

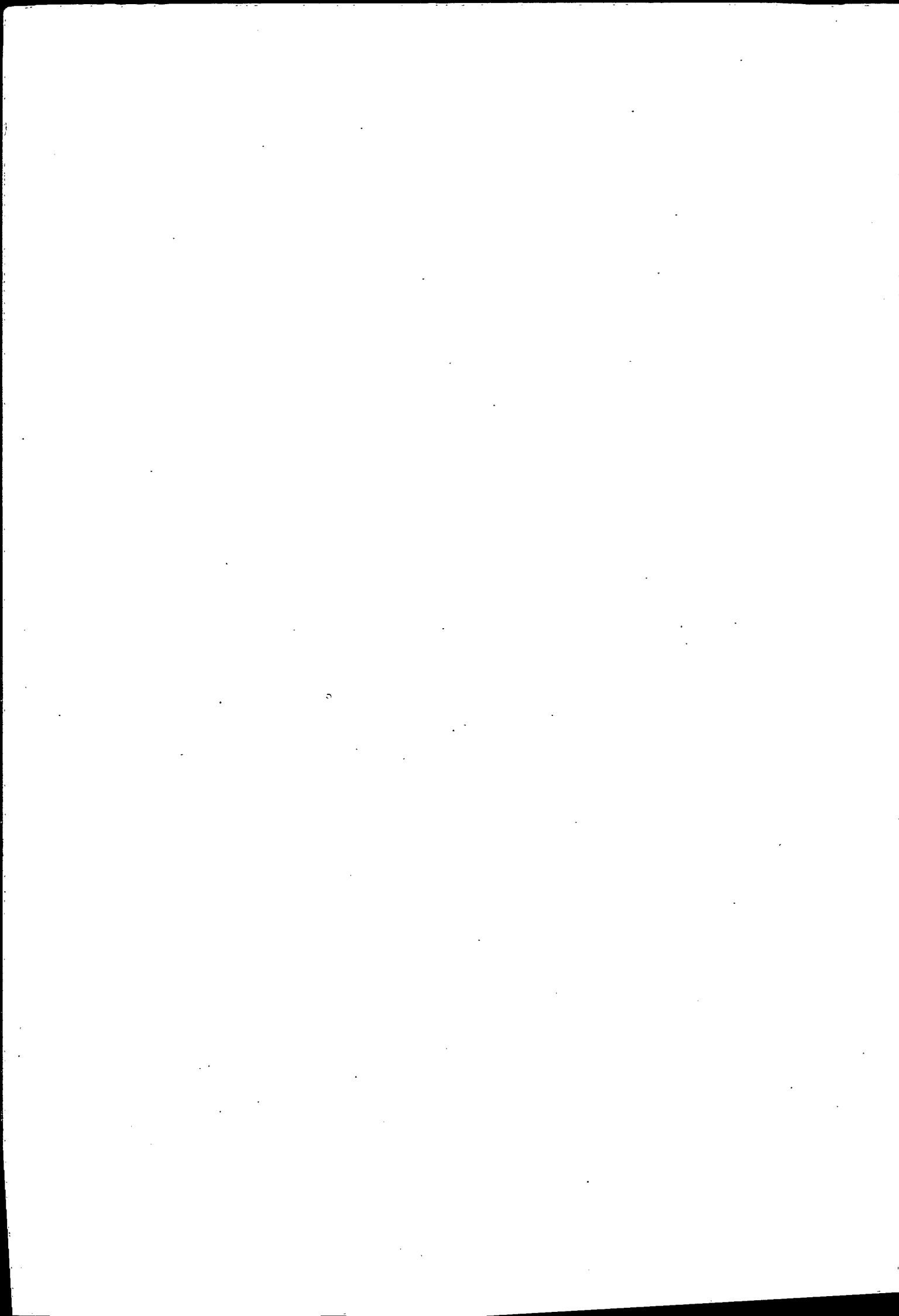


Review Body
on Top Salaries

REPORT No. 27

**Eleventh Report
on Top Salaries**

Chairman: The Rt. Hon. Lord Plowden, GBE, KCB





Review Body
on Top Salaries

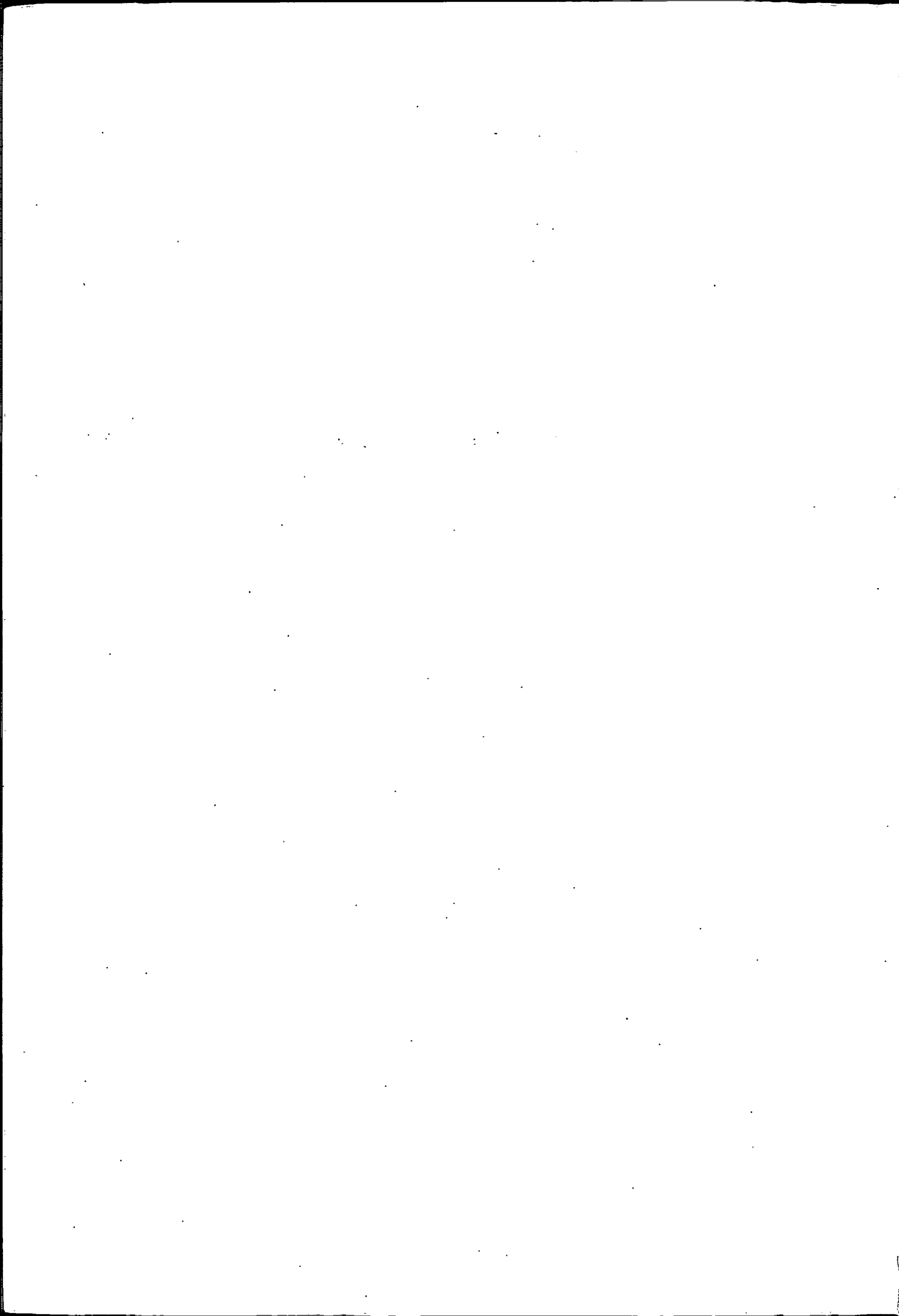
REPORT No. 27

Eleventh Report
on Top Salaries

Chairman: The Rt. Hon. Lord Plowden, GBE, KCB

Presented to Parliament by the Prime Minister
by Command of Her Majesty
April 1988

LONDON
HER MAJESTY'S STATIONERY OFFICE
£8.00 net



Review Body on Top Salaries

The Review Body on Top Salaries was appointed in May 1971 with terms of reference to advise the Prime Minister on the remuneration of the Chairmen and members of the Boards of nationalised industries; the higher judiciary and certain other judicial appointments; senior civil servants; senior officers of the armed forces; and other groups which may be referred to it. The appointments in the nationalised industries were removed from the Review Body's remit in August 1980.

The members of the Review Body¹ are:

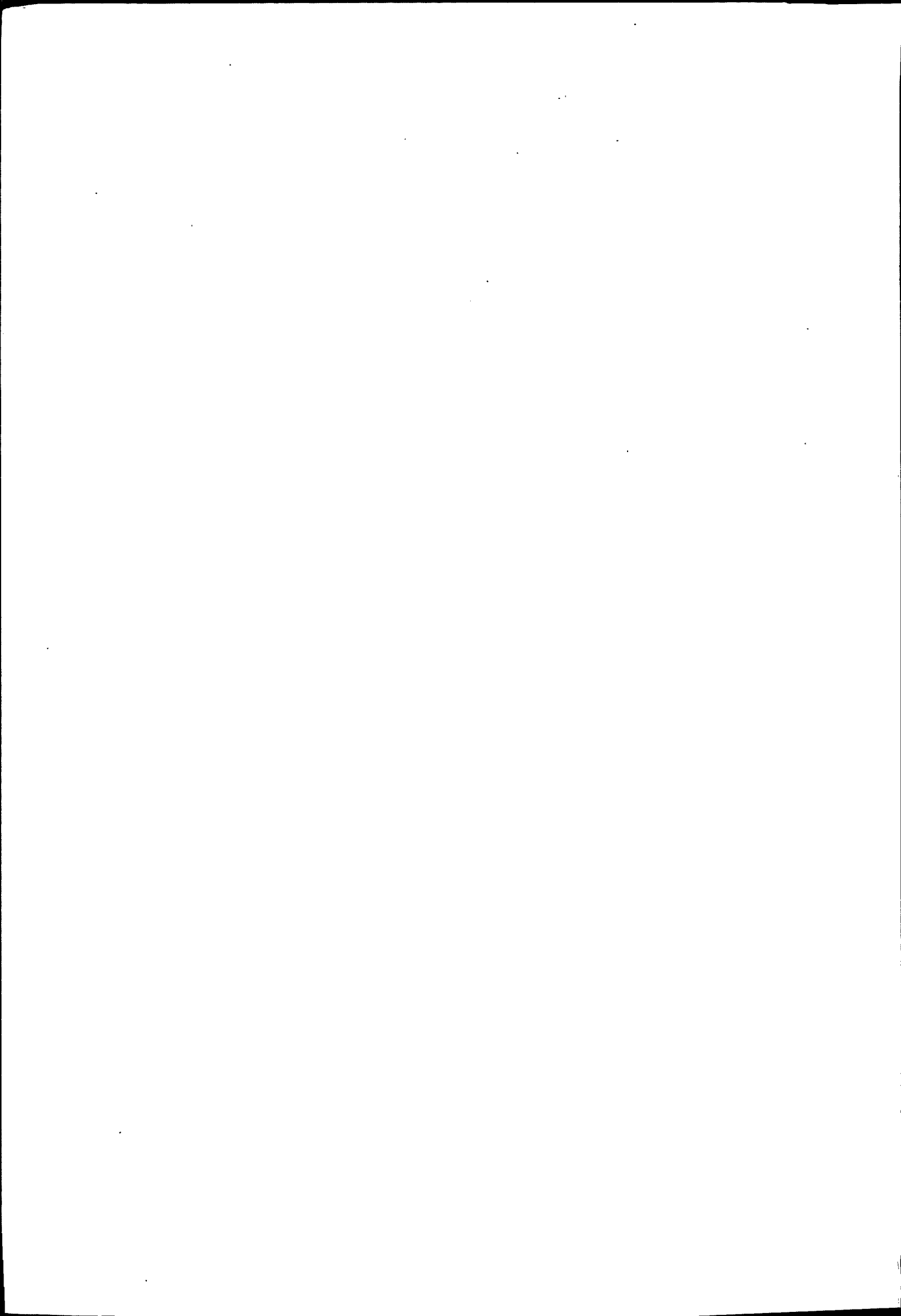
Lord Plowden, GBE, KCB, *Chairman*
Sir Terence Beckett, KBE²
Derek Birkin, TD
Louise Botting²
Lord Chorley
Sir Robin Ibbs
Sir Peter Matthews, AO³
Jeremy Pope, OBE
Sir Thomas Skyrme, KCVO, CB, CBE, TD

The Secretariat is provided by the Office of Manpower Economics.

¹ Andrew Morritt, QC resigned from the Review Body during the course of the review.

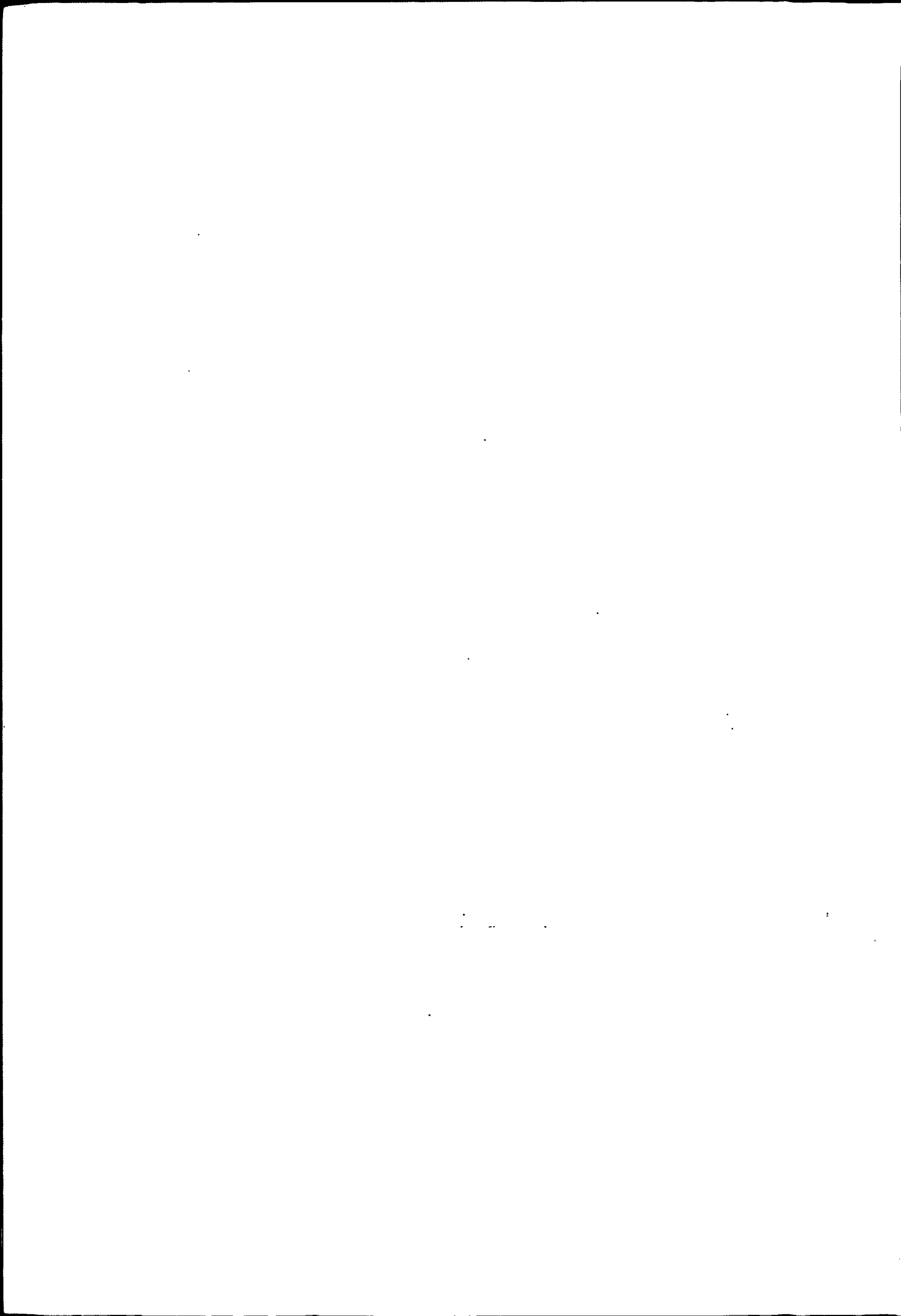
² Louise Botting and Sir Terence Beckett were appointed to the Review Body by the Prime Minister in June and July 1987 respectively.

³ Sir Peter Matthews is also Chairman of the Review Body on Armed Forces Pay.



