying principles.

4.81 The latest figures from the Cabinet Office show that, as at 31 March 2018, there were 4,630 civil servants below the SCS who were paid more than the pay band 1 minimum of £68,000, equating to 10.2 per cent of all grades 6 and 7. According to Cabinet Office data, raising the minimum to £70,000 would reduce this number to 3,380, equating to 7.5 per cent of all grades 6 and 7. However, this calculation makes no allowance for any pay rises in the lower grades in 2018 and 2019.

Pensions

4.82 We are grateful for the improved quality of data received in relation to pensions provided by the Cabinet Office and welcome the increasing emphasis placed on this issue.

4.83 The evidence stated that 2,885 pension savings statements, which are issued to those breaching the annual allowance, were sent to Civil Service pension members earning over £65,000 in 2017-18. This equated to 44 per cent of all pension savings statements issued by the Civil Service pension schemes. This showed that pension taxation was affecting the delegated grades as well as the SCS. Those earning below £100,000, but in breach of the annual allowance, were likely to have several years of service in the final salary pension scheme and would have been in receipt of a significant pay rise (probably on promotion). This in turn suggested that the breaches for these individuals will not happen every year and that they are likely to have had sufficient carry forward available to avoid paying an annual allowance tax charge. It is noteworthy that 42 per cent of all breaches of the standard annual allowance amount involved pension inputs between £40,000 to £50,000 a year.

4.84 There was an increasing awareness and concern about pension taxation within the remit group. The Minister for Implementation stated in oral evidence that pension taxation was no longer just affecting those in the higher SCS pay bands. Evidence from the FDA and Prospect survey of SCS members showed that 22 per cent of respondents had reached their annual allowance in previous years. If a member of the SCS is in the career average pension scheme for their whole career, they are likely to breach the annual allowance at a salary level of around £108,000.

Pay progression

4.85 A recurring theme from our SCS discussion groups was that the current pay system is unfair and that the development of skills and experience was not reflected in salaries. Many participants said that the introduction of a pay progression model was critical and would go some way to address the inequities of the current system.

4.86 The government said it was "developing a framework to facilitate the linking of capability growth to movement in pay ranges",[65] the intention being to reduce undesirable job movement. The evidence set out a summary of the internal and external research that the government had conducted on how pay progression operates in other sectors. This case study research found that pay increases for senior talent in the private sector were based on a combination of performance, market pricing and affordability. There was generally a competitive market for all senior posts in the private sector and individuals could achieve salary increases by moving to higher-paid roles in other organisations. Private sector companies therefore had to ensure that pay was competitive with the external market and that reward was linked to financial performance.

[65] Government Evidence to the Senior Salaries Review Body, January 2019, paragraph 178. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/773817/Government-Evidence-to-the-Senior-Salaries-Review-Body_Jan2019.pdf

4.87 The government said work on capability-based pay progression would continue over the next year with costings and implementation considerations being developed and shared with the SSRB in the 2020 evidence.

Performance awards

4.88 In 2018, 15 out of 18 departments used the full 3.3 per cent pot for non-consolidated performance payments. Three departments used a lower budget: 2.6 per cent at the Department of Health and Social Care (DHSC); 2.8 per cent at the Home Office; and 3.0 per cent at the Department for Education (DfE). No performance awards were made to SCS members working in either the Scottish or Welsh governments.

4.89 Where departments made awards in 2018, individual performance awards varied considerably across departments and by grade:

- For pay band 1 staff, awards ranged from £5,500 at the Cabinet Office to £13,750 at the Department for Transport (DfT). The median pay band 1 award was £8,750 across all departments.
- For pay band 2 staff, awards ranged from £7,750 at the Cabinet Office to £14,750 at DfT. The median pay band 2 award was £10,750.
- For pay band 3 staff, awards ranged from £10,000 at the Cabinet Office and the Department for International Development (DfID) to £16,750 at HM Treasury. The median pay band 3 award was £13,000.
- Two departments, the Foreign and Commonwealth Office (FCO) and the DHSC, paid the same performance bonus irrespective of pay band.

4.90 Overall, we estimate that between a third and a half of SCS members received a non-consolidated performance award in 2018. In recent years, we have highlighted that the percentage of staff being designated as 'top performers' and receiving end-of-year awards increased significantly with seniority. This was also the case in 2018. We remain of the view that this does not represent good leadership.

- 24 per cent of pay band 1 staff received awards (around 850 staff).
- 33 per cent of pay band 2 staff received awards (around 300 staff).
- 34 per cent of pay band 3 staff received awards (around 50 staff).
- 30 per cent of Permanent Secretaries received awards (10 staff).[66]

4.91 In 2018, only a small proportion of departments paid in-year awards to the full 20 per cent of the SCS cadre.[67] However, the majority of departments gave in-year awards to more than 10 per cent of the cohort. DfID gave awards to more than 20 per cent of its SCS members, but these were of lower value. Only the FCO made no in-year awards.

4.92 The value of awards ranged from £500 to £5,000, with more at the higher end of this range than the lower. Some departments used the opportunity to pay an award to those who were just outside the top performance marking. Others recognised corporate contribution, going the extra mile, delivering in challenging circumstances, or demonstrating exceptional leadership.

4.93 In our discussion groups, we heard from SCS members working in the Scottish and Welsh governments that bonuses had not been paid to SCS members for a number of years

[66] Only 33 out of 40 Permanent Secretaries were in scope for consideration of awards.

[67] In-year awards are limited to 20 per cent of the SCS and are capped at £5,000. They are designed to recognise outstanding in-year contributions.

despite funding being available to pay them. The written evidence from the government confirmed that in Scotland this was due to the suspension of non-consolidated payments linked to performance by the Scottish Public Sector Pay Policy which has been in place since 2011-12. In Wales, although there were non-consolidated flexibilities available to the Welsh Government, Welsh Ministers had made it clear that they did not wish to see SCS members receiving bonuses.[68]

Performance management

4.94 There continued to be a widespread lack of confidence in the performance management system. This is the mechanism by which the performance bonuses described above were awarded. This sentiment was widely echoed in the remit group discussions we held this year, where we heard that the system was a regular source of stress, disappointment and demotivation. FDA and Prospect said that anger with the retention of the current system was magnified immeasurably by the introduction of new performance frameworks for the non-SCS grades.

4.95 The government acknowledged the strong perceptions of unfairness and disengagement towards the SCS performance management system in its written evidence. It conceded that the current system resulted in staff who narrowly missed the top box marking feeling that they were not being adequately rewarded. Furthermore, the system did not support the identification of genuine poor performance.

4.96 The government said that managing under-performance, particularly year-on-year poor performance, continued to be a priority. It had therefore conducted a review of poor performance, which identified that none of the departments interviewed had reported any SCS members under formal poor performance procedures. This was said to be because individuals left the organisation before formal procedures began, or because individuals were moving, or being moved, into different or more appropriate roles within the civil service.

4.97 The government's supplementary evidence set out the following changes which would take effect from the performance year 2018-19:

- The removal of the mandatory forced distribution of performance markings.
- Departments to continue to differentiate performance into top, middle and bottom boxes.
- No restrictions on the number of SCS being placed in top performing boxes.
- Only those identified as genuinely under-performing to be placed in the bottom box.
- The impact of these changes, together with findings of a pilot being run at the DfE and internal research, to form the basis of a new performance management system to be introduced in 2020-21.

Pivotal Role Allowance

4.98 The PRA was introduced in 2013 and was designed to retain SCS members in highly specialised roles and those delivering the riskiest projects across government. The allowance is temporary and non-pensionable and the overall amount in the PRA pot is capped at 0.5 per cent of the SCS paybill. In its written evidence, the government said the allowance had been used 89 times since April 2013. As at 31 October 2018, there were 45 still in use, with the majority being used for those in project delivery (11), finance (11) and IT roles (six).

[68] In both devolved administrations, Ministers have suspended the use of non-consolidated bonuses for delegated grades.

4.99 In previous years, we have commented on the underutilisation of the PRA and that the bureaucracy of the clearance process was deterring some departments from using it.[69] The government said that a review of the PRA policy and process had been conducted in autumn 2018. It found a number of issues including a lower than expected take-up, perceived low approval rate and perceived long turnaround times. The low take-up had resulted in more than £1.1 million of the PRA budget remaining unallocated. Following the review, the government made the following recommendations:

- Existing controls to be retained, but Heads of Professions should work more closely with departments to identify and agree suitable cases.
- There should continue to be ministerial approval for all PRA cases.
- Civil Service HR to continue to work with departments at an early stage to help them strengthen their business cases and promote the flexibility.
- The diversity characteristics of recipients to continue to be monitored.

Conclusions and recommendations

Key points from the evidence, data and analysis

4.100 The remit group increased in size between 2017 and 2018.[70] According to the most recently available data, almost three-quarters of new entrants were recruited from within the civil service, 15 per cent were recruited from the private sector and 11 per cent from the voluntary and wider public sectors. There continues to be a substantial pay differential between members of the SCS who are promoted internally and those who are recruited externally.

4.101 Overall, recruitment into the SCS remains stable. The First Civil Service Commissioner reported no difficulties recruiting into the most senior roles, although noted there had been a reduction in candidates from certain parts of the wider public sector, such as NHS Trusts and local authorities for pay bands 2 and above. However, external recruitment into some specialist roles continues to pose difficulties, as evidenced by the recent submission of business cases to the Cabinet Office for higher pay rates by the DDaT, finance and property professions in order to be able to recruit sufficient people with the right skills and experience.[71]

4.102 Retention is stable, with the overall resignation rate remaining low. However, high levels of internal uncontrolled job movement were highlighted by the IfG with associated costs of between £36 million and £74 million each year in terms of recruitment, training and lost productivity. Median tenure in post remains at around two years. Leaving rates are higher for external hires than for internal candidates.

4.103 Median pay levels at each grade are towards the bottom end of each pay range. In 2018, around three-quarters of SCS in pay band 1 were paid below the midpoint of the proposed pay range. In pay band 2, close to 70 per cent of SCS were below the proposed midpoint and in pay band 3, around 60 per cent were below the proposed midpoint.[72] Over 4,500 non-SCS civil servants were paid more than the pay band 1 minimum as of 31 March 2018, which means that a considerable proportion of those in pay band 1 were managing people paid more than them.

[69] The clearance process involves a Permanent Secretary Star Chamber, including the Chief Executive of the Civil Service, Treasury Permanent Secretary and Chair of the People Board, followed by the Chief Secretary to the Treasury and the Minister for Implementation.

[70] In the period of austerity, particularly from 2010-11, there was a constraint put in place on staff numbers. However, the remit group is now bigger than it was prior to the financial crisis in 2008.

[71] Business cases have also been submitted in relation to niche Ofsted and Chief Scientific recruitment.

[72] See: paragraph 4.26.

4.104 Some members of the remit group, as well as some in the grades below the SCS, are receiving pension tax bills. At present, there has been no discernible impact on recruitment or retention. However, we are mindful of the negative views expressed to us about the value of the package in the feeder group discussion and the desire expressed to us by the Cabinet Office in oral evidence for the impact of pension taxation to be monitored closely.

4.105 In terms of morale and motivation, there are high levels of engagement, but also some evidence of high levels of dissatisfaction with pay. A clear consensus was expressed to us that the performance management system was discredited. Our discussion groups, as well as the FDA and Prospect survey, gave evidence of low morale.

Recommendations

4.106 For a number of years, we have highlighted the need for an urgent fundamental review of the SCS pay framework to address the serious flaws in the system. These flaws have included:

- An effective freezing of the pay of members of the remit group at a particular point within the pay range, regardless of skills, experience or performance.
- Significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below.
- A lack of confidence in the performance management system, particularly the forced distribution ratings.

4.107 We firmly believe the SSRB 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 paybill. In our 2018 Report, we welcomed the government's recognition of the weaknesses in the SCS pay system and its intention to undertake reform of the structure and to develop a long-term vision for the SCS. We note, however, that again this year we have been asked to divide up a limited budget in order to achieve effective change to support recruitment, retention and motivation as well as addressing some structural reform. We believe the focus should shift towards seeking to maximise overall outcomes for lowest cost and addressing structural problems, rather than on limiting annual basic pay increases.

4.108 This year, the evidence we received showed the government's commitment to developing a new framework. We recognise the inherent cultural and structural difficulties that need to be overcome to develop and implement this. However, we note a shortage of concrete proposals for reform. We consider that the pace of reform is too slow and there is a risk of developing an over-complicated system that will create new problems and lead to further demoralisation of the workforce.

4.109 While we welcome the articulation of a longer-term vision for a future SCS, we also encourage the government to look at short-term actions to address the flaws with the current system that are causing low morale. These need not compromise the development of longer-term proposals. The government's own intention to take immediate action to improve the performance management system pending development of a new system is a good example of this approach.

4.110 The recruitment data for the remit and feeder groups does not suggest that there are any immediate causes of concern, beyond the recruitment difficulties into a minority of specialist posts. **However, we consider that recruitment from, and leavers to, the wider public sector should be more closely monitored given the reduction in**

candidates highlighted to us by the CSC. We would like to see further evidence on this next year.

4.111 Similarly, retention is generally stable. However, we noted in our 2018 Report that there had been a notable decline over time in the depth of experience among the remit group. This has continued this year. The retention of experience and institutional knowledge is critical for delivering a high quality service,[73] in particular in relation to the implementation of large-scale projects.[74]

4.112 We note that the research by the IfG echoed the concerns we have been raising in recent years and highlighted the impact of these issues. We also acknowledge its efforts, even in the absence of robust data on internal turnover and productivity, to estimate the cost of excessive and uncontrolled turnover in departments in terms of recruitment, training and lost productivity.[75] The effect of high levels of uncontrolled job movement was also highlighted by the Minister for Implementation in oral evidence, who concurred with our concerns. We additionally note that incentivising tenure in post is one of the government's key principles for a reformed pay system.

4.113 **We think that the right balance needs to be found between controlled movement between roles as part of a structured approach to developing talent and managing careers, and uncontrolled movement driven by individual preferences and higher financial reward. Pay incentives should align better to support that balance. We would like to see further evidence on this next year, including data on rates of controlled movement and rates of undesirable churn.** For this year, addressing pay anomalies especially lack of pay progression, will help to alleviate the problem and we consider this a priority.

4.114 The remit letter from the Chancellor of the Duchy of Lancaster asked us to consider affordability. The government told us that 1 per cent was budgeted for basic pay increases and the Minister for Implementation confirmed in oral evidence that some departments could afford up to 2 per cent. The government's evidence said that the headline figure for the SCS should not be higher than that agreed for the delegated grades. At the time of writing, we have not been advised what that figure is.

4.115 We note the absence of any marked recruitment and retention issues. However, there has been a prolonged period of pay restraint where our remit group has received pay awards below the increases in the cost of living. At present, the annual growth in public sector average weekly earnings is 2.6 per cent (in the three months to February 2019) and the CPI inflation rate is 1.9 per cent (March 2019). We also note the Minister for Implementation's acknowledgement in oral evidence that below-inflation pay rises should not be accepted as the new norm. Furthermore, we are concerned that the morale of this remit group is low. There is an increasing sense that members feel undervalued by their employer and we are concerned that this may be damaging staff effectiveness. On the basis of all of these factors, it is our view that all members of the SCS (other than those subject to performance improvement measures) should get some form of pay award this year.

[73] For example, both the National Audit Office and the Public Accounts Committee, found that high staff turnover at senior levels contributed to mistakes and wasted resources in the implementation of Universal Credit. See: Public Accounts Committee, *Universal Credit: Progress update*, House of Commons, 2015, https://publications.parliament.uk/pa/cm201415/cmselect/cmpubacc/810/810.pdf and National Audit Office, *Universal Credit: Early progress*, 2013, www.nao.org.uk/wp-content/uploads/2013/09/10132-001-Universal-credit.pdf

[74] The Infrastructure and Projects Authority (IPA) oversees a portfolio of 133 'major projects' totalling £423 billion.

[75] See: https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_staff_turnover_WEB.pdf

4.116 Given that we are also being asked to apportion the overall paybill increase to fund structural change, we would like to see active steps being taken this year to address the uncontrolled movement of staff from within this overall envelope.

4.117 We acknowledge the continued pressure on public spending and the government's desire to see a broad parity with whatever pay award is made for civil servants below the SCS. However, we firmly believe that our remit group has pay issues that need to be addressed, and that failure to do so will create added costs for government. We therefore consider that a higher quantum than the government implemented last year is needed.

4.118 **Our recommendation this year is that an increase of 2.2 per cent to the paybill is justified.** We think this overall quantum is necessary in order to address the multiple issues with SCS pay. The productivity gain from a workforce that is incentivised to remain in post to achieve the outcomes being sought, and from a workforce that feels valued, will, in our view, repay the investment. We caution against waiting for problems to manifest themselves in recruitment and retention figures before action on pay is taken.

4.119 We set out below our detailed recommendations on how this overall paybill increase should be apportioned and prioritised.

4.120 **Those SCS members who are currently subject to performance improvement measures should not receive any increase in pay. Therefore, the recommendations should not be applied to these staff until they have exited such measures.**

The SSRB's priorities for allocation of the SCS paybill increase

4.121 We are very clear about what the priorities for the apportionment of the SCS paybill should be this year. These are designed to address specific issues and we therefore urge the government not to deviate from them. Our priorities are as follows.

Recommendation 2: We recommend an increase to the SCS paybill of 2.2 per cent, which should be allocated in accordance with the recommendations and priorities set out below:

- **Priority 1: To address the lack of pay progression and anomalies.**
- **Priority 2: To increase the pay band minima.**
- **Priority 3: To provide a pay increase to all those not benefitting from the increase to the minima.**
- **Priority 4: To help fund specialist pay.**

Pay progression and anomalies

4.122 The SCS remit group, in common with our other remit groups, has been subject to a long period of pay restraint. The result of this is that many members, including some consistently high performers, have not received a meaningful consolidated pay uplift for a number of years. Furthermore, it has become accepted practice that moving roles is the only practical means of securing a meaningful pay rise, leading to the problem of churn. The recommendations in our 2018 Report were designed to address this issue. We were disappointed that the implementation of the pay award did not reflect this emphasis.

4.123 Significant anomalies in SCS pay therefore remain. We believe that over time these would be almost entirely resolved by a robust and simple pay progression model. **In the absence of proposals for capability-based progression, anomalies should be the priority this year.** Increases to the minima, while necessary, have resulted in a continued drift of pay to the lower end of the pay range. In this context, we believe that the focus for the pay award this year should be on allocating funding to enable pay progression for those high performing members who have been developing capability, particularly those who have been stuck in the lower end of the pay range for some time. This is illustrated by the large majority of SCS members whose salaries are below the midpoint of the proposed pay ranges (see paragraph 4.26).

Recommendation 3 (Priority 1): We recommend that 0.9 per cent of the paybill should be allocated to address pay progression and anomalies. This should be distributed to SCS members dependent on:

- **Demonstration of sustained high performance, increased effectiveness and deepened expertise.**
- **Their position in the pay range.**

This allocation to address pay progression and anomalies should be ring-fenced.

4.124 We would very much like to see further evidence of innovative propositions to use pay strategically to improve the efficiency and effectiveness of public service delivery. In this context, we encourage the Cabinet Office, with any required support from HM Treasury, to recycle efficiency savings into the SCS paybill. Excessive focus on the money that happens to be allocated to a particular budget in a particular year is detrimental to good management and sensible investment decisions.

4.125 In the last couple of years, we have become increasingly conscious of the tensions between the centre of government having control of the pay system and the delegation of responsibility to departments. Following acceptance of the recommendation in our 2018 Report, the Cabinet Office put in place a monitoring system to ensure that the pay awards had been fairly and appropriately distributed by departments. The evidence provided on the application of these awards has been valuable. While most departments applied the award in accordance with the centrally defined principles, some departments did not. We would not like to see departments diverge from our priorities this year, which are to address pay progression and anomalies. For this reason, the SSRB would wish to receive evidence of how its recommendations have been applied.

Recommendation 4: The Cabinet Office should provide evidence to demonstrate, in accordance with Recommendation 3, that the application of the award has resulted in higher awards to those:

- **who demonstrated evidence of sustained high performance, increased effectiveness and deepened expertise; and**
- **who were relatively low in the pay range.**

Pay ranges

4.126 We welcome the proposals to increase the minima for all SCS pay bands on the basis that we have been encouraging the government to move in this direction over a number of years. We also note that proposals have been brought forward a year.

Recommendation 5 (Priority 2): We recommend that 0.2 per cent of the paybill should be used to increase the pay band minima from April 2019 to the following levels:

- **Pay band 1: £70,000** (currently £68,000)
- **Pay band 2: £92,000** (currently £90,500)
- **Pay band 3: £115,000** (currently £111,500)

4.127 We have previously highlighted our concerns about grade overlap, particularly in relation to pay band 1 and the grades immediately below. Should our recommendations be accepted, this will mean that there has been a £5,000 increase to the minima for pay band 1 in a two-year period. While we welcome this as a positive development, pay progression is the only long-term solution to achieving the government's objective of significantly reducing this overlap.

4.128 We welcome the government's commitment to apply the new pay band 1 minimum to pay band 1A and to make pay awards to those in this grade.

4.129 In our 2018 Report, we endorsed the government's principles for change and agreed that the pay ranges should be shorter. In that context, we recommended lowering the maxima across all pay bands. Although the government rejected this reduction last year, it accepted our rationale behind the new maxima and adopted these levels as proposals this year. On this basis, and given the fact that a very large pay range makes pay progression difficult to manage, we therefore reiterate our 2018 recommendation.

Recommendation 6: We recommend that the pay band maxima should be reduced from April 2019 to the following levels:

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

General pay award

4.130 In the context of forecast inflation and prolonged pay restraint, we consider that all members of the SCS should receive a 1 per cent consolidated pay award this year. We estimate this would not in practice equate to a 1 per cent increase in the paybill as this element would not apply to all. We have assumed this would be an increase of 0.9 per cent to the paybill.

4.131 Based on the figures received from the Cabinet Office, we estimate that around 10 per cent of the SCS would benefit from the increase to the minima, with those moving from the old minima to the new minima receiving consolidated awards of up to 3.1 per cent.

Recommendation 7 (Priority 3): We recommend that all eligible SCS members not benefitting from the increase to the minima should receive a 1 per cent pay award.[76] Those SCS members who benefit by less than 1 per cent from the minima increase, should receive an additional consolidated pay award to total 1 per cent.

Specialist pay

4.132 The government has said that it intends to fund higher pay for specialists from the pay award this year. We do not disagree with the concept of specialist pay. However, we do not see this as the priority. Given that our pay award needs to address multiple issues, including pay reform, we think that the priority should be on addressing anomalies faced by the majority of our remit group, not on the minority.

[76] Those SCS members who are currently subject to performance improvement measures should not receive any increase in pay. Therefore, the recommendations should not be applied to these staff until they have exited such measures.

Recommendation 8 (Priority 4): We recommend that 0.2 per cent of the paybill should be allocated to help fund specialist pay, with the proviso that there is strong central control and consistency in how departments use these funds. If not all of the allocation is needed, it should be used in support of Recommendation 3.

4.133 We acknowledge the government's agenda to professionalise the civil service and the Chief Executive's long-term aspiration to have centrally controlled career pathways for specialists throughout the civil service. In principle, the functions agenda and the development of the internal pipeline are policies the SSRB can support given that it is unsustainable for the civil service to continue to have to buy in specialist skills at a premium. We do question, however, how far the SCS can be made up of specialists, given the need for leadership and managerial skills at senior levels.

4.134 In relation to specialist pay, our view is that the government's vision could be achieved in a simpler way. In particular, we do not consider that the development of specialist pay for a minority should take precedence over the development of a pay progression model applicable to the majority, which also offers a productivity gain. Our view is that it is more important to get the core pay structure in place for the majority. The development of a model on the basis of the principles we describe below, could enable the integration of specialist pay into it.

4.135 We note the development of business cases for higher pay by some individual professions. We do not consider it to be part of the SSRB's role to comment on these.

Structural changes to the SCS pay framework

4.136 The introduction of credible pay progression is a core component of an effective SCS pay framework. It supports one of the key pillars of the government's strategy for SCS pay, namely, to provide greater reward for high performers and those who develop capability by remaining in role. The proposal to develop a capability-based progression system should therefore be a priority. The productivity gain from a workforce that is incentivised to remain in post to achieve the outcomes being sought and from a workforce that feels valued will, in our view, justify the investment. There will be a cost impact on implementation. However, over time, a well-functioning and robust pay progression system should be paybill neutral.

4.137 From our discussions with SCS members, it was evident that the lack of pay progression remained a major concern and a primary source of irritation, unfairness and low morale. Furthermore, the high levels of uncontrolled job movement have been strongly linked to pay. As the Cabinet Office noted in its 2017 review of the SCS pay framework, promotion or level transfer were seen as they only ways to obtain pay increases. In 2015-16, 22 per cent of the SCS moving on level transfer received a pay increase.[77] In relation to the tightening up of controls and the restriction of pay rises for internal movement, we noted in our 2018 Report that there could be retention risks in applying a disincentive to move roles internally before applying any incentives to stay in post. We believe that it is critical to get this incentivisation right and while appreciating that time needs to be taken to ensure that a robust and viable system is implemented, we feel there needs to be a firmer commitment to prioritisation.

4.138 The government's evidence sets out an intention to develop a capability-based progression model. We understand the principle of capability-based reward, agree with the basic diagnosis of the problems requiring a pay progression model and support the

[77] 40th Annual Report on Senior Salaries 2018, paragraphs 3.51 and 3.132-3.134. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740064/Fortieth_Annual_Report_on_Senior_Salaries_2018.pdf

need for a robust approach to avoid any hint that progression should be automatic. We acknowledge the extent of the research done to date in developing a capability-based approach. However, we do not have sufficient evidence at this stage upon which to endorse the development of such a model.

4.139 While we acknowledge therefore the government's efforts to develop a capability-based progression model, we think that a 'minimum viable' pay progression model must be in place from next year. We caution the government against letting the best becoming the enemy of the good in developing this. The system does not need to be complex. It needs to be clear, to set achievable salary expectations, to be available to the majority, and to be easy to understand. Managerial focus therefore needs to be on the individual's outputs and where possible their effect upon outcomes, and not on spending valuable time on operating an overly-complex and multidimensional process. In summary, pay progression needs to be simple, durable and accessible for the majority of the SCS.

4.140 In this context, we consider that a pay progression system could be achieved in the short term by applying the following principles:

- Annual pay increments are available for those who are performing well for the first three years in post. These could, with agreement, be extended for a further two years but pay increments must be bounded and not indefinite.
- Those on poor performance measures do not qualify for pay progression.
- There should be a more proactive approach to career management of individuals and teams by managers to ensure a better balance between business need and individual aspiration.
- **We do stress, however, that this model is dependent on clear and decisive action in managing poor performance.**

Recommendation 9: We recommend that the government should develop and invest in a credible, robust and simple pay progression system as a priority in 2019-20 for implementation in 2020-21.

Performance management

4.141 We support the principle of non-consolidated awards to reward high performance and believe they should continue to be used where available.

4.142 We are disappointed that a review of performance pay did not take place this year. However, we welcome the government's approach to take short-term action to address the major flaws in the current performance assessment system while designing a new framework for implementation in 2020-21. A better system of performance management which commands the confidence of staff is crucial.

4.143 We note the immediate cessation of the rigid allocation of members into box markings. However, indicative markings are useful and we propose that the distribution of performance markings could be monitored within centrally defined parameters to ensure fairness and consistency. An obligation should be placed upon departments to justify notable divergence outside of them. **We would welcome evidence on the effect of these changes on the application of awards in line with centrally defined Cabinet Office guidance next year.**

4.144 This year, we held discussion groups with those working in devolved administrations in Scotland and Wales. We heard about the difference in the application of pay awards to SCS members working in the devolved administrations, in particular in relation to non-consolidated awards. While we would question the extent to which the reward principles and vision hold true for the SCS members in Scotland and Wales, given their different labour market contexts, there are no proposals to diverge from having a UK-wide SCS. We therefore endorse the continued model of a UK-wide SCS.

Director General pay

4.145 **We endorse the government's approach for Director General pay this year.** Roles at this level have a significant leadership weighting and it is appropriate that a holistic review is conducted to establish appropriate levels of pay for those in pay band 3. We also agree that there is a role for a committee to look at the handling of pay for Directors General at an individual level. **However, this is on the proviso that the SSRB retains the strategic and pay review role for the group as a whole.**

4.146 We also question whether a *new* committee is needed. We consider that pay could be added to the remit of the existing Senior Leadership Committee, which considers senior talent.

4.147 We look forward to receiving further evidence on Director General pay in next year's evidence. This should include data on how the pay of tracked individuals at this level has changed during their tenure.

Size and diversity of the SCS

4.148 The nature of the government's proposals for the SCS has led the SSRB to consider the composition of the SCS cadre and the breadth of strategic and leadership responsibilities across different SCS grades. In our view, a senior leadership cadre needs to be centrally managed, in terms of deployment, pay, and talent management of the pipeline, as it is by other employers. **We ask the government to look at the extent to which this is the case and whether the approach to pay should be differentiated across the remit group.**

Pivotal Role Allowance

4.149 We note the review of the PRA and the recommendations that were made. Given that the government has already accepted these recommendations in part, we do not comment on them specifically. However, we heard from our discussion groups that the overly-bureaucratic nature of the process continues to act as a deterrent in applying for the allowance. We understand that the Cabinet Office introduced a simpler process for retention payments for business-critical SCS working on the EU exit. This process requires departments to submit bulk approval cases to the Cabinet Office and HM Treasury and they are then able to have the flexibility, within set boundaries, to apply payments to fit their needs. We would welcome further consideration of the PRA process and whether it could be brought in line with the more streamlined process in use for EU exit retention payments.

Looking ahead

4.150 It was helpful to see emerging plans from the Cabinet Office for the establishment of a new SCS pay framework. This engagement enabled us to understand the government's thinking as it developed and we appreciate the effort and commitment that has gone into supporting it. We look forward to receiving and discussing with the Cabinet Office more developed proposals on the strategic approach to the structure of the SCS pay framework over the next year. We consider that the success of the reform is dependent on involvement of staff and stakeholders. We note that engagement with employee representatives has improved since last year but we believe it could be improved even further. **We would encourage the Cabinet Office to consider sharing further detailed information with the FDA and Prospect, including the data underlying the**

proposals. Furthermore, we would encourage the Cabinet Office to publish the workforce data it provides to the SSRB.

4.151 The quality of the data provided for the SCS continues to be of a high standard. We appreciate the Cabinet Office's willingness to build and improve its evidence base. However, a key area for improvement next year is the collection of data on internal, as well as external, turnover. In particular, we would like to see data in relation to the internal movement of staff, both between and within departments and how far this is as a result of controlled movement or undesirable churn.

4.152 It is critical that the monitoring of the impact of pension taxation on the remit and feeder group continues. Further exploration of the options to address this problem can be found in Chapter 2.

4.153 We are grateful to the First Civil Service Commissioner for providing useful insight into the recruitment of SCS members. **We consider that that there is potential value in the CSC having a greater role in monitoring the retention of the members it recommends for appointment.**

4.154 We welcome confirmation of the SSRB's remit in respect to the GCO and Permanent Secretaries. We look forward to receiving proposals in relation to these two groups in the next round. We would also welcome evidence on the effect of the introduction of the GCO and the effectiveness of the commercial pay and grading model in recruitment and retention terms.

4.155 We find it beneficial to hear directly from members of our remit groups about their views on their remuneration packages and their experiences of the pay and performance system. We would welcome further opportunity to hear from SCS members, including Permanent Secretaries and GCO members. Our secretariat will discuss with the Cabinet Office how to facilitate this.

4.156 In Chapter 1 of this Report, we highlighted progress against the SSRB's strategic priorities. Our assessment of the position for the SCS is summarised in table 4.7.

Table 4.7: **Assessment of position of SCS against the SSRB's strategic priorities**

Key	Green:	Area of little concern	↑:	Improving trajectory
	Amber:	Area of some concern	↔:	Stable trajectory
	Red:	Area of significant concern	↓:	Declining trajectory

SSRB priority	Assessment of SCS position in 2019
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.	There has been some further articulation of a new SCS pay framework. However, limited proposals have been received and there is concern that the pace of reform remains too slow. ↔
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.	The Cabinet Office has said it is continuing to reinvest savings from operating more consistent pay policies. However, no figures have been provided as to what savings have been made to date. ↔

SSRB priority	Assessment of SCS position in 2019
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	A review of poor performance has been conducted. The removal of forced rankings will enable clear differentiation between poor and low performers. However, there remain concerns that poor performance is not being properly addressed. ↔
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.	There continues to be low staff confidence in the performance management system. Although a review has not been conducted, interim measures have been taken to address some aspects including the removal of forced rankings. However, the development of a robust approach to reward and career development is long overdue. If significant progress is not made in the next 12 months, we would expect to move this assessment to red next year. ↔
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.	We have received good and improved workforce data. However, better data on internal staff turnover is required. If this is not forthcoming next year, we would expect to move this assessment to amber. ↔
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.	Some data on the motivation and pay of the feeder group has been provided. ↔
Targeting: Where evidence supports it, pay should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	The evidence shows that most departments used the anomalies pot in 2018 to target awards. However, the size of the anomalies pot was reduced, thereby markedly diminishing its effect. The Cabinet Office has set out proposals and criteria for targeting 2019 awards. ↔
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.	There has been some articulation of where control in the system lies. However, there is concern that some of the proposals may exacerbate these tensions between the centre and departments. The tension between a UK-wide SCS and the devolved administrations' pay policies is a cause for concern. ↔
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.	We have seen an improved performance on gender but it is still not satisfactory. We look forward to receiving data on socio-economic backgrounds next year. ↔

Data Annex: Senior Civil Service

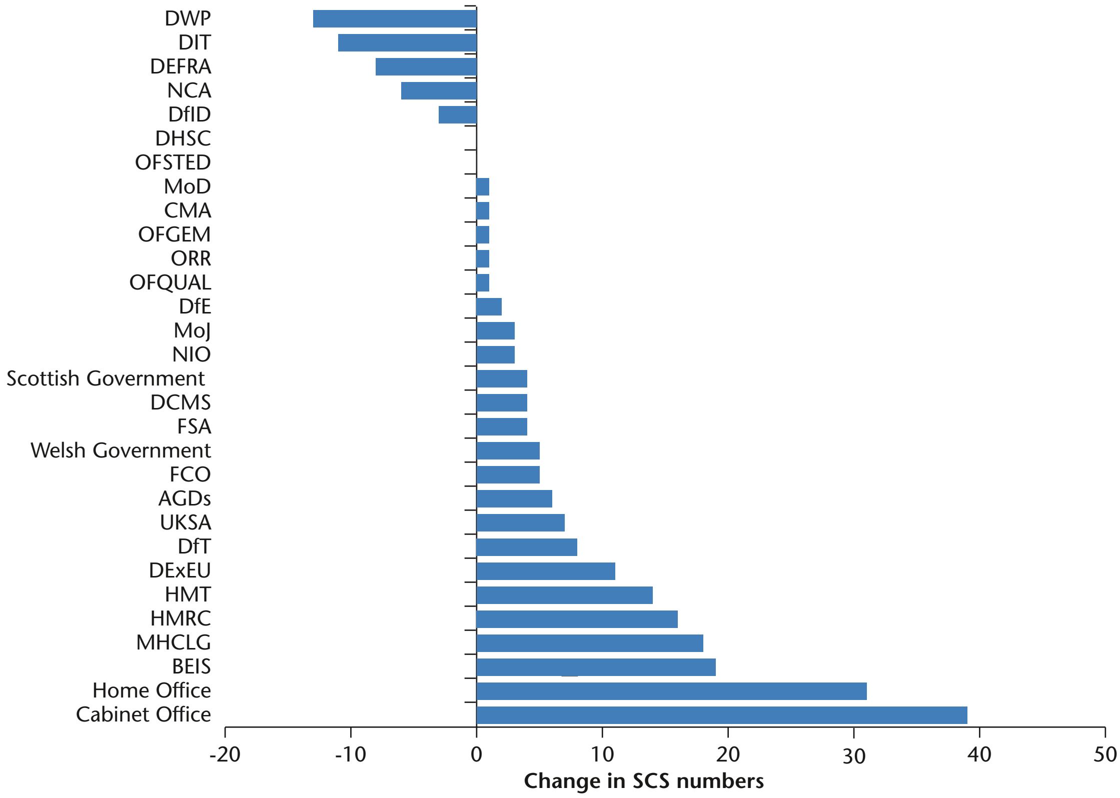
4.157 The key findings and updates are present in the main body of this chapter. Further detail, as set out below, supports these findings.

The remit group

4.158 In the first quarter of 2018, there were 4,589 members of the SCS, an increase of 322 (7.5 per cent) from 2017.[78] Overall, the SCS accounts for 1.1 per cent of the civil service.

4.159 The departments with the largest absolute increases in SCS numbers in quarter 1 2018, compared with quarter 2 2017, were the Cabinet Office (39) and the Home Office (31).[79] The department with the largest absolute decrease was the Department for Work and Pensions (DWP), down 13 (see figure 4.13). However, this only shows changes over a single year and may not be representative of longer-term changes in these departments.

Figure 4.13: **Change in total number of SCS by department (including executive agencies), quarter 2 2017 to quarter 1 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.

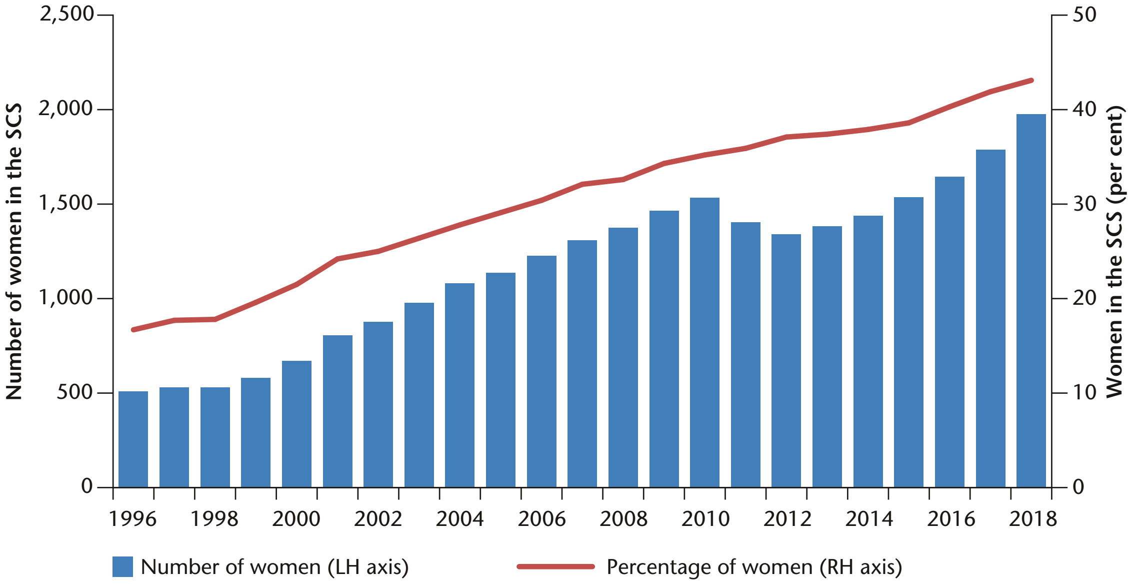
4.160 The proportion of the SCS based in London was 69.2 per cent in 2018, an increase from 68.0 per cent in 2017, 67.4 per cent in 2016 and 67.0 per cent in 2015. The proportion of all civil servants in London was 19.6 per cent in 2018, compared to 18.7 per cent in 2017, 18.8 per cent in 2016 and 17.6 per cent in 2015.

[78] The quarter 2 2017 SCS headcount in our 2018 Report was recorded as 4,374. Following a data cleansing exercise, this figure has been adjusted to 4,413.

[79] In 2018, the Cabinet Office provided data for quarter 2 (2017) rather than quarter 1.

4.161 Figure 4.14 shows that between 1996 and 2018, the proportion of women in the SCS increased from 16.7 per cent to 43.1 per cent. In comparison, the proportion of women in grade 6 and 7 roles was 46.3 per cent in March 2018.[80]

Figure 4.14: **Proportion of women in the SCS, 1996 to 2018 (quarter 1)**

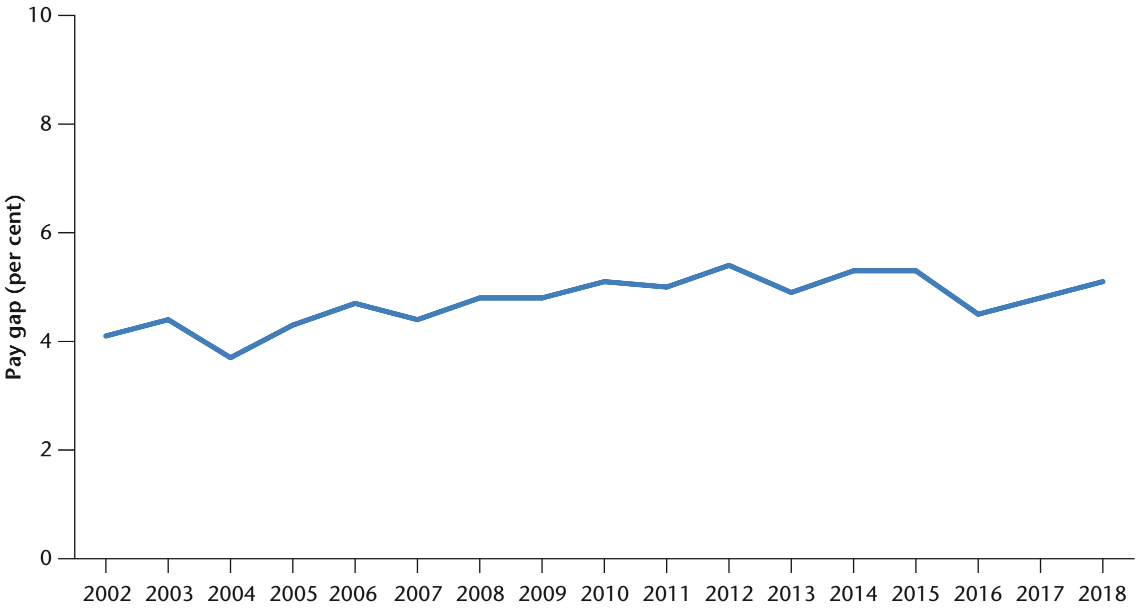


Source: Cabinet Office supporting data to the SSRB, unpublished.

4.162 In terms of median base salary and across all grades in the SCS, the gender pay gap was 5.1 per cent in favour of men in 2018. This was up from a revised figure of 4.8 per cent in 2017, so that the pay gap has widened for two years in a row. The position is exacerbated when performance bonuses are included: while the same proportion of men and women received a bonus in 2018 (24 per cent), the average performance bonus received by men was 10.3 per cent higher than the average bonus received by women. Part of the gender pay gap is likely to be due to seniority effects, as women make up a lower proportion of Director (pay band 2) and Director General (pay band 3) grades.

[80] Grade 6 and 7 data can be found at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/civilservicestatistics/2018

Figure 4.15: **SCS gender pay gap, median base pay, 2002 to 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.
Note: Gap between median men's and median women's pay, as a proportion of median men's pay.

4.163 The proportion of the SCS from a Black, Asian and Minority Ethnic (BAME) background was 5.7 per cent in the first quarter of 2018. This was an increase from 4.7 per cent in 2017 and is the highest recorded level to date. Those from an ethnic minority made up 9.1 per cent of new entrants to the SCS in the year to the first quarter of 2018 (and 3.4 per cent of leavers). In comparison, the proportion of the wider civil service from an ethnic minority was 12.0 per cent.[81] The proportion of those in employment in the UK in 2018 from a non-white background was 11.6 per cent.[82] This means that the SCS does not reflect the ethnicity of either the wider civil service or the UK population.

4.164 The proportion of the SCS with a disability was 3.8 per cent in the first quarter of 2018. This is broadly unchanged over the last decade. Nationally, 12.1 per cent of those in employment in the first quarter of 2018 had a disability.[83]

4.165 The proportion of SCS who declared their sexual orientation and who identified as a lesbian, gay, bisexual or other (LGBO) in the first quarter of 2018 was 5.3 per cent, an increase from 4.8 per cent a year earlier (while the proportion of those in the SCS who declared their sexual orientation increased from 59 to 66 per cent). This increases the gap over the national average: the ONS reported that 3.2 per cent of 16 to 64-year olds who declared their sexual identity identified as LGBO in 2017.[84]

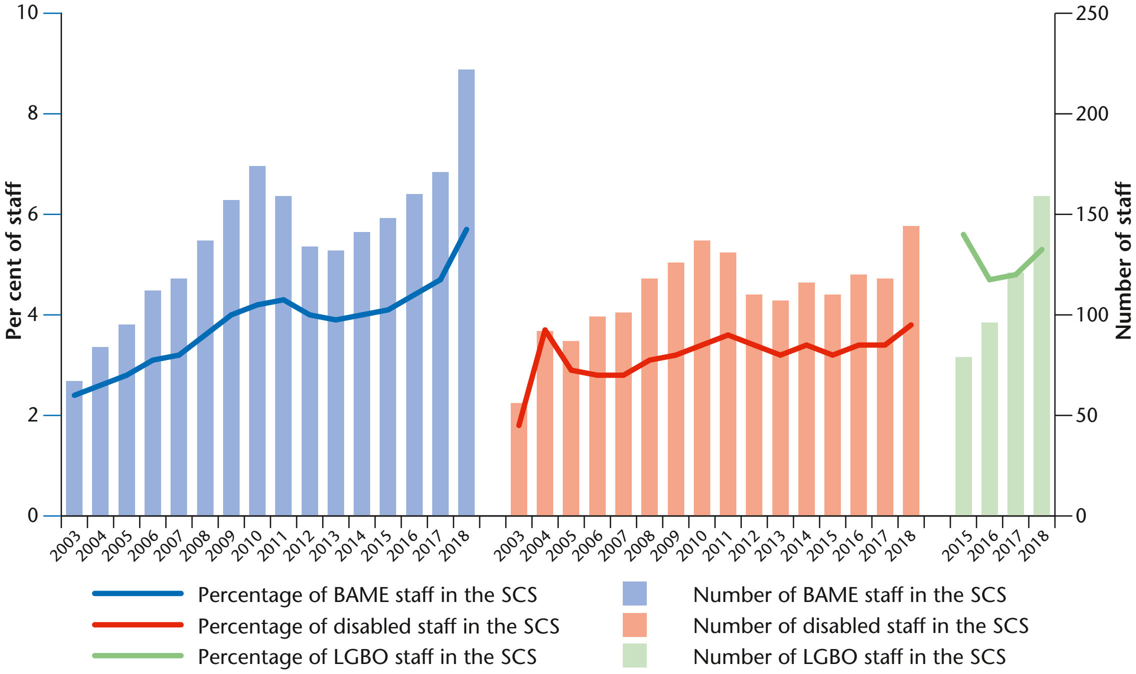
[81] See: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/civilservicestatistics/2018. This source says that 7.8 per cent of SCS were from an ethnic minority in March 2018, an increase of 0.8 percentage points from March 2017.

[82] See: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatusbyethnicgroupa09

[83] See: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatusofdisabledpeoplea08

[84] See: https://www.ons.gov.uk/peoplepopulationandcommunity/culturalidentity/sexuality/datasets/sexualidentityuk

Figure 4.16: **Proportion of BAME, disabled and LGBO in the SCS, 2003 to 2018**



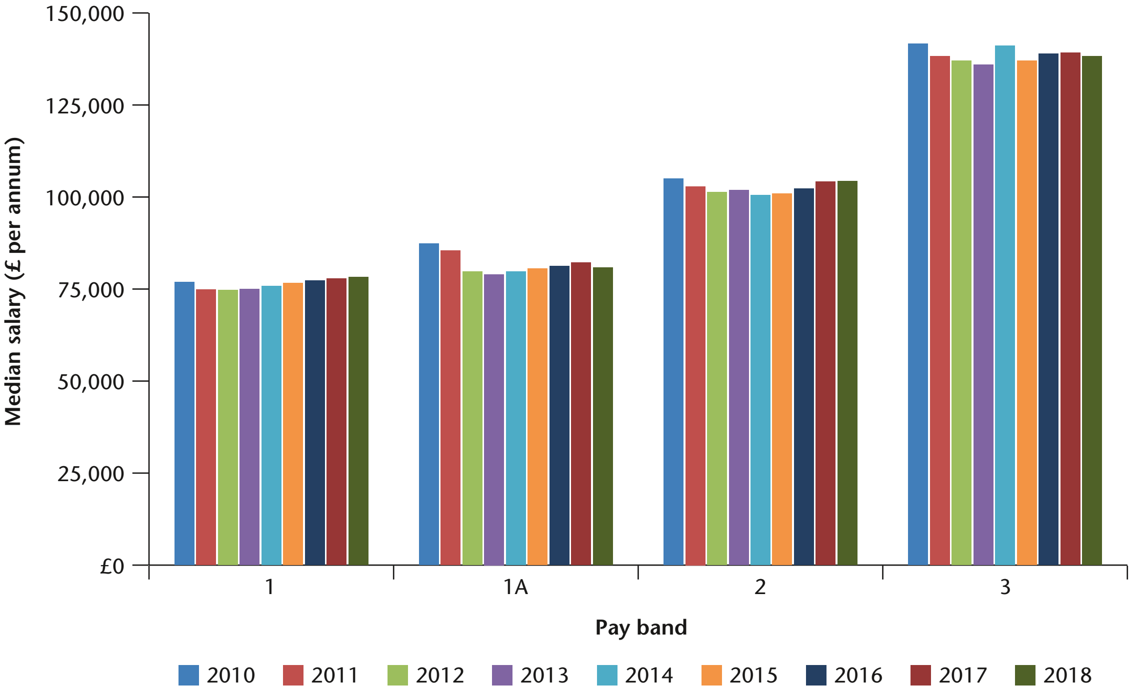
Source: Cabinet Office supporting data to the SSRB, unpublished.

4.166 The median age of the SCS in the first quarter of 2018 was 48, largely unchanged since 2003. However, the proportion of SCS members aged 44 or under was 37.0 per cent in the same period, an increase from 35.7 per cent in 2017, 30.0 per cent in 2010 and 25.2 per cent in 2003.

Pay and the pay system

4.167 In 2018, median salaries, including bonuses, were slightly higher for staff in pay band 1 than in 2017, by 0.6 per cent (or £500). Pay band 2 saw an even smaller rise in median pay, of just 0.1 per cent (or £100). Pay band 1A and pay band 3 saw falls in median pay, of 1.7 per cent (or £1,400) and 0.7 per cent (or £1,000) respectively.

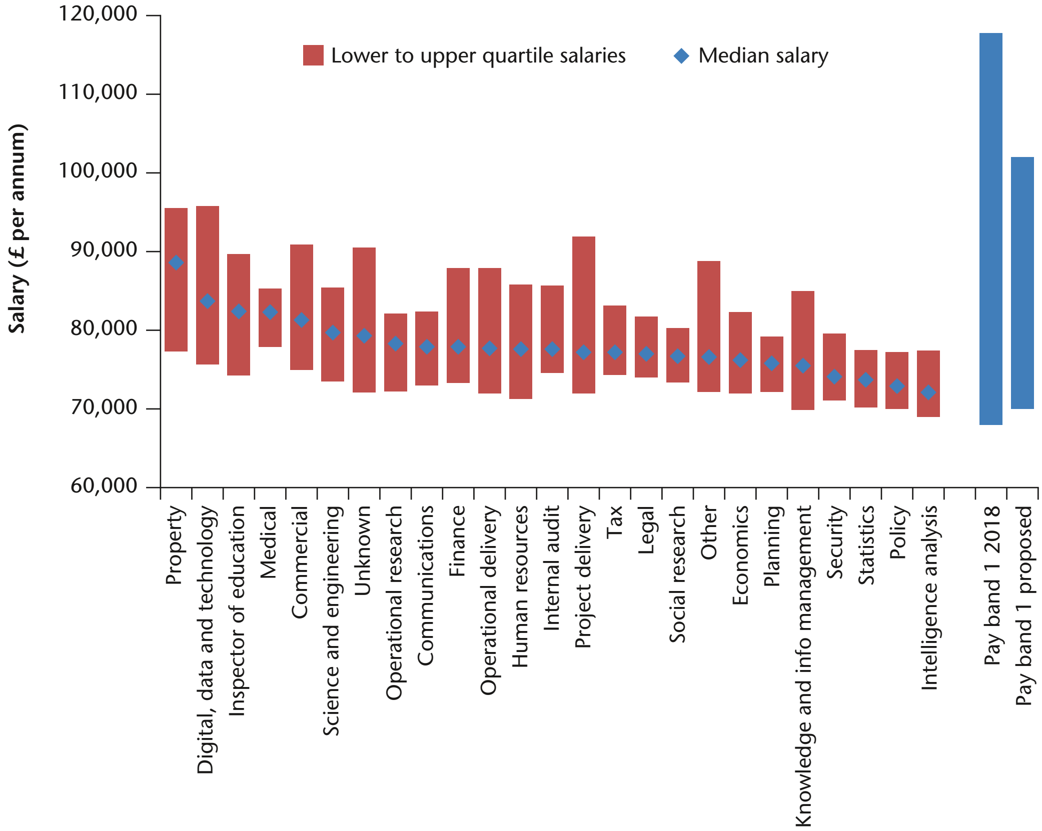
Figure 4.17: **SCS median salaries, including bonuses, 2010 to 2018**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.168 Figure 4.18 shows median and upper and lower quartile salaries for the different professions in pay band 1. Median salaries are in a narrow range of £72,000 to £80,000 for all but five professions, while property is the only profession with median pay above £85,000. Those with the greatest interquartile range – project delivery, digital data and technology (DDaT) and property – reflect the higher salaries for external versus internal recruits. All the upper quartile salaries are well below the existing and proposed pay band 1 maximum.

Figure 4.18: **Pay by profession for pay band 1, 2018**

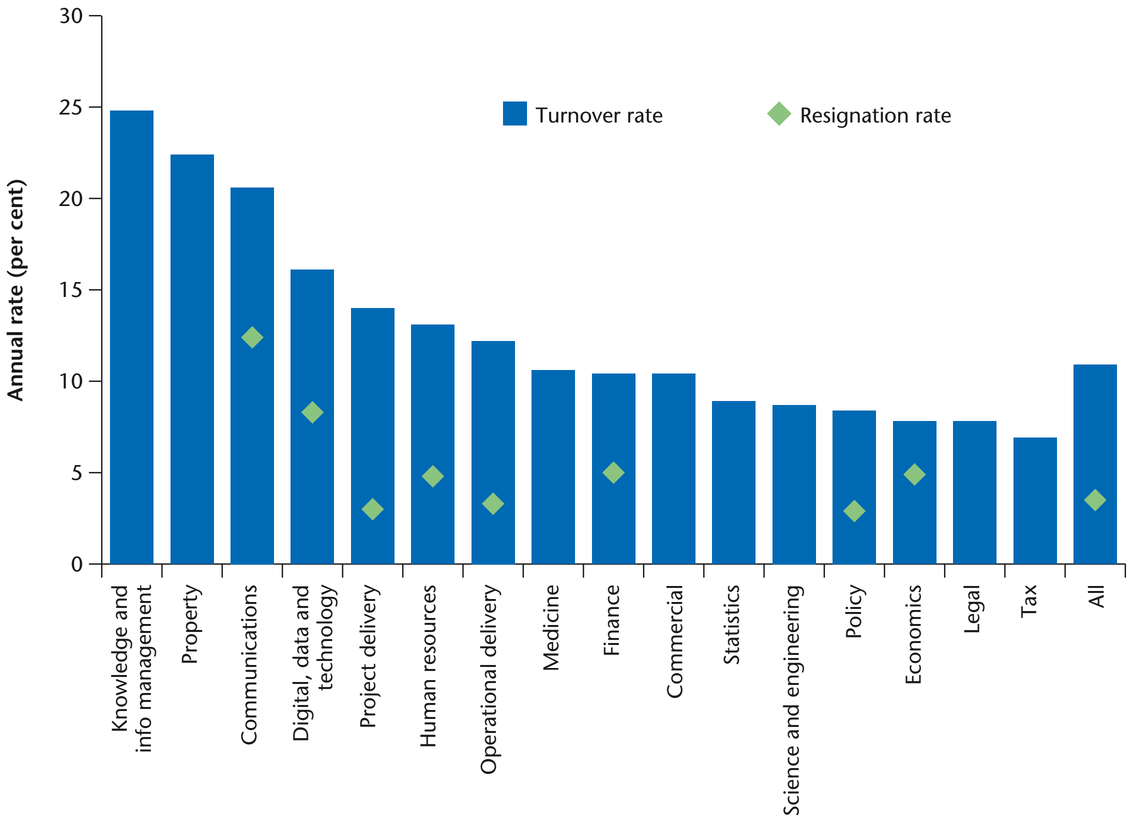


Source: Cabinet Office supporting data to the SSRB, unpublished.

Retention

4.169 Total external turnover and resignation rates varied by profession (see figure 4.19). There was a higher than average turnover rate in some professions, including knowledge and information management at 24.8 per cent and property at 22.4 per cent. In respect of resignation rates, those working in communication roles and DDaT had higher than average rates at 12.4 per cent and 8.3 per cent respectively.