CONTENTS

		<i>Paragraph</i>	<i>Page</i>
<i>Chapter 1:</i>	Introduction		
	Background	1	1
	Our approach this year	9	2
<i>Chapter 2:</i>	The judiciary		
	General	14	4
	Recruitment	17	4
	Surveys of Bar earnings	18	5
	Review of judicial salary structure		
	Judicial sub-committee	22	5
	Background	25	6
	Evidence	30	6
	Modifications to the structure	32	7
	Conclusion and summary of structural recommendations	65	11
<i>Chapter 3:</i>	The civil service		
	General	69	14
	Recruitment, retention and motivation	72	14
	Outside comparisons	85	17
	Differentials between Permanent Secretaries	102	19
	Other differentials	103	20
	Range pay for Grades 2 and 3	104	20
<i>Chapter 4:</i>	The armed forces		
	General	109	22
	Recruitment and retention	111	22
	Morale and motivation	115	23
	Outside comparisons	117	23
	Differentials	119	23
	Existing pay links	122	24
	London Pay	126	25
<i>Chapter 5:</i>	Conclusions and recommendations		
	Conclusions	128	26
	Recommendations	140	28
<i>Appendix A:</i>	Previous Review Body reports on top salaries		30
<i>B:</i>	List of those who gave evidence to the Review Body and visits to government departments and military establishments		31
<i>C:</i>	List of those who gave evidence to the Review Body's judicial sub-committee		32
<i>D:</i>	Surveys of earnings at the Bar		35
<i>E:</i>	The present judicial salary structure		39
<i>F:</i>	Scheme for range pay for Grades 2 and 3 in the civil service introduced with effect from October 1987: Treasury Note		41
<i>G:</i>	Survey of top salaries in the private sector, 1986-87		47
<i>H:</i>	Evaluation of superannuation benefits: a report by the Government Actuary		65
<i>I:</i>	Salary differential between one star officers (Brigadiers) and two star officers (Major Generals) in the armed forces		79



Chapter 1

Introduction

Background

1. This year we have undertaken a comprehensive review of the pay of the groups in our remit, as opposed to an updating review like those which we completed in 1986 and 1987¹. We have therefore looked in some depth at the question of both pay structures and pay levels for the some 1,970 full-time individuals covered by our remit, comprising 1,140 members of the judiciary, 630 senior civil servants and 200 senior officers in the armed forces.
2. Our last comprehensive review (Report No. 22) was completed in 1985. We found then that existing salary levels had called into question the ability of the civil service, the armed forces and the judiciary to continue to ensure a sufficient supply of individuals with the necessary abilities. We recommended new salary levels appropriate at 1 April 1985 which included the major innovation of performance related discretionary pay ranges for Grades 2 and 3 in the civil service. We also recommended a new salary structure for the judiciary. The Government implemented the new salary levels in two stages by 1 March 1986, with the exception of the discretionary pay ranges which they did not immediately accept. The new salary structure for the judiciary was also adopted.
3. When we reported in 1986 (Report No. 23) our main aims were to update the newly established pay levels and to continue to urge the Government to introduce discretionary pay ranges. The Government scaled down the increases which we recommended and postponed their implementation by three months. They said that they had decided in principle to accept the introduction of discretionary pay ranges.
4. When we reported last year (Report No. 25) we said that we had found our task peculiarly difficult. On the one hand it was clear that since our 1985 review the salaries of broadly analogous outside groups had risen substantially; and that differentials between them and other employees had widened. This led us to express concern that, if the salaries of the groups within our remit fell too far behind, the recruitment and retention of the most able people who aspire to these appointments would suffer. We noted that there were already some indications that the recruitment, and more particularly the retention, of outstandingly able younger staff in the civil service might be less than satisfactory; that there were continuing difficulties over the recruitment of Circuit Judges; and that difficulties were emerging over the recruitment of High Court Judges.
5. On the other hand we had serious doubts as to the extent to which pay increases for outside groups should influence our judgment. The increases in the average level of remuneration for senior managers in the private sector had demonstrably been affected by marked changes in the environment in which they worked. These included improved company profitability; the spread of schemes relating pay to improved personal performance; the effect of takeovers and mergers; the loss of jobs by the less successful; an increasingly international market for senior managers; and increased employment and higher salaries in the financial sector. In contrast the framework within which senior public servants worked had remained relatively stable; and they continued to enjoy a substantial measure of job security denied to many in the private sector. There was an important question

¹ A list of previous Review Body reports covering senior civil servants, senior officers of the armed forces and members of the judiciary is at Appendix A.

as to whether the rate of increase in the private sector would continue. More generally we were doubtful as to the relevance of this increase to the pay of the groups within our remit.

6. We were also aware of a number of developments and possible problems, related to the structure of pay for the groups within our remit, which merited further examination. These included the imminent introduction of performance related pay for Grades 2 and 3 in the civil service; concern expressed by some members of the judiciary over gradings and differentials within the simplified salary structure introduced in 1985; and concern within the armed forces about the relatively small differential between one star and two star officers.

7. We concluded that the nature of many of the factors which gave us concern was such that we could not adequately investigate them in the course of an updating review. We therefore decided that our next comprehensive review, which we had planned to complete in 1989, should be brought forward a year. Meanwhile, we recommended salary levels which added some 4.8 per cent to the existing paybill.

8. The Government accepted the salary levels which we recommended, but staged the increases. Increases of 4.25 per cent were paid from 1 April 1987, in line with the increase paid from that date to the main civil service grades, and the balance was paid from 1 October 1987. The current salaries are set out alongside our new salary recommendations at the end of our report.

Our approach this year

9. At the outset of our review we identified the main considerations which we needed to take into account. These included the extent and nature of any difficulties in recruitment, retention and motivation; the relationship between pay and performance; the internal coherence of the pay structures; and the relevance of outside pay comparisons. We were aware that not all these considerations were equally relevant to each of the three groups within our terms of reference; but they provided a structured framework for the evidence we sought and the inquiries we commissioned. We discuss our approach more fully in the following chapters in relation to the specific circumstances of each of the three groups.

10. *Evidence.* At Appendix B we list those who gave written and oral evidence to us and the visits which we paid to government departments and military establishments to gain a first-hand impression of the work of senior civil servants and senior officers in the armed forces. These visits helped to set the scene for us. They also provided a valuable opportunity to explore the main issues directly with those with whose pay we are concerned.

11. A great deal of written and oral evidence was also received by our judicial sub-committee which was reconvened under the chairmanship of Sir Thomas Skyrme to review the judicial salary structure introduced in 1985. The sub-committee took oral evidence in Edinburgh and Belfast as well as London. Those who gave evidence to the sub-committee are listed in Appendix C.

12. *Remuneration surveys.* As for previous reviews, the Office of Manpower Economics (OME) carried out on our behalf a survey of remuneration in the private sector at levels of responsibility broadly corresponding to those with which we are concerned in the civil service and the armed forces. Information was collected on salaries, on other forms of cash remuneration, and on pensions and fringe benefits. We also asked the OME to undertake further surveys of earnings of those practising at the Bar, who comprise the main field from which appointments to the Circuit and High Court Benches are made, and the earnings before appointment of those newly appointed to those Benches.

13. *Consultants.* We commissioned Hay Management Consultants to conduct three studies for us. First, we asked them to review the 'job weight' assessments, in respect of senior civil servants and senior officers in the armed forces, which we had arrived at with their assistance for our 1985 report; and we asked them to provide information on the pay of those in the private sector in jobs assessed as being of

broadly equivalent weight. Second, we asked them to advise us on current trends in top pay in the private sector. Third, we asked them to conduct a questionnaire survey of the views of former 'fast-stream' civil servants who had left the civil service in the last three years. About twenty of these subsequently discussed their experiences with us. Our judicial sub-committee also had the assistance of a consultant from PA Personnel Services who had helped the sub-committee in 1985.

Chapter 2

The judiciary

General 14. We commented in our report in 1985 that the considerations involved in setting salaries for the judiciary differed in some ways from those in relation to the other groups with which we were concerned. In the following chapter we address these differences as they apply now.

15. The majority of posts are filled directly by those established in private practice either at the Bar or as solicitors: there is no career structure in the conventional sense. The relationship of judicial salaries to the earnings available in private practice is therefore an important consideration when recommending salary levels. The consequences of failing to establish a proper relationship with outside pay are felt more immediately in the judicial context than in the case of the senior civil servants and senior officers of the armed forces for whom we make recommendations.

16. The range of posts is also more diverse than others within our remit. There are over 60 separate types of appointment spread throughout the United Kingdom, and at present seven salary levels. We regard the appointments of Circuit Judge and High Court Judge as being of particular importance when considering the salary structure for the judiciary as a whole. But the salary structure must be coherent and based upon satisfactory internal relativities, reflecting differences in responsibility and status. As in the past we have looked to our judicial sub-committee for help in ensuring that we have a satisfactory internal ranking of posts for this purpose. We will comment on the outcome of our review of the judicial salary structure after we have considered the evidence generally on recruitment and Bar earnings.

Recruitment 17. We have received evidence on the recruitment position for all the judicial appointments in our remit. We have looked particularly at the recruitment position for appointments in Group 7 in view of the evidence which we have received in support of giving them a relatively higher position in the salary structure. We comment on this later in the chapter. We have also looked closely at the position for Circuit Judges and High Court Judges in view of the signs of recruitment difficulties which we have noted in our reports since 1985. The Lord Chancellor has told us that difficulties over recruitment to the High Court Bench are tolerable at present. He is however concerned that these difficulties might worsen in the future, particularly in view of the gap between a High Court Judge's salary and the previous earnings of those appointed to that office. In contrast he sees recruitment to the Circuit Bench as posing immediate problems. There has been an increase in both the number in post and the complement since 1985 when, at 1 March that year, there were 372 Circuit Judges and a complement of 390, a shortfall of 18. At the same date in 1988 there were 395 in post and a complement of 425, a shortfall of 30. At the same date in 1986 and 1987 there were shortfalls of 39 and 30 respectively. Over the next few years the Lord Chancellor must aim, in view of the rate of retirement, to recruit about 40 Circuit Judges each year. We understand that whilst the reasons given by suitable candidates for declining, or postponing, appointment are not always exclusively financial, it is nevertheless clear that the salaries offered play a major part. However, it has also been put to us that one reason for current recruitment difficulties at this level is the restricted size of the pool of people suitable for appointment.

Surveys of Bar earnings

18. For our review the OME has undertaken a new survey of earnings of those practising at the Bar who comprise the main field from which appointments to the Circuit and High Court Benches are made. The OME has also sought further information on the earnings before appointment of those newly appointed to the Circuit and High Court Benches. Details of both surveys and an analysis of the results are given at Appendix D.

19. The response to the survey of Bar earnings was disappointing and, in common with earlier surveys, questionnaires were returned by only half of those approached. This means that the information has to be treated with considerable caution and can give, at best, only a broad indication of the earnings opportunities available at the Bar to those who might be considered for a judicial appointment. However, the evidence suggests strongly that earnings at the Bar have been increasing at a rate markedly higher than that for the salaries for judicial appointments. In recent years earnings at the Bar have been increasing at an annual rate of 10 to 15 per cent.

20. The new survey of pre-appointment earnings produced replies from 90 per cent of High Court Judges and 62 per cent of Circuit Judges; the results for Circuit Judges may therefore not be entirely representative. The figures show that those accepting High Court Judge appointments experienced a significant drop in earnings. For those appointed as Circuit Judges the position is less clear. Barristers who were Queen's Counsels and solicitors taking up appointment as Circuit Judges also experienced a drop in earnings. There was, however, a wide spread of earnings reported by those previously practising as junior counsel, and rather less than half had earnings in excess of the Circuit Judge's salary.

21. We have obtained fresh advice from the Government Actuary on the value of judicial pension arrangements, net of members' contributions. His report is at Appendix H. The valuations, which range from 27½ per cent of salary for a Metropolitan Magistrate to 32 per cent for a High Court Judge, are each about 3 percentage points below those in his 1985 assessment, adjusted for members' contributions; the reasons for the reductions, which arise from actuarial considerations, are summarised in paragraph 91.

Review of the judicial salary structure

Judicial sub-committee

22. We reconvened our sub-committee under Sir Thomas Skyrme's chairmanship to review the operation of the judicial salary structure as introduced in 1985; this structure had been recommended by us following advice from the sub-committee. The other members of the sub-committee were Andrew Morritt, QC¹ and three co-opted members, Sir Hilary Talbot, a retired High Court and former County Court Judge, the Rt. Hon. Sir Edward Eveleigh, a retired Lord Justice of Appeal and the Rt. Hon. Lord Wheatley, a retired Lord Justice Clerk in Scotland. The sub-committee also had the assistance of the management consultant who had helped in devising the judicial salary structure which we recommended in 1985.

23. We always envisaged that the review of the judicial salary structure would form part of our comprehensive review. We recognised that, as a result of our decision to bring this forward by a year, the sub-committee were being asked to undertake a major task in a much shorter time than was previously planned. They endeavoured to ensure that this did not affect the thoroughness of their review and we would particularly like to thank the co-opted members for the valuable contribution which they made.

24. We asked the sub-committee to suggest what changes, if any, should be made to the overall structure and the position of appointments within it. We also asked the sub-committee to draw our attention to any points or factors, such as problems of recruitment and retention, which they considered merited particular attention when we came to assess salary levels.

¹ Andrew Morritt, QC resigned from the Review Body during the course of the review.

Background 25. The starting point for the salary structure which we recommended in 1985 was a thorough assessment of relative job weight. With advice from a management consultant our sub-committee established and applied a job evaluation system based on an assessment of those factors which were relevant when comparing and discriminating between the wide range of jobs within the judiciary. For each factor a scale was devised to measure the extent to which it was present in, or relevant to, the post under consideration. Some factors were regarded as more important than others and their relative importance was reflected by according a 'weighting' to each factor. Those factors which reflected the jurisdictional content of judicial appointments were regarded as the most important when considering differences between posts but it was recognised that regard had to be given also to other factors. In particular, it was felt that the administrative responsibilities carried by some members of the judiciary were of importance when considering different jobs; and that regard should also be had to the impact of judgments in terms of their overall sensitivity and the consequences they carried for other cases or for the judicial process as a whole.

26. The main objective of assessing job weight in the way described was to assist in giving full and detailed consideration to each post. The results were used as a guide to be set alongside other factors, such as recruitment, the need to produce an acceptable and coherent structure and our judgment of the appropriate relationship between posts. It was decided that it would not be appropriate when examining differentials to take account of differences in the pension arrangements for different judicial appointments.

27. In our reviews in 1986 and 1987 we were reluctant to countenance major changes to the judicial salary structure so soon after its introduction in 1985. We took the view that serious consideration should be given to amending the previous recommendations only in cases where clear evidence could be adduced of new work or jurisdiction, or of points about work and jurisdiction not having been brought out previously, or where significant difficulties of recruitment or retention were emerging or seemed likely to occur. We were mindful that a thorough examination of the judicial salary structure would be undertaken at the time of our next comprehensive review.

28. The allocation of posts within the judicial salary structure introduced in 1985 was however modified slightly in 1986. With the assistance of our sub-committee, we considered representations from a number of judicial groups. We recommended that the Presidents and Members of the Lands Tribunals should be raised within the judicial salary structure (Report No. 23). This was accepted by the Government. We considered a number of further representations from other groups in 1987 but recommended no changes on that occasion.

29. The salary structure introduced in 1985, as modified in 1986, is set out at Appendix E.

Evidence 30. Written evidence was invited from members of the judiciary, from the government departments concerned and from a number of other organisations with an interest in the judiciary. The sub-committee also made themselves available to see those who wished to expand on their views in discussion with them in London, Edinburgh and Belfast. A list of all those who gave evidence is at Appendix C. We are most grateful for all their help.

31. We wish to thank the Lord Chancellor's Department, the Scottish Courts Administration and the Northern Ireland Court Service for their assistance with the review and for providing information about the work of the various judicial posts, the qualifications required, conditions of service including pension arrangements, and the recruitment position. We must emphasise however that the details received about the work of the various judicial posts were not intended as comprehensive and authoritative 'job descriptions'. Assessments have not been based solely upon them. Close regard has also been paid to the detailed information provided by post-holders.

Modifications to the structure

32. In 1985 we recommended a major restructuring of judicial salary relativities and our report necessarily commented in detail on all the appointments involved. On the basis of evidence, written and oral, from nearly every group in the judicial salary structure, and discussions held with senior members of the judiciary on visits to Scotland and Northern Ireland, we are satisfied that the structure introduced then is in the main sound. We wish to recommend little substantial modification to it and we have limited our detailed comments accordingly.

33. **Group 7.** We recalled in our introductory chapter that we were aware last year of possible problems related to the structure of pay of groups within our remit which merited further examination. We said these included concern expressed by some members of the judiciary over gradings and differentials within the simplified salary structure introduced in 1985. Primarily we had in mind the position of Group 7.

34. In their evidence, those holding appointments in this Group have argued that they should have parity with Circuit Judges in Group 6, or be moved appreciably closer in salary terms to that Group. The arguments have included recruitment considerations; job weight; that differences between related appointments in Groups 7 and 6 were minor; historical relativities; and perceptions of the comparative status of various posts.

35. We have looked closely at all of the 14 groups of posts currently included in Group 7. Salary levels must be adequate to attract, where applicable, both solicitors and barristers to the posts involved. The extent of any recruitment problems inevitably varies between appointments but even where there is an adequate supply of candidates in numerical terms it is important to attract those of the quality and experience required. We have also re-examined the previous assessment of job weight, taking full account of any changes in the jobs involved. Inevitably within such a varied group, job weight varies quite widely from post to post. In 1985 we accepted this as the unavoidable consequence of our aim to produce a simplified salary structure. We are satisfied now from the evidence we have received that the salary relativity which has applied to Group 7 as a whole is generally too low on grounds of recruitment needs and the current job weight of most of the posts involved. We consider that a relatively higher salary should be offered to help ensure an adequate supply of those of the right calibre. Although the circumstances of particular posts in Group 7 vary, we continue to regard it as desirable that they remain together in the same broad group, with the single exception of the Registrar of Civil Appeals whose post we discuss below.