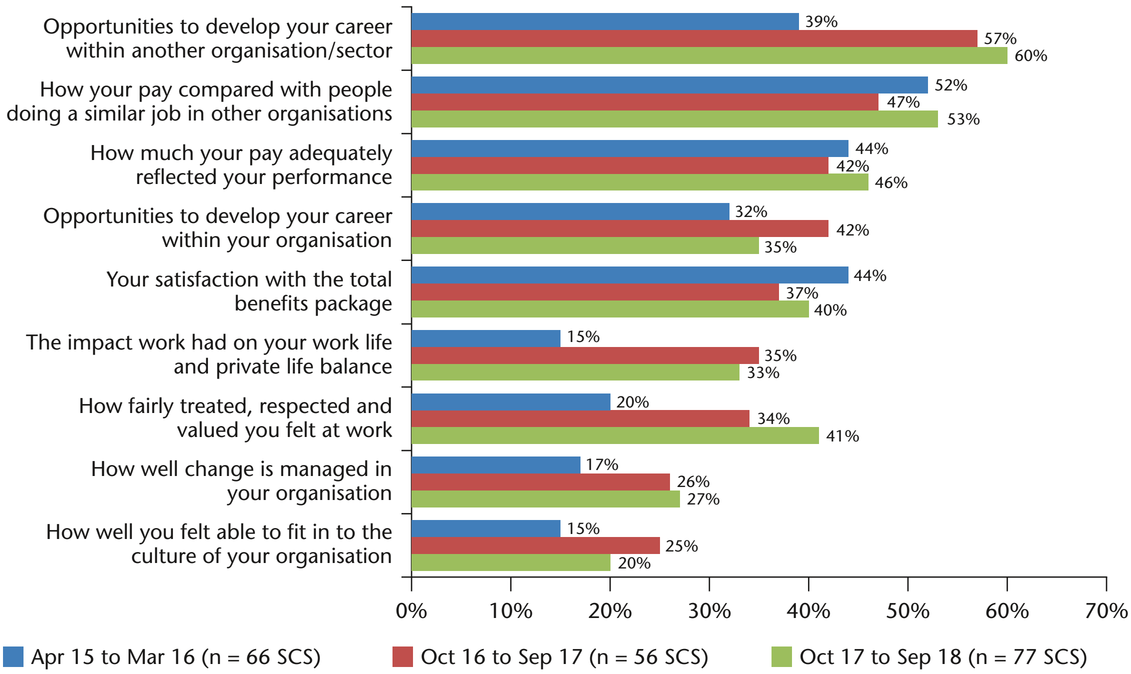
Figure 4.19: **SCS annual turnover rate by profession, 2017-18**



Source: Cabinet Office supporting data to the SSRB, unpublished.

4.170 Figure 4.20 shows the reasons for people leaving as identified by the exit interviews. Career development and pay remain the key reasons for people leaving the SCS.

Figure 4.20: **Most common reasons for resigning, 2015 to 2018**



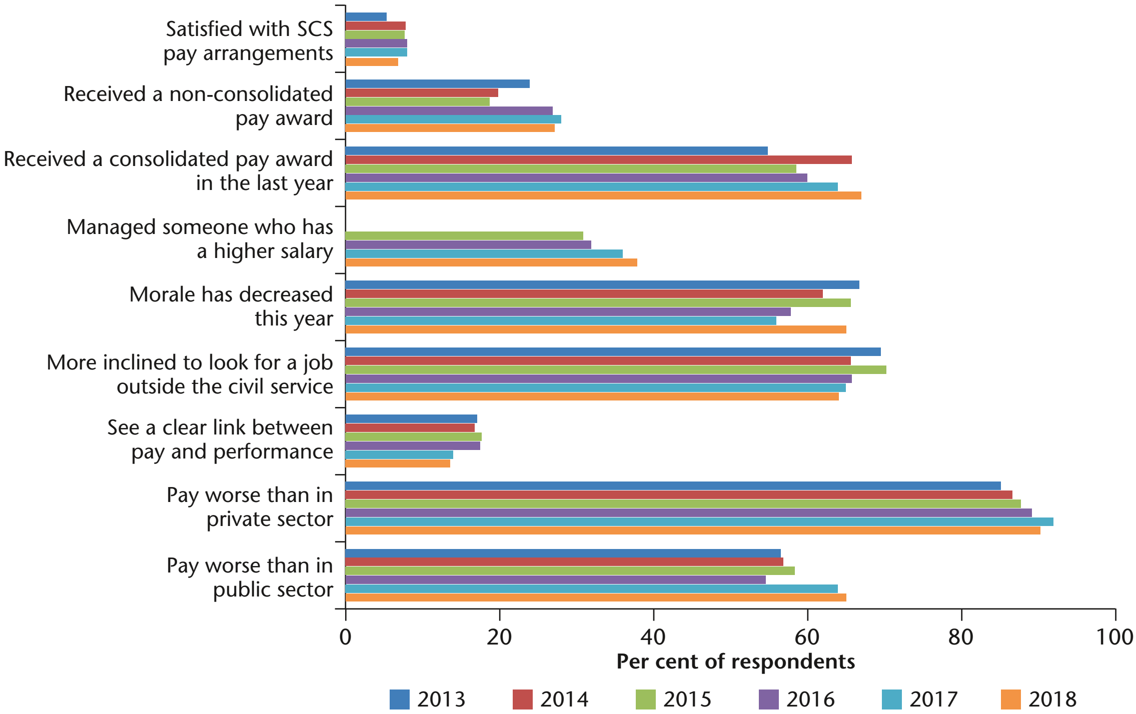
Source: Cabinet Office supporting data to the SSRB, unpublished.

Note: Proportion of SCS rating reason as an important factor (four or five out of five where one = not a factor and five = a major factor). Caution should be applied to direct comparisons between years because some SCS answered a subset of reasons in 2016-17.

Morale and motivation

4.171 Figure 4.21 shows the responses to the FDA and Prospect survey between 2013 and 2018.

Figure 4.21: **The FDA and Prospect SCS pay survey results, 2013 to 2018**



Source: FDA and Prospect evidence, published.

Chapter 5

Senior Officers in the Armed Forces

Summary

5.1 The evidence shows that recruitment and retention of the senior military remains at satisfactory levels. At present, the senior military appears to be able to attract sufficient numbers of personnel from the feeder group and there is no evidence of a decline in the quality of these individuals.

5.2 However, evidence from the results of the 2018 Armed Forces Continuous Attitude Survey (AFCAS) and from the discussion groups we held with members of the senior military, indicates a decline in the level of morale.

5.3 We remain concerned that members of the remit group and the feeder group perceive that the rewards from a career in the military are steadily declining in comparison to equivalent roles in the civilian sector. This, together with the increasing impact of pension taxation changes, could adversely affect individuals' decisions to remain in the military or accept promotion. We share the Ministry of Defence's (MoD's) concern that this could lead to a decline in the number and quality of those available to fill the most senior roles.

5.4 Recruitment to the senior military is exclusively by progression from the feeder group. External recruitment is not an option. Significant rises in outflow rates would therefore inflict considerable and long-lasting damage through the loss of experienced people who cannot quickly be replaced. The monitoring of recruitment and retention, in relation to both the numbers and the quality of personnel, together with long-term workforce planning, is therefore vital. This applies to the feeder group as well as to the remit group itself.

5.5 We therefore welcome the MoD's intention to improve its evidence base. We stress that information is needed on the quality of those leaving and remaining in Service, and the factors affecting decisions to leave the Armed Forces by members of the senior military and the feeder group.

5.6 We note the MoD's desire for the recommendation for the senior military to be "presentationally consistent" with the pay award recommended by the Armed Forces' Pay Review Body (AFPRB) again this year. This is particularly in relation to maintaining the minimum 10 per cent increase in base pay on promotion from 1-star to 2-star. There are, however, currently no recruitment and retention issues in the senior military, unlike elsewhere in the Armed Forces. The SSRB acknowledges that the increase to take-home pay on promotion from 1-star to 2-star has declined in recent years. If different pay awards are made to the AFPRB and SSRB remit groups, we suggest the MoD considers our other proposals for maintaining the 10 per cent increase to pay on promotion.[86]

5.7 The SSRB acknowledges the increasingly difficult environment in which members of the senior military work and the current demands placed on them, and their families, in terms of the tempo of deployments and the relentless workloads.

5.8 The above considerations lead us to recommend an across the board consolidated pay award of 2.2 per cent for all members of the senior military.

5.9 We note that some components of the X-Factor appear to be affecting members of the senior military to a greater extent than previously. This is because of the increasing

[86] See: paragraph 5.84.

likelihood of overseas deployments and heavier workloads. We therefore propose to work with the MoD and the AFPRB during the next round to gather evidence and consider whether changes to the X-Factor taper arrangements for senior officers, both within the AFPRB's remit group and within our remit group, are required.

Introduction

The remit group

5.10 There were 123 senior officers at 2-star rank and above on 1 July 2018, an increase of one over the year. A breakdown of the numbers by rank since 2013 is given in table 5.1 and a list of officer ranks in the UK military is set out in Appendix I. There were still just four women officers in the senior military, on 1 July 2018, all at 2-star rank. This is unchanged from last year. Since receiving this data, we note that in February 2019, the RAF announced its appointment of the first woman 3-star officer in the Armed Forces. No members of the remit group reported as being from a Black, Asian and Minority Ethnic (BAME) background or declared themselves as having a disability.

Table 5.1: **Number of senior officers as at 1 July, 2012 to 2018**

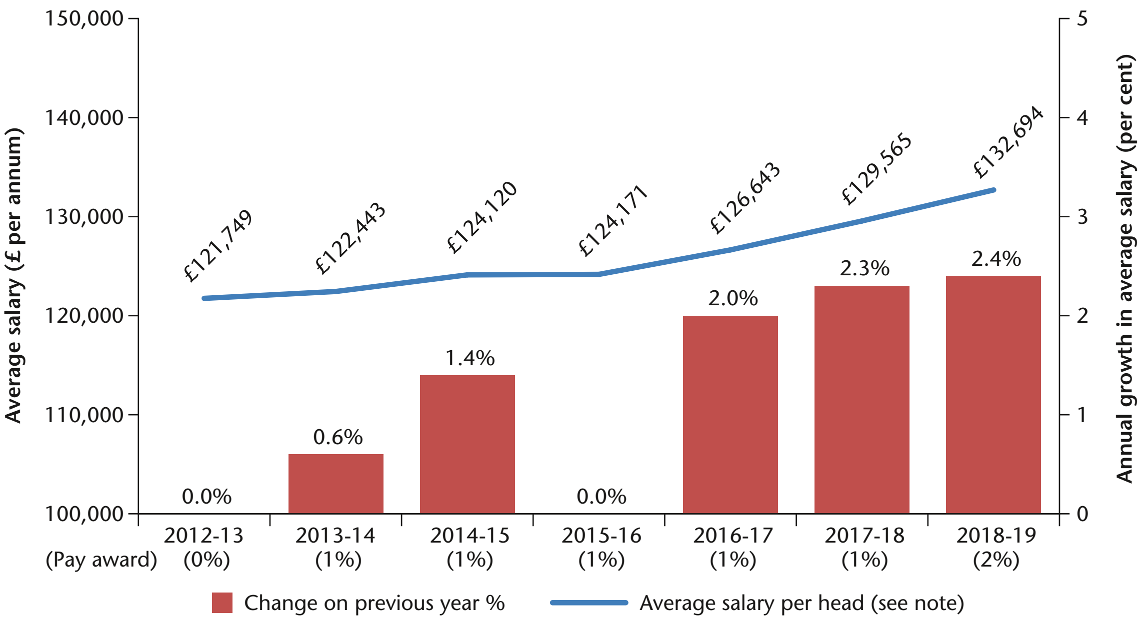
All services	2012	2013	2014	2015	2016	2017	2018	Net change 2017-18
2-star (OF7)	94	92	95	91	86	89	87	-2
3-star (OF8)	22	27	27	30	31	25	28	3
4-star (OF9)	9	9	8	7	8	8	8	0
Total	125	128	130	128	125	122	123	1

Source: Ministry of Defence evidence, unpublished.

Pay and the pay system

5.11 Members of our remit group were paid between £116,086 and £270,900 in 2018-19, with an associated paybill of £27.1 million. This included employers' national insurance and pension contributions. Salary growth per head averaged 2.4 per cent last year, as shown in figure 5.1. As well as the annual pay award, this includes pay progression, promotion and changes in the number of personnel at each rank.

Figure 5.1: **Salary per head and annual growth, 2012-13 to 2018-19**



Source: OME calculations using Ministry of Defence unpublished data.
Note: Excludes employer national insurance and pension contributions.

5.12 The pay system for the senior military differs from that of our other remit groups as it includes incremental pay progression[87] and a non-contributory pension scheme. All 2-star and 3-star officers also receive X-Factor, albeit at a tapered rate.[88] However, the senior military do not receive performance-related pay and there is limited security of employment at 1-star rank and above. The MoD told us that, while every effort was made to employ officers until their normal retirement age,[89] there was no guarantee of a second appointment beyond the rank of 1-star. The MoD explained that it was, however, difficult to monitor data on how many individuals were affected by this policy. This was because some officers could elect to leave voluntarily if they became aware that there may not be a further posting available for them.

5.13 For 2018-19, each increment equated to an average increase of 2.6 per cent. The MoD reported that as of 1 July 2018, 10 individuals, (eight 2-stars and two 3-stars), were at the top of their pay scale. These individuals would, therefore, not be eligible for any further annual pay increments at their current rank. It also reported that 24 individuals, just under 20 per cent of the remit group, did not receive an annual increment on 1 April 2018 due to insufficient length of service in a new rank.

5.14 There is currently a 10 per cent minimum base pay increase (excluding X-Factor) on promotion from 1-star to 2-star. Data provided by the MoD showed that only four of the 18 officers promoted from 1-star to 2-star in the 12 months from 1 April 2017 to 31 March 2018 were on the top pay increment before promotion. The majority of

87 Annual increments are subject to satisfactory performance and to officers having served in the rank for six months or more. Officers who assume promotion after 31 July are not eligible for incremental progression in the following April.

88 X-Factor is a pensionable addition to pay which recognises the special conditions of service experienced by members of the Armed Forces compared to civilians over a full career. It is recommended by the Armed Forces' Pay Review Body and in 2018-19 was £10,584 at the top of the OF4 pay scale. For senior officers, the payment is tapered. 1-star officers (the rank immediately 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 the X-Factor at the top of the OF4 scale. 4-star officers and above do not receive X-Factor.

89 Normal retirement age for officers varies between the Services. For the Navy, it is 55 but some may be selected to serve to age 60. For the Army, it is 55 for those on age-based terms of service. For those on length of service terms, it is 34 years from age 21 or from the age of enlistment up to a maximum age of 60. For the RAF, it is 55 but there are some exceptions.

those promoted during 2017-18 would therefore have received an increase in base pay (excluding X-Factor) of above 10 per cent.

5.15 We recognise that the 10 per cent increase to base pay on promotion could be eroded if 1-star officers, who fall within the AFPRB's remit, receive a higher annual pay award for 2019-20 than the senior officers within our remit group. We also note that this increase can fall to below 10 per cent for basic pay (including X-Factor) on promotion due to the reduction in X-Factor from 50 per cent at 1-star to 25 per cent at 2-star.

X-Factor

5.16 The X-Factor is a pensionable addition to pay, which recognises the special conditions of Service experienced by members of the Armed Forces compared to civilians over a full career.

5.17 In 2008, the SSRB recommended the introduction of the X-Factor taper for members of the senior military. This was in response to the AFPRB's 2007 review of X-Factor and proposals put forward by the MoD to the SSRB. Prior to this time, no officers above 1-star received the X-Factor. The evidence suggested that members of the senior military were increasingly seeing a deterioration in the overall 'package' of life in the Armed Forces and were being deployed more frequently in operational theatres. The SSRB also noted an increase in the number of 2-star officers leaving the Armed Forces. It therefore concluded that both 2-star and 3-star officers should receive an element of the X-Factor.

5.18 The SSRB therefore recommended that 2 and 3-star officers should receive X-Factor at the rate of 25 per cent, phased in over three years.[90] This recommendation was accepted by the government and the taper has remained unchanged since.

5.19 The AFPRB carries out a review of the X-Factor every five years to determine whether the conditions of military life (based on 13 components)[91] relative to civilian life have improved, worsened or remained the same over the preceding five-year period. The last review was carried out in 2018 and concluded that there was insufficient evidence for a change. The AFPRB recommended that the X-Factor remain at the existing rate of 14.5 per cent (of base pay). It said that the MoD's evidence had provided a mixed picture for senior officers across both Review Bodies, with higher workload pressures reported by some while others felt that compensation for X-Factor was sufficient. The AFPRB concluded that, while there was insufficient evidence this year to recommend any immediate change to the tapering arrangements, it felt that the issue merited ongoing consideration.[92] It explained that any work on reviewing the X-Factor taper would need to be co-ordinated with the SSRB.

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[90] The recommendation was for 2 and 3-star officers to receive X-Factor, with payments of 15 per cent of the cash value at the top of the OF4 scale in 2008-09, 20 per cent in 2009-10 and 25 per cent from 2010-11.

[91] The 13 X-Factor components are as follows: turbulence; spousal/partner employment; danger; separation; job security; hours of work; stress, personal relationships and impact of the job; leave; training, education, adventure training and personal development; promotion and early responsibility; autonomy, management control and flexibility; individual, trade union and collective rights; and travel to work.

[92] Armed Forces' Pay Review Body Forty-Seventh Report 2018 (paragraph 6.2), *"MoD's evidence to us this year provided a mixed picture for senior officers: higher workload pressures reported by some, whilst others felt that the compensation offered through current X-Factor arrangements were sufficient. While we do not believe that we have seen evidence this year to justify any immediate amendment to the tapering arrangements, we consider that this issue merits ongoing consideration and will seek to explore it further with relevant parties in our forthcoming visits programme. Any work will need to be co-ordinated with the Review Body on Senior Salaries whose remit includes the most senior members of the military."* See: https://www.gov.uk/government/publications/armed-forces-pay-review-body-forty-seventh-report-2018

Medical Officers and Dental Officers

5.20 There were two 2-star and two 3-star Medical Officers and Dental Officers (MODOs) as at June 2018. 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 rate of pay is 5 per cent above the base pay at the top of the MODO 2-star pay scale plus X-Factor.[93] The associated paybill costs for 2017-18 for these four officers, including employer national insurance and pension contributions, were approximately £1.04 million.[94]

Pension schemes

5.21 Data provided by the MoD showed that on 1 July 2018, 55 per cent of the senior military belonged to the 1975 Armed Forces Pension Scheme (AFPS75), 16 per cent to the 2005 scheme (AFPS05), and the remaining 29 per cent to the scheme which was introduced on 1 April 2015 (AFPS15).

Table 5.2: **Number of senior military that belong to each Armed Forces pension scheme at 1 July 2018**

	AFPS75		AFPS05		AFPS15	
Rank	**Number of members**	**%**	**Number of members**	**%**	**Number of members**	**%**
2-star	44	51	8	9	35	40
3-star	20	71	8	29	0	0
4-star	4	50	4	50	0	0
Total members	68	55	20	16	35	29

Source: Ministry of Defence evidence, unpublished.

Remuneration analysis

5.22 Figure 5.2 models take-home pay for a 2-star officer and a 4-star officer over the period 2009 to 2019.[95] Take-home pay is defined as annual gross pay (base pay plus any allowance) less employee national insurance contributions, income tax, employee pension contributions and any annual allowance tax charge.

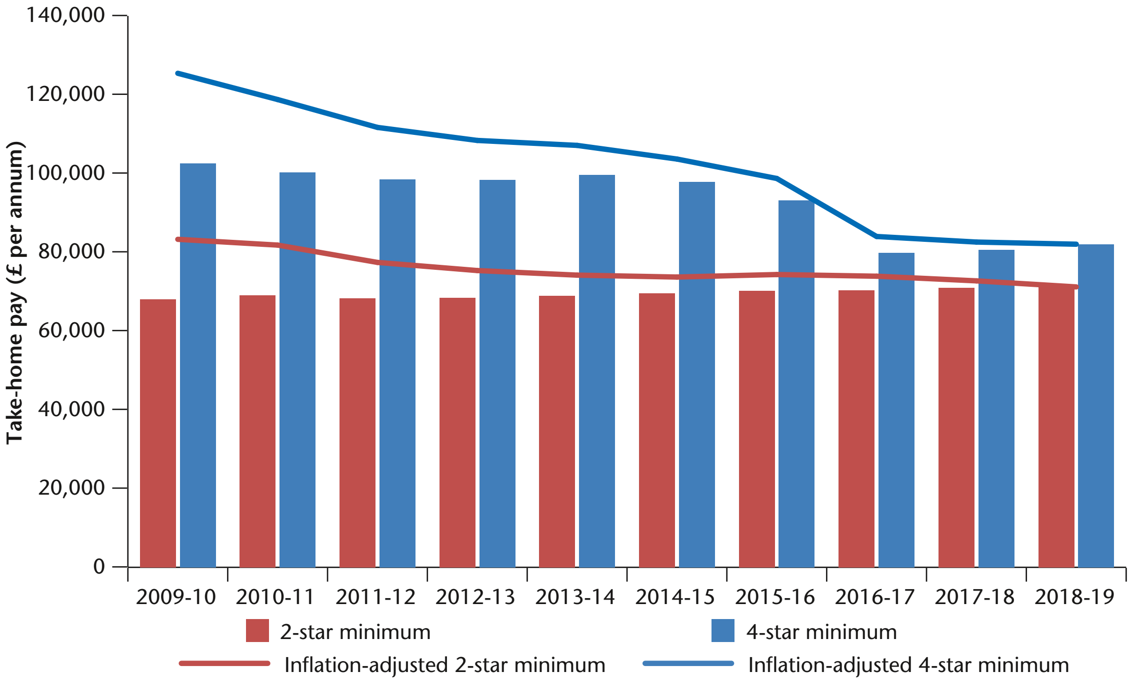
93 X-Factor is paid to 2 and 3-star MODOs at 25 per cent of the cash value of the consultant OF3-OF5 pay scale at level 22 which is £16,842.

94 These costs are in addition to the costs for the 123 members of the senior military quoted in paragraph 5.10.

95 Further details of this work, and the assumptions made in the modelling, are given in Appendix A.

5.23 Figure 5.2 indicates that a 2-star officer under this model has seen an increase in take-home pay of 4.5 per cent over the period, through a combination of some basic pay rises and increases to the income tax personal allowance, which has been offset in part by higher national insurance contributions. A 4-star officer, by contrast, has seen take-home pay fall by 20.0 per cent over the period.[96] This drop has been driven by the pension annual allowance tax charge and the tapered withdrawal of the personal tax allowance for those earning over £100,000. Adjusting for inflation, the 2-star officer has seen a fall in take-home pay of 14.5 per cent over the period, while the 4-star officer has seen a fall of 34.6 per cent. The 2-star officer in this analysis is affected by the pension annual allowance for the first time in 2017-18. This will increasingly bear down on take-home pay in future years.

Figure 5.2: **Take-home pay for the 2-star minimum and the 4-star minimum, 2009-10 to 2018-19**

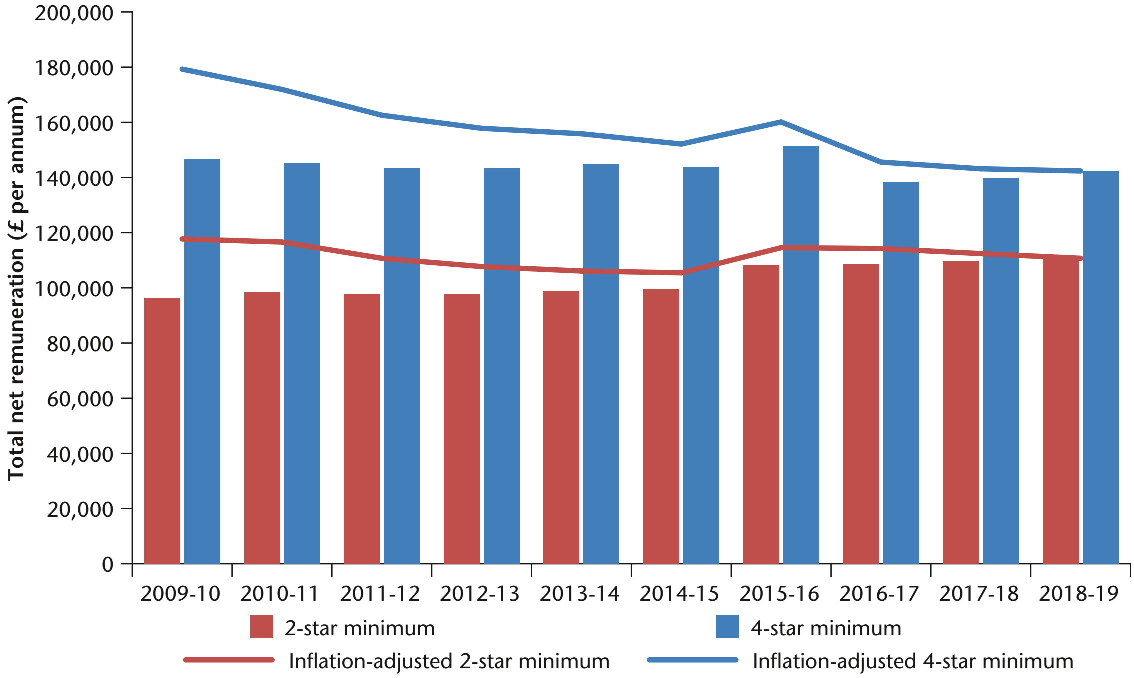


Source: OME, see Appendix A.

96 Our survey of the senior military indicates that most members use Scheme Pays to meet the cost of the annual allowance tax charge.

5.24 Figure 5.3 shows total net remuneration,[97] which adds on the additional pension benefit each year. Total net remuneration increased in 2015-16 for these groups, as the new pension scheme has a higher accrual rate. A 2-star officer has seen a rise in total net remuneration of 15.0 per cent over the period. A 4-star officer has seen a fall in total net remuneration of 2.9 per cent. Once adjusted for inflation, total net remuneration for 2-star and 4-star officers fell by 6.0 per cent and 20.6 per cent respectively. Figure 5.4 shows that the change in pension taxation was a primary factor in the fall in total net remuneration for 4-star officers. This in-year analysis does not take into account either the increased pension age or the lifetime allowance, both of which will lower the lifetime value of total remuneration further.

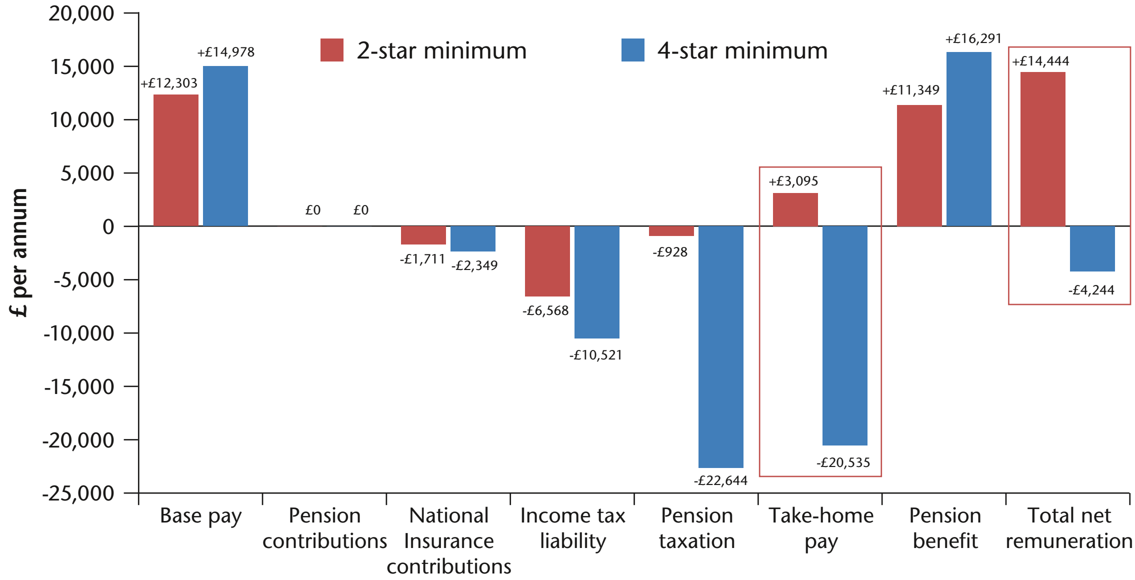
Figure 5.3: **Total net remuneration for the 2-star and the 4-star minimum, 2009-10 to 2018-19**



Source: OME, see Appendix A.

[97] Total net remuneration is calculated as take-home pay plus the value of the additional amount added to the annual pension during the year.

Figure 5.4: **Make-up of the change in total net remuneration from 2009-10 to 2018-19**



Source: OME, see Appendix A.

Government response to our 2018 recommendations

5.25 In 2018, the government did not fully accept all of our recommendations made in respect of the senior military. We recommended an increase of 2.5 per cent to base pay. The government said in its written ministerial statement that it had "accepted the spirit of the recommendation" by implementing an increase of 2 per cent to base pay and a further 0.5 per cent as a one-off non-consolidated award for all members of the remit group.

5.26 The government accepted our recommendation that there should be no change to the current pay differentials for senior MODOs and that all senior officers should receive a minimum 10 per cent increase in base pay (excluding X-Factor) on promotion from 1-star to 2-star.

5.27 We received feedback from the remit group that a pay award of 2 per cent, after many years of pay restraint, was welcomed. The late announcement of the award however, meant it was paid in November salaries and backdated to 1 April 2018. There were mixed reactions to the 0.5 per cent non-consolidated pay award with some viewing it as a cost-saving measure and others seeing it as a positive. Some of the positive reactions to the award were reduced by the fact that the non-consolidated award had to be paid in two separate instalments, one in November 2018 and one in March 2019.