36. **Recommendation.** We recommend that, in addition to the general increase which we recommend later in our report, Group 7 should be raised in the salary structure by about 6 per cent. This will have the consequence of reducing the differential between Groups 7 and 6 by a fifth.

37. **London Weighting.** In reaching our decision on Group 7 we have taken account of the payment of London Weighting. Among the judicial posts within our remit this is currently payable to those in Group 7 but not to those in the Groups above them. The rates and boundaries are those which apply to the civil service. London Weighting on this basis was introduced for the judiciary following our recommendation in 1978. In 1987-88 the annual rates were £1,527 in Inner London, £876 in what is known as the Intermediate Area and £641 in Outer London. Payment of London Weighting was withdrawn from civil servants at Grade 3 level on our recommendation in 1985, and we have considered whether it remains appropriate for appointments in Group 7 to continue to receive it. In forming a view, we have looked at the location of the posts concerned. There are about 410 individual post-holders in Group 7 of whom less than a third are in London. On the other hand, about three-quarters of Grade 3 posts in the civil service are in London. This confirms our view that whilst the civil service posts should continue to be seen as London-based and hence ineligible for London Weighting, payment continues to be appropriate for the judicial appointments

concerned. These include the Chief Immigration Appeal Adjudicator and the Immigration Appeal Adjudicators, both new to our remit, which we discuss below.

38. **Registrar of Civil Appeals.** This single appointment was created in 1982 and the salary was fixed administratively at the same level as that for the Registrar of Criminal Appeals, that is, at the same level as for Circuit Judges. However, in evidence in 1985 it was suggested by some who were familiar with the work of the two Registrars of Appeals that this was not appropriate and that the Registrar of Civil Appeals should be paid at a lower level. We supported this view and placed the Registrar of Civil Appeals in Group 7.

39. The Registrar of Civil Appeals is the Head of the Civil Appeals Office. His functions in connection with the business of the Civil Division of the Court of Appeal are partly judicial and partly administrative. In judicial matters, the Registrar takes preliminary applications made before the full hearing of an appeal. He gives directions as to the documents to be produced and the manner in which they are to be presented to the Court of Appeal. In administrative matters, the Registrar is responsible for organising the business of the Civil Division of the Court of Appeal. This includes listing cases for sittings of the Court and deciding how many of the Divisions of the Court should sit with two and three Judges. The Registrar frequently has to act in consultation with the Master of the Rolls who is President of the Civil Division of the Court of Appeal.

40. The qualification for appointment as Registrar of Civil Appeals is to be a practising barrister or solicitor of not less than ten years' standing. The Registrar needs expertise in all aspects of the law, excluding the criminal law but including the law dealt with by certain specialist tribunals; and must have administrative abilities.

41. We have reassessed the job weight of the post and the likely prospects of recruitment to it. Notwithstanding our previous view we are convinced that the role of the Registrar has developed considerably, both administratively and judicially, and that there are sufficient grounds for the appointment to be raised from Group 7 to Group 6.

42. **Recommendation.** We recommend that the Registrar of Civil Appeals should be raised from Group 7 to Group 6.

43. **Immigration appeal appointments.** When considering Groups 6 and 7 of the salary structure we have had to look particularly closely at the immigration appeal appointments. These include the President and Vice-Presidents of the Immigration Appeal Tribunal. They were late additions to the Review Body's remit in 1985. The President was placed in Group 6 and the Vice-Presidents in Group 7. The Review Body has now been asked to include for the first time in its remit the other immigration appeal appointments. These are the Immigration Adjudicators and the Chief Immigration Adjudicator.

44. The Immigration Act, 1971 provides for a two-tier appeals system against decisions taken by the immigration authorities. In general appeals go at first instance to Adjudicators and, if either party is dissatisfied with the outcome, a further appeal lies to the Tribunal. The Tribunal considers whether applications for leave to appeal should be granted. If leave is granted, the Tribunal hears appeals against decisions of the Adjudicators relating to entry to, stay in and removal from the United Kingdom. There is also a line of direct appeal to the Tribunal in a limited number of cases, mainly those related to deportation.

45. The Tribunal consists of the President, or a Vice-President, and two lay Members. The qualification for appointment as President or Vice-President is to be a barrister, advocate or solicitor of not less than seven years' standing. The judicial responsibilities of the President of the Immigration Appeal Tribunal are the same as those of the two Vice-Presidents. However, the President also has overall responsibility for the efficient operation of the Tribunal system.

46. We have considered whether the President and the Vice-Presidents should be placed in the next highest Groups, that is Groups 5 and 6 respectively, in the judicial salary structure. We do not believe that this would be justified. In our view the reduction in the differential between Groups 6 and 7, brought about by raising the salary level for Group 7, as recommended above, will provide appropriate relativities for the appointments involved.

47. In reaching our conclusion we acknowledge that the Tribunal's jurisdiction is exercised in an area of considerable sensitivity which can involve complex issues of both fact and law. The consequences of the judgments reached are also of great significance for the individuals concerned, and can often attract public attention. However, the range of jurisdiction of the Tribunal is limited. In 1985 we saw no strong case for placing the Vice-Presidents at a higher level than the Chairmen of Industrial Tribunals. We remain of this view.

48. This leaves the question of the Adjudicators, of whom 14 are full-time, including the Chief Adjudicator, and 45 part-time. They form the first tier of the appeal procedure. They hear appeals by persons aggrieved at the decisions of the immigration authorities. The Chief Adjudicator is responsible for the work of the Adjudicators as a whole including the allocation of appeals, training and exercising a general management function. He sits regularly as an Adjudicator and hears appeals of particular importance or political significance.

49. As is the case for the Tribunal, the work of the Adjudicators can be sensitive and have a high political profile. Determinations by Adjudicators have become increasingly complex legally as a consequence of the case law arising from decisions of the Tribunal and the higher courts. There is no statutory requirement for Adjudicators to have formal legal qualifications, but the need to interpret increasingly complex law has in practice meant that all recent appointees have been qualified lawyers of some standing. It has been decided that in future all new appointees will be legally qualified.

50. An anomaly over the relationship of the pay of the Adjudicators and the Vice-Presidents arose from the fact that Adjudicators' pay was determined as a fixed percentage of the salary of the President of the Tribunal. When the President and the Vice-Presidents were placed respectively in Groups 6 and 7 of the salary structure in 1985 the pay link for Adjudicators greatly narrowed the differential between the Vice-Presidents and the Adjudicators against whose decisions they hear appeals. In the case of the Chief Adjudicator the differential was reversed. This difficulty was partly resolved on an interim basis and current salaries are as follows: Vice-President £33,500; Chief Adjudicator £33,333; and Adjudicator £29,447.

51. We have considered whether the Adjudicators should be included in the existing Group 7 (currently £33,500) of the salary structure and whether the Chief Adjudicator should be included with the Vice-Presidents and the President in Group 6 (currently £43,500). We do not believe this arrangement would be satisfactory. As we have explained above, we consider that the President should remain in Group 6 and the Vice-Presidents in Group 7 with a pay relativity closer to that for Group 6. We consider that the Chief Adjudicator should also be in Group 7; and that the Adjudicators should be in a new lower Group which recognises the job weight of the posts involved.

52. **Recommendations.** We recommend that the Chief Immigration Adjudicator should be in Group 7 and that the Immigration Adjudicators should be in a new Group 8. Our assessment of the appropriate position for Group 8 in the salary structure will be reflected in the salary levels which we will recommend later in our report.

53. **London Official Referees.** The work of the London Official Referees, normally six in number, is of a specialised nature. The cases concerned are usually lengthy and technical disputes concerning civil engineering contracts which

involve the prolonged examination of documents and schedules, and the assessment of expert evidence. The Courts Act, 1971 provided that Official Referees generally should be Circuit Judges. However, their position differs from that of other Circuit Judges in that Official Referees' business is a branch of the work of the Queen's Bench and Chancery Divisions of the High Court. The London Official Referees devote most of their time to this business and since 1978 have been paid the same salary as Senior Circuit Judges.

54. In 1985 it was suggested that there was a case for placing the London Official Referees at a higher level than most of the other appointments to be included in Group 5. A proposal that they should be ranked at, or near, the level of High Court Judge was based on the argument that they undertook only complex High Court work and should therefore be High Court Judges, or be paid as such. At the time this argument did not seem conclusive as, in comparison with the generality of High Court Judges, the London Official Referees had little appellate work and dealt with a narrower range and variety of law. On job weight grounds also it was difficult to justify placing the London Official Referees higher than others in Group 5.

55. For the current review, substantial evidence has been received which shows that the scale and complexity of the work has increased considerably. Appellate work in particular has shown a marked increase; and whilst the range and variety of law involved is less broad than for some other judicial posts, the Official Referees are required to acquire and develop skills and experience in a highly specialised area of law dealing with issues involving complex technical evidence. Additionally we have been told that the problem of recruitment has become more difficult. We accept that the salary relativity for the London Official Referees should be raised.

56. **Recommendation.** We recommend that the London Official Referees should be raised from Group 5 to a new Group 4a mid-way between the current Groups 5 and 4.

57. **Judges of the Court of Session.** The Court of Session is the supreme civil court in Scotland. The Court is divided into two parts, the Inner House and the Outer House. The Inner House is divided into two Divisions of equal status and authority, each consisting of four Judges. The First Division is presided over by the Lord President and the Second Division by the Lord Justice Clerk. The Court of Session Judges are also the Lords Commissioners of Justiciary and as such are responsible for the criminal work of the High Court and for the work of the Court of Criminal Appeal. Judges normally drawn from the Inner House of the Court of Session hear appeals. The Court of Criminal Appeal is the final appeal court in criminal cases; there is no appeal to the House of Lords.

58. Almost all cases initiated in the Court of Session begin in the Outer House as court of first instance. The appellate jurisdiction of the court is exercised in the Inner House. Any Inner House Judge may sit in the Outer House and an Outer House Judge may make up a quorum in a Division of the Inner House.

59. In 1985 we considered that the Judges of the Court of Session should be paid the same as High Court Judges in England and Wales and therefore be in Group 4 of the salary structure. However, there was concern that the arrangement whereby the Inner House Judges were paid the same as the Outer House Judges might be inconsistent with the position in England and Wales and Northern Ireland. We were aware of the argument that the work of the Inner House Judges corresponded broadly to that of the Lords Justices of Appeal in the rest of the United Kingdom in Group 3 of the salary structure, whereas the work of the Outer House Judges corresponded to that of the High Court Judges.

60. However, evidence was received at the time which in general, while acknowledging the differences in the work involved, was not in favour of separate salary levels for Inner and Outer House Judges. The collegiate character of the

Court of Session was emphasised in this evidence, as was the fact that Judges sit from time to time in both the Inner and Outer Houses, and that Judges move to the Inner House from the Outer House on seniority, not on promotion.

61. We have considered the further views expressed to us on this issue. The previous doubts about the practicality of different salary levels for the Inner and Outer House Judges now appear to be removed whilst the case for a higher salary level for Inner House Judges seems to be supported more strongly. In the light of this shift in view we are persuaded that the Inner House Judges should be treated on a level with Lords Justices of Appeal in England and Wales and in Northern Ireland.

62. **Recommendation.** We recommend that the Inner House Judges of the Court of Session in Scotland should be raised from Group 4 to Group 3.

63. **Lord Justice Clerk.** In recommending that the Inner House Judges should be raised to Group 3 we realise that they would receive the same salary as the Lord Justice Clerk who is currently in that Group. This might be regarded as anomalous in that he presides over one of the two Divisions of the Inner House. However, if he were promoted to Group 2 he would be placed on a level with the Lord President which would also be anomalous in view of the latter's position as head of the whole Supreme Civil Court of Scotland and, as Lord Justice General, Head of the High Court of Justiciary and an Officer of State.

64. On balance we do not consider it appropriate or justified to propose any change in the position of the Lord Justice Clerk or to create a new sub-tier of the salary structure for his appointment. The existing salary differential between Groups 2 and 3 is relatively small (£3,000) and we would be reluctant to introduce a new salary point between the two Groups.

Conclusion and summary of structural recommendations

65. In this section of our report we have recounted the background to the current judicial salary structure. We conclude that the structure is essentially sound, based as it is on an assessment of job weight and the recruitment position. We do not envisage a need for fundamental changes to a structure which has generally worked well. We believe that the changes we recommend will leave the essential form of the structure intact.

66. A summary of our structural recommendations is as follows:

- (i) In addition to the general increase which we recommend later in our report, Group 7 should be raised in the salary structure by about 6 per cent. This will have the consequence of reducing the differential between Groups 7 and 6 by a fifth (paragraph 36).
- (ii) The Registrar of Civil Appeals should be raised from Group 7 to Group 6 (paragraph 42).
- (iii) The Chief Immigration Adjudicator and the Immigration Adjudicators, both new to the Review Body's remit, should be in Group 7 and in a new Group 8 respectively. Our assessment of the appropriate position for Group 8 in the salary structure will be reflected in the salary levels which we will recommend later in our report (paragraph 52).
- (iv) The London Official Referees should be raised from Group 5 to a new Group 4a mid-way between the current Groups 5 and 4 (paragraph 56).
- (v) The Inner House Judges of the Court of Session in Scotland should be raised from Group 4 to Group 3 (paragraph 62).

67. Our revised salary structure is as follows. The order in which posts are listed within each Group, here and in the existing salary structure listed at Appendix E, is not intended as an indication of relative importance or standing within the Group; nor is it related to the individual scores achieved by each post in the process of job evaluation.

Group 1
Lord Chief Justice

Group 2
Lords of Appeal
Master of the Rolls
Lord President of the Court of Session
Lord Chief Justice (Northern Ireland)

Group 3
Lord Justice Clerk
Lords Justices of Appeal
Inner House Judges of the Court of Session
Lords Justices of Appeal (Northern Ireland)
President of the Family Division
Vice-Chancellor

Group 4
High Court Judges
Outer House Judges of the Court of Session
Puisne Judges (Northern Ireland)

Group 4a
London Official Referees

Group 5
Sheriffs Principal
Vice-Chancellor of the County Palatine of Lancaster
Senior Circuit Judges
Recorder of Liverpool
Recorder of Manchester
Recorder of Belfast
Chief Social Security Commissioners (England, Wales and Scotland and Northern Ireland)
Presidents, Industrial Tribunals (England and Wales, Scotland and Northern Ireland)
Judge Advocate General
President, Social Security Appeal Tribunals and Medical Appeal Tribunals (England, Wales and Scotland)
Chairman, Criminal Injuries Compensation Board
Presidents, Lands Tribunals (England and Wales, Scotland and Northern Ireland)

Group 6
Circuit Judges
Sheriffs
County Court Judges (Northern Ireland)
Social Security Commissioners (England, Wales and Scotland and Northern Ireland)
Chairman, Scottish Land Court¹
Registrar of Criminal Appeals
Registrar of Civil Appeals
Chief Metropolitan Magistrate
Senior and Chief Masters and Registrars
Master, Court of Protection
Chairman, Foreign Compensation Commission
Regional Chairmen, Industrial Tribunals (England and Wales and Scotland)
Judge Advocate of the Fleet
Vice-Judge Advocate General
President, Value Added Tax Tribunals
President, Immigration Appeal Tribunal
Presiding Special Commissioner of Income Tax
President, Social Security Appeal Tribunals and Medical Appeal Tribunals (Northern Ireland)
Regional Chairmen, Social Security Appeal Tribunals and Medical Appeal Tribunals
Members, Lands Tribunals (England and Wales, Scotland and Northern Ireland)

¹Paid as if in Group 5 when the post is combined with that of President, Lands Tribunal (Scotland).

Group 7

Chairmen, Industrial Tribunals (England and Wales, Scotland and Northern Ireland)

Metropolitan Magistrates

Provincial Stipendiary Magistrates

Resident Magistrates (Northern Ireland)

Masters and Registrars of the Supreme Court

Masters of the Supreme Court (Northern Ireland)

County Court Registrars and District Registrars of the High Court

Circuit Registrars (Northern Ireland)

President, Pensions Appeal Tribunal

Vice-Presidents, Immigration Appeal Tribunal

Chief Immigration Adjudicator

Vice-President (Scotland) and Chairmen, Value Added Tax Tribunals

Chairmen, Social Security Appeal Tribunals and Medical Appeal Tribunals

Special Commissioners of Income Tax

Group 8

Immigration Adjudicators

68. We consider and make recommendations on the salary levels for this structure in the final chapter of our report.

Chapter 3

The civil service

General 69. In 1985 we commented that the higher civil service was a relatively closed structure with direct recruitment very much the exception. We said that the skills needed to operate effectively at the most senior levels required a background of training and experience in government service; and that while individuals with ability from other walks of life could make a valuable contribution to public administration, the quality of the higher civil service depended upon the quality of those who had made a career in the service.

70. Our objective continues to be to recommend salary levels which are adequate to ensure a sufficient supply, primarily from within the service, of people with the necessary abilities and motivation to fill the senior posts within our remit. We must assess information on recruitment and retention in this context, looking both at the position at the top and at the supply of able people at lower levels who will be needed to fill future vacancies at the most senior levels. We have expressed concern in our recent reports about the loss of such younger people from the civil service and have paid particular attention to this point in this review when assessing information on recruitment and retention.

71. The character of the civil service as a career service also has a bearing on another key feature of our review. This is the extent to which outside pay comparisons are currently relevant. The Government has been prone to argue that such comparisons are either irrelevant, or of marginal relevance, and that the only significant criterion for assessing the correct level of pay for senior civil servants, and indeed for many others in the public sector, is the ability to recruit and retain. We accept that this is an important criterion. However, it cannot be readily applied in a direct way to the people at the top of a career service. Those at the top of such a service do not characteristically expect to reach these levels until after the age at which people can normally plan with financial advantage to make a change to a different and largely unrelated type of career. We must therefore look at retention trends for less senior staff from among whom in due course the top jobs will be filled. The factors which will influence their decisions when they consider if they should leave include the pay of analogous managers at their own level and at top levels in the private sector and whether by comparison their own pay and that at senior levels within the service seem adequate. It is in our view significant that the relevance of information about outside pay levels and increases has now been formally recognised by the Government, for more junior grades in the civil service, in its recent long-term pay agreements with the Institution of Professional Civil Servants and with the Inland Revenue Staff Federation.

Recruitment, retention and motivation 72. We have obtained comprehensive manning information covering such direct recruitment as has occurred at the senior levels in our remit, and on the retention of senior civil servants; and also on recruitment and retention at lower levels including the people who may be expected in the future to fill the most senior posts.

73. The evidence presented to us indicated that generally there were no difficulties in filling posts with suitable internal candidates, and in retaining staff at the levels in our remit. However, we were told by the Civil Service Commission that there had been difficulties in recruiting external candidates from the private sector to the small number of posts advertised at this level without offering improvements to the standard civil service pay or pension conditions. We were

given the results of recruitment exercises to fill nine vacancies in 1987. Four posts in the event were filled by in-service candidates. The other five posts were filled by external candidates: of these, two were appointed on standard salaries, one of them receiving an enhanced pension arrangement; the other three were appointed at higher than standard starting salaries.

74. The evidence from the Civil Service Commission also indicated some difficulties in recruitment to the basic 'fast-stream' grade. In 1985, 63 of the 72 vacancies were filled, or 88 per cent of the total. In 1986, 78 of the 88 vacancies were filled, or 89 per cent of the total. But in 1987 this fell to 80 per cent, with 70 of the 88 vacancies filled. The reasons given by successful candidates who subsequently turned down appointments included uncompetitive salary and the poor image of the civil service. It is a matter for judgment how far levels of pay available at the top of the civil service influence recruitment of fast-stream staff at the basic level. However, we continue to take the view that there is some connection between perceptions of the attractiveness of the civil service as a career and both the reward opportunities available at the top and the regard in which it is held. We see this connection growing in significance as fast-stream staff advance in their careers, especially when they reach Grade 7 (Principal) and Grade 5 (Assistant Secretary).

75. In response to shortages of good quality staff at Grade 7 level in a number of departments, the Civil Service Commission has run an open competition for direct entry fast-stream staff at this grade. Departments bid for 79 candidates. In total, 70 candidates were declared successful, of whom 26 were from an education or local government background, 7 were from within the civil service, 4 were from the armed forces and the other 33, less than half the total, were from elsewhere, mainly industry and commerce. The Commission told us that it would have liked far more good candidates from industry and commerce. It will be some time before it is known how many successful candidates take up appointment, and the latest information available to us at the end of March is that four are known to have declined.

76. We have examined evidence about the wastage of fast-stream staff from the civil service generally. Across the civil service as a whole the loss of such staff, in absolute terms and as a percentage of the total in a particular grade, appears not yet to raise serious problems. Centrally collected information shows that in 1986, the most recent year for which reliable information is available, 1.5 per cent of fast-stream staff in Grade 5 and 2.5 per cent in Grade 7 were known to have resigned. We have no firm evidence to show that the position has changed since then. We recognise that in private sector companies proportionately larger numbers of comparable high quality staff than in the civil service may change their jobs. This is however part of the pattern of two-way movement of staff which is a common and healthy feature of work in the private sector and confirms that the labour market involved is working adequately. The civil service is not part of such a labour market, and there is no analogous external pool of skilled and experienced staff, available to be recruited to fill posts at all levels. In a career service, loss of the best staff can normally be made good only in the long-term through recruitment at the basic entry grade. This is particularly so as regards the central core of policy work where most senior posts are located. Our expectation is that whatever organisational changes may occur as a result of the Government's intention to develop 'agencies', to which we refer later, most staff destined for these senior posts will continue to be recruited at the basic grades and promoted through the system. The qualified success of the recent open competition at Grade 7 level for fast-stream staff illustrates the difficulty of making good losses in the short-term.

77. Losses of fast-stream staff do not fall evenly between departments. Some departments, including the Treasury, the Department of Trade and Industry (DTI), the Ministry of Defence (MOD) and the Department of Health and Social Security (DHSS) have experienced more significant losses, often but not exclusively to the private sector. For example, in 1987 the Treasury had 98 staff in post at Grade 7 and 55 at Grade 5 classified as fast-stream; losses of such staff over the three years 1985, 1986 and 1987 totalled 30 Grade 7s and eight Grade 5s. Over

the same period, comparable losses from the DTI were eleven Grade 7s and the same number of Grade 5s; this compares with 129 Grade 7s and 76 Grade 5s in post in 1987. It is also evident that some of those who left were among the most able fast-stream staff. Of the eight Grade 5s who left the Treasury three had been assessed as having the potential to reach at least Grade 2. Of the eleven Grade 5s who left the DTI, eight were regarded as promotable then or later to Grade 3 and three were regarded as having the potential to reach at least Grade 2. MOD and DHSS also confirmed that those leaving included some of the very best staff, some with specialist skills which would be hard to replace.

78. To gain a more complete picture, we commissioned Hay Management Consultants to conduct a survey, using questionnaires, of about 70 fast-stream staff, the majority of them below Grade 3 level, who had left these four departments in the last three years. There was a very high response rate. As we had expected a variety of reasons was given for leaving the civil service.

79. A common theme was that fast-stream entrants to the civil service joined with a set of values, relating to government service, and with expectations of being involved in policy issues of national importance, and of being stretched and challenged in contributing to the associated debate and decision making process. Generally their expectations were realised in their early civil service experience. But on promotion to middle management many felt that their career development lost momentum, sometimes as a result of what they believed to be poor career management. By that stage they saw themselves as having reached a level of competence, maturity and self-confidence, which was insufficiently recognised; and of having more to offer than was demanded of them. A majority of those questioned were also concerned about what they saw as a lack of career prospects, including a lack of opportunities for promotion due to a reduction in the number of posts at senior levels approaching 20 per cent since 1979.

80. Another common theme was a feeling of being undervalued by both the Government and the public following a deterioration in the standing of the civil service; and a majority mentioned this deterioration, reflected to some extent in low and uncompetitive pay, as their main reason for leaving the civil service. They were understandably concerned mainly with their own level of pay at the time they left. But many also took into account pay prospects at more senior levels.

81. About twenty of those who completed the questionnaire subsequently agreed to discuss their experiences with us. We were thus able to explore many of the issues more thoroughly. We also discussed the matter with senior management in the departments concerned, who told us that they were aware of problems emerging now which could lead in the next decade to there being insufficient staff of the right calibre available for promotion to Grade 3 and above. In one case the career planning system had already identified specific posts for which, as a result of staff losses, there seemed little prospect that there would be enough suitable candidates.

82. These findings naturally provide grounds for concern. We have sought to put this concern in perspective by endeavouring to form as clear a view as possible of the state of morale and motivation in the service generally in the course of taking evidence and of making departmental visits.

83. In 1985 we had found a disturbing picture. Morale, if not commitment and motivation, appeared to be at a low ebb. Since then a number of managerial initiatives have been taken which cumulatively might have been expected to improve morale and motivation. The Financial Management Initiative has begun to change the way in which the civil service conducts its business. A greater emphasis has been placed on the delegation of responsibility and of freedom to act; on individual accountability and performance; on the need to recognise, encourage and reward good performance. The Government's recent announcement about the creation of 'agencies' to carry out many of the executive functions of government gave notice that it intends to go further down this road. We welcome these developments which should have a beneficial effect on morale.

While there may have been some improvement in morale at the top of the civil service, partly as a result of these initiatives and of the implementation of our 1985 recommendations, it is evident that the position is not wholly satisfactory.

84. At lower levels we have to say that morale seems to us much more unsatisfactory, particularly at Grades 5 and 7, which are the lower grades of most immediate concern to us. The problem is most marked among good quality fast-stream staff in these grades who, as already noted, are those most prone to leave. Concern about pay is by no means the only reason and other factors include poor career management and the feeling that the work of the civil service is undervalued by ministers and the general public. Perhaps the most important single reason is the diminished prospect of promotion. That said we have found a widespread perception that civil service pay has been held down too long and that, in consequence, current pay levels for these grades are too low. Concern has been expressed by many individuals about the difficulties faced in affording or maintaining a reasonable standard of living, taking account of the demanding and responsible nature of their jobs. Their duties to ministers often involve long and late hours of work linked for example to sittings of Parliament. Staff also take account, in their view not unrealistically, of the experience of their contemporaries in the private sector. The concern centres on the cost of living in London, where most fast-stream staff spend most of their careers, and where the problem of buying somewhere to live, of an acceptable standard within reasonable distance of their jobs, is becoming increasingly acute, especially for first-time buyers. Senior management confirm the problems voiced by these staff which they believe will increase the difficulties of recruitment and retention.

Outside comparisons

85. We turn now to the question of outside comparisons. As we comment earlier, we had serious doubts last year about the extent to which pay increases for outside groups should influence our judgment. In addition therefore to considering surveys of outside pay prepared for us by the OME and by Hay Management Consultants, we also asked Hay to conduct a broader survey of trends in remuneration at top levels in the private sector with particular regard to the pressures influencing change.

86. For our review the OME undertook a fresh survey of the remuneration of senior management in the private sector including, on this occasion, pensions and fringe benefits. The results are at Appendix G.

87. The OME survey of remuneration shows that, among non-financial companies, basic salaries increased between October 1986 and October 1987 by an average of 10.6 per cent, and salary plus bonus by 11.6 per cent. These increases, as well as the tendency for pay at Board level to increase by more than that of senior executives not on the Board, were much in line with the results of surveys in previous years. In financial institutions, however, the surveys this year and last both show that pay has risen more rapidly than in previous years and more rapidly than in the rest of industry and commerce.

88. The survey of fringe benefits shows that the provision of a company car is now almost universal and remains a valuable benefit, even though the effect of tax changes announced in the 1988 Budget is to reduce the value of the benefit. We estimate that the value of fringe benefits is now equivalent to some 6 to 7 per cent of salary plus bonus in non-financial companies, compared with the estimate of 8 per cent quoted in our 1985 report, although benefits provided for senior executives in financial companies are worth over 10 per cent. These estimates do not include any valuation of the worth of share option schemes, although the survey confirms that such schemes are now widespread at senior levels.

89. We also asked the Government Actuary to prepare a fresh evaluation of pensions benefits for those members of the civil service, armed forces and the judiciary falling within our remit and for senior management in the private sector covered in the OME survey of remuneration and benefits. Valuations for the judiciary and the armed forces are summarised in paragraphs 21 and 118 respectively.

90. The Government Actuary's report is at Appendix H. It expresses the value of pensions benefits as the percentage of salary which would fund those benefits under actuarial assumptions, less any contributions made by the employee. On this basis, the report shows pension benefits to be worth between 24½ per cent of salary for a Grade 3 civil servant and 31 per cent at Grade 1; these valuations are between 1 and 2½ percentage points below those provided in the Government Actuary's 1985 report, adjusted for members' contributions. Valuations for senior management in the private sector vary widely with company size, job weight and salary; but each of the valuations given in the report shows an increase compared with 1985, generally of between 3 and 6 percentage points. It is very difficult to make comparisons between the values of public and private sector schemes, amongst other things because private sector schemes vary so widely. However, as noted above the report shows that the value of public sector pensions has been reduced since 1985 and that of private sector schemes has been increased. The relative advantage offered by public sector schemes has diminished since 1985 and in some cases has disappeared.

91. The changes in pension valuations for the remit groups and for the private sector arise in the main from the following factors. The economic assumptions show improved prospects of real returns on pension fund investments; for both public and private sectors, this reduces the estimated contribution rates necessary to secure the pension benefits. This reduction has been completely offset for the private sector groups by steeper salary scales, an increase in the extent to which it is assumed that pension increases will match increases in the cost of living, and also, in some schemes, by a reduction in the pension age prescribed in the scheme rules.

92. We have looked again at job evaluation, and asked Hay Management Consultants to check the comparisons which they made for our report in 1985. They confirmed that the job weight of senior posts in the civil service has not changed significantly. They also confirmed the findings of the OME survey that remuneration in the private sector had increased faster than in the civil service at analogous senior levels.

93. The Council of Civil Service Unions in its evidence to us drew heavily on outside pay comparisons whilst recognising that the pay of senior civil servants need not reach the highest levels in the private sector. The Council referred to changes in the work of civil servants and important new requirements including a much greater emphasis on managerial skills. In its view senior civil servants working at top levels have had to take on functions which are more comparable to those prevailing in the private sector and as a result they are now subject to many of the pressures and responsibilities of their private sector colleagues.

94. In our report in 1985 we said that we did not consider that comparative information could be used in a mechanistic way to determine salaries, particularly at the levels with which we are concerned. There is considerable scope for interpretation as to what might constitute 'comparable' rates of remuneration for the grades within our remit. There are also inherent difficulties in pay comparisons based on job evaluation in view, for example, of the differences which continue to exist between most jobs in the public sector, including the civil service, and those in the private sector.

95. It is clear from all the evidence which we have received that widely differing views exist on the relevance of outside pay comparisons. Moreover, as we recalled in our introductory chapter we found last year that it was peculiarly difficult to assess the significance of recent trends in remuneration at top levels in the private sector. Accordingly, we commissioned Hay Management Consultants to report to us on this and particularly on the pressures influencing change. They carried out a survey based on interviews with Chairmen, Chief Executives or Group Personnel Directors in 23 major companies representative of most large organisations in the private sector.

96. The survey recalled that throughout the 1970s and into the early 1980s salary differentials became compressed. In recent years, top managers have however largely recovered the relative position they enjoyed at the beginning of the 1970s. At the same time total cash remuneration has increased more rapidly than base salaries. Share options have often become a fundamental part of top managers' rewards. Even when they are disregarded, benefit packages, if pension arrangements are included, have become a more significant portion of remuneration.

97. Nevertheless, the survey showed much greater flexibility in pay arrangements and declining interest in the principle of pay differentials within many companies, with some readiness in particular circumstances to accept that a subordinate, after taking account of bonuses, could earn more than his superior. As to attitudes among shop floor workers, there seemed to be an acceptance of the value of the role played by top managers in successful companies and the corresponding rewards they received.

98. When examining the factors affecting the level and structure of top remuneration the survey found that in many of the most successful companies there was now a belief in the vital importance of the individual contributor. A few individuals were seen as accountable for the future of the enterprise and able personally to make the difference between success and failure. This in turn was of prime importance in driving up remuneration levels as companies believed that pay had to be competitive to attract and keep top calibre people, who were often the target of head-hunting by executive search agencies. A further factor driving up remuneration was a much sharper focus on performance, with remuneration packages, which normally included an annual incentive bonus, designed to achieve corporate objectives. This process has been reinforced by the reduction of layers of management in recent years, leading to greater accountability of the remaining jobs; it had thus become easier to attach personal objectives to them and to reward individuals according to their achievement. Finally, the survey found that the growing internationalism of business may have encouraged British managers to have higher aspirations for their own pay. As yet, however, this particular pressure was confined largely to the oil, finance and a few service industries.

99. The survey emphasised that the upward movement in remuneration had brought casualties with it. Some managers lost their jobs or took early retirement because they were considered to have failed, whilst others were similarly affected following organisational change. The elimination of management layers is an important element in all the changes, and the survey concludes that a lower degree of job security now attaches to employment at senior levels in the private sector.

100. We agree generally with the findings of the survey, which support our own experience and impressions. In particular, we recognise that higher pay and wider differentials in the private sector have been accompanied by greater flexibility and overlap of pay between managers at different levels. Further, we believe that the importance attached to attracting and retaining top calibre people is of great significance both to the success of many enterprises and in driving up remuneration levels, as is the greater accountability which is demanded and the rewarding of individuals according to their performance. And we have no doubt that for the smaller number of senior managers enjoying greater rewards, their jobs are less secure.

101. Most senior civil servants have seen their personal accountability increased in the last decade but neither the degree of this increase nor the consequences of failure have matched the changes in the private sector. We consider the consequences for salary levels in more detail in Chapter 5. We turn now to some structural issues.