Policy context

5.28 In its written evidence, the MoD noted that while the public sector 1 per cent pay policy had been lifted, the last Spending Review had budgeted for an average 1 per cent increase in basic pay and progression pay awards for specific workforces. The MoD said there would still be a need for pay discipline over the coming years to ensure affordability of public services.

5.29 The MoD explained that the Modernising Defence Programme (MDP), published in December 2018, set out two, potentially conflicting, aims: to strengthen the Armed Forces to meet likely threats, and moving Defence onto a strategically affordable footing. We were told that work on this would commence under the government's 2019 Spending Review.

5.30 A comprehensive strategy was also being developed to improve recruitment and retention of talent in an increasingly digitalised world. The Chief of the Defence Staff (CDS) explained in oral evidence that the Armed Forces was shifting from needing generalists to requiring specialists and that, at 1-star and above, these individuals would be managed centrally across all three Services.

5.31 The MoD said that it continued to work towards a workforce that was reflective of UK society. It highlighted the fact that all roles, including close combat infantry roles, were now open to women Service personnel. The MoD also informed us that the Armed Forces (Flexible Working) Act 2018, aimed at retaining experienced personnel and meeting the expectations of a modern workforce, came into effect on 1 April 2019.

5.32 We were told that the MoD continues to centrally monitor, manage and control the total number of 1-star officers and above under its 'Star Count' initiative to ensure the requirement for each post is scrutinised and justified. The initiative aims to reduce the total number of 1-star officers and above from 500 in 2010 to 405 by 2020. The data showed there were 440 personnel at 1-star and above on 1 April 2018, a decrease of 6 per cent from 2012, but an increase of 2 per cent from 2017.[98]

Proposals

5.33 The MoD again did not recommend a specific amount for the pay award in its written evidence to us this year. It did, however, ask the SSRB to recommend a pay award that would meet the following aims:

- Retain suitably skilled and motivated personnel, preferably of the best quality, and maintain morale in the Armed Forces with a competitive remuneration package.
- Be affordable within the department's existing resources.
- Be "presentationally consistent" with, and linked to, the AFPRB award in order to maintain a minimum increase to base pay (i.e., excluding X-Factor) of 10 per cent on promotion from 1-star to 2-star.
- Be focused on take-home pay i.e., the amount available to personnel after income tax, national insurance contributions and pensions tax have been deducted.

5.34 It also requested the SSRB to recommend the retention of pay increments, and that the existing pay arrangements for 2 and 3-star MODOs should continue.

5.35 The Minister for Defence People and Veterans stated in oral evidence that this year's pay award needed to take into account the rate of inflation, the competitive employment market and send a signal that the Armed Forces were valued.

Evidence

5.36 We took written and oral evidence from the MoD. The oral evidence session was attended by the Minister for Defence People and Veterans and the CDS. We also held a discussion group with eight members of the senior military at our offices in Fleetbank House and met with a further 12 members of the remit group and members of the feeder group across visits to the three individual Service Headquarters in autumn 2018.

Recruitment

5.37 The senior military only recruits from within the Services. It develops its own personnel from the feeder group and promotes them to fill the most senior positions within the military.

[98] The MoD said that the increase was mostly due to the inclusion of staff transitioning out of Service and partly due to some short-term extensions of personnel and some short-term establishment enhancements.

5.38 The MoD told us that the Senior Appointments Committee continues to manage talent across the senior military. It looks six to eight years ahead to ensure individuals with the appropriate skills and experience at 2 and 3-star rank are available to fill the most senior posts when required. We were informed that a review on managing the top talent across the three Services for personnel at 1, 2 and 3-star rank, led by the CDS, was also being carried out. The CDS explained in oral evidence that this year, for the first time, the Senior Appointments Committee would also be identifying and considering the most promising 1-star officers across all three Services.

5.39 There are no recruitment issues in the senior military at the current time. During the 12 months to 30 June 2018, 21 officers were promoted into the remit group and seven were promoted within it. This was sufficient to replace the 16 officers that had retired from the senior military and the four officers that had left prematurely during the same 12-month period.

Retention

5.40 Data from the MoD showed that the voluntary outflow rate for the senior military, excluding normal retirements, for the 12 months to 30 June 2018 was 3 per cent. This figure was the same as for the previous 12 months. The four senior officers that voluntarily left the remit group during this period were all at 2-star rank. Table 5.3 shows the number and rate of early retirements over the last five years.

Table 5.3: **Officers in the senior military remit group leaving the Services voluntarily, 2013-14 to 2017-18**

Rank	2013-14	2014-15	2015-16	2016-17	2017-18
2-star	6 (6%)	5 (5%)	5 (6%)	4 (4%)	4 (5%)
3-star	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
4-star	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)

Source: Ministry of Defence evidence, unpublished.
Notes: This covers the period from 1 July to 30 June each year.
The table shows early departures and not those at normal retirement age.[99]

5.41 The MoD did provide data from the Joint Personnel Administration system on the reasons given for early exit by the 2-star officers. However, as mentioned in our 2018 Report, and acknowledged by the MoD in oral evidence, some of the current response categories can be open to multiple interpretations. This data was therefore not considered to be particularly reliable.

5.42 In our last two Reports, we requested better information on the reasons why members of the remit group decide to exit the Services early and on what roles they take up after leaving. This year, the MoD reiterated that individuals were often reluctant to provide this information during exit interviews and therefore reliable evidence could not be gathered.

5.43 However, the MoD reported that work was underway to obtain a better understanding of the roles and associated salaries that remit group members moved into when they left the Services. The MoD explained that HM Treasury and HM Revenue and Customs (HMRC) had been authorised to provide anonymised post Service earnings evidence.

[99] Normal retirement age for officers varies between the Services. For the Navy, it is 55 but some may be selected to serve to age 60. For the Army, it is 55 for those on age-based terms of service. For those on length of service terms, it is 34 years from age 21 or from the age of enlistment up to a maximum age of 60. For the RAF, it is 55 but there are some exceptions.

This could be used to measure competitive remuneration packages that either attracted personnel to leave or that would supplement pensions or Early Departure Payments.[100]

5.44 In oral evidence, the MoD explained that it was working with our secretariat and academics to build lead indicators, collect better data and carry out longitudinal studies of individuals' career pathways to monitor the quality of those remaining, and those leaving the Armed Forces. It also explained plans for occupational psychologists to analyse the results of exit interviews. The requirement for better data in relation to tracking careers and measuring quality and on exit interviews for those in the senior military, is noted in Chapter 1.

Morale and motivation

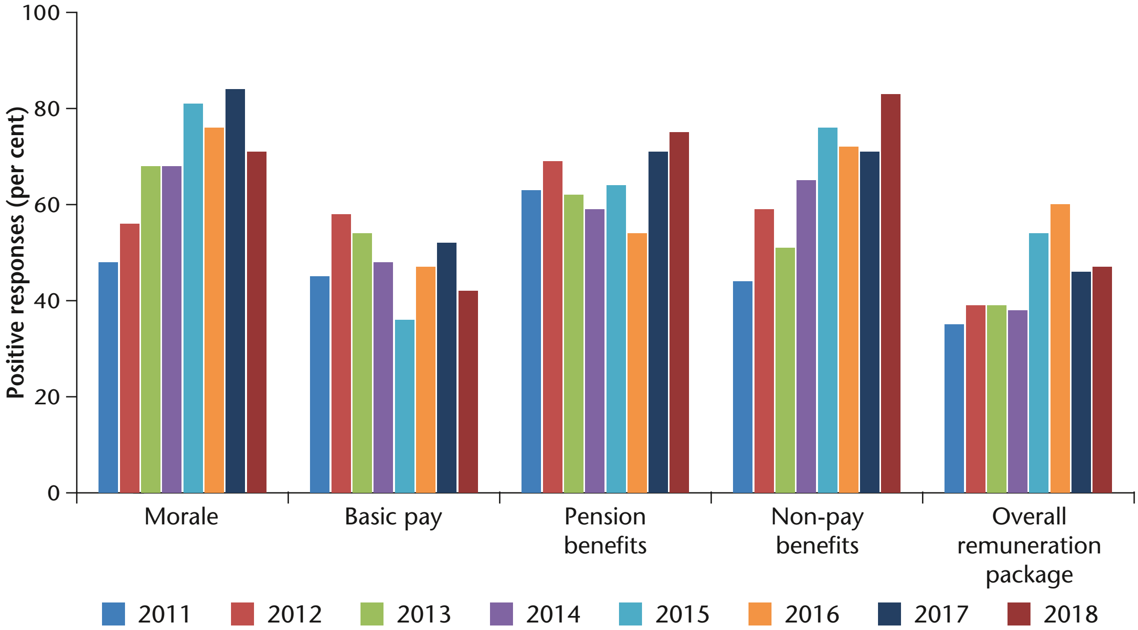
5.45 The MoD reported that the results of the 2018 AFCAS for the senior military showed decreased levels of satisfaction in 10 of the 18 factors where comparisons to the previous years could be made. The timing of the AFCAS[101] and the delay in the announcement and delivery of the 2018-19 pay award means that responses do not reflect the reactions to the award.

5.46 Figure 5.5 shows changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale for officers at 2-star rank and above between 2011 and 2018. The percentage of senior officers rating their own morale as high fell from 84 per cent in 2017 to 71 per cent in 2018, the lowest rate in four years. There were also decreases in satisfaction with basic pay levels (including X-Factor) from 52 to 42 per cent and in satisfaction that X-Factor is sufficient compensation for Service lifestyle, working conditions and expectations, from 61 to 48 per cent. The proportion of the remit group that consider their workload to be about right remained low, at 26 per cent.

[100] The Early Departure Payment (EDP) is a tax-free lump sum paid by the employer to Service personnel who leave before the AFPS05 and AFPS15 pension payments commence. It aims to do the following: incentivise personnel to serve until at least the mid-career point (age 40 and to have served for at least 18/20 years), compensate for the fact that a full career to age 60 is not available to most personnel, and to enable personnel to resettle and start a second career later in life.

[101] The 2018 AFCAS was carried out between September 2017 and February 2018 and the pay award was announced in September 2018.

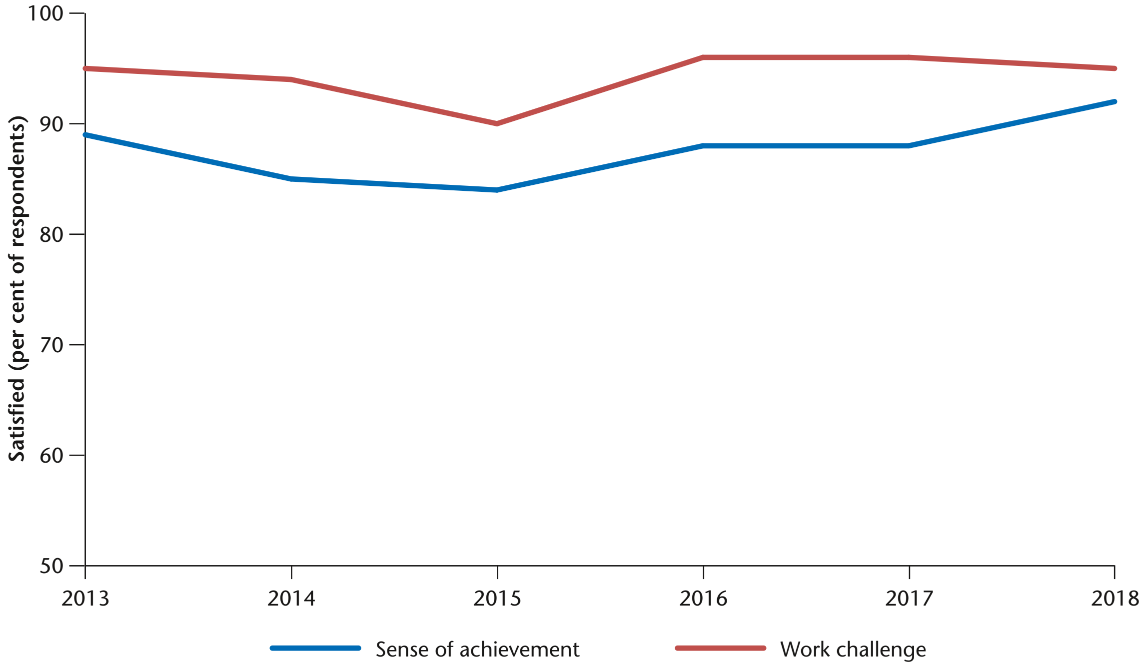
Figure 5.5: **Changes in morale and satisfaction with pay, pension, non-pay benefits and overall remuneration for officers at 2-star and above, 2011 to 2018**



Sources: Ministry of Defence evidence, unpublished (How would you rate your level of morale? How satisfied are you with your basic pay? How satisfied are you with your pension benefits?) and Office of Manpower Economics (How satisfied are you with your non-pay benefits? How satisfied are you with your overall remuneration package?).
Notes: For the questions about the overall remuneration package, basic pay, pension benefits and non-pay benefits, the figure shows the percentage of respondents answering satisfied or very satisfied. For the question about morale, the figure shows the percentage of respondents answering high or very high.

5.47 However, the AFCAS results showed a small increase in the percentage of personnel satisfied with pension benefits from 71 to 75 per cent, notwithstanding the impact of pension tax. There was also an increase from 36 to 48 per cent in the proportion of those in agreement that the family benefited from being a Service family. Responses also suggested that satisfaction with the sense of achievement that remit group members get from their work and with the challenge of their jobs remains high (see figure 5.6).

Figure 5.6: **Satisfaction with sense of achievement and challenge in job, 2013 to 2018**



Source: Ministry of Defence evidence, unpublished.
Note: Questions from the AFCAS: How satisfied are you with the sense of achievement you get from your work? How satisfied are you with the challenge in your job? Of the 87 per cent asked to complete the survey this year, 58 per cent responded.

5.48 The results of the AFCAS survey can be subject to considerable fluctuations year on year as the remit group is small, and the overall response rate from members of the senior military was 53 per cent.[102] The MoD noted in its written evidence that while AFCAS is a valuable evidence strand, analysis of the results should be treated with caution.

5.49 Our secretariat ran an online survey that was sent to all members of the senior military again this year. The survey contained questions that complemented those in the AFCAS survey. We received 47 responses which equates to 38 per cent of the remit group.

5.50 The results of our survey were similar to those from the AFCAS, with 47 per cent of respondents either satisfied or very satisfied with the overall remuneration package (similar to the previous year). The results also showed an increase in the percentage of the remit group members who worked on average over 70 hours a week, from 24 per cent in 2017 to 34 per cent in 2018. However, the majority of respondents said they were highly motivated to do a good job.

5.51 The issues raised in discussion groups with the senior military suggested that there had been a fall in the level of morale, as reflected in the AFCAS results. The impact of pension taxation appeared to be the issue that was of greatest concern to the remit group. Pension taxation, coupled with the fact that many personnel viewed their military salaries as lagging behind equivalent roles in the civilian sector, were causing individuals to consider seriously whether it was worth remaining in the senior military. While the majority told us they considered it a privilege to serve in the senior military, most felt the employment package was not sufficient to compensate for the amount of responsibility and accountability, the number of hours spent on duty and the amount of separation from their families. The recently imposed restrictions on job-enabling modes of transport made it harder for individuals to work while travelling to official duties. We were told

[102] The MoD informed us that 65 responses were received from the 113 members of the senior military who were asked to complete the 2018 AFCAS.

this exacerbated the situation with the ever-increasing workloads. Many stated that the Continuity of Education Allowance (CEA) acted as a huge retention incentive and that some members of the senior military would leave the Services if this was withdrawn.

The feeder group

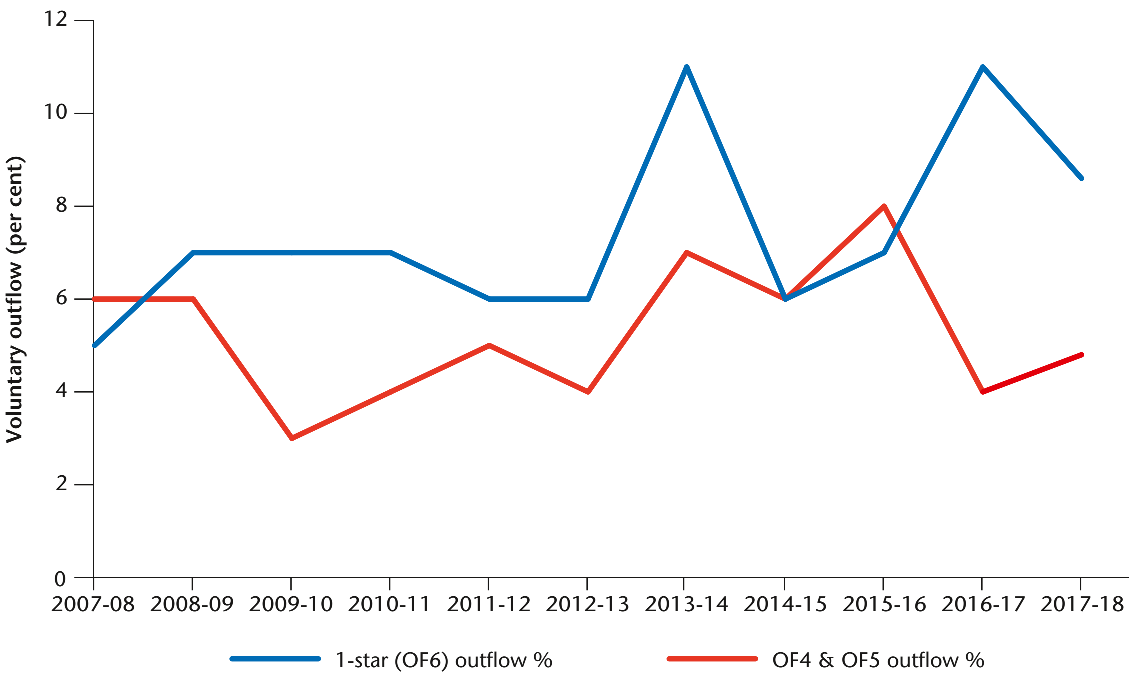
5.52 The immediate feeder group for the senior military is the OF6, 1-star rank. Service personnel can only be promoted from the OF6 rank into the senior military. The two groups immediately below these are the OF4 and OF5 ranks. On 1 July 2018, there was a total of 5,098 officers in these three groups.[103] Of these, 9.0 per cent (460 individuals) were women, an increase of 0.9 per cent on the previous year, and 3.9 per cent (199 individuals) declared themselves as from a BAME background, an increase of 0.2 per cent on the previous year. No individuals from these groups declared themselves as having a disability.

5.53 The MoD provided data this year that showed the voluntary outflow rate at the rank of OF6 had decreased slightly from 11 per cent (30 individuals) in the 12 months to 30 June 2017 to 8.6 per cent (27 individuals) in the 12 months to 30 June 2018.

5.54 There was, however, a small increase in the voluntary outflow rate for OF4 and OF5 officers from 4.0 per cent (187 individuals) in 2017 to 4.8 per cent (230 individuals) in 2018. Despite the increase, voluntary outflow rates for this group for 2018 were still lower than the worrying spike in the outflow rate to 8 per cent (311 individuals) that had occurred in 2016.

5.55 Figure 5.7 shows the percentage of officers in the feeder groups leaving the Services voluntarily over the last 10 years. Data indicated that the most frequently cited reasons for leaving for OF6s were 'offer of civilian employment', 'take advantage of opportunities outside' and 'seeking fresh challenges'.

Figure 5.7: **Percentage of officers in the feeder groups (OF4 to OF6) leaving the Services voluntarily, 2007-08 to 2017-18**



Source: Ministry of Defence evidence, unpublished.

[103] This was made up of 314 OF6s, 1,045 OF5s and 3,739 OF4s.

5.56 The MoD informed us that the Services continue to identify high potential individuals within the feeder group, to track their careers over time and to monitor how many are no longer serving.

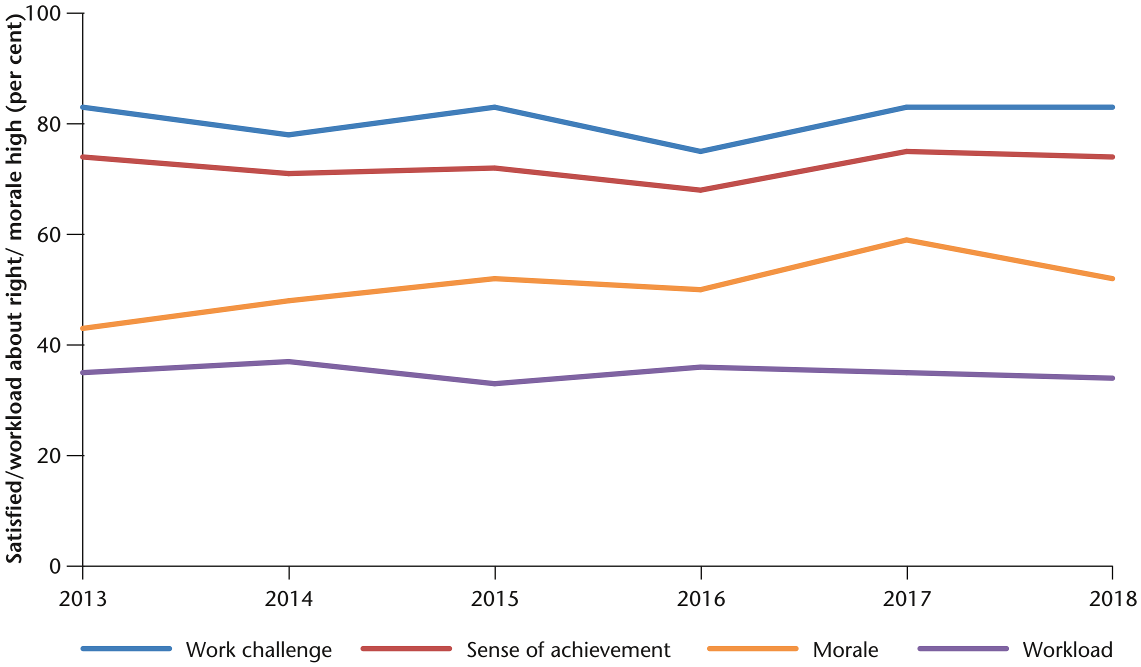
5.57 Each year the MoD runs a Higher Command and Staff Course (HCSC) for those officers in the feeder group who have been identified as the most talented and who are expected to reach senior rank. Most attendees are OF5 and a few are OF6.

5.58 The MoD has provided data on promotion and retention rates of graduates from the HCSC during the last 10 years. However, it is unclear what conclusions, in relation to retention of the most talented individuals, can be drawn from this. Our secretariat is now working with the MoD to see if better use can be made of this data. The MoD is also working with HM Treasury and HMRC to obtain access to post-service earnings to help identify roles and salary rates that individuals from the feeder group are moving to.

5.59 The MoD provided us with responses to the 2018 AFCAS survey from OF5s and OF6s. Responses showed decreases compared to the previous year in the percentage rating their own morale as high (from 59 to 52 per cent), in satisfaction with allowances (from 44 to 39 per cent), pension benefits (from 77 to 74 per cent) and in those satisfied that X-Factor was sufficient compensation for Service lifestyle, working conditions and expectations (from 50 to 46 per cent). Satisfaction with the rate of basic pay (including X-Factor but excluding allowances) remained constant at 51 per cent. There were, however, significant increases in the proportion of respondents satisfied with both the fairness of the promotion system (from 58 to 68 per cent) and with the opportunities for promotion (from 38 to 47 per cent).

5.60 Figure 5.8 shows the trends in morale, workload, and satisfaction with achievement and challenge in the job for members of the feeder group and the OF5s from 2013 to 2018. Satisfaction levels for those in the feeder group and the OF5s are slightly lower than for the remit group but are stable.

Figure 5.8: **Satisfaction with challenge in job, sense of achievement, morale and workload among the OF5 and OF6 ranks, 2013 to 2018**



Source: Ministry of Defence evidence, unpublished.
Note: Questions from the AFCAS: How satisfied are you with the challenge in your job? How satisfied are you with the sense of achievement you get from your work? How would you rate your level of morale? How would you rate your workload over the last 12 months?

5.61 We were told that 20 per cent of OF5s and OF6s were asked to complete the AFCAS and that the response rates were 70 per cent and 69 per cent respectively. With this small sample we recognise that the results for the feeder groups also need to be treated with a degree of caution.

5.62 Results from the MoD's annual Continuous Working Patterns (CWP) survey for 2017-18 for OF5 and OF6 respondents indicated slight reductions in the average number of hours worked, average number of unsociable hours worked and the number of excessive hours worked each week, compared to the previous year. The average number of hours spent on duty,[104] however, had increased from 78.8 a week in 2016-17 to 86.1 in 2017-18. The number of hours worked in all categories were significantly higher for the OF5s and OF6s than for all respondents to the CWP survey. The increase in working hours and workloads corresponds with what we were told in discussion groups.

5.63 The main issues raised in discussion with the feeder groups were as follows:

- Individuals were aware that there were only a small number of roles in the senior military and that only a percentage of the feeder group would progress into these. This did not seem to be a particular issue. Some said they were happy to remain in the feeder group and that doing a job they enjoyed and that was challenging was more important than securing promotion.
- The increase in pay on promotion from 1-star to 2-star was not necessarily thought to be sufficient to compensate for the increase in workload and level of accountability and responsibility that would come with it.
- Members of the feeder group were also very aware that there was the potential for them to incur a large pension tax bill on taking promotion.

[104] Hours on duty includes hours worked and time spent on breaks at work and on-call.

- Pay was competitive on joining the Armed Forces but as individuals gained experience it soon fell below that earnt by civilian counterparts, particularly in specialist roles such as engineers and air traffic controllers. Experienced individuals in these roles could earn higher salaries with a better work-life balance in outside industry.
- The fact that those in the Army could only work until 55 was causing many, particularly at Major rank (OF3), to consider leaving around the age of 40 to be able to start a second career. Some suggested that extending the working age beyond age 55 could aid retention.
- The introduction of flexible working was viewed as positive for retention. However, there was some concern that working part time could limit the opportunity for promotion and could put additional strain on those working full time.
- The CEA was also viewed as being positive for retention.
- Communication about the 2018-19 pay award was perceived to have been poor. The MoD had not explained why part of it had been awarded as a non-consolidated payment. It had not been made clear how and when the pay award and the non-consolidated payment would be paid. Some speculated that the splitting of the pay award into consolidated and non-consolidated could become the default position.
- Service personnel were aware that pay awards above 1 per cent needed to be funded out of single Service budgets and that this could lead to tough choices having to be made in the future.

Pension evidence

5.64 The MoD acknowledged in its evidence to us that the pension was a key element of the employment offer. It explained that perceptions of the AFPS15 were slowly improving as individuals with longer service realised the scheme, with an accrual rate based on pensionable salary, favoured those later in their careers on higher salaries, and that benefits could increase beyond the 34-year limit of the AFPS75 scheme.

5.65 However, the MoD remained concerned about the poor perceptions of the AFPS15, particularly for those in the feeder group who were compulsorily transferred to it. Furthermore, the impact of the pension taxation charges in relation to breaches of the annual allowance and the lifetime allowance continued to create uncertainty for the senior cohorts.

5.66 The number of members of the senior military incurring pension taxation charges through breaches of the annual allowance increased from 16 individuals in 2015-16 to 62 individuals in 2016-17.

5.67 Written evidence from the MoD stated that 112 members of the remit group had breached their pension annual allowance for 2017-18. However, it was not known how many of the remit group had incurred a pension taxation charge for 2017-18.

5.68 The MoD cautioned that pension taxation would increasingly have an impact on the decisions of the senior military and the feeder group as to whether they remain in Service or leave at an earlier stage in their careers. The effect on MODOs was specifically highlighted as these individuals had a comparative civilian employer, the NHS, that they could transfer to and work part time for. The MoD highlighted the fact that non-specialist officers at OF4 rank, three ranks below the remit group, were also now increasingly facing tax charges as a result of breaches of the annual allowance.[105]

[105] The MoD told us that for 2017-18, 2,934 members of the main AFPRB remit group exceeded their pension annual allowance, with around 400 of these expected to owe more than £2,000 in tax. Additionally, 687 MODOs also exceeded their annual allowance.

5.69 We agree that the effect of pension taxation charges is an area for serious concern and have highlighted its negative impact on the remuneration of the remit group and feeder group in both our 2017 and 2018 Reports. We believe it is important for the government to consider seriously the options around pension flexibility. These issues are further documented in Chapter 2.