**Differentials between
Permanent Secretaries**

102. In our 1985 report we recommended a greater differentiation in the pay of Permanent Secretaries to reflect differences in job weight. At that time the Secretary of the Cabinet who was also (and remains) the Head of the Civil Service,

and the Permanent Secretary of the Treasury, both received a pay lead over the generality of Permanent Secretaries. There were also Second Permanent Secretary posts which carried a lower salary than for Permanent Secretaries generally. There were therefore three salary levels. We recommended two additional levels of salary, to pay the Head of the Civil Service more than any other civil servant and to distinguish the Permanent Secretaries of three departments, the Ministry of Defence, the Home Office and the Department of Health and Social Security, whose jobs were especially heavy. The Government accepted the first of these proposals, but not the second. We have not pursued this further in the current review.

Other differentials 103. Most promotions to Grade 3 are made from staff in Grade 5 (Assistant Secretary). In the 1987-88 pay year the differential between the normally attainable maximum pay points of the two grades was 31 per cent; with London Weighting, which is payable to Grade 5s but not to Grade 3s, the differential was 24 per cent. A small but increasing number of Grade 3s are also promoted from Grade 4, to whom London Weighting is payable. In 1987-88 the differentials between the normally attainable maximum pay points for Grades 4 and 3 respectively were 16 per cent without London Weighting and 11 per cent with it. Smaller differentials existed between the top of the normal scales for Grades 5 and 4 and the first point on the scale for Grade 3. No agreement has yet been reached on what increase might be paid to Grades 5 and 4 for 1988-89 but we consider it important that adequate differentials are maintained between the grades in our remit and those immediately below them. Under interim arrangements introduced last Autumn a performance related pay point has been added to the scales for Grades 5 and 4. A Grade 4 paid on the performance point and receiving London Weighting would now be paid more than a Grade 3 on the first point of the scale. However, we are prepared to accept such overlap as part of the development of performance pay systems.

Range pay for Grades 2 and 3 104. In our 1985 report we recommended the introduction of salary ranges for Grades 2 and 3 (Deputy and Under Secretaries), with specified salary points within each range, in order to introduce more flexibility into the pay arrangements for senior civil servants. We proposed that progress through the lower part of each range should ordinarily be related to length of service, to reflect growing proficiency, up to a point which should be regarded as the normally attainable maximum, but that beyond that point progress should be discretionary and subject both to strict criteria and to the restriction that not more than 25 per cent of those in each grade should be admitted to the discretionary part of the range. Our main aim was to ensure that the pay system encouraged, recognised and rewarded sustained high performance. We saw discretionary pay points, which would provide a direct link between pay and performance, primarily as a means to this end. However, we also envisaged that management might take some account of job weight, as there are significant differences between jobs within each of these two grades; and that discretionary points might be used to meet particular manning needs, such as the ability to recruit an individual with scarce skills or experience from outside the civil service. In putting forward the proposals we had very much in mind the need for the pay system to develop in a way which would reflect and support the changing role of senior management within the service and the increasing emphasis on accountability for the efficient and effective use of resources.

105. These proposals were accepted in principle by the Government and a scheme, detailed in Appendix F, closely in accord with the arrangements we had in mind, was introduced with effect from October 1987. Analogous performance related pay arrangements have since been introduced, or are in prospect, elsewhere in the civil service. An interim scheme for Grades 4-7 was brought into effect last Autumn; and more permanent arrangements are being worked out in consultation with staff interests. New pay arrangements agreed with the Institution of Professional Civil Servants provide for discretionary range points to be used as from April this year to reward performance. Similar arrangements have been

agreed with the Inland Revenue Staff Federation and will be brought into operation in April next year. We are encouraged by these developments which have strengthened the link between pay and performance at many levels in the civil service.

106. Looking ahead we have no doubt that it will be necessary to adapt these arrangements in the light of experience, particularly at senior levels, and to take account of continuing changes in the role of management in the civil service. These changes are exemplified by the Prime Minister's recent announcement, which we mention earlier, that to the greatest extent practicable the executive functions of government, as distinct from policy advice, should be carried out by 'agencies', with responsibility for the day to day operations of each agency delegated to a chief executive.

107. We believe that the arrangements for Grades 2 and 3 will need to evolve in ways which will enable the pay of individuals to be determined more flexibly. We have several possibilities in mind. The entire range of pay points for each grade might be discretionary so that there would be no normal expectation of progression to a certain point in the range. The maximum proportion, currently restricted to 25 per cent, of each grade on what are now the discretionary points might be increased. One or two additional points might be added to each range, even if this implied that a few Grade 3s were paid more than some Grade 2s. Greater use might be made of accelerated progression through each range. Such changes, taken together, would enable top management to hold back the pay increases of poor performers; to reward a greater number of high performers; and to reward the highest performers more quickly and more generously. Although performance would still remain the primary criterion for progression through each range, the criteria might be widened to enable greater account to be taken of job weight. Lastly, personal pay points could be used to assist with recruitment problems.

108. We do not, however, wish to recommend any such changes on this occasion. The present discretionary arrangements have only just been brought into operation; and as yet no information is available to us on how they are working in practice. Nor would it be sensible for us to put forward proposals without first obtaining the views of the Government and staff interests. In particular, we need to explore how a more flexible system might best be managed and monitored in order to ensure that it is fairly operated and costs properly controlled. Accordingly, we propose to return to this issue in our next report and will be asking both the Government and the staff interests for their assessments of progress and their views as to how the present scheme should be developed. Meanwhile, having last year increased the discretionary range points rather more than the normal range points, we do not propose any further such relative adjustment this year.

Chapter 4

The armed forces

General 109. Our general approach when considering the salaries for senior officers in the armed forces is similar to that for the higher civil service. In brief, we have taken particular account of trends in retention and recruitment and motivation; whether differentials are satisfactory; and the regard that should be paid to outside comparisons.

110. The introduction of performance pay for the civil service, which we recommended in our 1985 review and is now becoming operational, is discussed in the previous chapter. This is a major development which we expect to have an increasing influence on the pay of senior civil servants. We did not recommend similar arrangements for the armed forces as there was in our view a less pressing case for change of this kind in the pay structure. On this occasion also we make no recommendations for performance pay in the armed forces. However, we consider the matter further below when discussing links with the civil service, and shall expect to return to this question in our next report.

Recruitment and retention 111. We have discussed earlier the difficulties of applying recruitment and retention as factors in a lifetime career public service such as the civil service. These difficulties are even sharper in the senior ranks of the armed forces where, unlike the civil service, not even a small number of posts is normally filled through the recruitment of external candidates. We have however studied the recruitment and retention position among officers at more junior ranks, which include those who in future can expect to fill the most senior posts, and of retention among senior officers. Together these form the basis for our assessment.

112. First, we consider retention. A significant difference between service and civilian life is that senior officers retire at a relatively young age after serving in a succession of appointments which do not normally last more than 2–3 years. The ages at which retirement normally occurs are 55 for two star officers, 57 for three star and 58–60 for four star. For all other officers, the normal retirement age is 55, but they can volunteer to retire prematurely with a pension after they have reached the age of 38 and completed 16 years of service. They may do so for a variety of reasons, including the attractions of a second career, the prospect of a more stable family life which usually accompanies a civilian job, or perceptions of reduced career opportunities within the services. Many officers retire early if a job is available as the prospects are often better than if they wait till normal retirement age.

113. We have looked carefully at information about applications from officers at senior level for voluntary retirement but there is little evidence of any widespread retention problems. The same is true for officers as a whole, including those just below the level in our remit. In the course of visits we made to all the services separately, we were however made aware of some areas of actual or potential difficulty. The competition for officers with high levels of technical skill is often strong, and many are able to find well paid jobs in civilian life without difficulty; in some cases they are head-hunted by employers. A further feature is the greater willingness of successful officers in their late 20s or 30s to contemplate a new career on the strength of their service record. More generally, the Army has told us that there is a current outflow of 600 officers a year at all ranks through early voluntary retirement, which is 100 too many to maintain its establishment.

114. As to recruitment, the position appears to be broadly satisfactory, but no firm conclusions can be drawn from the evidence about the supply of those with the potential to reach the highest ranks. Looking ahead, comment has been made to us on the sharp decline, resulting from demographic changes, in the numbers of young people entering the employment market in the next few years. In common with other employers, the armed forces will then experience keener competition in recruiting all their personnel.

Morale and motivation

115. In visits we have made to services' establishments and to the Ministry of Defence, we have aimed to form a view on the state of morale and motivation. It was clear to us that members of the armed forces felt, unlike many civil servants, that their work was valued by ministers and held in high esteem by the public. We are in no doubt that this high degree of morale is underpinned by the existence of independent machinery for determining armed forces pay at all levels. The present position cannot however be taken for granted and it was put to us that successive generations of officers appear to be increasingly motivated by financial considerations. They are no less professional in their approach to their work, but are more likely to leave the services prematurely if they do not find job satisfaction and reasonable conditions of service. Thus, pay is increasingly important to recruitment, morale and motivation.

116. We are also aware that morale and motivation are affected by wider considerations about life in the armed forces compared with civilian life. A service career necessarily involves a high degree of turbulence, bringing with it frequent moves at short notice and separation from family and friends. Problems may be caused over the education of children, jobs for spouses and other dependants, and the purchase of housing. These problems, which may have increased in recent years as a result of measures taken to concentrate service manpower in the front line, are not necessarily best addressed through pay. The provision of allowances or other management action must also be considered. If, however, the problems, of which we know senior management are aware, remain unresolved, they could lead to severe manning difficulties.

Outside comparisons

117. In the course of visits, we were told that the best officers had now become much more aware of their market value. When dealing with outside industry as for example in the Procurement Executive of the Ministry of Defence, they were able to make detailed assessments of how they might improve their earnings and other benefits if they took very similar work in the private sector. The introduction of improved management systems in government has emphasised the common ground. Nevertheless there are factors underlying the increases in pay of top managers in the private sector which are not matched in the public sector, including a greater degree of job risk. We have already discussed the relevance of outside pay comparisons for the public sector in the context of civil service pay, and the consequences for salary levels are considered in the next chapter.

118. We have obtained fresh evidence from the Government Actuary on the value of pension benefits provided to senior officers in the armed forces. The relatively early retirement of these officers compared with civil servants is reflected in the pension evaluations. We consider that this early retirement can be seen either as an advantage or a disadvantage. Accordingly, we have asked the Government Actuary to prepare alternative assessments based on differing assumptions; these are set out in his report at Appendix H. Assessments provided on the same basis as in 1985 show reductions of up to 4½ percentage points in the value of armed forces pensions; the reasons for these reductions, which derive in the main from actuarial considerations, are summarised in paragraph 91.

Differentials

119. We have received much evidence on the differential between two star and one star officers, respectively the lowest rank covered by us and the highest by the Review Body on Armed Forces Pay. In 1985 the differential was increased to 15.6 per cent but it has now fallen to 8.5 per cent. Over recent years the differential has fluctuated considerably, as shown at Appendix I.

120. The current differential is felt by many officers to be inadequate. A small differential is seen as inappropriate to mark a key promotion in the career structure which will often entail a substantial increase in responsibility. The promotion may moreover be accompanied by a loss of allowances as in the RAF where the differential may be narrowed by the loss of flying pay. In command posts there is felt to be a further financial disincentive in that many officers believe that there are necessary and unavoidable expenses connected with their duties which are not fully reimbursed so that they may be worse off on promotion. Although there is no apparent shortage of suitable one star officers for promotion, there are fears that some may be deterred from seeking promotion by the small differential or may alternatively leave the services for a civilian job earlier than they would otherwise have done. The view of senior management is that a differential of about 15 per cent would be appropriate.

121. We accept that a strong case exists for increasing the differential. It cannot however be considered in isolation from the broader question of pay links with the civil service which we discuss below.

Existing pay links

122. There are links between all the military ranks in our remit and a civil service grade: at five star level with the Head of the Civil Service, at four star with a Permanent Secretary, and at three and two star with Grade 2s and 3s respectively on their normally attainable maximum incremental points. The basis for these links is well understood. In the Ministry of Defence, senior officers and civil servants work alongside each other and many jobs are inter-changeable between them. A job evaluation study completed in 1985, and which we have had updated for this review, showed no evidence of appreciable difference in job weight between the two groups at two and three star levels, although inevitably the comparison cannot be exact.

123. The views of officers with whom we discussed the links are varied. Most recognised their value for personnel working in the Ministry of Defence, but were less clear about their relevance to officers in, for example, command posts which call for a different mix of skills and experience. Other factors which were discussed with us as raising possible doubts about the links included the arrangements for earlier retirement for officers than for civil servants, and whether the more favourable pension scheme for the armed forces should be seen as a benefit or as a compensation for the loss of several years' salary; the different ages at which civil servants and officers might expect to be promoted to linked posts; and the different allowances, including London Pay, to which officers may be entitled. Many officers believed that the differential between one star and two star officers should be enlarged, even if it meant breaking the link with Grade 3s in the civil service.

124. Senior management in the Ministry of Defence see it as undesirable to break the existing links. They believe that it would complicate the management of the Ministry as a whole and inhibit developments towards a greater degree of selection of the best person for the job. Below the level of our remit, military and civil service colleagues are already remunerated in different ways; if at the most senior levels those working alongside each other on similar jobs and with similar responsibility were seen to be valued differently, the morale of either group would be significantly affected. The Government has told us that it believes the primary principle to be that these personnel should be paid on the basis of the jobs which they do.

125. We have looked with particular care at this question, and concluded that on balance the existing link between two star officers and Grade 3 civil servants should be maintained for this year despite the likely effect on the differential between two star and one star officers. Before reaching this view, we considered for example whether the link should be changed from the present point in the Grade 3 salary structure to the first discretionary point; or whether two star officers should have a two point incremental scale based perhaps on the existing link and the first discretionary point. In deciding against either of these possibilities, we were strongly influenced by considerations about the management of the Ministry of Defence as a whole and by developments over discretionary pay. As we have

already explained, the present discretionary arrangements in the civil service have only just been brought into operation and we shall return to the issue in our next report when we have assessments of progress and views on how the scheme should be developed. For that report we shall also ask for views on whether the scheme should influence the pay structure for two and three star officers, bearing in mind the importance attached both to widening the differential between one and two star officers and to maintaining links between officers and civil servants when working alongside each other on similar jobs.

London Pay 126. Officers up to two star rank, but not above, receive London Pay at an Inner London rate of £1,060 per annum for house owners and £699 for those who are not. For house owners, the payment is intended to compensate for higher housing costs, but excludes travel to work costs which are separately reimbursed. For non-house owners, housing costs are excluded because personnel have access to service accommodation for which charges are standard throughout the country.

127. Payment of London Weighting (now £1,527 per annum in Inner London) was withdrawn from civil servants at Grade 3 level on our recommendation in 1985, and we have considered whether it remains appropriate for two star officers to continue to receive London Pay. In forming a view, we have looked at the location of the posts concerned. Less than half of the posts for two star officers are based in London, and they commonly move between postings. On the other hand, about three out of four Grade 3 posts are in London, and Grade 3s usually spend by far the greater part of their time in London. This confirms our view that the civil service posts should continue to be seen as London-based and hence ineligible for London Weighting, whilst London Pay as a reimbursement allowance should continue to be appropriate for the armed forces' posts. We are aware that there are developments in the concept of regional pay, but no evidence has been put to us on this subject and we have no grounds to believe that it would now be relevant to posts at senior levels.

Chapter 5

Conclusions and recommendations

Conclusions 128. In the course of this review we have examined the levels of pay for the groups within our terms of reference and questions relating to structure and pay systems. We have already described the evidence and our main findings about these questions in the previous chapters. We summarise them briefly below for each group separately before turning to our recommendations on levels.

129. For the judiciary, we recommended major changes in 1985 which led to a simplification of the structure and a reduction from ten to seven in the number of groups. We have looked carefully at this structure and with our judicial sub-committee taken evidence from members of the judiciary, government departments and other interested organisations. In the light of this, we are satisfied that the structure is in the main sound and that few modifications are required. Those we recommend are as follows. We were asked to include within our remit for the first time the posts of Immigration Adjudicators and the Chief Immigration Adjudicator, and we recommend that they should be placed respectively in a new Group 8 and in Group 7. As to Group 7, we recommend that it should be raised in the salary structure with the consequence that the differential between Groups 7 and 6 would be reduced by a fifth; and that the single post of Registrar of Civil Appeals should be raised from Group 7 to Group 6. We recommend further that the posts of the London Official Referees should be raised from Group 5 to a new Group 4a, mid-way between the current Groups 5 and 4; and that the Inner House Judges of the Court of Session should be raised from Group 4 to Group 3.

130. In the civil service, for the grades we cover we see no grounds for altering the differentials which were established on the basis of our recommendations in 1985 and which have since remained substantially unchanged. The introduction of performance pay from October 1987, also on the basis of our recommendations, has been a major development in the senior civil service. Beyond the normal salary maximum for Grades 2 and 3, discretionary pay points now exist with the aim of encouraging, recognising and rewarding sustained high performance. Progress to these points is restricted to not more than 25 per cent of the staff in these Grades. Our belief is that greater use of performance pay and less reliance within the salary structure on annual overall adjustments is probably the right way ahead. We make no recommendations for change this year, but propose to return to the issue in our next report when information will be available on how the system has worked in practice. We shall explore then how a more flexible system might evolve, including possibly making the entire range of pay points discretionary; increasing the proportion of staff eligible for the discretionary pay points; adding additional points to each range; accelerating promotion for individuals; taking greater account of job weight; and using personal pay points to assist with recruitment problems. In considering possible changes, about which we shall seek the views of the Government and of staff interests, it will be important to ensure that there is no loss of coherence in the system and that costs are properly controlled.