Retention of annual increments

5.70 Following the request in our 2018 Report, the MoD included the full justification for annual increments for members of the senior military in its written evidence. This is set out below:

- Increments are the most cost-effective way to incentivise and retain a workforce that is rank-based and promotes from within based on experience, performance and potential.
- They are vital in supporting the retention of as many of the best officers for as long as possible to ensure the highest quality pool of talent is available from which to select the most senior members of the military.
- As longer assignments are becoming more common at the most senior ranks, increments are an increasingly important means to incentivise retention.
- Annual increments are not automatic and are contingent on satisfactory performance and on length of time in the rank.[106] Those who do not perform well at 1-star and 2-star level are unlikely to be given a subsequent appointment and will leave the Service. This ensures incremental pay is only available to the best performers.
- Unlike the majority of the public and private sector, Service personnel have limited ability to select their role or move sideways across the organisation. They are unable to negotiate their salary and have limited security of employment at 1-star rank and above. The application of the Business Appointment rules for the Armed Forces can prevent individuals at 1-star rank and above from having continuity of employment on leaving the Services.
- The removal or reduction of incremental progression would not reduce the paybill without introducing a reduction in salary at a specific rank. The use of a spot rate would require the selection of a rate within the current salary band. If the lowest point was chosen this would be seen as a pay cut and the selection of a midpoint could be more expensive as more of the senior cohort tend to be on the lower increments.
- Incremental progression is a valued part of the overall military employment package and its removal would have a disproportionately detrimental effect on senior members of the Armed Forces.

5.71 During oral evidence, the CDS re-emphasised the fact that promotion opportunities beyond 2-star were limited and that it was difficult to measure performance objectively in many of the senior military roles. Annual increments were, he argued, therefore vital to reward individuals for the development of skills and experience and to incentivise talented individuals to remain in Service. We also note that the incremental pay system is simple, clear and well-understood by Service personnel.

[106] Annual increments are subject to satisfactory performance and to officers having served in the rank for six months or more. Officers who assume promotion after 31 July are not eligible for incremental progression in the following April.

Conclusions and recommendations

Key points from the evidence, data and analysis

5.72 The size of the remit group remains stable at 123. The pay system and terms of employment for the senior military together form a set of incentives that differ from those of our other remit groups. The key points of this from the SSRB's perspective are the importance of the non-contributory pension within the overall remuneration package and the limited security of employment at 1-star rank and above.

5.73 Our analysis of take-home pay showed that, for 2-star officers, the pension annual allowance was likely to start affecting them every year from 2017-18 and that this would continue to bear down on take-home pay in future years. Almost four times more members of the remit group incurred a pension taxation charge for breaching the annual allowance in 2016-17 compared to 2015-16. The impact of pension taxation was the issue of greatest concern to the remit group members in our discussion groups and members of the feeder group were also very aware that they could incur a large pension tax bill on taking promotion.

5.74 The limited security of employment at 1-star rank and above is a well understood part of the military system of promotion. Those in the feeder group considering promotion to 1-star, the rank below the senior military, have to weigh up the benefits of taking promotion with limited security of employment against the benefits of exiting in order to build a second career. Furthermore, those in AFPS15 are not eligible for their full pension until the state pension age which is currently 67.[107] The likelihood of incurring a pension tax liability upon promotion to 2-star is a further factor for those considering promotion from 1-star to weigh up.

5.75 The MoD told us that the Senior Appointments Committee looks six to eight years ahead to ensure individuals with the appropriate skills and experience at 2 and 3-star rank are available to fill the most senior posts when required. The Committee will now also identify the most promising 1-star officers across all three Services. The length of the time horizon for developing the remit group is therefore significant.

5.76 The evidence shows that recruitment and retention of the senior military remains at satisfactory levels. We understand that this is not the case for military personnel covered by the AFPRB. At present, the senior military appears to be able to attract sufficient numbers of personnel from the feeder group and there is no evidence of a decline in the quality of these individuals.

5.77 However, evidence from the results of the 2018 AFCAS and from the discussion groups we held with members of the senior military indicates a decline in the level of morale. We acknowledge the increasingly difficult environment in which members of the senior military work and the demands placed on them in terms of the tempo of deployments and relentless workloads.

Recommendations

5.78 We acknowledge that there are currently no recruitment and retention problems within the senior military. However, we remain concerned that members of the remit group perceive that the rewards from a career in the military are being steadily eroded and are becoming less attractive in comparison to equivalent roles in the civilian sector. This, together with the increasing impact of pension taxation changes, could adversely affect

[107] Normal retirement age for officers varies between the Services. For the Navy, it is 55 but some may be selected to serve to age 60. For the Army, it is 55 for those on age-based terms of service. For those on length of service terms, it is 34 years from age 21 or from the age of enlistment up to a maximum age of 60. For the RAF, it is 55 but there are some exceptions.

decisions to remain in the military and could lead to a decline in the number and quality of those able to fill the most senior roles. We share the MoD's concern about this and caution that this decline could happen suddenly. Recruitment to the senior military is exclusively by progression from the feeder group. External recruitment is not an option. Significant rises in outflow rates would therefore inflict considerable and long-lasting damage, through the loss of experienced people who cannot quickly be replaced. The monitoring of recruitment and retention together with long-term workforce planning, is therefore crucial. This applies to the feeder group as well as to the remit group itself.

5.79 We recognise that annual progression increments, each representing an average increase of 2.6 per cent in pay, have had greater value to individuals than any general award that has been recommended by the SSRB in recent years. However, the Review Body appreciates that the MoD set out the full justification for annual increments in its evidence to us this year. We accept the MoD's view that this represents value for money, noting in particular that the inflow and outflow of individuals are tightly managed, and that this system is in steady state and therefore cost neutral. We recognise that increments are simple, clear and well-understood and represent the most cost-effective way to ensure talented individuals receive additional reward for experience and are incentivised to remain in the Armed Forces for a full career.

5.80 The MoD did not include a figure for the pay award in its evidence to us. We acknowledge that, despite the lifting of the pay cap in 2018, departments have only been funded for a 1 per cent pay award. As ever, there is a need to take affordability into account when making our recommendations. However, the senior military have already been subject to a long period of pay restraint which has contributed to our remit group's perception that they are losing ground in comparison to equivalent roles in the civilian sector. We are also aware that any award below the latest CPI inflation rate of 1.9 per cent would be viewed as a further pay decrease in real terms.

5.81 We note the MoD's desire for an award that was "presentationally consistent" with the pay award recommended by the AFPRB. This was particularly in relation to maintaining the minimum 10 per cent increase in pay on promotion from 1-star to 2-star. In addition, we have not seen any evidence to support a differentiated pay award within our remit group at this time.

Recommendation 10: We recommend that all members of the senior military, including Medical Officers and Dental Officers (MODOs), should receive a 2.2 per cent consolidated increase to base pay.

5.82 This recommended award will add an estimated £597,000 to the paybill, including employer costs. The pay scales for a 2.2 per cent award are set out in table 5.4 below.

Table 5.4: **Recommended 2-star, 3-star, 4-star and Chief of Defence Staff pay scales with effect from 1 April 2019**

	Increment level					
	1 £	2 £	3 £	4 £	5 £	6 £
2-star	118,658	120,977	123,342	125,755	128,215	130,724
3-star	138,058	144,825	151,930	157,898	162,553	167,349
4-star	181,088	185,615	190,256	195,012	198,912	202,890
CDS	260,891	266,108	271,431	276,860		

Notes: Figures are rounded to the nearest pound.
For 2-star and 3-star officers, the values include X-Factor applied at the rate of £2,723. This is equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale and is contingent on the government's acceptance of the recommendations of the Forty-Eighth Report of the AFPRB.

Recommendation 11: We recommend that the minimum guaranteed increase to base pay (excluding X-Factor) on promotion from 1-star to 2-star does not fall below 10 per cent.

5.83 We are conscious that if 1-star officers receive a higher pay award than 2-star officers, it could lead to an erosion of the minimum 10 per cent increase in base pay on promotion. However, not all 1-star officers are promoted from the top increment on the 1-star scale.[108] If different pay awards are made to the AFPRB and SSRB remit groups, the following mitigating options could be taken:

- Application of a further increase to the lowest 2-star officer pay point.
- Removal of the lowest pay point for 2-star officers.
- Discretionary action to ensure that the minimum 10 per cent increase to base pay is maintained on promotion from 1-star to 2-star for those on the top pay increment before promotion.

5.84 We acknowledge that the MoD requested take-home pay be taken into consideration when making our recommendations. We are aware that individuals earning at pay levels between £110,000 and £150,000 face the withdrawal of their personal tax allowance, so that the effective marginal tax rate is 60 per cent. However, it is not in the Review Body's remit to compensate for income tax, especially where this affects all individuals earning at the same level equally.

5.85 We note that the AFPRB has made a recommendation to the government on the pay award for its remit group, which goes up to 1-star, and has included MODOs in its main Report for the second year running. We have not received any evidence to suggest that the MoD's proposal to retain the current percentage pay differentials between the 1-star, 2-star and 3-star MODOs should change this year. We therefore recommend that all 2-star and 3-star MODOs receive a pay award that maintains these differentials and is in line with the pay recommendation for the rest of the senior military.

[108] Paragraph 5.14 notes that data provided by the MoD showed that only four out the 18 officers promoted from 1-star to 2-star in the 12 months from 1 April 2017 to 31 March 2018 were on the top pay increment before promotion.

Recommendation 12: We recommend no change to the current pay arrangements for MODOs:

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

5.86 We mentioned earlier in the chapter that some components of the X-Factor appear to be affecting members of the senior military to a greater extent. This is because of the increasing likelihood of overseas deployments and heavier workloads. We note that the AFPRB carried out its five-yearly review of the X-Factor in 2018 and that it did not recommend any immediate change to the X-Factor taper. It did state, however, that the issue merited ongoing consideration. **We therefore propose to work with the MoD and the AFPRB during the next round to gather evidence and consider whether changes to the X-Factor taper arrangements for senior officers, both within the AFPRB's remit group and within our remit group, are required.**

Looking ahead

5.87 As we have emphasised in our previous two Reports, it is particularly important to monitor the impact of pension taxation charges on the decisions of our remit and feeder groups to remain in the Armed Forces. **We are concerned that significant rises in outflow rates in an internally-sourced remit group such as the senior military, with little recourse to recruiting externally, would inflict considerable and long-lasting damage.**

5.88 We will continue to ask the MoD to provide data on the impact of pension taxation on members of the remit group and feeder group for future pay rounds. This will be particularly important in relation to the impact of the AFPS15. An increasing number of both the remit group and the feeder group will be members of the scheme in the future. **It would be helpful if the MoD could provide us with data on the number of members of the remit group who have breached the pension annual allowance threshold and the extent to which they are using Scheme Pays.** We will continue to carry out our own analysis on the impact of the pension taxation charges in relation to take-home pay and total net remuneration for the remit group and the feeder group.

5.89 The need for better data on leavers is something we have highlighted in our two previous Reports. We stress that information is needed on the quality of those leaving and remaining in Service, and the factors affecting decisions to leave the military by members of the senior military and the feeder group. We therefore welcome the MoD's commitment, mentioned in its written evidence and outlined in oral evidence, to improving exit interview data on the reasons why those in the remit group and the feeder group leave the Armed Forces and what jobs they go to after leaving. It is vital that the work the MoD has started on improving this data through longitudinal studies, accessing information from HM Treasury and HMRC on post-Service earnings, improving the exit interview data and better analysis of the AFCAS questions and the HCSC data, continues. The OME looks forward to continuing to work with the MoD on improving this data.

5.90 In relation to any erosion of the increase in pay on promotion from 1-star to 2-star, we would ask that the MoD monitor any impact this is having on officers' willingness to seek promotion, and to provide evidence on this in future years.

5.91 The Review Body appreciates the feedback it receives directly from members of the remit group and the feeder groups. The additional discussion groups (under the auspices of the AFPRB) held at the individual Service Headquarters in the autumn were particularly useful in allowing us to hear directly from more members of our remit group and the feeder group. We would therefore like to continue to hold these discussion groups annually and will seek the MoD 's assistance in arranging these.

5.92 The Review Body notes that a larger number of the senior military were asked to complete the AFCAS and that the response rate increased for 2018. **We suggest that, in future, the MoD asks all members of the senior military to complete the AFCAS and vigorously encourages members to submit responses. It would also be useful if a larger proportion of OF5s and OF6s could be asked to complete the survey for 2019.**[109] We are grateful to the MoD and the individual Services for distributing the OME survey to all members of the senior military. We ask that they continue to encourage all members of the remit group to complete our survey as this provides valuable additional information to complement the AFCAS survey results.

5.93 The Armed Forces recognises that it needs to be broadly reflective of the society it defends. We acknowledge the positive steps that have been taken to improve the inclusivity and diversity of the military, including the setting of recruitment targets for women and individuals from BAME backgrounds, the opening up of all roles to women and the implementation from 1 April 2019 of the Armed Forces (Flexible Working) Act 2018. In an internally-sourced organisation, it will take time for changes in the recruitment of women and personnel from BAME backgrounds to feed through to the senior military. We note the percentage increase in the representation of women and individuals from BAME backgrounds in the feeder group this year and the recent appointment of the first woman 3-star officer. We request that the MoD continues to provide us with diversity data and keeps us up to date with progress on increasing diversity and inclusivity in the Armed Forces.

5.94 The MoD did provide evidence on the senior military in relation to the SSRB's strategic priorities this year. Our assessment of the position for the senior military is summarised below in table 5.4.

Table 5.5 **Assessment of position of senior military against the SSRB's strategic priorities**[2]

Key	Green:	Area of little concern	↑:	Improving trajectory
	Amber:	Area of some concern	↔:	Stable trajectory
	Red:	Area of significant concern	↓:	Declining trajectory

SSRB priority	Assessment of senior military position in 2019
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.	A plan exists for future size and structure of the workforce, linked to strategic priorities. ↔

[109] Only 20 per cent of OF5s and OF6s were asked to complete the 2018 AFCAS.

SSRB priority	Assessment of senior military position in 2019
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.	This is a small cohort which provides limited scope for innovation in pay. Many roles are difficult to evaluate as outcomes are not easily measurable (e.g., operations/ defence engagement). ↔
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	No evidence that it is an issue. Poor performance is tackled appropriately either by informal, appraisal, administrative or disciplinary action. There have been instances where individuals have been required to resign due to poor performance. Poor performers are also unlikely to be given a second posting. ↑
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.	The appraisal process is robust. Progression into the senior military is based on performance and potential. Annual increments are conditional on satisfactory performance. ↑
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.	There have been improvements to workforce data. However, it is crucial that the MoD identifies better ways to track careers and measure the quality of the remit and feeder groups. The MoD is working with the OME on this. Better exit interview data and more assessment of whether the feeder group is sufficient to meet future needs is also required. ↔
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.	The evidence showed that the situation is being kept under review: further analysis of data on the feeder groups was provided this year. However, there is a growing concern around retention. The MoD is working with the OME to identify better ways of tracking career paths of the feeder group and the quality of those that remain/leave. ↔
Targeting: Where evidence supports it, pay should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	n/a (targeting is argued to be inappropriate for this group.)
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.	No evidence that such tensions exist. ↔
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.	Poor diversity profile, although considerable effort is being made to improve the position across the Armed Forces. There is a slight increase in the proportion of female personnel and BAME individuals in the feeder group which could eventually feed through to the remit group. ↔

Chapter 6

The Judiciary

The Major Review

Background

6.1 In October 2016, the SSRB was commissioned by the then-Lord Chancellor to carry out a Major Review of the Judicial Salary Structure. We were asked to look both at levels of judicial remuneration and at the structure of judicial posts, with a special focus on how to incentivise judicial leadership.

6.2 Unlike previous such reviews, we were asked to look at salaried judicial posts in both the courts and the tribunals together and to include the judiciary in Scotland, Wales and Northern Ireland. We were also asked to consider the fee-paid judges who have comparators with the salaried judiciary. This was the first time that a Major Review had considered both salaried and fee-paid members within the court *and* the tribunal judiciaries.

6.3 Over a two-year period, we gathered and analysed evidence and engaged with all levels of the judiciary across the UK. We also commissioned three external research projects, all of which were published alongside the Major Review.[110] We submitted our Report on 28 September 2018.[111]

Analysis and recommendations

6.4 When the Major Review was commissioned, recruitment shortfall issues were already appearing at High Court level with an unprecedented number of unfilled vacancies arising in the competition run in 2017. Shortfalls were also starting to emerge at Circuit Bench level.

6.5 We evaluated the recruitment and retention evidence and modelled changes in judicial pay since the last Major Review. In particular, we calculated the effects of changes to judicial pension arrangements, alongside wider changes to pension allowances and taxation. We focussed on how these were likely to have affected the total net remuneration[112] of different groups of judge over time.

6.6 We concluded that recruitment issues were likely to be occurring because changes to tax and pensions led to the erosion of the total net remuneration package for particular groups. As a result, potential judges from the senior ranks of the legal profession were not applying in sufficient numbers. We also noted that the general conditions of service for judges had worsened over several years.

6.7 We recommended significant increases in judicial remuneration, with the largest pay increases going where there was the most obvious recruitment shortfall. These recommendations were designed to reduce, but not eliminate, the differences in total

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[110] See: https://www.gov.uk/government/publications/major-review-of-the-judicial-salary-structure-2018

[111] Supplement to the 40th Annual Report on Senior Salaries 2018. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/751903/Supp_to_the_SSRB_Fortieth_Annual_Report_2018_Major_Review_of_the_Judicial_Salary_Structure.pdf

[112] See: Appendix A. Take-home pay is defined as annual gross pay (base pay plus any allowance) less employee national insurance contributions, income tax, employee pension contributions and any annual allowance tax charge. Total net remuneration is calculated as take-home pay plus the value of the additional amount added to the annual pension during the year.

net remuneration between judges in the 1993 (JUPRA) pension scheme and judges in the 2015 New Judicial Pension Scheme (NJPS).[113]

Other recommendations and observations

6.8 In relation to the judicial salary structure, we concluded that there was a need for a more flexible pay system, enabling greater recognition for judges who take on leadership roles. We therefore recommended changes that would simultaneously simplify the salary structure and support better recognition of leadership. Within our proposed new structure, we recommended that a small number of posts should move into a different remuneration group.

6.9 In addition to our pay recommendations, we made observations on some issues relevant to judicial recruitment and retention. These included the need for:

- More active management of the judiciary by senior leadership, including clarification of job responsibilities.
- Changes in judicial recruitment processes.
- Improvements in court management.

2018-19 pay award

6.10 When we submitted our Report in September 2018, we proposed that our pay recommendations should be backdated to April 2018. However, we recognised that the government had indicated it might take some time to consider all of our recommendations and that it would not be helpful to hold back the 2018-19 pay award until a full government response had been agreed. We therefore recommended a possible interim 2018-19 judicial pay award of 2.5 per cent, that could, if desired, be implemented in advance of the government response to the full Report. On 26 October 2018, the Lord Chancellor wrote to the SSRB Chair to say that the government did intend to implement a pay award for 2018-19 but had reduced the figure to 2 per cent.[114]

Developments since the Major Review

6.11 At the time of writing this 2019 Report, the government has not published its response to the Major Review. While we appreciate that some time is needed to consider such complex issues rigorously, we were given commitments by four successive Lord Chancellors that the government would consider our recommendations seriously and in a timely fashion. In this context and given the considerable efforts of all those involved, we are therefore disappointed by the lack of response. We also note that it is now 12 years since the government last took action in respect of a major review of judicial pay.

6.12 Pending its response to the Major Review, the government did not ask us to consider an annual pay award for the judiciary for 2019-20. However, we have kept a watching brief on judicial recruitment.

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[113] Our analysis showed the change in inflation-adjusted (real) take-home pay and total net remuneration for High Court, Circuit and District Judges under the JUPRA93 and NJPS15 pension schemes between 2009-10 and 2017-18. It found that, across all groups of judges, those who were in the NJPS pension scheme had significantly lower inflation-adjusted take-home pay and total net remuneration in 2017-18 relative to those in the JUPRA93 scheme, albeit to varying magnitudes for the different groups.

[114] See: Appendix F.

6.13 We have particularly noted the outcome of the Circuit Judge competition for England and Wales, which concluded in autumn 2018. The Judicial Appointments Commission (JAC) were able to recruit 72 Circuit Judges but had to leave 22 vacancies unfilled. This is the third consecutive Circuit Judge competition where there have been unfilled vacancies. We also note:

- For the third consecutive competition, the JAC is currently seeking to recruit up to 25 High Court Judges. The last two such competitions have resulted in significant shortfalls.
- In April 2018, the Lord Chief Justice gave evidence to the Constitution Committee of the House of Lords and stated that he was nervous about whether the current District Judge competition would deliver the number of judges needed.[115]

6.14 All of this suggests to us that the judicial recruitment issues which we identified in the Major Review remain.

6.15 In relation to the non-pay observations that we made in the Major Review, we have received a helpful interim update from the Judicial Office. Some encouraging progress has been made and we recognise the priority that the Lord Chief Justice has given to this work. For example:

- In respect to workforce planning, changes have been made to recruitment processes and timetables. A five-year forward programme of judicial recruitment is now in operation.
- Job descriptions are being developed for the courts and tribunals judiciary to set out more clearly the respective responsibilities for each level of judge. This work should provide vital underpinning for judicial recruitment and workforce planning.
- All salaried courts judiciary in England and Wales are being offered career conversations with their leadership judges. Anecdotal evidence is that these have been well-received.

Looking ahead

6.16 We strongly urge the government to respond to the Major Review as soon as possible. This should include a judicial pay award for 2019-20.

6.17 We look forward to receiving evidence for next year's pay review and expect this to include:

- Evidence on the implementation of accepted recommendations.
- Evidence on the recruitment of judges, especially at the key-entry levels, retention figures and motivation data. We note that the next Judicial Attitude Survey is on hold, pending a response to the Major Review.
- Evidence in respect of our non-pay observations from the Major Review.

6.18 We believe that better decision-making requires better data. We noted in the Major Review that improved data about the salaries of those legal professionals with the seniority and experience to apply for judicial roles, as well as recently appointed judges, is needed. We would welcome sight of any resulting statistics and improved data on the judiciary and the 'feeder group'.

[115] See: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/constitution-committee/lord-chief-justice/oral/99560.html

Chapter 7

Police and Crime Commissioners

Introduction

The remit group

7.1 There are currently 40 directly elected police and crime commissioners (PCCs) in England and Wales. PCCs are elected for a four-year term and the first elections were held on 15 November 2012. Further elections were held in May 2016 and the next elections are due to take place in May 2020.

Government response to our 2018 recommendations

7.2 In 2018, the SSRB was commissioned to carry out a review of PCC salaries, the first substantive review since the pay structure was put in place in May 2012. The Home Office asked us to look at the following specific matters:

- Whether the level of PCC pay remained set at an appropriate level, given how the role had evolved and the additional statutory functions taken on by PCCs.
- Whether there was evidence that an uplift was required and whether it should be applied consistently across police force areas.
- The timing and frequency of future reviews.

7.3 We engaged with the government, post holders, stakeholders and members of the public, in order to secure appropriate evidence.[116]

7.4 We concluded that the PCC role had evolved since 2012 and continues to do so. We considered that some pay increases were now justified to recognise the weight of the roles as they now existed. We also noted that this is a small and distinctive remit group of elected officials, for whom full, evidence-based annual pay reviews by the SSRB are probably not appropriate. However, it was clear from the evidence that many post holders were frustrated by the absence of any pay increases since 2012. We agreed with them that it would be reasonable to create some simple annual or biennial mechanism to ensure that their pay reflects what is happening in the local authority world within which their role operates. Our recommendations reflected these conclusions.

7.5 Our full recommendations and the government's response to them are set out in table 7.1.

[116] The evidence gathering strands included: written and oral evidence from the Home Office and the Association of Police and Crime Commissioners; a discussion group with a number of PCCs; an open call for evidence; and a job evaluation of the PCC role.

Table 7.1: **The SSRB's 2018 recommendations and the government's response**

SSRB recommendation	Government response
A consolidated pay uplift of £5,000 to each of the bottom four PCC salary bands, with effect from 1 May 2018.	*Partially accepted:* The government awarded a pay increase of 2 per cent to each of the bottom four PCC salary bands.
A consolidated additional allowance of £3,000 for those PCCs who take on responsibility for the governance of fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.	*Accepted.*
From May 2019, PCC salaries should be increased by 2 per cent, in line with the pay award for local authority staff. Pay increases, linked to the pay award for local authority staff, should continue annually until the next formal review of PCC pay.	*Not accepted:* The government is of the view that automatic pay increases are not appropriate while change is ongoing. The government also seeks to avoid creating a disparity between PCCs and police officers whose pay increases are not automatic.
PCC pay should be reviewed again in 2020-21 to enable a full assessment of the role, particularly in light of the additional responsibilities for fire and rescue. Thereafter, full reviews should be conducted on a four-yearly basis.	*Partially accepted:* The government said that PCC pay should be reviewed again in 2020-21 to enable a full assessment of the role, particularly in light of the additional responsibilities for fire and rescue services and thereafter, full reviews should be conducted on a four-yearly basis. However, future reviews should be aligned to the PCC electoral cycle and a further review should therefore take place to set PCC pay ahead of the 2024 elections.
The Home Office carries out a review of the pay structure for PCCs, with a view to developing proposals to reduce the number of salary levels to a number below the current five.	*Not accepted:* The government said that PCC pay structures are currently aligned to those of chief police officers, and their pay is under review as part of sector-led reforms to deliver a new pay and reward framework. PCC pay structures will be reviewed following the completion of the on-going review of chief officer pay.
PCCs who lose their seat at election are entitled to a loss of office payment equivalent to the loss of office payment received by former MPs.	The government will further consider the issue.

7.6 We found the government's response to our Review disappointing. We recognise that the government is not bound to accept our advice. However, the government asked us to do this Review and a considerable amount of time, effort and resources went into it. We do not feel that sufficient explanation was provided as to why our recommendations, having been requested, were not accepted. As we noted in our 2018 Report, the Home Office appears to have no clear workforce strategy for PCCs and has limited engagement with them. The government's response to our Report reinforces this view.

Proposals for 2019

7.7 On 3 January 2019, the Minister of State for Police and the Fire Service wrote to the SSRB Chair stating that an annual review of PCC pay would not be commissioned this round.[117]

Looking ahead

7.8 We understand the role of a PCC is unique but we consider that a number of our strategic priorities for senior workforces still apply. Before commissioning the next review, the Home Office needs to consider how best it can use the SSRB's expertise in relation to this remit group and what sort of recommendations it is expecting.

7.9 The following issues would also require consideration:

- There is a limited evidence base for this workforce. Nevertheless, further information should be provided in relation to the careers of PCCs, both before taking on the post and after leaving it.
- Further evidence on the motivation to undertake the PCC role is needed. The Home Office and the Association of Police and Crime Commissioners (APCC) need to put in place a mechanism to capture the views of those choosing to step down from the role at the next election in 2020.
- In order to carry out a proper assessment of the impact of the additional responsibilities arising out of fire and rescue governance, we expect both the Home Office and the APCC to undertake a comprehensive evidence-gathering exercise to ensure that a solid evidence base is provided about what these responsibilities involve.

[117] See Appendix G.

Chapter 8

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

The remit group

8.1 The SSRB's remit covers Executive and Senior Managers (ESMs) in Arm's Length Bodies (ALBs) of the Department of Health and Social Care (DHSC) and five Ambulance Trusts that do not have Foundation Trust status.[118] There were 392 ESMs in our remit as at December 2017, which represents around 16 per cent of all senior managers working across the NHS.[119] Organisations employing managers outside our remit have discretion to set remuneration, subject only to their own internal budgets and with limited direct government control.

Our previous recommendations

8.2 We concluded in our 2017 Report that trying to treat this remit group as a separate, coherent workforce was neither practical nor sensible. The pay of other NHS senior managers is set by Health Trusts without any input from us. However, individuals expect to move readily between organisations that are covered by the SSRB and the wider health service. In practice, this is a single health labour market. Implementing a rational approach to setting pay and reward for the current ESM remit group in isolation is therefore virtually impossible.

8.3 We recommended in our 2017 Report that the government should develop a coherent proposition on how best to set the pay of ESMs in future. We proposed two alternatives to the previous arrangement:

- ALB remuneration committees could take on more responsibility for pay setting for their ESMs. This would result in no meaningful function being left for the SSRB and we would cease to offer advice for this group.
- 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 in the direction of NHS policy.

8.4 The government accepted this recommendation, and removed ESMs from our remit for both the 2018-19 and 2019-20 pay rounds.

8.5 In 2018, pay awards for ESMs were managed by the DHSC Remuneration Committee. The DHSC said that these awards were broadly aligned with our recommendation for an across the board pay award for the senior civil service. ALBs were asked to implement an average award of 1 per cent for their ESMs.

Looking ahead

8.6 We understand that the DHSC has conducted a scoping exercise to consider whether the SSRB's remit should be extended to cover all senior health service managers. The government is currently considering how to proceed.

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[118] The collective name given to those in our remit was changed in 2016 from Very Senior Managers (VSMs) to Executive and Senior Managers. This was to distinguish them from the much larger number of senior managers in NHS Trusts, Foundation Trusts and Clinical Commissioning Groups, which do not currently form part of our remit.

[119] In addition to ESMs, there are approximately 2,000 other senior managers working in the NHS.

8.7 Should this expansion be agreed, we would consider this to be a positive development. The SSRB could deliver significant value by looking at the labour market as a whole. This would help facilitate a strategic and coherent approach to reward. We would be able to identify areas where more strategic action is needed and make recommendations accordingly.