131. Differentials between the ranks in the armed forces covered by our remit, also remain substantially as we recommended in 1985. As with the civil service, we make no recommendations to change them. We are however concerned about the differential between two star officers, the lowest rank covered by our remit, and one star officers. This has become compressed since the pay levels we recommended for two star officers in 1985. In considering the question, we have to

take account of the pay links between senior officers and senior civil servants, and conclude that this year the link between two star officers and Grade 3 civil servants should be maintained in spite of the effect this is likely to have on the compression of the differential. We shall return to the question in our next report, when we shall ask for views on whether the performance pay scheme in the civil service should influence the pay structure for two and three star officers.

132. More generally, we see continuing merit in the pay links which exist at various levels between the three groups in our remit. There is no ready way to distinguish for pay purposes between the posts at broadly the same level across our remit groups, the most senior of which are among the most onerous in any walk of life in the country. The links are not of course inviolable, and changing circumstances may call for modifications, but we are convinced that they add a coherence to the structure of pay in the public service which should not lightly be put at risk, and that on this occasion all the groups should have similar increases.

133. We are aware from the evidence available to us that market forces do not bear identically on all the groups. They are most clearly felt in the case of the judiciary, where there are potential recruitment difficulties for High Court Judges and difficulties already exist for Circuit Judges. Surveys undertaken by the OME indicate that earnings at the Bar have risen in recent years at an annual rate of 10 to 15 per cent. Surveys of pre-appointment earnings show that for High Court Judges their earnings are substantially reduced on appointment; for Circuit Judges the picture is less clear.

134. For the civil service, whilst there are presently no acute recruitment and retention problems among senior staff, it would be wrong to rely entirely on recruitment and retention as the sole criterion at this level. More significantly, there are signs of some worrying losses among the best younger fast-stream staff from among whom the top posts will in due course be filled.

135. Likewise at the level covered by our remit there are no acute problems of retention in the armed forces. Nor are they yet found to the same degree among personnel immediately below our level who will in due course fill the top posts.

136. Nevertheless, there are some warning signs. As in the previous two years, survey findings of remuneration among senior management in the private sector in the year to October 1987 showed pay increases of about 10 per cent or more. It remains to be seen what effect the stock market fall will have on salaries in the financial sector. Further, whilst fringe benefits continue to be of considerable value in the private sector, the relative advantage in pension arrangements that public servants enjoy has significantly reduced or in some cases disappeared.

137. It has long been widely accepted that for a variety of reasons which have included job security, there should be a significant discount between the salaries of senior posts in the public service and those of their private sector counterparts. The crucial question is the size of the discount. We believe that we must take full account of the changes we have described earlier which have occurred in the private sector: the greater accountability demanded of senior jobs, accompanied by remuneration closely linked to performance, and the reduced job security of the smaller number of managers enjoying the greater rewards which are available. These changes are not matched to the same extent by developments in the public sector where the managerial initiatives of recent years have brought many operating benefits but have not yet fundamentally altered the environment within which the business of government is conducted. In the civil service, the number of senior posts has been substantially reduced, but job security in the public sector as a whole remains better than in the private sector. These factors suggest that there is not a case for matching the increases in the private sector; indeed it has been put to us by the Government that a general increase broadly in line with the rate of inflation would be sufficient.

138. So small an increase however would ignore other factors to which we attach great importance. In the judiciary, there are recruitment grounds, particularly for Circuit and High Court Judges, which although not entirely related to pay, point strongly towards a larger increase. In the civil service, there is evidence of poor morale and of retention difficulties amongst the most able fast-stream staff at Grades 5 and 7; there is thus a serious risk, confirmed by departmental managers, that the calibre of future candidates for the top posts will decline. In a career service, loss of the best staff can normally be made good only in the long-term through recruitment at the basic entry grade. For the armed forces, similar long-term considerations apply, although the immediate pressure appears to be less.

139. We conclude therefore that increases intended merely to match inflation are not sufficient. Taking account of all the factors we describe, we recommend increases generally of just above 5 per cent which compare with analogous outside increases of about double this size. Increases less than this would send the wrong signal at this time, not only to those directly covered by our remit but also to those who will eventually be needed to fill these exacting posts, about the value put on them and on the responsibilities they bear.

Recommendations 140. We recommend the following levels of salary at 1 April 1988. Our basic recommendations provide increases of about 5.4 per cent for most members of the judiciary. However, taking into account our recommendations on reducing the differential between Groups 7 and 6, and on adjusting the gradings of a small number of other posts (these recommendations are summarised at paragraph 66), we estimate that the paybill for the judiciary as a whole will be increased by 7.4 per cent. Our recommendations will add some 5.4 per cent to the paybill for senior civil servants and some 5.4 per cent to that for senior officers in the armed forces.

	<i>Salaries currently in payment¹</i>	<i>Recommended 1 April 1988 salaries²</i>	<i>Numbers in post at 31 December 1987</i>
	£	£	
a. Members of the judiciary			
The recommended composition of each Group is given in paragraph 67 and the changes from the existing structure are listed in paragraph 66. The numbers in post relate to the new structure.			
Group	8 ³	29,447	31,000
	7	33,500	37,500 ⁵
	6	43,500	45,800
	5	48,250	50,900
	4a ⁶	48,250	59,700
	4	65,000	68,500
	3	71,750	75,750
	2	74,750	78,750
	1	81,000	85,250
			13 ⁴
			412
			535
			25
			6
			104
			33
			11
			1
b. Senior civil servants			
Grade 3 (Under Secretary)			469
on promotion	34,000	35,800	
after one year's service in the grade	35,500	37,400	
after two years' service in the grade (normally attainable maximum)	37,000	39,000	
discretionary	{	39,000	41,100
		41,000	43,200
		43,000	45,300

	<i>Salaries currently in payment</i> £	<i>Recommended 1 April 1988 salaries</i> £	<i>Numbers in post at 31 December 1987</i>
Grade 2 (Deputy Secretary)			125
on promotion	43,500	45,800	
after one year's service in the grade (normally attainable maximum)	45,500	48,000	
discretionary	48,000 51,000 54,000	50,600 53,800 57,000	
Second Permanent Secretary	59,500	62,750	12
Permanent Secretary	65,000	68,500	25
Permanent Secretary of the Treasury Secretary of the Cabinet ⁷	75,750	79,750	1
Head of the Civil Service (and Secretary of the Cabinet) ⁸	81,000	85,250	1
<i>c. Senior officers of the armed forces</i>			
Rear Admiral	37,000	39,000	154
Major General			
Air Vice-Marshal			
Vice-Admiral	45,500	48,000	28
Lieutenant General			
Air Marshal			
Admiral	65,000	68,500	21
General			
Air Chief Marshal			
Admiral of the Fleet	81,000	85,250	1 ⁹
Field Marshal Marshal of the Royal Air Force			

PLOWDEN
TERENCE BECKETT
DEREK BIRKIN
LOUISE BOTTING
CHORLEY
ROBIN IBBS
PETER MATTHEWS
JEREMY POPE
THOMAS SKYRME

OFFICE OF MANPOWER ECONOMICS
14 April 1988

¹ Salaries relate to posts in the United Kingdom (excluding the Northern Ireland Civil Service).

² The additional cost to the paybill quoted in paragraph 140 takes no account of Earnings Related National Insurance Contributions or of the cost to the Government of pensions.

³ An addition to the remit.

⁴ In addition there are 45 part-time appointments in this Group.

⁵ In addition to the general increase recommended, Group 7 has been raised in the recommended salary structure by about 6 per cent with the consequence that the differential between Groups 7 and 6 is reduced by a fifth.

⁶ Previously included in Group 5.

⁷ Paid at this level if not also Head of the Civil Service (see footnote 8).

⁸ At present a combined post.

⁹ Only one officer holds an appointment at this level at any one time as Chief of Defence Staff.

Appendix A

Previous Review Body reports on top salaries

- No. 2: Interim Report on Top Salaries—Cmnd. 5001, June 1972.
- No. 3: Second Interim Report on Top Salaries—Cmnd. 5372, July 1973.
- No. 4: Third Interim Report on Top Salaries—Cmnd. 5595, June 1974.
- No. 6: Report on Top Salaries—Cmnd. 5846, December 1974.
- No. 10: Second Report on Top Salaries—Cmnd. 7253, June 1978.
- No. 11: Third Report on Top Salaries—Cmnd. 7576, June 1979.
- No. 14: Fourth Report on Top Salaries—Cmnd. 7952, July 1980.
- No. 16: Interim Report on Top Salaries—Cmnd. 8243, May 1981.
- No. 18: Fifth Report on Top Salaries—Cmnd. 8552, May 1982.
- No. 19: Sixth Report on Top Salaries—Cmnd. 8879, May 1983.
- No. 21: Seventh Report on Top Salaries—Cmnd. 9254, June 1984.
- No. 22: Eighth Report on Top Salaries—Cmnd. 9525, July 1985.
- No. 23: Ninth Report on Top Salaries—Cmnd. 9785, May 1986.
- No. 25: Tenth Report on Top Salaries—Cm 128, April 1987.

Appendix B

List of those who gave evidence to the review body and visits to government departments and military establishments

Evidence

Sir Robert Armstrong GCB, CVO (now Lord Armstrong of Ilminster)—Secretary of the Cabinet and Head of the Civil Service
Mr L Christie—General Secretary, National Union of Civil and Public Servants
Mr A Christopher—General Secretary, Inland Revenue Staff Federation
Admiral of the Fleet Sir John Fieldhouse GCB, GBE—Chief of the Defence Staff
Mr N B J Gurney—Civil Service Commissioner
Mr P Jones—Secretary, Council of Civil Service Unions
The Rt. Hon. Lord Lane AFC—Lord Chief Justice of England
The Rt. Hon. Lord MacKay of Clashfern—Lord Chancellor
Mr W McCall—General Secretary, Institution of Professional Civil Servants
Sir Peter Middleton KCB—Permanent Secretary, HM Treasury
Miss A E Mueller CB (now Dame Anne)—Second Permanent Secretary, HM Treasury
Mr D J Trevelyan CB—First Civil Service Commissioner
Mr J Ward—General Secretary, First Division Association
Sir Clive Whitmore KCB, CVO—Permanent Under Secretary of State, Ministry of Defence (now Permanent Under Secretary of State, Home Office)

Visits

Department of Health and Social Security
Ministry of Defence, Headquarters
Headquarters, Royal Air Force Strike Command
Headquarters, Naval Home Command
Headquarters, United Kingdom Land Forces

Appendix C

List of those who gave evidence to the Review Body's judicial sub-committee

Those who gave written and oral evidence

The Rt. Hon. Lord Justice Ackner
Mr J D R Adams, Registrar of Civil Appeals
Mr G B N A Angel, Registrar of the Family Division
His Honour Judge Anwyl-Davies QC, Circuit Judge
Mr J R Bickford Smith, Senior Master of the Supreme Court, Queen's Bench Division
Mr J Bishop, Official Referee Users' Working Group
His Honour Judge Blackett-Ord, Vice-Chancellor of the County Palatine of Lancaster
His Honour Judge Bromley QC, Chief Social Security Commissioner
Mr A Butcher QC, Chairman, Official Referees' Bar Association
His Honour Judge Byrt QC, President of Social Security Appeal Tribunals and Medical Appeal Tribunals
Sheriff Principal P I Caplan QC, of the Sheriffdom of North Strathclyde
Master V A Care, Master of the Supreme Court of Northern Ireland
Mr J Chalkley, County Court Registrar and District Registrar of the High Court
His Honour Judge Chambers QC, Chief Social Security Commissioner for Northern Ireland
Mr W R Courtney, Chairman of the Industrial Tribunals for Scotland
Sheriff G L Cox, Sheriff of the Sheriffdom of Tayside, Central and Fife, at Dundee
Mr A Davies, the Law Society
Mr P Dawson, the Law Society
Mr M N Devonshire, Master of the Supreme Court Taxing Office
The Rt. Hon. Sir John Donaldson, Master of the Rolls
Mr F Dunford, County Court Registrar and District Registrar of the High Court
His Honour Judge Dyer, Circuit Judge
Mr J M Dyson, Master of the Supreme Court, Chancery Division
Mr J G Edwards, Northern Ireland Resident Magistrates' Association
Mr N P M Elles, Chairman of Value Added Tax Tribunals
The Hon. Lord Elliott, President of the Lands Tribunal (Scotland) and Chairman of the Scottish Land Court
The Rt. Hon. the Lord Emslie MBE, Lord Justice General of Scotland and Lord President of the Court of Session
Mr G W Farmer, Vice-President of the Immigration Appeal Tribunal
Mr R Fernyhough QC, Official Referee Users' Working Group
His Honour Judge Finlay QC, Circuit Judge
His Honour Judge Francis, Circuit Judge
Mr J Freeman, Regional Chairman of the Industrial Tribunals for England and Wales
His Honour Judge Gibson QC, Secretary of the Council of HM County Court Judges in Northern Ireland
Mr P A Goodall, Chairman of the Industrial Tribunals for England and Wales
Miss P Grant, the Law Society
The Rt. Hon. Lord Grantchester CBE, QC, President of the Value Added Tax Tribunals
Mr I Harrison, Chairman of Social Security Appeal Tribunals and Medical Appeal Tribunals
His Honour Judge Hawser QC, Senior Official Referee
Mr R C Hay, President of the Industrial Tribunals for Scotland
His Honour Judge Heald, Circuit Judge

Sheriff W C Henderson, of the Sheriffdom of Tayside, Central and Fife, at
 Stirling
 Mr A T Hoolahan QC, Social Security Commissioner
 Sir David Hopkin, Chief Metropolitan Magistrate
 Mr F T Horne, Chief Master of the Supreme Court Taxing Office
 Professor D C Jackson, Vice-President of the Immigration Appeal Tribunal
 Mr M Jeffreys, County Court Registrar and District Registrar of the High Court
 Mr Donald Keating QC
 Mr H Keegan, Circuit Registrar, Northern Ireland
 The Rt. Hon. Lord Keith of Kinkel, Lord of Appeal
 The Rt. Hon. Lord Lane AFC, Lord Chief Justice of England
 Mr T Legg, Lord Chancellor's Department
 The Hon. Mr Justice Leggatt, High Court Judge
 The Rt. Hon. the Lord Lowry, Lord Chief Justice of Northern Ireland
 Mr F D Loy, Metropolitan Stipendiary Magistrate
 Mrs A B MacFarlane, Master of the Court of Protection
 His Honour Judge McKee QC, President of the Industrial Tribunals for
 Northern Ireland
 Mr G V McLaughlin, Chairman of the Industrial Tribunals for Scotland
 Sheriff J J Maguire, of the Sheriffdom of Glasgow and Strathkelvin, at Glasgow
 Mr J D W Mills, Chairman, Northern Ireland Resident Magistrates' Association
 Sheriff J S Mowat, of the Sheriffdom of Glasgow and Strathkelvin, at Glasgow
 Mr R D Munrow, Chief Master of the Supreme Court, Chancery Division
 Mr G Murray, Director, Scottish Courts Administration
 Mr D L Neve, President of the Immigration Appeal Tribunal
 His Honour Judge Newey QC, Official Referee
 Sheriff Principal Sir Frederick O'Brien QC, of the Sheriffdom of Lothian and
 Borders
 Sir Derek Oulton KCB, Permanent Secretary, Lord Chancellor's Department
 The Rt. Hon. Lord Justice Parker, Lord of Appeal
 Mr M Patey, Chief Adjudicator, Immigration Appeal Tribunal
 His Honour Judge Pringle QC, Recorder of Belfast
 Mr D G Rice, Social Security Commissioner
 Captain C N M Rountree, Circuit Registrar (Northern Ireland)
 His Honour Judge Rowland QC, County Court Judge and President of the Lands
 Tribunal for Northern Ireland
 His Honour Judge Russell QC, Chairman of the Council of HM County Court
 Judges in Northern Ireland
 Mr J A Shand, Chairman of Industrial Tribunals for England and Wales
 Mr R Smithson, Chairman of Social Security Appeal Tribunals and Medical
 Appeal Tribunals...
 His Honour Judge Stable QC, Senior Circuit Judge
 Mr J Stuart-Smith CB, Judge Advocate General
 Mr K W Topley, the Admiralty Registrar
 Mr C F Turner, Registrar of the Supreme Court, Family Division
 Mr J S Tweed, Northern Ireland Resident Magistrates' Association
 Mr R Tynas, County Court Registrar and District Registrar of the High Court
 Mr I S Warren, Master of the Supreme Court, Queen's Bench Division
 His Honour Sir David West-Russell, President of the Industrial Tribunals for
 England and Wales
 Mr A W E Wheeler, Chairman, Foreign Compensation Commission
 Mr G Wheeler, Circuit Registrar (Northern Ireland)
 Mr R H Widdows, Presiding Special Commissioner of Income Tax
 The Rt. Hon. Lord Justice Woolf
 Miss R Wyles, Official Referee Users' Working Group

Those who gave written evidence only

The Chairman of the Criminal Injuries Compensation Board

The General Council of the Bar

The Judge Advocate of the Fleet

The Law Society of Northern Ireland

The Law Society of Scotland

The Master (Queen's Bench and Appeals), Northern Ireland

The Northern Ireland Court Service

The President of the Family Division

The President of the Social Security Appeal Tribunals and Medical Appeal
Tribunals (Northern Ireland)

The Recorder of Manchester

The Senior Registrar of the Family Division

Appendix D

Surveys of earnings at the Bar

Introduction

1. On behalf of the Review Body on Top Salaries, the Office of Manpower Economics carried out a survey¹ of the receipts and expenses of barristers and advocates in full-time practice in England and Wales, Scotland and Northern Ireland. In addition, the annual survey of the pre-appointment earnings of recently-appointed judges was updated and expanded. The co-operation of those who completed a questionnaire and of the various professional bodies who gave advice and support is gratefully acknowledged.