8.8 However, considerable preliminary discussion with the DHSC and the other NHS organisations would be needed before we were able to take on this work in full. We would therefore request that the following issues are considered in advance of any formal remit being commissioned:

- The vision for this expanded remit group needs to be clearly set out.
- There would need to be clear means by which the government could act on our recommendations, which implies that the SSRB would need to have the means to influence the pay ranges of senior managers across the NHS.
- The SSRB would have requirements for data on the wider workforce. This would be in addition to the general data improvement priorities that were identified for ESMs in our 2017 Report.[120] There would need to be clarity as to which body would coordinate the data collection process and assemble and present the evidence.

8.9 Meanwhile, pending a decision, measures need to remain in place to ensure that the pay of our current remit group is properly considered.

[120] 39th Annual Report on Senior Salaries 2017 (paragraph 7.59). See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/629680/SSRB_2017_report_Web.pdf

Appendix A

Take-home pay, total net remuneration and pensions

Introduction

1. This appendix sets out in more detail the analysis conducted on take-home pay and total net remuneration referred to in Chapters 4 and 5. It provides more in-depth analysis for the senior civil service (SCS), the senior military and the judiciary. In addition, it contains information on the methodology and assumptions used and sets out the various changes to the income tax system, national insurance system and pension schemes since 2009-10.

2. In our 2017 Report,[121] we demonstrated that pension taxation led to very high marginal tax rates in some cases, where relatively large increases in pensionable income led to little change in take-home pay.

3. In our 2018 Report,[122] we modelled the impacts of promotion and career progression on taxation, as well as the subsequent take-home pay profiles. We noted from this analysis that the annual allowance tax charge had resulted in a significant reduction to take-home pay, especially for those on a final salary pension scheme, such as the Armed Forces Pension Scheme 1975 (AFPS75).

4. The supplement to our 2018 Report, the Major Review of the Judicial Salary Structure,[123] showed the change in inflation-adjusted (real)[124] take-home pay and total net remuneration[125] for High Court, Circuit and District Judges under the JUPRA93 and NJPS15 pension schemes between 2009-10 and 2017-18.[126] It found that, across all groups of judges, those who were in the NJPS pension scheme had significantly lower inflation-adjusted take-home pay and total net remuneration in 2017-18 relative to those in the JUPRA93 scheme, albeit to varying magnitudes for the different groups. The analysis also showed that, for all groups and all pension schemes, there had been a fall in both inflation-adjusted take-home pay and total net remuneration between 2009-10 and 2017-18.

Key findings

5. This year we have deepened and broadened our analysis, with the following key findings.

   - Over the 10-year period from 2009-10 to 2018-19, both take-home pay and total net remuneration have fallen for nearly all groups when adjusted for inflation, with little change in the SCS pay band 1 minimum.

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[121] 39th Report on Senior Salaries 2017. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/629680/SSRB_2017_report_Web.pdf

[122] 40th Report on Senior Salaries 2018. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/740064/Fortieth_Annual_Report_on_Senior_Salaries_2018.pdf.

[123] Supplement to the 40th Report on Senior Salaries 2018, the Major Review of the Judicial Salary Structure. See: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/750331/supplement-fortieth-annual-report-senior-salaries-2018.pdf.

[124] The term ‘inflation-adjusted’ is used throughout this appendix, but – unless otherwise stated – this can be interpreted as ‘real’.

[125] The definitions of take-home pay and total net remuneration can be found in paragraphs 7 and 8.

[126] The JUPRA93 scheme is the legacy pension scheme which closed to new members taking up judicial posts from April 2015 onwards. A new scheme, NJPS15, was made available from 2015. A key distinction between the older JUPRA93 scheme and the NJPS15 scheme is that the JUPRA scheme is unregistered for tax purposes. This means that members are not liable to pay either the annual allowance tax charge or the lifetime allowance tax charge (but are not eligible for tax relief on contributions). The NJPS15 is a registered scheme.

- In 2012-13 all SCS and judiciary groups had their pension contribution rates increased, contributing to a fall in take-home pay.
- For the relatively lower earning roles in our remit (such as the senior military 2-star minimum and the SCS pay band 1 minimum), uplifts to pay have more than offset the changes to employee pension contribution rates, national insurance and income tax, leading to net increases in nominal take-home pay.[127]
- Changes to the pension annual allowance have drastically affected our higher earning groups. In particular, the reductions in the annual allowance, first to £50,000 and then to £40,000 and the introduction of the annual allowance taper in 2016-17, have had a strong negative impact on take-home pay and total net remuneration.
- In 2015-16, the new pension schemes for the senior military and the SCS (AFPS15 and Alpha schemes respectively), had a noticeable effect in increasing total net remuneration[128] due to higher accrual rates.
- By contrast, the NJPS15 scheme for the judiciary led to a substantial fall in total net remuneration. This is because the new scheme has lower accrual rates and is registered for taxation purposes, compared to the older unregistered JUPRA93 scheme with a larger accrual rate and an automatic (taxable) lump sum on retirement. As the older scheme is unregistered, members of it are not subject to the annual allowance and lifetime allowance tax charges, whereas in the new schemes they are.

Methodology and assumptions

6. The definitions of take-home pay and total net remuneration used here are those developed for the Major Review of the Judicial Salary Structure.

7. Take-home pay is calculated as gross pay (base pay plus performance-related pay, allowances and pay premia) less employee national insurance contributions, income tax, employee pension contributions and any annual allowance charges.

8. Total net remuneration is calculated as take-home pay plus the value of the additional amount added to the annual pension during the year, multiplied by the valuation factor of 16 that is used for calculating tax liability in a defined benefit scheme. In particular, for a defined benefit scheme (applicable to our remit groups), the additional amount added to the annual pension has been calculated by multiplying pensionable pay by the accrual rate of the pension scheme (factoring in any automatic lump sums that are payable on retirement, where appropriate). For a defined contribution scheme, the additional amount added is comprised of the individual's contributions including the value of the tax relief. Total net remuneration is our preferred measure because it takes account of both taxation and pension contributions, as well as the pension benefits accrued in the year. We believe this is the most comprehensive, and therefore most appropriate, measure.

9. Several assumptions have been made in the analysis:

   - The focus is on specific pay points, so the analysis does not track what may have happened to an individual in terms of pay progression or promotion.
   - All roles are assumed to have switched from the old pension schemes to the new ones in 2015-16.

[127] 'Nominal' means not adjusted for inflation.

[128] As our analysis was conducted on an in-year basis, it did not factor in changes to the retirement age.

- No annual allowance is carried forward.[129]
- The senior military 2-star minimum salary includes X-Factor.
- This is an in-year analysis and thus does not factor in changes to the retirement age.
- Scheme Pays is not used to pay the annual allowance charge; the charge is deducted from annual pay.
- The value of pension benefits has been calculated by multiplying pensionable pay by the accrual rate of the pension scheme and the valuation factor of 16[130] and so the pension benefit may be higher or lower in reality. The valuation factor differs from an actuarial valuation which would take into consideration other factors, such as age.
- The gross pay figures used for the High Court Judge analysis in 2017-18 and 2018-19 include the recruitment and retention allowance (RRA) introduced in 2017-18.
- Inflation-adjusted take-home pay and total net remuneration are in 2018 prices[131] unless otherwise stated.
- The analysis does not include the use of an earnings cap by older pension schemes, opting instead to conduct the analysis with the annual allowance (that alongside the lifetime allowance replaced the earnings cap in 2006-07).
- Calculations do not factor in the lifetime allowance. The lifetime allowance is the maximum amount of pension benefit that can be built up by an individual in all registered pension schemes over their lifetime, without incurring a tax charge. As we are conducting an in-year analysis, the lifetime allowance tax charge, which is tested and paid only when the pension is crystallised (typically at retirement), is not considered. We note, however, that many members of our remit groups may reach the lifetime allowance, which stands at £1.055 million in 2019-20 and will therefore incur further tax charges on their pension. As a result, our findings on the impact of pension taxation on total net remuneration would be underestimated. Total net remuneration for these groups would therefore be lower than our analysis demonstrates.

10. The analysis begins with the 2009-10 tax year and ends with 2018-19. The choice of the start date reflects the introduction of a new government and the beginning of the public sector pay policy in 2010-11. Starting in 2009-10, a year before the introduction of the new pay policy, takes full account of changes to take-home pay and total net remuneration stemming from the policy, as well as changes to taxation and national insurance on SSRB remit groups.

[129] With the exception of 2015-16. This year saw a change in the pension input period from the calendar year to the fiscal year. As a result, from 6 April 2015 to 8 July 2015 (known as the 'pre-alignment tax year') the annual allowance was £80,000. From 9 July 2015 to 5 April 2016 (the 'post-alignment tax year'), the annual allowance was £0. Any unused annual allowance in the pre-alignment tax year could be used in the post-alignment tax year, with a cap of £40,000 of annual allowance. As a result, in 2015-16 the annual allowance figure of £40,000 is used in our calculations. This is also the unweighted average of the amounts of annual allowance in the two periods.

[130] See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/259732/GAD_report_on_flat_factor_version_14_October.pdf.

[131] The 2018 calendar year is used rather than the financial year 2018-19, as the relevant data was not released when the analysis was being conducted.

Key changes to income tax, national insurance and pensions

11. From 2009-10 to 2018-19, the **income tax** personal allowance almost doubled as seen in table A.1. In 2010-11, however, an income limit was introduced which tapers the personal allowance by £1 for every £2 of taxable income above £100,000. The salary at which the higher rate of tax is paid[132] decreased from £43,875 in 2009-10 to £41,450 in 2013-14 before rising to £46,350 in 2018-19. In addition, a new tax rate was introduced on earnings above £150,000 in 2010-11 at a marginal tax rate of 50 per cent, which was reduced to 45 per cent in 2013-14.

12. The **annual allowance** is the amount of pension benefit that can be built up in a pension scheme, in a given tax year, without incurring a tax charge. Table A.1 shows that in 2010-11 the annual allowance increased to £255,000, before being reduced to £50,000 in 2011-12. The annual allowance was lowered to £40,000 in 2014-15. Additionally, a taper was introduced in 2016-17. The annual allowance taper reduces the annual allowance by £1 for every £2 of adjusted income above £150,000, down to a lower limit of £10,000, if the threshold income[133] exceeds £110,000 and adjusted income[134] exceeds £150,000.

13. From 2009-10 to 2018-19, the **national insurance** lower earnings limit and primary threshold generally rose year on year, while the upper earnings limit decreased from £43,875 in 2009-10 to £41,450 in 2013-14, before rising in successive years to £46,350 as seen in table A.2. In 2016-17, both the upper accrual point and the employees' contracted-out rebate were removed.

14. Contribution rates in public sector **pension schemes** increased from 2012-13 to 2015-16, when new pension schemes were introduced (see table A.3). Employee contribution rates to the civil service Classic scheme increased from 1.5 per cent in 2011-12 to 7.35 per cent in 2015-16 for those earning £51,516 to £150,000. Member contributions to the judicial pension scheme were increased from 1.8 per cent at the start of the period to 4.43 per cent in 2015-16. Both Armed Forces pension schemes, AFPS05 and AFPS15, have zero employee contribution rates for all years.

15. The new pension schemes introduced in the public sector in 2015-16 were all career average schemes, while the older schemes were final salary (both old and new are defined benefit schemes). In order to maintain the value of the pension in newer schemes relative to the older ones, the newer schemes generally have higher accrual rates. The accrual rates for the SCS rose from 1/80th (1.25 per cent) of annual gross pay in Classic to 1/43rd (2.32 per cent) in Alpha. The senior military groups also saw an increase in accrual rates from AFPS05 to AFPS15. The accrual rate for the judicial pension schemes decreased, however. Where the JUPRA93 scheme had an accrual rate of 2.5 per cent, this fell to 2.32 per cent in the NJPS15 scheme – the only group to have seen a decline.

16. The old pension schemes generally pay out a lump sum of 2.25 (JUPRA93) or 3 (Classic and AFPS05) times the value of the annual pension on retirement. The newer schemes do not pay out an automatic lump sum on retirement.

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132 This equates to the personal allowance plus the basic rate upper bound.

133 Threshold income in a given year is defined as gross pay minus the employee pension contribution.

134 Adjusted income in a given year is defined as the threshold income plus the pension benefit.

Table A.1: **Annual income tax and annual allowance figures, 2009-10 to 2018-19**

Income tax	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
£										
Personal allowance	6,475	6,475	7,475	8,105	9,440	10,000	10,600	11,000	11,500	11,850
Income limit	n/a	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Basic rate: 20% lower bound	6,476	6,476	7,476	8,106	9,441	10,001	10,601	11,001	11,501	11,851
Basic rate: 20% upper bound	37,400	37,400	35,000	34,370	32,010	31,865	31,785	32,000	33,500	34,500
Higher rate: 40% lower bound	37,401	37,401	35,001	34,371	32,011	31,866	31,786	32,001	33,501	34,501
Higher rate: 40% upper bound	n/a	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Additional rate: 45%	n/a	150,001	150,001	150,001	150,001	150,001	150,001	150,001	150,001	150,001
Annual allowance	245,000	255,000	50,000	50,000	50,000	40,000	40,000	40,000	40,000	40,000

Table A.2: **Annual national insurance figures, 2009-10 to 2018-19**

National insurance	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
£/%										
Lower earnings limit	4,940	5,044	5,304	5,564	5,668	5,772	5,824	5,824	5,876	6,032
Primary threshold	5,715	5,715	7,225	7,605	7,755	7,956	8,060	8,060	8,164	8,424
Upper accrual point	40,040	40,040	40,040	40,040	40,040	40,040	40,040	n/a	n/a	n/a
Upper earnings limit	43,875	43,875	42,475	42,475	41,450	41,865	42,385	43,000	45,000	46,350
Employees' rate between primary threshold and upper earnings limit	11%	11%	12%	12%	12%	12%	12%	12%	12%	12%
Employees' contracted-out rebate	1.6%	1.6%	1.6%	1.4%	1.4%	1.4%	1.4%	n/a	n/a	n/a
Employees' rate above upper earnings limit	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%

Notes: The income limit tapers personal allowance by £1 for every £2 of taxable income above £100,000. The additional rate of tax was 50 per cent from 2010-11 to 2012-13. In 2016-17, an annual allowance taper was introduced reducing annual allowance by £1 for every £2 of adjusted income above £150,000, down to a limit of £10,000 if threshold income exceeds £110,000 and adjusted income exceeds £150,000. All national insurance thresholds and rates are (primary) class 1 figures. The upper accrual point was a point below which employees with a contracted-out pension paid a lower rate of national insurance. This rate was dictated by the employees' contracted-out rebate. Between the primary threshold and upper earnings limits, employees pay national insurance at a particular rate. Above the upper earnings limit however, the rate at which national insurance is paid is lowered.

Table A.3: **Older and newer pension schemes for selected SSRB groups**

	Senior civil service		**Senior military**		**Judiciary**	
Pension scheme	Civil Service Classic	Civil Service Alpha	Armed Forces Pension Scheme 2005 (AFPS05)	Armed Forces Pension Scheme 2015 (AFPS15)	Judicial Pensions Scheme 1993 (JUPRA93)	New Judicial Pension Scheme 2015 (NJPS15)
Scheme type	Final salary	Career average	Final salary	Career average	Final salary	Career average
Accrual rates	1/80th (1.25%) of annual gross pay	1/43rd (2.32%) of annual gross pay	1/70th (1.43%) of annual gross pay	1/47th (2.13%) of annual gross pay	1/40th (2.50%) of annual gross pay	1/43rd (2.32%) of annual gross pay
Lump sum	3 x annual pension	0	3 x annual pension	0	2.25 x annual pension	0
Pension age	60	State pension age	55	60	65	State pension age
Employee contribution rates						
2009-10 to 2011-12	1.50%	n/a	0.00%	n/a	1.80%	n/a
2012-13	3.50% for £51,001 to £60,000. 3.90% above £60,000	n/a	0.00%	n/a	3.08%	n/a
2013-14	5.46% for £51,001 to £60,000. 6.25% above £60,000	n/a	0.00%	n/a	4.36%	n/a
2014-15	6.06% for £51,001 to £60,000. 6.85% above £60,000	n/a	0.00%	n/a	5.00%	n/a
2015-16 to 2018-19	7.35% for £51,516 to £150,000. 8.05% above £150,000	7.35% for £51,516 to £150,000. 8.05% above £150,000	0.00%	0.00%	4.41% up to £150,000 and/ or 4.43% above £150,000	7.35% for £51,516 to £150,000. 8.05% above £150,000

Group analysis

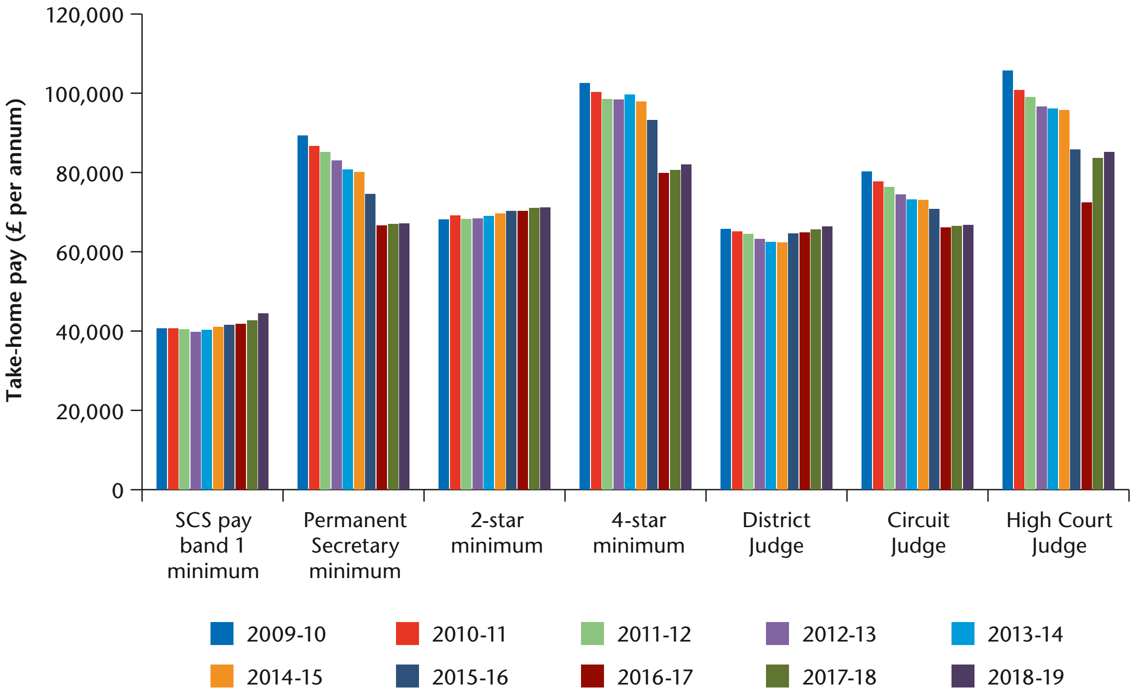
17. In order to conduct the analysis, we have selected lower earning and higher earning subsets for each remit group. For each of these subset groups we have calculated the take-home pay and total net remuneration in a given year, over a 10-year period. We have also adjusted the take-home pay and total net remuneration values for inflation.

18. Over the 10-year period, the trends in nominal take-home pay across different roles are fairly similar depending on whether the group is higher earning (civil service Permanent Secretary, senior military 4-star officer and the Circuit and High Court Judges) or lower earning (see figure A.1). The main drivers for increases in take-home pay for the lower earning groups are increases in basic pay, the personal allowance and the basic rate upper bound in later years.

19. In contrast, there are decreases in nominal take-home pay for the higher earning groups over much of the 10-year period. Some of the main causes include the introduction of the income limit which tapers the personal allowance by £1 for every £2 of adjusted net income above £100,000, as well as changes to the annual allowance including the introduction of the taper in 2016-17.

20. In the seven years from 2009-10 to 2016-17, nominal take-home pay for both High Court Judges and Circuit Judges fell consecutively; this also occurred for District Judges, yet only to 2014-15. The main explanations behind the trend seen in the first five/seven years from 2009-10 for the judiciary include pay freezes, the introduction of the income limit, changes to the basic rate upper bound, and the introduction of the NJPS15 registered pension scheme. From 2017-18 onwards, all judicial roles saw some basic wage growth, which offset the counteracting changes to tax and national insurance.

Figure A.1: **Nominal take-home pay for the SCS, senior military and judiciary, 2009-10 to 2018-19**

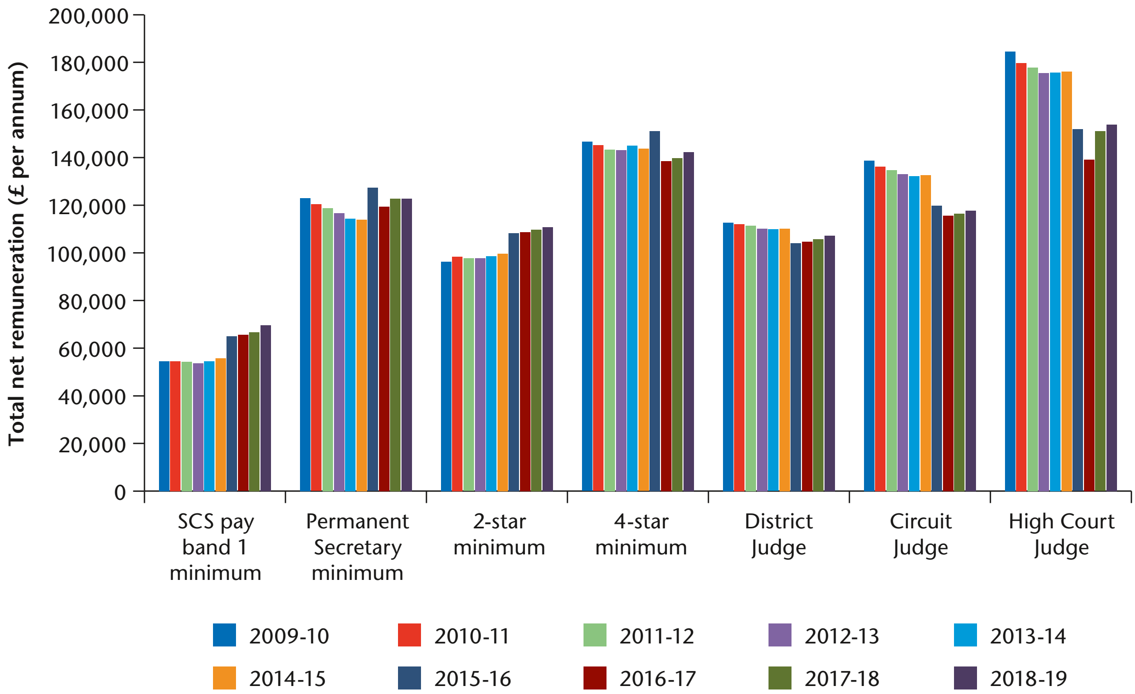


21. Figure A.2 shows that in 2015-16, the senior military and SCS roles saw a considerable increase in nominal total net remuneration (take-home pay plus pension benefits), due to the higher accrual rates in the new pension schemes. While this rise in nominal total net remuneration was sustained in the subsequent year for the lower earning groups (SCS pay band 1 and senior military 2-star), the 4-star and Permanent Secretary minima

witnessed a fall in nominal total net remuneration. This was due to the introduction of the annual allowance taper, subjecting more of the pension benefit to the annual allowance tax charge.

22. Unlike the senior military and SCS groups, the judiciary saw nominal total net remuneration falls in 2015-16, with a larger fall in nominal total net remuneration than take-home pay. For example, while nominal take-home pay decreased by around 3 per cent for a Circuit Judge in 2015-16, nominal total net remuneration fell by around 10 per cent. This was due to the combination of the reduction in the pension benefit (the accrual rate fell from 2.5 per cent in the old scheme to 2.32 per cent in the new scheme) and the annual allowance tax charge as the judiciary changed from an unregistered to a registered pension scheme. In 2015-16, a District Judge saw a near 2 per cent increase in nominal take-home pay, but a reduction in nominal total net remuneration of close to 6 per cent.

Figure A.2: **Nominal total net remuneration for the SCS, senior military and judiciary, 2009-10 to 2018-19**



23. When adjusting take-home pay for inflation we find all groups in the senior military and the SCS witnessed a decrease and subsequent flattening of take-home pay throughout the 10-year period. The increases in nominal take-home pay seen in the latter half of the period are eroded once adjusted for inflation.

24. High Court Judges and Circuit Judges saw a fall in inflation-adjusted take-home pay every year from 2009-10 to 2016-17, and 2009-10 to 2018-19 respectively (see figure A.3). While inflation-adjusted take-home pay increased in 2017-18, mainly driven by the introduction of the RRA, it fell again in 2018-19. For District Judges, while the increase in take-home pay in 2015-16 was maintained when adjusting for inflation, the nominal take-home pay rises in 2017-18 and 2018-19 become falls in take-home pay after factoring in inflation.

Figure A.3: **Inflation-adjusted take-home pay for the SCS, senior military and judiciary, 2009-10 to 2018-19**

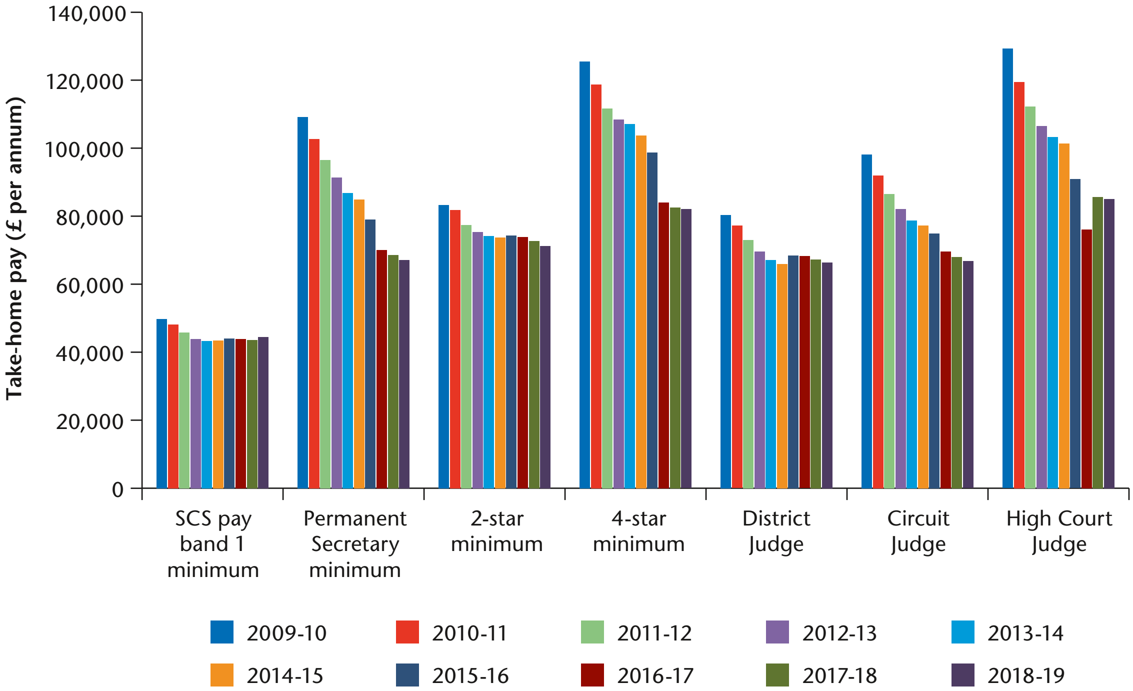
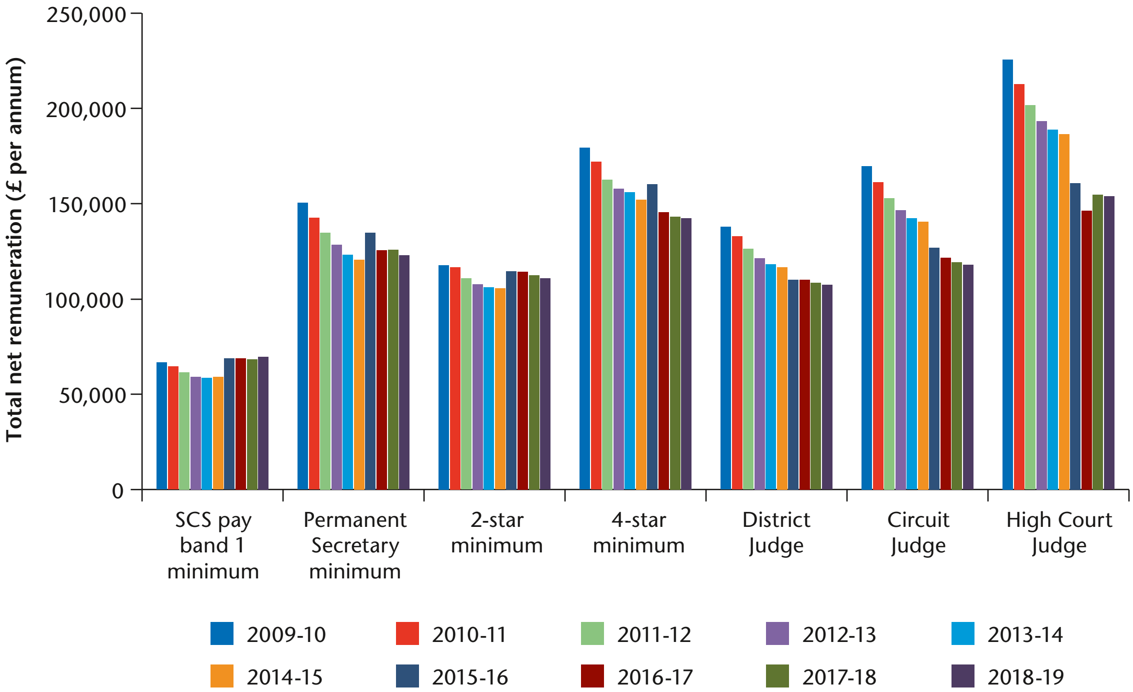


Figure A.4: **Inflation-adjusted total net remuneration for the SCS, senior military and judiciary, 2009-10 to 2018-19**



25. Similarly, when we adjust total net remuneration for inflation, all groups display a decrease over the period, except for the SCS pay band 1 minimum (see figure A.4). Inflation-adjusted total net remuneration decreased year on year for the senior military and SCS groups at the start of the 10-year period, before seeing a spike in 2015-16 with the higher pension accrual rate. In 2016-17, inflation-adjusted total net remuneration decreased for the 4-star minimum, Permanent Secretary minimum and 2-star minimum (albeit very slightly for the latter group) and increased marginally for the SCS pay band 1 minimum. For the remainder of the period, inflation-adjusted total net remuneration

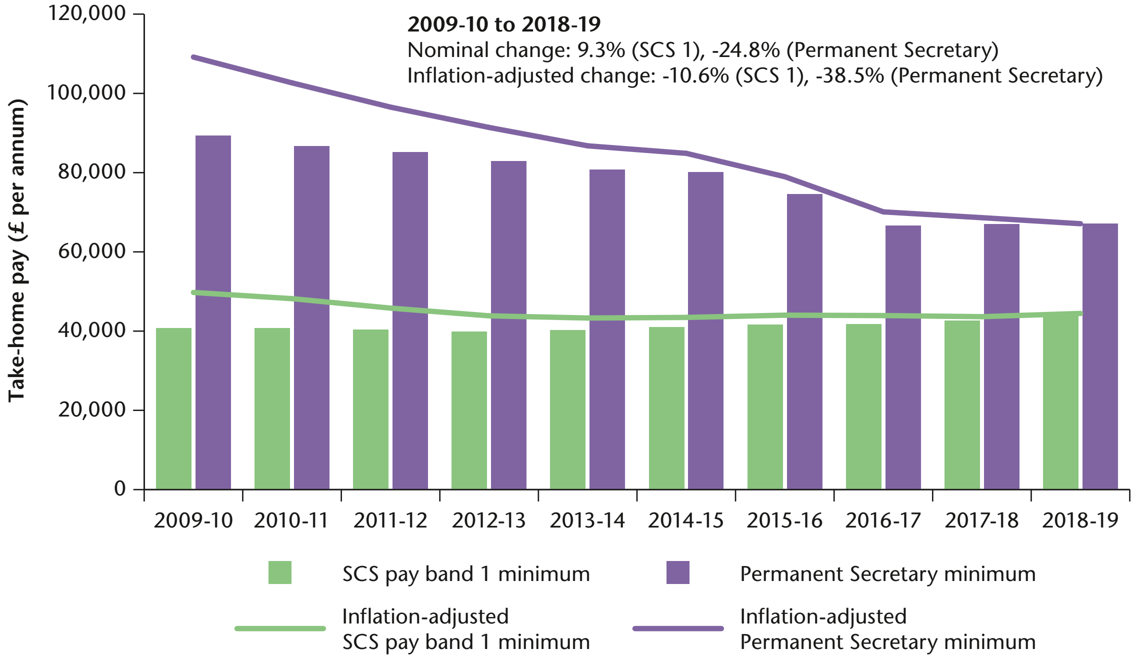
fell for all groups, barring the SCS pay band 1 minimum for which it rose very slightly in 2018-19, as inflation was outstripped by the increases to the pay band minimum.