2. For both surveys a similar questionnaire was used to collect three years' figures (excluding VAT) of receipts from practice, receipts from other professional activities, and expenses deductible for tax purposes. Because of the time lag between the execution of the work and payment for it, receipts for a particular year will not reflect work done in that year. For QCs who have recently taken silk, this means that some of their receipts may be for work done as a Junior. The collection of three years' data from each respondent meant that the bulk of the information was less current than in previous surveys but avoided the risk that a single year's figures might not be representative of an individual's earnings.

3. For both surveys (ie practising barristers and recently-appointed judges), the results presented below have been brought to a common date of 1 April 1987, using movements in average pay (salary plus bonus) given by the OME Survey of Top Salaries (see Appendix G). While this is not necessarily the most relevant basis, the latest data on earnings at the Bar and a comparison with the previous survey of barristers strongly suggest that earnings at the Bar have increased at similar rates to pay at senior levels in the corporate sector. Hence the Top Salaries Survey provides a much better guide than, say, retail prices or average earnings in the whole economy.

Part A—Earnings of barristers and advocates in private practice

Scope of the Survey

4. The survey was aimed at barristers with a seniority compatible with a possible appointment to the Bench. As in 1984, a 1 in 4 sample was selected from among barristers in England and Wales listed in the 'Solicitors and Barristers Directory and Diary' as within 20 to 35 years of call and in private practice. In addition, to take account of the increasing proportion of younger appointments to the Bench, a 1 in 20 sample of those between 15 and 19 years of call was selected, the smaller sampling fraction approximately representing the relative proportion of appointments to the Bench. For Scotland, the Faculty of Advocates advised that a seniority range of 10 to 35 years remained an appropriate criterion, and all in this range were approached. In Northern Ireland all QCs, together with a small number of Junior Counsel were, with the advice of the Bar Council of Northern Ireland, included in the survey.

5. The numbers selected and the number of replies received are shown in Table A. The overall response of 54 per cent was little better than had been achieved in the two previous surveys and must cast doubt on the reliability of the results.

¹ Similar surveys were previously conducted in 1980 and 1984—see Reports Nos 16 and 22 (Volume 2).

Table A

	Number selected	Providing replies		Usable returns No.
		No.	% response	
England and Wales—				
20–35 years of call	229	129	56	123
15–19 years of call	56	28	50	25
Scotland	86	47	55	37
Northern Ireland	34	13	38	13
	405	217	54	198

Unusable returns consisted of those from barristers and advocates who reported that, for one or more of the last three years, they had not been in full-time private practice.

Scaling the results

6. In producing the results, data have been scaled up to reflect the response rates and the 1 in 4 sample for England and Wales. No further adjustment has been made for those with less than 20 years' seniority since the lower sampling fraction used for this group is designed to represent the incidence of appointments to the Bench.

Results

7. Table 1 gives figures of mean receipts, pensions premiums paid and professional expenses. Net receipts are shown both before and after deduction of pensions premiums (which averaged 11–13 per cent of receipts net of professional expenses); the latter to facilitate comparison with earlier results. However, since barristers' pensions are self-financed, the value of the eventual benefits can be regarded as actuarially equal to the sum of the contributions; hence the most appropriate measure of earnings is net receipts before deducting pensions premiums.

8. Table 2 shows median and quartile net receipts. Separate results for Scotland and Northern Ireland are shown where numbers of returns permit. A limited comparison, in terms of net receipts after deduction of pensions contributions, can be made with the results of the 1984 survey (whose results relate to the tax year 1983–84). Over the three and a half years between the two survey dates, median net receipts for both QCs and Junior Counsel increased by some 50 per cent, an average annual rate of about 12 per cent. The comparison is affected by changes in coverage and the low response rate in both surveys; however it may be noted that a comparison of mean net receipts for the category common to both surveys—barristers in England and Wales with 20–35 years' seniority—also showed approximately a 50 per cent increase between the two surveys.

Part B—Earnings of recently-appointed judges

9. For this part of the survey, recently-appointed judges were asked to provide figures of their earnings at the Bar for the three most recent complete years before appointment to the Bench. Earlier surveys were confined to barristers accepting appointment in England and Wales, but in 1987 the coverage was expanded to include: Judges of the Court of Session and Sheriffs in Scotland; Puisne Judges and County Court Judges in Northern Ireland; and solicitors appointed to the Circuit Bench in England and Wales. All appointments in the three-year period were included and a total of 68 forms were sent out. Replies were combined with

previous years' returns received from appointees to the Bench in England and Wales, producing a total for the three-year period of 29 usable returns from High Court Judges and 69 from Circuit Judges (or their equivalents). This gave a most encouraging response of over 90 per cent from High Court Judges. The response of 62 per cent for Circuit Judges means that the results cannot be regarded as fully representative of all those appointed to the Circuit Bench.

Results

10. As stated above, net receipts have been brought to a common date of 1 April 1987. Because of the relatively small number of appointments in Scotland and Northern Ireland, separate results by country have not been produced.

11. Table 3 gives median, quartile and mean net receipts for the three-year period. The changes in coverage preclude comparisons with the results of previous surveys, but comparison with Table 2 indicates the extent to which the pre-appointment earnings of judges covered by the latest survey differed from the earnings of the whole field of barristers and advocates with the relevant seniority. For High Court Judges, the median of net receipts was almost the same as that for currently practising QCs although overall—as indicated by the mean—those accepting appointment had above-average earnings before appointment.

12. For Circuit Judges, separate results by type of previous practice are shown. Junior Counsel accepting appointment to the Circuit Bench had slightly lower median net receipts than those of comparable seniority in the barristers' survey. The median net earnings of QCs accepting an appointment as a Circuit Judge was half that of QCs who remained in practice. For solicitors in the survey, pre-appointment earnings had been well above those of Junior Counsel and tended to be higher than for QCs appointed to the Circuit Bench.

Table 1 Mean receipts and expenses of barristers and advocates (standardised to 1 April 1987)

	Queen's Counsel				Junior Counsel			
	England and Wales	Scotland	Northern Ireland	United Kingdom	England and Wales	Scotland	Northern Ireland	United Kingdom
Numbers of posts—								
actual	60	20	10	90	88	17	3	108
scaled	453	46	26	525	690	40	8	738
	£	£	£	£	£	£	£	£
Gross receipts—								
practice	152,800	69,300	139,600	144,800	66,600	48,000	72,000	65,600
other professional activities	3,800	6,000	100	3,800	2,600	2,100	1,800	2,600
Expenses	35,600	15,300	15,600	32,800	19,200	13,600	13,000	18,800
Net receipts	121,000	60,000	124,100	115,800	50,000	36,500	60,800	49,400
Personal pensions premiums	15,700	6,700	17,900	15,000	5,800	2,200	6,100	5,700
Net receipts (pensions premiums deducted)	105,300	53,300	106,200	100,800	44,200	34,300	54,700	43,700

Table 2 Median and quartile net receipts of barristers and advocates (standardised to 1 April 1987)

	Queen's Counsel				Junior Counsel			
	England and Wales	Scotland	Northern Ireland	United Kingdom	England and Wales	Scotland	Northern Ireland	United Kingdom
	£	£	£	£	£	£	£	£
Net receipts (before deducting pensions premiums)								
Upper quartile	148,100	74,600	..	145,100	54,300	41,900	..	54,300
Median	111,300	51,900	116,600	103,300	40,900	31,600	..	40,900
Lower quartile	75,200	45,700	..	70,500	30,500	28,800	..	30,100
Mean	121,100	60,100	124,100	115,800	50,000	36,400	60,800	49,400
	£	£	£	£	£	£	£	£
Net receipts (pensions contributions deducted)								
Upper quartile	134,800	69,000	..	129,600	50,300	35,700	..	50,300
Median	94,400	46,400	97,600	85,900	35,300	30,400	..	35,300
Lower quartile	67,100	40,300	..	63,100	27,900	25,500	..	27,900
Mean	105,300	53,300	106,200	100,800	44,200	34,300	54,700	43,700

Table 3 Judges appointed in the United Kingdom, 1984/5—1986/7^a: Net receipts prior to appointment^b (standardised to 1 April 1987)

	High Court Judges	Circuit Judges, previously:			All Circuit Judges
		Queen's Counsel	Junior Counsel	Solicitor	
Number of returns	29	18	40	11	69
Upper quartile	£ 204,100	£ 71,000	£ 51,200	£ 69,100	£ 58,900
Median	104,100	52,000	39,300	58,500	46,200
Lower quartile	82,500	41,400	34,100	47,700	37,900
Mean	157,300	66,300	42,900	59,000	51,600

^aPensions contributions not deducted.

^bAll appointments (other than from another full-time judicial appointment) during years ended October.

Appendix E

The present judicial salary structure

Group 1

Lord Chief Justice

Group 2

Lords of Appeal
Master of the Rolls
Lord President of the Court of Session
Lord Chief Justice (Northern Ireland)

Group 3

Lord Justice Clerk
Lords Justices of Appeal
Lords Justices of Appeal (Northern Ireland)
President of the Family Division
Vice-Chancellor

Group 4

High Court Judges
Judges of the Court of Session
Puisne Judges (Northern Ireland)

Group 5

Chairman, Scottish Land Court and President, Lands Tribunal (Scotland)¹
Sheriffs Principal
Official Referees
Vice-Chancellor of the County Palatine of Lancaster
Senior Circuit Judges
Recorder of Liverpool
Recorder of Manchester
Recorder of Belfast
Chief Social Security Commissioners (England and Wales, Scotland and Northern Ireland)
Presidents, Industrial Tribunals (England and Wales, Scotland and Northern Ireland)
Judge Advocate General
President, Social Security Appeal Tribunals and Medical Appeal Tribunals (England and Wales and Scotland)
Chairman, Criminal Injuries Compensation Board
Presidents, Lands Tribunals (England and Wales and Northern Ireland)

Group 6

Circuit Judges
Sheriffs
County Court Judges (Northern Ireland)
Social Security Commissioners (England and Wales, Scotland and Northern Ireland)
Registrar of Criminal Appeals
Chief Metropolitan Magistrate
Senior and Chief Masters and Registrars
Master, Court of Protection
Chairman, Foreign Compensation Commission
Regional Chairmen, Industrial Tribunals (England and Wales and Scotland)
Judge Advocate of the Fleet
Vice-Judge Advocate General
President, Value-Added Tax Tribunals
President, Immigration Appeal Tribunal
Presiding Special Commissioner of Income Tax
President, Social Security Appeal Tribunals and Medical Appeal Tribunals (Northern Ireland)
Regional Chairmen, Social Security Appeal Tribunals and Medical Appeal Tribunals
Members, Lands Tribunals (England and Wales, Scotland and Northern Ireland)

¹ When both appointments are held by one person.

Group 7

Chairmen, Industrial Tribunals (England and Wales, Scotland and Northern Ireland)
Metropolitan Magistrates
Provincial Stipendiary Magistrates
Resident Magistrates (Northern Ireland)
Masters and Registrars of the Supreme Court
Masters of the Supreme Court (Northern Ireland)
Registrar of Civil Appeals
County Court Registrars and District Registrars of the High Court
Registrars of the High Court
Circuit Registrars (Northern Ireland)
President, Pensions Appeal Tribunal
Vice-Presidents, Immigration Appeal Tribunal
Vice-President (Scotland) and Chairmen, Value-Added Tax Tribunals
Chairmen, Social Security Appeal Tribunals and Medical Appeal Tribunals
Special Commissioners of Income Tax

Appendix F

Scheme for range pay for Grades 2 and 3 in the civil service introduced with effect from October 1987: Treasury Note

Better linking of pay and performance in the civil service

Discretionary increments for Grades 2 and 3

Following the recommendations of the Top Salaries Review Body (TSRB) in 1985 the Government are introducing discretionary increments for Grades 2 and 3 in 1987-88, as part of their policy of strengthening the link between pay and performance in the civil service.

The best performers in these grades will be able to earn additional pay by way of additional increments in recognition of their sustained high performance over a period of years. The levels of these increments are set out in Annex A which reflects the Government's decisions following the TSRB's recommendations in its 1987 report. The increments will be fully pensionable.

How the scheme will work

The aim is to encourage and reward the best performers. Guidance on factors to be considered is in Annex B. The receipt by an individual of one discretionary increment will require exceptional performance while the receipt of a second will be rare and the receipt of a third yet more rare still. Subject to experience detailed 'quotas' are not proposed for these grades but the expectation is that if the criteria are rigorously applied no more than 25 per cent of the staff in each grade across the service will be in receipt of one or more discretionary increments at any one time, as recommended by the TSRB.

Increments will be withdrawable on a mark-time basis if performance falls off over a prolonged period.

Discretionary increments will be given by Heads of Departments at Grade 1 level. Special arrangements have been made for smaller departments not headed at Grade 1 level. Increments for Grade 2s will be subject to approval by the Head of the Home Civil Service. Staff on secondment to another department will be considered equally with the importing department's staff, but increments will require the approval of the parent department. Increments for staff seconded to outside bodies will be considered by parent departments.

The central departments will monitor awards to ensure as the scheme builds up that the criteria are rigorously and consistently applied in accordance with the previous paragraphs and that the overall cost is contained within what can be afforded. Costs are to be met from within running cost limits.

Timing, confidentiality and appeals

First increments will be in payment in the second half of 1987-88 and will be backdated to 1 October 1987. Recipients will be told that they have been given increments in an interview with their line managers arranged for the purpose. The names of individual recipients will not be disclosed but the overall total number and value will be published annually. There will be no special machinery for appeals against the non-receipt of discretionary increments or the withholding of increments but the normal departmental appeals machinery will remain available.

Performance bonus scheme

Grade 3s who have not been on the maximum of their normal salary scale for at least one year at 1 October will for 1987-88 remain within the present performance bonus scheme. All other Grade 3s will be considered for discretionary increments.

Personal pay points

The new salary points above the normal maxima for Grades 2 and 3 may also exceptionally be used to provide flexibility for other purposes, in accordance with Annex C. The unified intermediate pay points (UIPP) will be abolished and existing recipients will be assimilated to the appropriate incremental point as personal (pensionable) pay points. The use of personal pay points is a separate matter from the arrangements described above. However, those on personal pay points will where appropriate be eligible for a discretionary increment or increments within these rules, up to the maximum increments for the grade in question.

Normal increments

For staff promoted to Grade 2 or 3 after 1 October 1987 increments on the normal salary scale will only be given on the positive recommendation of the reporting (and countersigning) officer, with confirmation that the individual's performance at least meets the needs of the grade (ie, if given a box 1-3 marking in the new annual staff report). Exceptionally, a Grade 3 still on normal scales may be advanced more than one normal annual increment. Increment hopping is a separate matter from the discretionary increments described above.

Future development of the scheme

The scheme will be kept under review and may be modified as it develops in the light of experience, particularly in the build-up period.

Senior Open Structure

	Current Rates	Rates from 1 April 1987	Rates from 1 October 1987
	£	£	£
Head of the Home Civil Service	77,400	80,690	81,000
Permanent Secretary to the Treasury Secretary to the Cabinet (if not also Head of the Home Civil Service)	72,400	75,477	75,750
Grade 1	62,100	64,739	65,000
Grade 1A	56,800	59,214	59,500
Grade 2 Range points			
			54,000
			51,000
			48,000
UIPP(H)	50,150	52,281	
Scale points:			
after 1 year	43,500	45,349	45,500
on entry	41,500	43,264	43,500
Grade 3 Range points:			
			43,000
			41,000
			39,000
UIPP(L)	38,425	40,058	
Scale points:			
after 2 years	35,350	36,852	37,000
after 1 year	33,850	35,289	35,500
on entry	32,350	33,725	34,000

1. The rates of pay from the dates indicated are the operative ones for pension purposes. They do not attract London Weighting. The cost of the increases are to be absorbed within running cost limits set.

2. Range and scale points will be used as set out in the scheme announced by the Prime Minister of 23 April 1987. UIPP(H) and UIPP(L) continue to exist until 1 October 1987 when they are assimilated as personal pay points to the third Grade 2 range point and the second Grade 3 range point respectively.