Take-home pay and total net remuneration for the senior civil service

26. The SCS pay band 1 minimum saw nominal take-home pay growth of 9 per cent over the period 2009-10 to 2018-19, as shown in figure A.5, with annual base pay increases offset in part by higher pension contributions and higher national insurance. This nominal take-home pay growth was less than inflation: inflation-adjusted take-home pay fell by nearly 11 per cent over the period. Total net remuneration for the SCS pay band 1 minimum increased by 28 per cent in nominal terms and by 5 per cent when adjusted for inflation, as shown in figures A.6 and A.7. This was mainly due to the increased value of the annual pension following the higher accrual rate from 2015.[135] This group is the only one in our analysis that does not face the annual allowance tax charge,[136] which would not impact until a salary of around £108,000 under our model.

27. Unlike the SCS pay band 1 minimum, nominal take-home pay for the Permanent Secretary minimum falls by roughly 25 per cent over the period, which translates to a 39 per cent decline once adjusted for inflation, as shown in figure A.5. The income limit and annual allowance taper play a role in explaining the trend in take-home pay for this group, as seen by the increase in pension taxation which leads to take-home pay falling in figure A.8. The taper will, however, be an increasing issue in future years due to this role being at a salary which faces higher marginal tax rates. Nominal total net remuneration fell by 0.1 per cent, a smaller decline than the fall in nominal take-home pay, mainly as a result of the higher pension accrual rate. This equated to an 18 per cent fall in total net renumeration once adjusted for inflation, as shown in figure A.6.

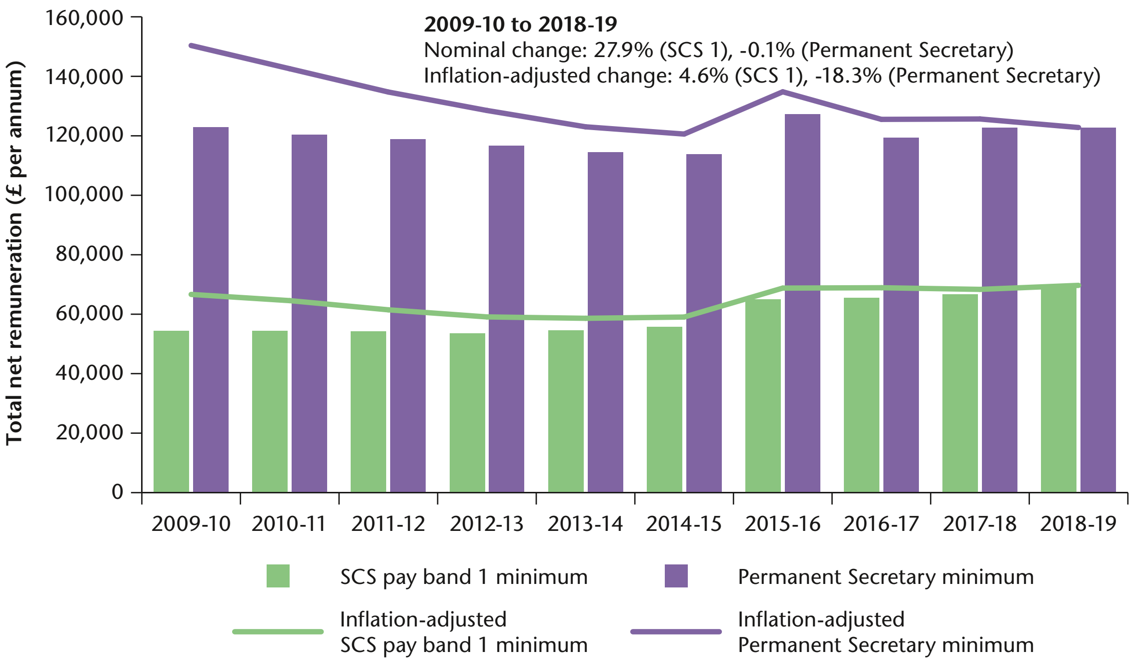
Figure A.5: **Take-home pay for the SCS pay band 1 and Permanent Secretary minima, 2009-10 to 2018-19**



[135] This does not take into account the increase in retirement age.

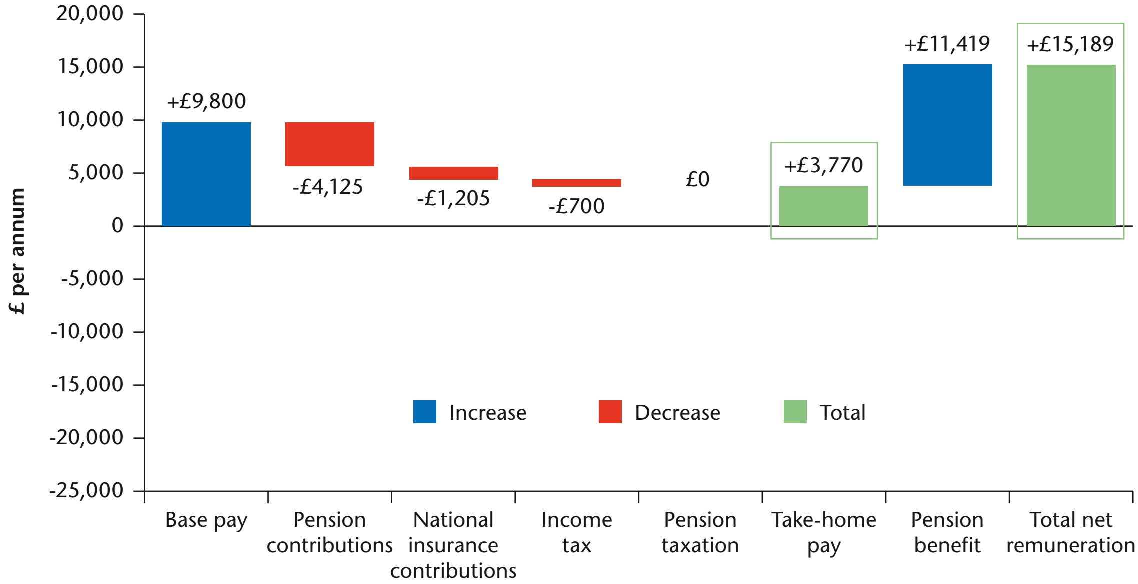
[136] This conclusion is drawn under our modelling conditions and may not reflect the reality for individuals.

Figure A.6: **Total net remuneration for the SCS pay band 1 and Permanent Secretary minima, 2009-10 to 2018-19**



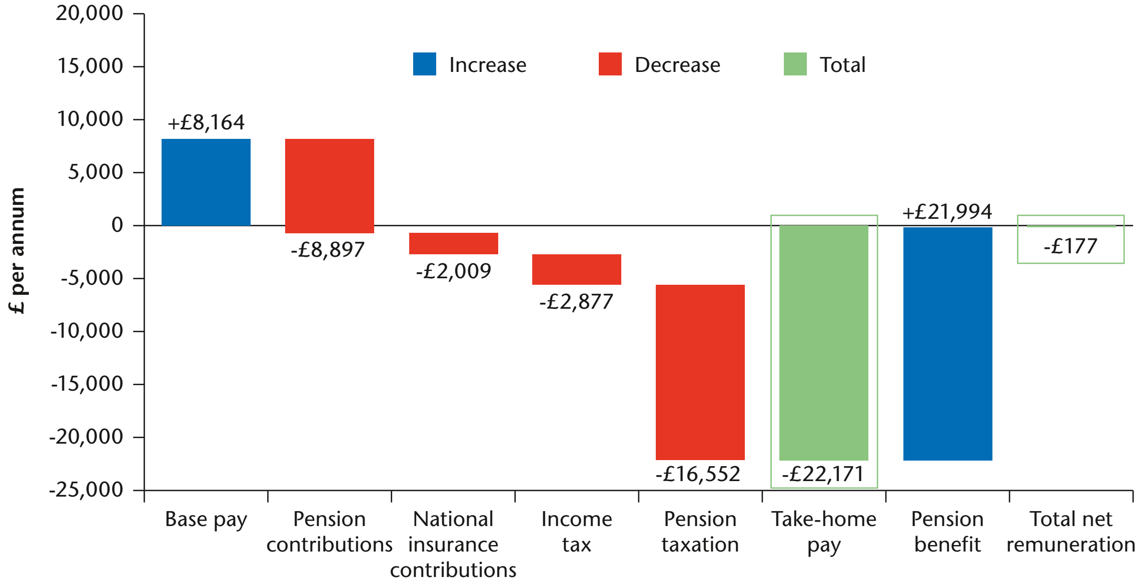
28. Figures A.7 and A.8 show, for the SCS pay band 1 minimum and Permanent Secretary minimum respectively, the change in the components of take-home pay and total net remuneration over the 10-year period. Figure A.7 shows how the increase in basic pay at the SCS pay band 1 minimum is not fully offset by increases in pension contributions, national insurance and income tax, while total net remuneration is boosted by a higher annual pension. Due to the higher salary level, figure A.8 shows a different picture for the Permanent Secretary minimum; the small rise in base pay is not enough to counter the increase in pension contributions and pension taxation in particular. The rise in pension benefit leaves total net remuneration largely unchanged over the period, though take-home pay falls noticeably.

Figure A.7: **Change in the components of nominal take-home pay and total net remuneration for the SCS pay band 1 minimum, 2009-10 to 2018-19**



Notes: The waterfall charts (A.7, A.8, A.11, A.12, A.15, A.16 and A.17) show the sequential cumulative impact of changes in the components of take-home pay and total net remuneration. Take-home pay is defined as base pay minus pension contributions, national insurance contributions, income tax liability, and pension taxation. Taking the SCS pay band 1 minimum as an example, the starting point is £0. Base pay is increased by £9,800 in total from 2009-10 to 2018-19. Pension contributions increased by £4,125, but as these decrease take-home pay, the chart shows a decrease. National insurance contributions and income tax liability increased by £1,205 and £700 over the period respectively. Again, as these decreased take-home pay over the period, they presented as decreases. Pension taxation did not change for this group. Overall therefore, take-home pay for the SCS band 1 minimum increased by £3,770 from 2009-10 to 2018-19. This is the sum of the changes in base pay, pension contributions, national insurance contributions, income tax liability and pension taxation (£9,800 – £4,125 – £1,205 – £700 – £0 = £3,770). The definition of total net remuneration is take-home pay plus the pension benefit. The pension benefit increased by £11,419 over the period and when this is added to take-home pay, it results in a rise in total net remuneration of £15,189 over the period (£3,770 + £11,419 = £15,189).

Figure A.8: **Change in the components of nominal take-home pay and total net remuneration for the Permanent Secretary minimum, 2009-10 to 2018-19**



Take-home pay and total net remuneration for the senior military

29. Over the 10-year period from 2009-10 to 2018-19, nominal take-home pay for the 2-star minimum rose by 4.5 per cent, as shown in figure A.9, while nominal total net remuneration rose by 15 per cent, as shown in figure A.10. The difference can be attributed to the higher accrual rate in AFPS15.

30. Unlike the 2-star minimum, nominal take-home pay for the 4-star minimum fell by 20 per cent, from £102,578 to £82,043, as shown in figure A.9. Much of the decrease in nominal take-home pay was offset by increases to the pension benefit; nominal total net remuneration decreased by 2.9 per cent over the same period, as shown in figure A.10. Figure A.12 shows how this fall is due to higher income tax (the withdrawal of the personal allowance and the additional rate of tax) and the annual allowance tax charge, which is not fully offset by the increased pension benefit. The annual allowance taper alone led to a drop in nominal take-home pay of over £13,000 in 2016-17 (figure A.9).

31. One of the main reasons for the difference in take-home pay trends between the two senior military roles is the annual allowance tax charge. The 4-star minimum incurs the charge annually from 2014-15 onwards, where the 2-star minimum incurs the charge from 2017-18 onwards. This is reflected in figure A.11 where pension taxation only accounted for a small proportion of the overall change in nominal take-home pay from 2009-10 to 2018-19. However, our analysis suggests that in the future pension taxation will account for a larger proportion in the change in take-home pay, as the role's annual allowance continues to be tapered down. When adjusting both take-home pay and total net remuneration for inflation, the 2-star minimum saw overall decreases in both.

Figure A.9: **Take-home pay for the 2-star minimum and the 4-star minimum, 2009-10 to 2018-19**

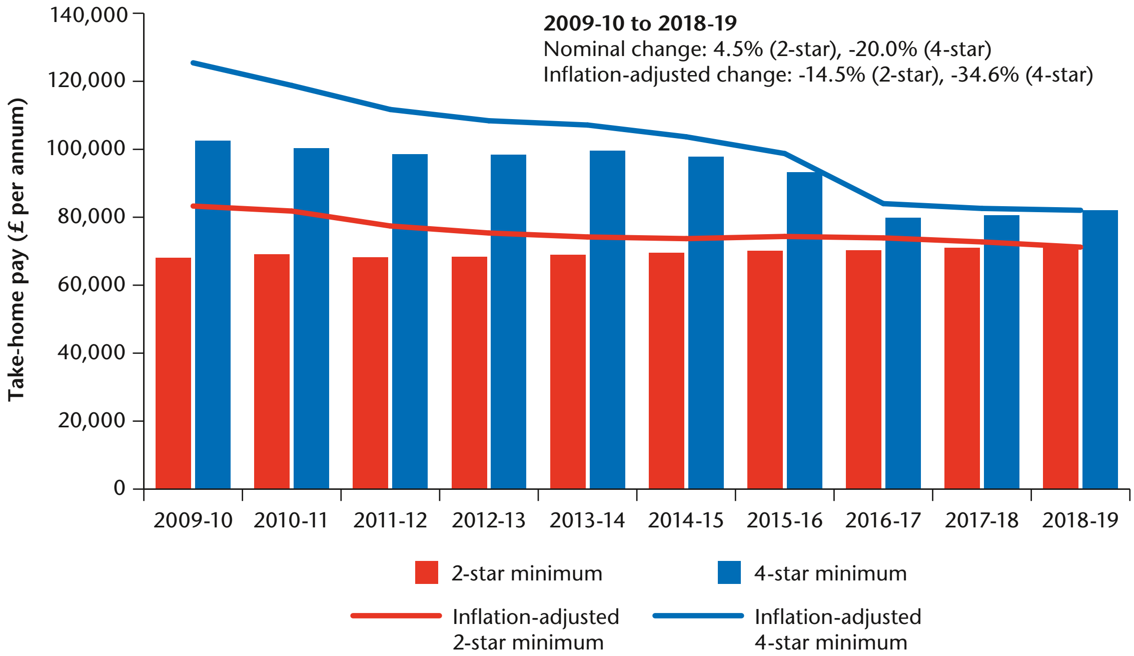


Figure A.10: **Total net remuneration for the 2-star minimum and the 4-star minimum, 2009-10 to 2018-19**

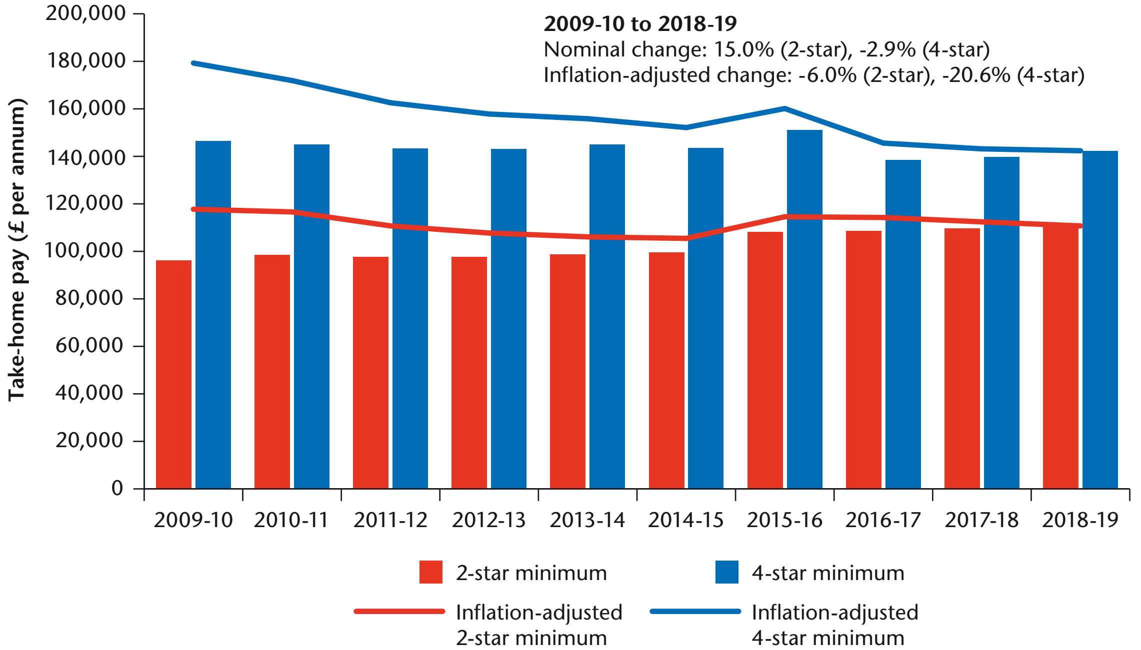


Figure A.11: **Change in the components of nominal take-home pay and total net remuneration for the 2-star minimum, 2009-10 to 2018-19**

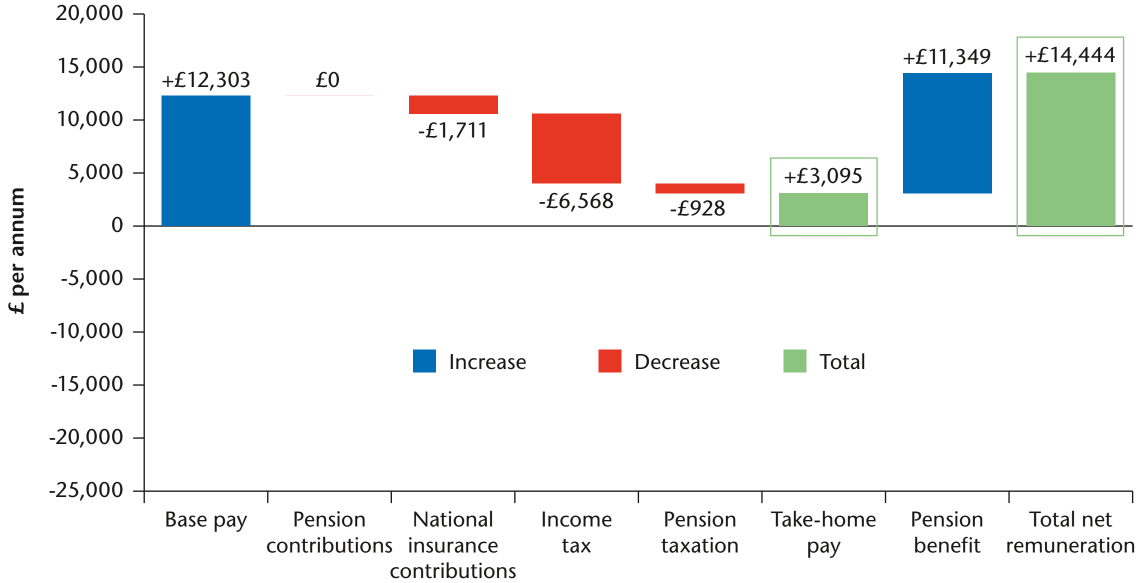
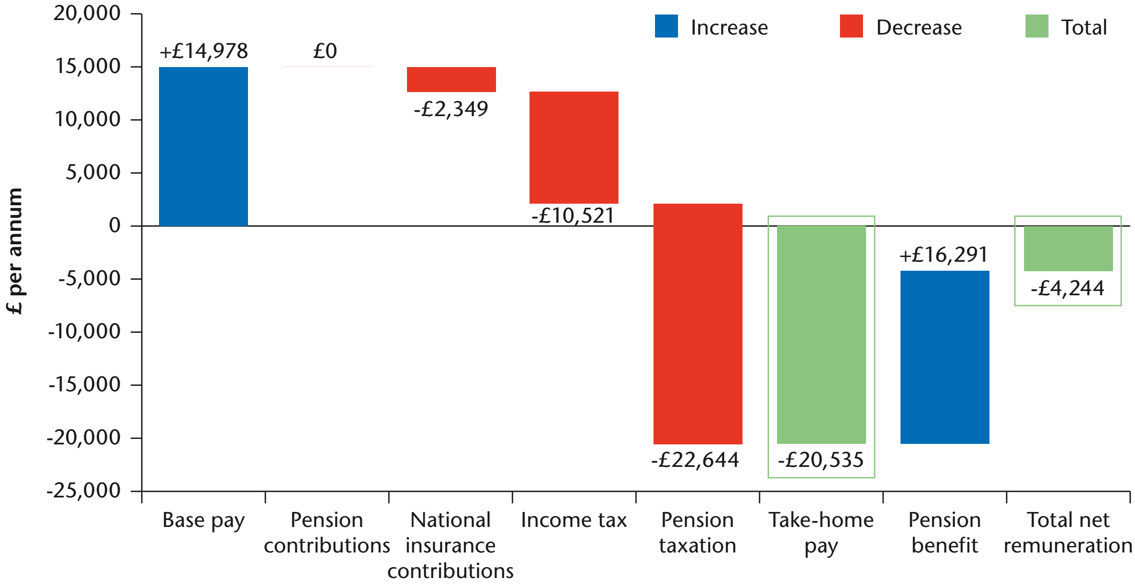


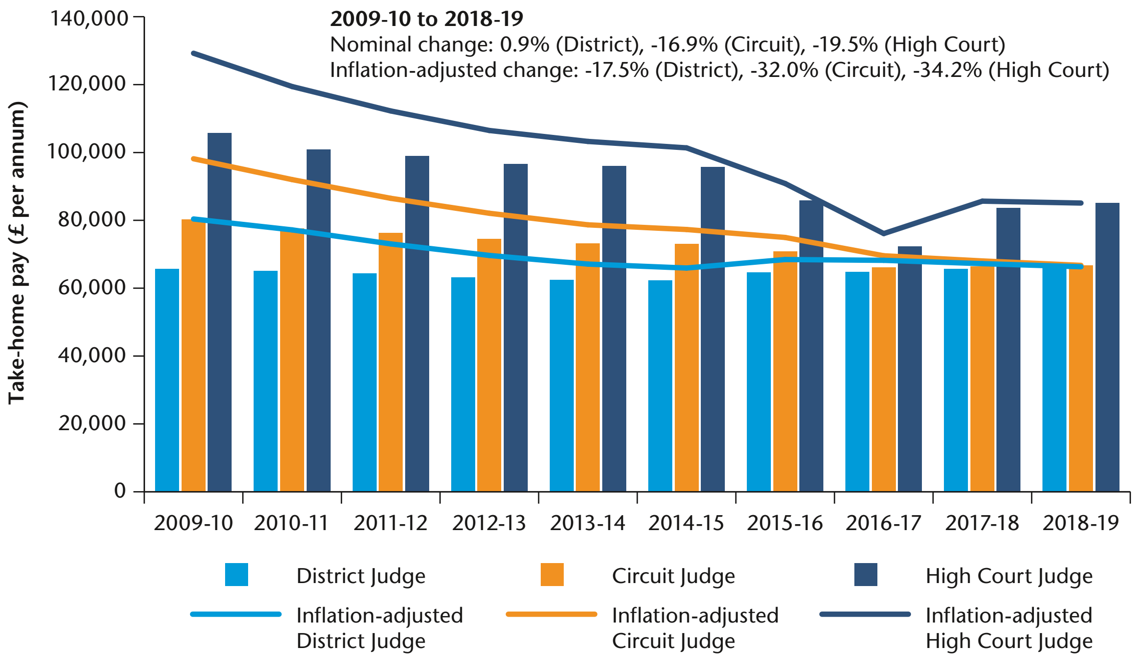
Figure A.12: **Change in the components of nominal take-home pay and total net remuneration for the 4-star minimum, 2009-10 to 2018-19**



Take-home pay and total net remuneration for the judiciary

32. Nearly all judicial roles saw a fall in nominal take-home pay between 2009-10 and 2018-19, with even greater falls in total net remuneration when inflation is taken into account, as shown in figures A.13 and A.14. The only exception was a marginal (less than 1 per cent) rise in nominal take-home pay for District Judges, who were not affected by the annual allowance tax charge. This means that take-home pay was almost the same for both Circuit and District Judges by 2018-19, although Circuit Judges received higher total net remuneration due to a greater pension benefit. The Circuit Judge role lost its personal tax allowance, and its pension annual allowance was tapered; while the District Judge role retained some personal tax allowance and a full pension annual allowance. Without the introduction of the RRA for High Court Judges on the NJPS15 pension scheme, nominal take-home pay would have decreased by 30 per cent over the period, with a 43 per cent fall once adjusted for inflation.

Figure A.13: **Take-home pay for a District, Circuit and High Court Judge, 2009-10 to 2018-19**



33. All judicial roles were subject to a lower accrual rate in the 2015 pension scheme (unlike our other remit groups) but were particularly hit by the move from an unregistered to a registered pension scheme, making them liable for annual allowance tax charges. Consequently, all the judicial roles saw a fall in total net remuneration in 2015-16, while other remit group roles saw an increase.

34. High Court Judges were hardest hit, facing an increase in the top rate of income tax, the removal of the personal tax allowance for higher earners, increased national insurance contributions, increased pension contributions, and full tapering of the annual allowance. The impact of these changes on total net remuneration were buffered by the RRA, resulting in a 17 per cent nominal fall from 2009-10 to 2018-19 and a 32 per cent fall when inflation-adjusted, as shown in figure A.14. Without the RRA, however, nominal total net remuneration would have fallen by 22 per cent over the period, or 37 per cent when adjusted for inflation. Figures A.16 and A.17 show that for Circuit and High Court Judges, the increase in base pay from 2009-10 to 2018-19 was mainly outweighed by the change to pension taxation, driving the decrease in nominal take-home pay. Contrasting this with figure A.15, the increase to base pay for a District Judge outweighs all other changes in the remaining components of nominal take-home pay resulting in an overall increase.

Figure A.14: **Total net remuneration for a District, Circuit and High Court Judge, 2009-10 to 2018-19**

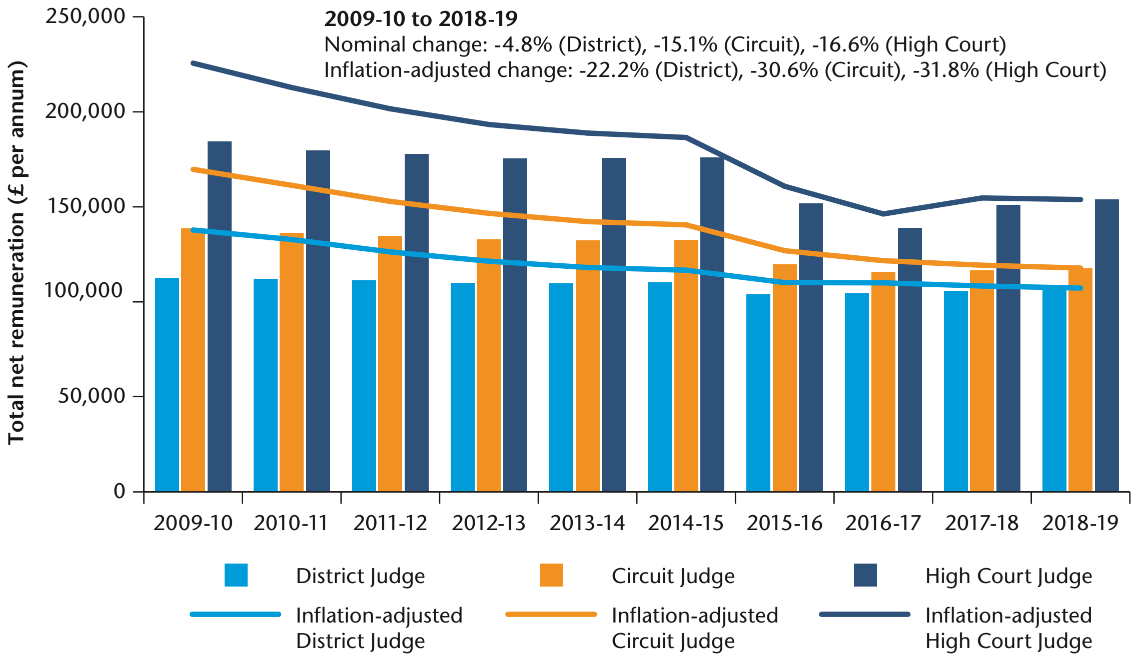


Figure A.15: **Change in the components of nominal take-home pay and total net remuneration for a District Judge, 2009-10 to 2018-19**

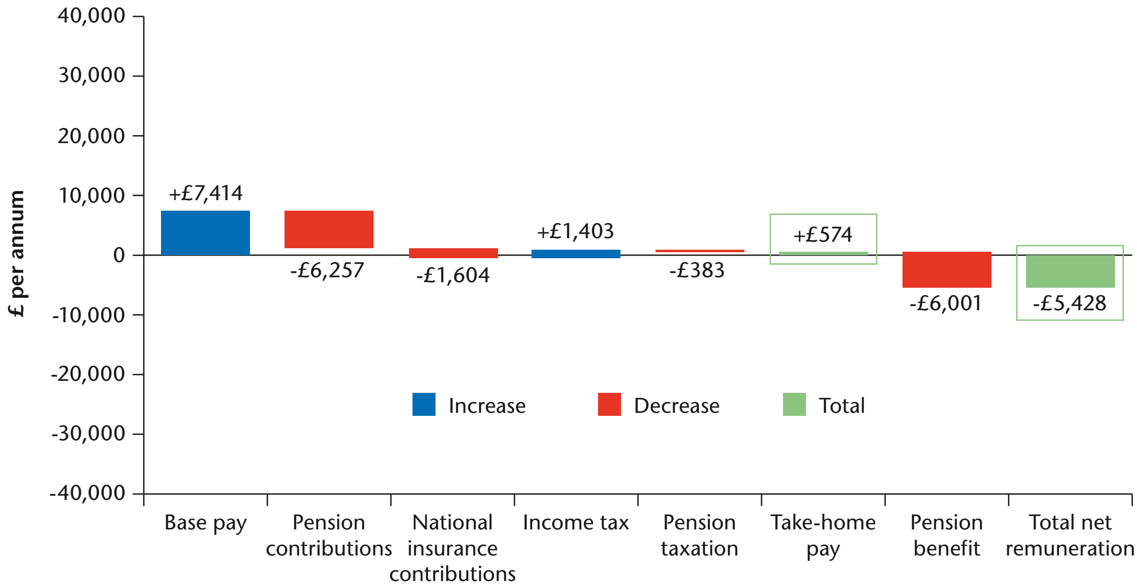


Figure A.16: **Change in the components of nominal take-home pay and total net remuneration for a Circuit Judge, 2009-10 to 2018-19**

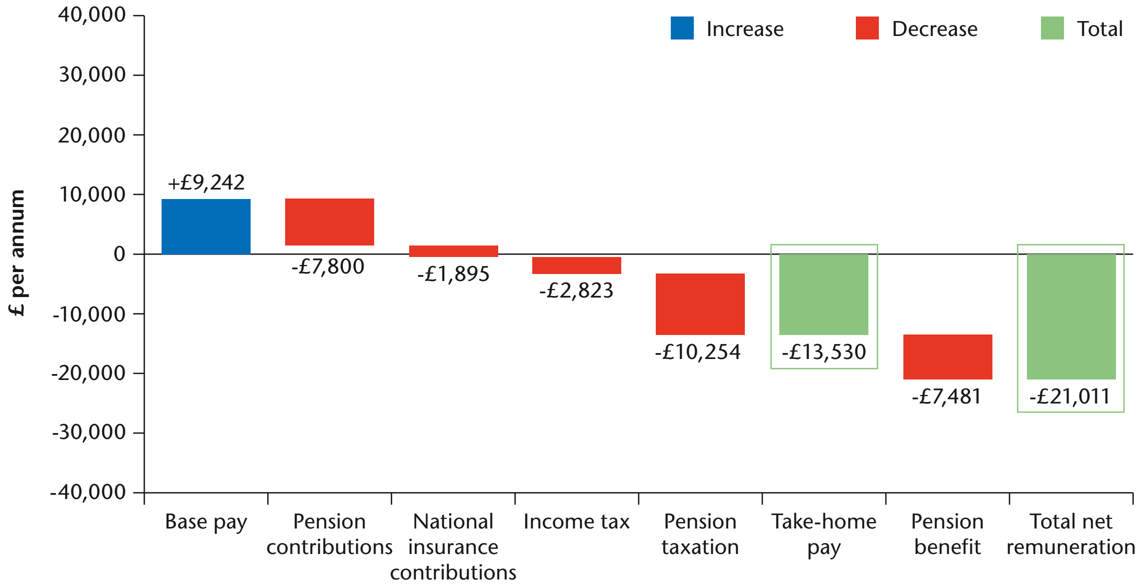
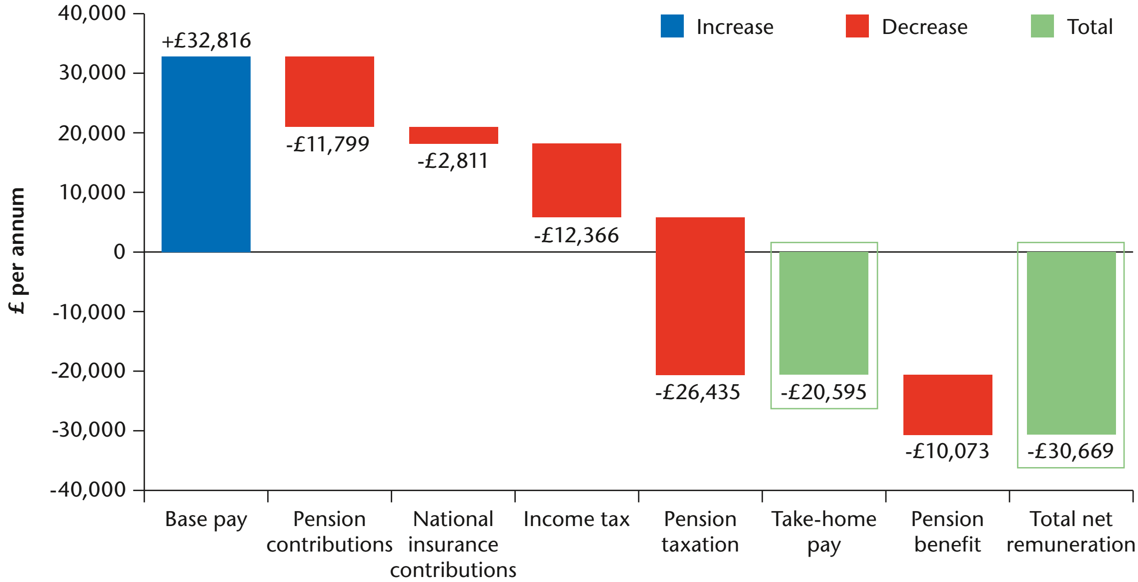


Figure A.17: **Change in components of nominal take-home pay and total net remuneration for a High Court Judge, 2009-10 to 2018-19**



Note: The base pay figure includes the RRA introduced in 2017-18.

Appendix B

List of those who gave evidence and information to the SSRB

The senior civil service

Parliamentary Secretary at the Cabinet Office (Minister for Implementation)

Chief Executive of the Civil Service and Permanent Secretary for the Cabinet Office

The Cabinet Office

The First Civil Service Commissioner

The Civil Service Commission

FDA and Prospect

Senior civil service discussion groups

Feeder group discussions

Senior Officers in the Armed Forces

The Minister for Defence People and Veterans

The Ministry of Defence

The Chief of the Defence Staff

Senior military discussion groups

Feeder group discussions

Appendix C

Website references for publications

This SSRB Report can be found at:
https://www.gov.uk/government/organisations/review-body-on-senior-salaries

Evidence submitted to the SSRB by the Cabinet Office:
https://www.gov.uk/government/publications/government-evidence-to-the-senior-salaries-review-body-on-the-pay-of-the-senior-civil-service

Evidence submitted to the SSRB by the FDA and Prospect:
https://www.fda.org.uk/home/fda-prospect-ssrb-evidence-submission-2019.aspx

Appendix D

Letter from the Chancellor of the Duchy of Lancaster to the Chair of the SSRB about senior civil service pay: 19 November 2018

Cabinet Office

Rt Hon David Lidington CBE MP
Chancellor of the Duchy of Lancaster
Minister for the Cabinet Office
70 Whitehall
London
SW1A 2AS

Web www.cabinetoffice.gov.uk

Our Ref: CDL/2341

Dr. Martin Read CBE
Senior Salaries Review Body
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

19 November 2018

Dear Martin,

Senior Salaries Review Body (SSRB) 2019/20 Remit (Senior Civil Service)

I would like to confirm the SSRB's remit in relation to the SCS during the upcoming pay round for 2019/20. I would like the SSRB to conduct its usual annual review process and make recommendations to the Government on the pay of the SCS remit group from April 2019.

The Government's evidence to the SSRB in December 2017 set out a vision for a future SCS Pay framework which - in line with the Civil Service Workforce Plan - will help us attract, retain and develop the very best senior talent for government. This new pay system marks a significant strategic shift, and will aid us in achieving our vision for a future SCS which is more diverse, experienced and professionalised, with a better mix of specialist and generalist leaders. I am keen to give the SSRB full opportunity to bring its members' insight to bear on how we best realise this strategic vision, and to do this in the most effective way possible.

Over the last number of months, work has been underway to articulate further the Government's plans to achieve this significant strategic shift in the SCS pay structures with the focus on the following areas of work:

- moving to a set of consistent pay ranges by professional grouping over time, working with the Professions to achieve an ambitious new approach to the way pay is set for the SCS;
- providing greater reward for high performers and those who develop capability and increase depth by remaining in role;
- to provide clearer rules and control on how people move through and around the SCS pay system to reinforce consistency and coordination; and
- Exploring options for reforming the SCS performance management system.

Taken together, this programme of work starts to tackle some of the biggest issues identified with the current pay system as well as ensuring that the Civil Service is able to attract and retain key, scarce skills from the external market and balancing incentives in the current system.

We are pleased that the SSRB welcomed the direction of travel laid out in our 2017 evidence, and look forward to working in partnership with SSRB to further articulate our strategic plan to reach this vision.

In addition to exploring these topics, this year's evidence will:

- Discuss the desired application of the SCS pay system, whether that is centralised management of the workforce; delegation to departments; or an appropriate balance between the two. This will be explored in the context of other changes being proposed and will include explanation of the role of professions in the evolving reward framework. It will also consider the context of members of the SCS working in Scotland and Wales;
- Make proposals for the approach to Director's General pay; and
- Provide a clear proposal on the future of the SCS 1A grade.

This year I would ask that the following three central principles be considered when the SSRB makes its recommendations:

- Current and future affordability to the taxpayer;
- Targeting awards to ensure we can recruit and retain the best public servants; and
- Fairness in the approach for senior and junior grades.

Public sector wages account for one quarter of total public spending. The last Spending Review budgeted for one percent average basic pay awards, and there will still be a need for pay discipline over the coming years to ensure the affordability of the public service and the sustainability of public sector employment. The Government must balance the need to ensure fair pay for public sector workers with protecting funding for frontline services and ensuring affordability for taxpayers. For those reasons, I expect affordability to be a critical part of your consideration when determining final awards. This year, I also request that you describe in your final report what steps you have taken to ensure affordability has been given due consideration when reaching your recommendations.

As you know, a new Government Commercial Organisation (GCO) was created last year. The terms and conditions of GCO staff are ring fenced and differ slightly from the standard Civil Service offer. All staff on these terms are reviewed by an independent Remuneration Committee that reports annually to HM Treasury. However, those senior commercial staff who are have not opted into GCO terms remain part of the SCS, and the SSRB's recommendations are taken into consideration when the pay award is applied. Further information will be provided on the GCO in this year's evidence.

We intend to submit written evidence in January, with oral evidence to follow in February. There was a collective decision taken this year that all review bodies should publish their reports at the same time. We would therefore ask you to provide us with your recommendations in the week commencing 6th May 2018.

I place great value on the independent advice of the SSRB and look forward to receiving your recommendations for the SCS. In the interim, I know that, under the direction of the Cabinet Secretary and the Chief Executive of the Civil Service, officials will be working with the SSRB in an iterative way to inform your deliberations.

Rt Hon David Lidington CBE MP

Appendix E

Letter from the Chair of the SSRB to the Chancellor of the Duchy of Lancaster about senior civil service pay: 6 December 2018

Office of Manpower Economics

SENIOR SALARIES REVIEW BODY
FLEETBANK HOUSE
2-6 SALISBURY SQUARE
LONDON
EC4Y 8JX

Direct Telephone Line 020 7211 8181
E-mail Ffiona.hesketh@beis.gov.uk
Website www.gov.uk/OME

Rt Hon David Lidington CBE MP
Chancellor of the Duchy of Lancaster
Minister for the Cabinet Office
70 Whitehall
London
SW1A 2AS

6 December 2018

Dear David,

Thank you for your letter dated 21 November 2018 confirming the SSRB's remit in relation to the 2019-2020 senior civil service pay round.

It is helpful to see the strategic priorities for the SCS set out in your letter and the areas that the Cabinet Office has prioritised for the forthcoming pay round. As you know, Adrian Johns, who is the lead SSRB member for the SCS, has been working with the Cabinet Office over the last couple of months on various SCS discussion papers. We welcome this closer engagement and the opportunity to understand outline proposals at an earlier stage.

It may be helpful if I comment on three particular points in your letter.

Firstly, if you wish us to take particular account of affordability, we will need clear evidence on what increase the government believes to be affordable. We received minimal guidance on this subject in last year's evidence. We will also want to understand the government's thinking on why its affordability guidance represents good overall value for money in terms of achieving the best outcomes for the lowest cost.

Secondly, we need to flag to you that your request to receive our recommendations in the week commencing 6 May 2019 (already after the start of the SCS pay year) will not be achievable unless we receive high quality evidence from the Cabinet Office in good time. On the timescales that are currently being discussed, this does not look likely. From the SSRB's perspective, we set greater store on producing a high-quality report based on clear, well thought-through propositions, rather than on hitting a particular deadline.

Thirdly, we are concerned at the lack of clarity about SSRB's role in relation to the GCO. As we said in our last report, we consider that staff above grade 6 in the GCO are members of the SCS and they therefore form part of the remit group for which we should be making recommendations. On that basis, we look forward to receiving evidence covering the GCO this year.

Finally, you and I had a very useful meeting earlier in the year, during which we discussed how the government could make better use of the SSRB and its expertise in future. We hope to have the chance to discuss your thoughts and proposals further in this year's oral evidence.

We look forward to working with the Cabinet Office during the current round.

Yours

Martin Read

Dr Martin Read CBE

Chair

Senior Salaries Review Body

Appendix F

Letter from the Lord Chancellor to the Chair of the SSRB on the 2018-19 Judicial pay settlement: 26 October 2018

Ministry of Justice

The Right Honourable
David Gauke MP
Lord Chancellor & Secretary of State for Justice

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

26 October 2018

Dear Martin

2018/19 JUDICIAL PAY SETTLEMENT

I am writing to inform you of the Government's response to the Senior Salaries Review Body's (SSRB) recommendations for judicial pay increases in 2018/19, which I have announced today in a written statement to the House.

First, I would like to take this opportunity to thank you and the other members of the SSRB for all the work you have undertaken in providing such an important and comprehensive report, which was published today. I know that you have had to overcome some substantial hurdles in reaching this point, and I am grateful that the SSRB continues to play a vital role in advising the government on remuneration for the judiciary. I would be grateful if you could also pass on my thanks to the secretariat team in the Office for Manpower Economics.

In reaching our final position for the 2018/19 pay award, the Government has had to balance the need for affordability for the tax payer and future sustainability of public services whilst ensuring that pay awards are fair and consistent across the public sector. Therefore, the Government has not accepted in full the SSRB's recommended increase of 2.5%. However, I can confirm that members of the judiciary will receive an increase of 2% in 2018/19. We will implement the award in November, backdated to April 2018.

The SSRB's report explores in depth the wider range of issues set out in the Terms of Reference for the review. As you know, I take very seriously the threat that being unable to fill key judicial posts represents to the proper functioning of justice and the UK's wider prosperity. I would like to reassure you that I am now considering very carefully the contents of the SSRB's report.

I recognise the urgency of the challenges highlighted by the SSRB, but I believe it is important that we take the time needed to decide how best to respond. I will set out how we plan to do so when we formally respond to the major review as soon as possible.

Yours ever
David

RT HON DAVID GAUKE MP

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Appendix G

Letter from the Home Secretary to the SSRB Chair about PCC remuneration: 3 January 2019

Home Office

Home Secretary

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

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

3rd January 2019

Dear Dr. Read,

Police and Crime Commissioner remuneration

I wrote to you in September following the Government's response to the recommendations of the Senior Salaries Review Body (SSRB) on Police and Crime Commissioner (PCC) remuneration.

I explained in my letter that the Government had decided not to accept the recommendation that from May 2019, PCC salaries should be increased in line with the pay award for local authority staff and that this link should continue annually until the next formal review of PCC pay. I also said that the Government would consider the arrangements for determining PCC pay in the 2019/20 pay round.

I agree with your observations that PCCs are a small remit group, and that it is disproportionate to carry out full reviews of their pay every year. I endeavor to make best use of your time and since it is unlikely that any new or compelling evidence will be put forward that will lead to you reach a different conclusion, I can confirm that I will not be asking the SSRB to review PCC remuneration in the 2019/20 pay round. My officials will work with your Secretariat to discuss timings of future pay reviews.

Rt Hon Sajid Javid MP

Appendix H

Existing salaries for the SSRB remit groups

Table H.1: Salary bandings of Permanent Secretary posts, December 2018

Pay band	Pay range
Roles (£200,000 – £240,000)	Chief Executive of the Civil Service (£235,000-£240,000)
	Head of the Civil Service (£205,000-£210,000)
Tier 1 roles (£180,000 – £200,000)	HM Revenue and Customs Chief Executive (£190,000-£195,000)
	HM Treasury (£185,000-£190,000)
	Home Office (£185,000-£190,000)
	Foreign and Commonwealth Office (£185,000-£190,000)
	Ministry of Justice (£185,000-£190,000)
	Department for Work and Pensions (£180,000-£185,000)
	Ministry of Defence (£180,000-£185,000)
Tier 2 roles (£162,500 – £180,000)	Business, Energy and Industrial Strategy (£180,000-£185,000)
	Department of Health and Social Care (£170,000-£175,000)
	Security Service (£170,000-£175,000)
	Treasury Solicitor (£170,000-£175,000)
	Department for Culture, Media and Sport (£165,000-£170,000)
	Department for the Environment, Food and Rural Affairs (£165,000-£170,000)
	Government Communications Head Quarters (£165,000-£170,000)
	Ministry of Housing, Communities & Local Government (£165,000-£170,000)
	Scottish Government (£165,000-£170,000)
	Cabinet Office Prime Minister Adviser (£160,000-£165,000)
	Department for Education (£160,000-£165,000)
	Department for Exiting the EU (£160,000-£165,000)
	Department for International Development (£160,000-£165,000)
	Department for International Trade (£160,000-£165,000)
	Department for Transport (£160,000-£165,000)
	Secret Intelligence Service (£160,000-£165,000)
	Welsh Government (£160,000-£165,000)
Tier 3 roles (£150,000 – £160,000)	Northern Ireland Office (£160,000-£165,000)
	HM Treasury 2nd Permanent Secretary (£155,000-£160,000)
	Office for National Statistics (£155,000-£160,000)
	Chair of Joint Intelligence Committee (£150,000-£155,000)
	HM Revenue and Customs 2nd Permanent Secretary (£150,000-£155,000)
	Home Office 2nd Permanent Secretary (£150,000-£155,000)

Pay band	Pay range
Specialist roles (may attract skills or market premium)	Chief Exec Defence Equipment and Support (£280,000-£285,000)
	DIT 2nd Permanent Secretary (£260,000-£265,000)
	Chief Medical Officer (£210,000-£215,000)
	Director for Public Prosecutions (£210,000-£215,000)
	Government Chief Scientific Adviser (£180,000-£185,000)
	First Parliamentary Counsel (£140,000-£145,000)

Source: Cabinet Office.

Table H.2: **Pay ranges for senior civil servants, 1 April 2018**

Pay band	Pay range	Number in band
1	£68,000 - £117,800	3,440
1A	£68,000 - £128,900	87
2	£90,500 - £162,500	863
3	£111,500 - £208,100	156
Permanent Secretaries	£150,000 - £200,000	40
Total		4,586

Source: Cabinet Office.

Table H.3: **Pay of senior officers in the Armed Forces, 1 April 2018**

		Increment level					
	Number in post	1 £	2 £	3 £	4 £	5 £	6 £
2-star	87	116,086	118,354	120,669	123,030	125,437	127,892
3-star	28	135,068	141,689	148,642	154,481	159,036	163,728
4-star	8	177,190	181,619	186,160	190,814	194,630	198,523
CDS	1	255,275	260,380	265,588	270,900		

Notes: Numbers in post supplied by the MoD and relate to numbers in post as of 1 July 2018. Salaries include X-factor which is applied at the rate of £2,646, 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 2018.
Source: Ministry of Defence.

Table H.4: **Pay of members of the judiciary, 1 April 2018**

Salary group	£
1	257,121
1.1	229,592
2	221,757
3	210,876
4	185,197
5+	157,232
5	148,526
6.1	137,538
6.2	129,485
7	110,335

Source: Ministry of Justice.

Table H.5: **Pay of Police and Crime Commissioners, 1 May 2018**

Force	PCC Salary £	PFCC £
West Midlands, West Yorkshire	100,000	103,000
Avon & Somerset, Devon & Cornwall, Essex, Hampshire, Kent, Lancashire, Merseyside, Northumbria, South Wales, South Yorkshire, Sussex, Thames Valley	86,700	89,700
Cheshire, Derbyshire, Hertfordshire, Humberside, Leicestershire, Nottinghamshire, Staffordshire, West Mercia	76,500	79,500
Bedfordshire, Cambridgeshire, Cleveland, Dorset, Durham, Gwent, Norfolk, Northamptonshire, North Wales, North Yorkshire, Suffolk, Surrey, Wiltshire	71,400	74,400
Cumbria, Dyfed-Powys, Gloucestershire, Lincolnshire, Warwickshire	66,300	69,300

Note: Police, crime and fire commissioners (PFCC) taking on responsibility for the governance of fire and rescue services received an additional consolidated award of £3,000 in 2018.
Source: Home Office.

Table H.6: **Executive and Senior Managers, 2016 pay framework**

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

Note: Salary ranges remain unchanged from 2016.
Source: Department of Health and Social Care.

Appendix I

NATO rank codes and UK service ranks – officers

NATO RANK CODES AND UK SERVICE RANKS – OFFICERS					
NATO code	**UK Stars**	**Royal Navy**	**Royal Marines**	**Army**	**Royal Air Force**
OF-9[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

[1] These officers belong to our remit group.
Source: Ministry of Defence.

Appendix J

Glossary of terms and abbreviations

General

Accrual rate	The rate at which future benefits in a defined benefit pension scheme accumulate
BAME	Black, Asian and Minority Ethnic
Base pay	Basic salary, excluding non-consolidated bonuses, allowances, value of pensions, etc
CPI	Consumer Prices Index
CPIH	Consumer Prices Index including owner-occupiers' housing costs
FTE	Full-time equivalent
GDP	Gross Domestic Product
LGBO	Lesbian Gay Bisexual Other
OBR	Office for Budget Responsibility
OME	Office of Manpower Economics
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 allowances or performance-related pay less income tax, national insurance and, where appropriate, pension contributions

Senior civil service

AGDs	Attorney General's Departments
BEIS	Department for Business, Energy and Industrial Strategy
CSC	Civil Service Commission (Oversees appointments to senior positions within the SCS to ensure fair and open competition for jobs.)
CMA	Competition and Markets Authority
DCMS	Department for Culture, Media and Sport
DDaT	Digital, data and technology
DECC	Former Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DExEU	Department for Exiting the European Union
DfE	Department for Education
DfID	Department for International Development
DfT	Department for Transport

DIT	Department for International Trade
DHSC	Department of Health and Social Care
DWP	Department for Work and Pensions
FCO	Foreign and Commonwealth Office
FLS	Future Leaders Scheme
FSA	Financial Standards Authority
GCO	Government Commercial Organisation
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
IfG	Institute for Government
MHCLG	Ministry of Housing, Communities and Local Government
MoD	Ministry of Defence
MoJ	Ministry of Justice
NCA	National Crime Agency
NIO	Northern Ireland Office
OFGEM	Office of Gas and Electricity Markets
OFSTED	Office for Standards in Education, Children's Services and Skills
OFQUAL	Office of Qualifications and Examinations Regulation
ONS	Office for National Statistics
ORR	Office of Rail and Road
PRA	Pivotal Role Allowance
Scheme Pays	A process that allows an individual to pay an annual allowance charge from their pension scheme. The scheme pays the annual allowance charge direct to HMRC on the individual's behalf, and the tax charge is taken out of their pension fund.
SCS	Senior civil service/servants
UKSA	UK Space Agency

Senior officers in the Armed Forces

AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS05	Armed Forces Pension Scheme 2005
AFPS15	Armed Forces Pension Scheme 2015
AFPS75	Armed Forces Pension Scheme 1975
CDP	Chief of Defence People
CDS	Chief of the Defence Staff
CEA	Continuity of Education Allowance
CWP	Continuous Working Patterns

HCSC	Higher Command and Staff Course
HMRC	HM Revenue and Customs
MDP	Modernising Defence Programme
MoD	Ministry of Defence
MODOs	Medical and Dental Officers
OF	Officer
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.

Judiciary

JAC	Judicial Appointments Commission
JUPRA/JUPRA93	Judicial Pension Scheme 1993 (established under the Judicial Pensions and Retirement Act 1993)
NJPS/NJPS15	New Judicial Pension Scheme 2015
RRA	Recruitment ans Retention Allowance

Police and Crime Commissioners

APCC	The Association of Police and Crime Commissioners
PCC	Police and Crime Commissioner
PFCC	Police, Fire and Crime Commissioner

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

ALBs	Arm's Length Bodies
DHSC	Department of Health and Social Care
ESM	Executive and Senior Manager
VSM	Very Senior Manager

CCS0519265476
ISBN 978-1-5286-1361-3