Guidance on the award of discretionary increments

1. Discretionary increments are intended to be a reward for sustained high performance. In considering an individual for an award there are three aspects of his or her performance which need to be examined in turn.
2. The first is the job (or jobs) which the individual has done in the grade. Jobs in the Senior Open Structure differ considerably in their nature, loading and content. Although the award of a discretionary increment depends on performance, rather than job weight, decisions about the award of an increment need to begin with a neutral, factual assessment of the weight and requirements of jobs which a postholder had held including:
 - (a) *objectives*. It is important to identify the main objectives and tasks which have had to be performed from time to time in order to achieve the purposes of the job, as expressed either formally in a personal responsibility plan or by some more informal means, and their difficulty of achievement.
 - (b) *accountability for resources*. Most, if not all, jobs in the Senior Open Structure involve responsibility for managing people and money. In some cases the responsibility is a matter of line management; in others, for instance where sponsorship of a nationalised industry is involved, it may be less direct. In either case it is important before considering an individual's performance to be clear about the extent of the resources for which he or she has been responsible and the nature of that responsibility.
 - (c) *representation*. Outside contacts play an important part in many posts in the Senior Open Structure. These may be difficult to quantify but there needs, nevertheless, to be an assessment of how important it is that the postholder is effective in outside contacts and presentational and negotiating skills in order to perform the job satisfactorily.
 - (d) *job loading*. What may be expected of a postholder may vary depending on workload. There needs to be a careful assessment of the demands of the job and its loading.
3. Second, there is the actual performance of the postholder in the job in question. For an individual to merit a discretionary increment requires performance which is outstanding or otherwise specially deserving of an award on its merits. The starting-point for judging this is the individual's recent annual reports in his or her present grade, seen against an assessment of the jobs which he or she has held on the lines of the previous paragraph (arrangements for annual reports for Grades 2 and 3 have recently been revised). The award of an increment will not depend solely on an appraisal in any one year but on the cumulative picture which has emerged over a period of time in terms of such factors as:
 - (a) *achievement*. An individual receiving a discretionary increment should have a record of effective management and successful achievement within the limits of what the job and circumstances permitted. This may be supported by evidence from a financial management system, by the meeting of targets or otherwise by specific example. The achievement will have been related clearly to the effort of the individual and evidence of the way in which their leadership, energy, stamina, adaptability, foresight, planning and judgment have made a major contribution to success.
 - (b) *quality*. There should be evidence that the quality of an individual's contribution has been of a high standard in relation to the job weight, that any practical action which has resulted from the individual's work has been well thought through and properly evaluated and that the individual's own direct responsibilities for finance and personnel have been well managed even though, as with jobs dominated by policy or professional advice or dealings with outside interests, they may not be the preponderant part of the job.

4. The third question is whether the individual's high level of performance has been sustained. Discretionary increments are a reward, not for potential or promotability, nor for one-off achievements however outstanding, but for the maintenance of a high level of performance in the grade over a period of at least two or three years.

Personal pay points

1. The new salary points above the normal maxima for Grades 2 and 3 may also exceptionally be used to provide flexibility for other purposes.
2. These other purposes include in particular manning needs, for instance where a department needs to recruit an individual from outside the civil service who cannot be accommodated at the normal starting salary for the grade.
3. Salary points used in this way will be known as personal pay points (ppp), as opposed to discretionary increments, and their use will be kept entirely separate and distinct from discretionary awards. Personal pay points will be pensionable and not withdrawable. Recipients may be eligible for discretionary increments in some circumstances.
4. Any Head of Department who wishes to pay a person, whether a civil servant or an outsider, on a personal pay point will require the prior approval of the Treasury. The normal Cabinet Office procedures on making appointments will continue to apply.
5. The unified intermediate pay points (UIPP(H) and UIPP(L)) will be abolished and existing recipients will be assimilated to the appropriate personal pay point (for UIPP(H) the highest discretionary point for Grade 2 and for UIPP(L) the second discretionary point for Grade 3). Future occupants of posts which now attract UIPP(H) and UIPP(L) will be put on a personal pay point to be settled as and when appointments are made.
6. Heads of Departments should make it clear to staff at the time of appointment that they are on personal pay points, not discretionary increments

Appendix G

Survey of top salaries in the private sector 1986-1987

(Carried out by the Office of Manpower Economics
on behalf of the Review Body on Top Salaries)

CONTENTS

	<i>Page</i>
Description of the survey and summary of results:	
Part A—Salaries	47
Part B—Pensions and fringe benefits	50
<i>Table</i>	
Salaries	
1 Response and coverage of survey	54
2 Median, quartile and decile salary plus bonus at 1 October 1987, by level of post and size of company	55
3 Mean salary and salary plus bonus by level of post and size of company, 1 October 1986 and 1 October 1987	56
4 Date of last increase in salary for each level of post in all sectors ..	58
Pensions	
5 Type of pension scheme	59
6 Pensions benefits	60
7 Provisions for pensions increases after retirement	61
8 Actual post-retirement pensions increases, 1983-1987	61
9 Employee's contribution rates	62
Fringe benefits	
10 Company cars	63
11 Fringe benefits (other than cars)	64

Note: Because of rounding, rows or columns may not add exactly to the totals shown, percentages may not add to 100 and percentage changes may differ slightly from those which could be derived from the figures shown.

Description of the Survey

1. On behalf of the Review Body on Top Salaries, the Office of Manpower Economics carried out a further survey of salaries and other direct remuneration (such as bonuses, commission and profit-sharing) of Board members and senior executives in the private sector. On this occasion, pensions and fringe benefits were also covered—see Part B.¹ The results of the salary survey relate to pay at 1 October 1986 and 1 October 1987. The Review Body is grateful for the co-operation of those who contributed to the survey.

Part A—Salaries

Selection of the sample

2. **Non-financial companies.** As in previous surveys, companies in the non-financial sector were selected from the 'Times 1000' list of the largest companies in the United Kingdom, using turnover as the basis for stratification. To allow for inflation, and to maintain comparability with earlier surveys, the turnover boundaries for each size band were re-drawn so that each stratum contained approximately the same number of companies as in previous years. The selection of new companies to fill gaps was this year concentrated in the bottom two turnover bands, partly to compensate for the persistently lower response from the

¹This survey was the thirteenth such inquiry. Details of previous surveys are given in the Reports listed in Appendix A. Pensions and fringe benefits were last covered in the tenth survey—see Report No. 22.

smaller companies and also to produce the greatest reduction in the overall sampling error for the non-financial sector. In all, 173 non-financial companies were selected, the same number as in previous years.

3. **Financial companies.** The number of companies selected was increased from 27 to 50 in order to include a wider range of financial institutions (formerly consisting of the clearing banks and a selection of other banks, insurance companies and building societies) and to reduce the sampling error for this sector.

The questionnaire

4. All companies selected for the survey were asked to provide data on salaries and bonus, including commission and profit-sharing, for full-time members of the main Board and for senior executives who reported to a main Board member. In addition, companies in the top two size-bands of the non-financial sector (those with a turnover of at least £885 million) and all those in the financial sector were asked for details of the pay of senior executives at the next level down and of full-time Board members of major subsidiaries. Companies with numerous senior posts below Board level could, if they wished, return details of a representative selection of such posts but were asked to report the total number of posts at each level to enable their returns to be scaled up in the manner described in paragraphs 6-7. In all cases companies were asked to provide the information for posts whose nature and responsibility had not changed in the year up to 1 October 1987.

Response

5. An overall response rate of 78 per cent was obtained. Nearly 90 per cent of the larger non-financial companies and nearly 80 per cent of financial companies replied, but this was offset by lower response from smaller companies. Table A shows the number of companies and the response rate in each stratum.

Table A Organisations' response to the salary survey

Sector	Number in 'Times 1,000'	Number selected	Providing replies		Number used
			Number	As a percentage of number selected	
	No.	No.	No.	%	No.
Non-financial					
Turnover (£ million)					
1,705 and over	62	25	22	88	21
885—	61	21	21	100	20
425—	87	27	23	85	22
196—	138	23	19	83	21
89—	282	36	19	53	17
47—	370	41	30	73	29
All non-financial	1,000	173	134	77	130
Financial	..	50	39	78	38
Total	..	223	173	78	168

Nine companies gave information for a subsidiary in a lower size band, four of which had a turnover of less than £47 million. Because of major organisational changes in one other company, its reply could not be used.

Scaling the replies

6. For non-financial companies, the survey data have been scaled up, as hitherto, (a) in proportion to the sampling fraction achieved in each size band and (b) to allow for the sampling of posts below Board level by individual companies referred to above. Table 1 shows the actual number of posts at each level for which pay data were provided; the corresponding scaled-up numbers of posts, after grouping into a smaller number of classes, are given in Table 3.

7. For financial companies scaling is confined to the second of these factors. There is no satisfactory basis for scaling up the number of companies and the results given for this sector represent simply the total number of posts in the companies who made returns. The previous practice of presenting combined results for the non-financial and financial sectors has been discontinued.

Results 8. Detailed results are given in Tables 2 to 4. The main points are described in the following paragraphs.

Levels of pay 9. Table 2 shows the extent to which salary plus bonus rises with company size and the wide range of pay between the smallest and the largest companies covered by the 'Times 1000' list. For example, median pay for companies with a turnover exceeding £1,705 million was twice that for companies with a turnover of £47 to 89 million. Upper quartile pay for smaller companies was below the lower quartile for the largest companies. Median pay plus bonus in the financial sector tended to be commensurate with that for the larger non-financial companies. It may be noted that the expanded coverage of the financial sector did not greatly influence the medians; however, the inclusion of institutions such as merchant banks has increased the spread so that, for example, the upper quartile for main Board members in the financial sector was well above that for the largest non-financial companies.

10. Table 3 gives, in terms of the means, pay with and without bonus. Bonuses added an average 11 per cent to basic salary at Board level among non-financial companies compared with an average of 8 per cent for all senior executive levels covered by the survey. In previous surveys, bonuses have accounted for a much smaller share of total pay among financial companies. In 1987 there was a doubling—from 4 to 8½ per cent—of the bonus addition for Board members in the types of financial institutions (mainly clearing banks, building societies and insurance companies) previously covered by the survey, and a smaller increase—from 4 to 6 per cent—for senior executives. The very much larger bonus additions paid, particularly at Board level, by the other financial institutions now included in the survey also doubled so that overall the financial sector showed bonus additions averaging 40 per cent at Board level in 1987 although only 7 per cent for senior executives.

Movements in pay 11. Mean basic salary showed a 10.6 per cent increase, averaged across all posts in non-financial companies in the survey, between October 1986 and October 1987 and an increase of 11.6 per cent in salary plus bonus. Table B indicates that these increases were not very different from those shown by earlier surveys. Financial companies, however, showed much larger increases, particularly for salary plus bonus among the institutions new to the survey.

Table B

	Annual percentage increase ^a in mean pay			
	Non-financial companies		Financial companies	
	Basic salary	Salary plus bonus	Basic salary	Salary plus bonus
October to October				
1982-1983	9.5	10.8	6.8	5.7
1983-1984	10.0	11.6	8.0	8.3
1984-1985	9.5	9.2	9.1	9.1
1985-1986	9.6	11.6	10.8	12.1
1986-1987	10.6	11.6	13.7 (12.8) ^b	21.3 (15.3) ^b

^a Based on a comparison with the same posts a year earlier.

^b Excluding financial companies included for the first time in 1987.

Date of last increase in salary 12. Table 4 gives details of the timing of the last increase in salary for the different levels of post in the survey. In 3 per cent of cases no increase had been given since 1 October 1986. For the rest, three-quarters of salary reviews occurred mainly in one of four months of the year—January, April, July and October.

Consistency with the previous survey

13. Both the present survey and its predecessor asked for information about pay at 1 October 1986; comparison of the two sets of results therefore provides an indication of the consistency of successive surveys (although it should be noted that all references to pay movements between 1986 and 1987 in the present report are based on data for the two years taken from the latest survey). Table C shows mean salary plus bonus in 1986 for the main levels of post from the present and previous surveys. The differences shown may have been caused by a combination of the following factors:

- (i) sampling differences, namely: the selection of new companies; variations in the response rate between strata and hence in the weights used in scaling up the replies; the selection by respondents of different posts within companies included in both surveys.
- (ii) re-organisation within the constituent companies in a given size band or changes in the classification of level of responsibility.
- (iii) changes in the pay data, for example, because of backdated pay increases.

14. The substantial effects of the expanded coverage of the financial sector have been referred to earlier. Table C shows the extent to which 'normal' variations arose among the financial companies common to this survey and its predecessor.

Table C Comparison of mean salary plus bonus and profit-sharing at 1 October 1986 as shown by the previous survey and by the current survey

	Number of posts in sample		Mean salary plus bonus etc 1 October 1986		Percentage difference
	Previous survey	Current survey	Previous survey	Current survey	
			£000	£000	%
Non-financial companies					
Chief Executives	114	104	87.5	85.7	-2.1
Deputy Chief Executives	18	26	80.0	82.5	+3.0
Other main Board members	482	445	53.1	53.7	+1.1
Senior Executives reporting to Board members					
Heads of function	897	824	33.9	34.8	+2.9
Others	281	289	33.9	35.6	+4.8
Financial companies^a					
Chief Executives	22	21	101.4	113.8	+12.2
Deputy Chief Executives	7	7	94.0	95.4	+1.5
Other main Board members	64	55	69.1	68.2	-1.3
Senior Executives reporting to Board members					
Heads of function	182	141	52.3	54.8	+4.8
Others	16	27	50.9	47.9	-5.8

^a Excluding companies included for the first time in 1987. Numbers of posts and mean salary plus bonus for all financial companies are given in Table 3.

Part B—Pensions and fringe benefits

Coverage of the survey

15. Only companies which had participated in previous salary surveys were asked to complete the supplementary questionnaire covering pensions and fringe benefits. Table D shows the size distribution of the 153 companies selected and variations in the response rate. The overall response of 84 per cent was very good although a poor response was obtained from one of the strata. The helpfulness of those who co-operated in completing a necessarily detailed questionnaire and in answering queries about their replies is much appreciated.

Table D. Organisations' response to the survey of pensions and fringe benefits

Sector	Number in 'Times 1,000'	Number selected	Providing replies		Number used
			Number	As a percentage of number selected	
	No.	No.	No.	%	No.
Non-financial					
Turnover (£ million)					
1,705 and over	62	25	22	88	21
885—	61	21	21	100	20
425—	87	27	23	85	22
196—	138	21	17	81	19
89—	282	16	7	44	7
47—	370	19	15	79	16
All non-financial	1,000	129	105	81	105
Financial	..	24	23	96	22
Total	..	153	128	84	127

Scaling the replies

16. The data have been scaled up by the same process as that described above but using different factors to reflect the smaller initial sample and variations in response rates. There are some differences between the scaled numbers of posts in the two surveys; this arises from differences in the average number of posts per company between those who completed both questionnaires and those who completed only a salary return.

17. Tables 5 and 10 give the actual and scaled numbers of (a) main Board members (b) senior executives to which the information in these tables; and in Table 11, relates. Tables 6 to 9 deal with those covered by a company pensions scheme and the numbers of posts to which this group of tables relates are shown at the head of Table 6.

Results—pensions¹

18. The pensions data were supplied to the Government Actuary (in a form that precluded identification of individual companies) for use in his evaluation of pensions benefits—see Appendix H. The results of the survey are given in Tables 5 to 9 and the main points, and some comparisons with the 1984 survey, are summarised in the following paragraphs.

Type of pension scheme

19. In the non-financial sector, over two-thirds of Board members and nearly half the senior executives were in a senior staff scheme instead of or in addition to the main company scheme. One-quarter of Board members but half the senior executives were in the main company scheme only. A separate senior staff scheme was much less common among the financial companies in the sample. About 16 per cent of Board members in non-financial companies were late entrants but half of these will benefit from discretionary arrangements to enhance their pensions. There was a smaller proportion of late entrants in financial companies but nearly all have enhanced terms.

Normal age of retirement

20. There has been a marked shift towards an earlier retirement age for Board members in non-financial companies, with nearly 40 per cent able to retire at 60 (17 per cent in 1984); but only one-fifth of senior executives can do so. In financial companies, three-quarters of those at both Board level and below can retire at 60.

Years to full pension

21. Table 6 shows an overall reduction in the number of years service required to qualify for a full pension in the case of Board members but an increase (ie a worsening) for senior executives. The most frequent qualifying period is 36–40 years: in non-financial companies, this category accounted for 31 per cent of

¹ Information on companies' provisions for early retirement, death in service and widows' pensions, and details of employers' contribution rates formed part of the 1984 survey but were not collected on this occasion.

Board members (40 per cent in 1984) and 50 per cent of senior executives (37 per cent in 1984). One-quarter of Board members and one-fifth of senior executives now qualify for full pensions with 16–20 years of service.

- Pensionable pay** 22. All except one company stated that a full pension was equal to two-thirds of pensionable pay, whereas in 1984 12 per cent of Board members and 20 per cent of senior executives were eligible for a pension of only half of pensionable pay. For rather over half the posts in non-financial companies pension was based on basic salary only and less than half said that bonuses were taken into account. For the financial companies in the pensions sample, bonuses were pensionable for only one-quarter of Board members and just over 10 per cent of senior executives; however (as was stated in para 10 above), among companies of the type sampled, bonuses represent a smaller (albeit growing) addition to salary than among non-financial companies. For half the posts in non-financial companies pensions were based on final pay but for one-fifth of posts pay over the previous 10 years was taken into account. Over 80 per cent of Board members in financial companies and 90 per cent of senior executives took final pay as the basis, with updating to the time of retirement in some cases.
- Increases in pensions after retirement** 23. Table 7 shows that for some 60 per cent of pensioners of non-financial companies there was a firm commitment to increase pensions (with or without a discretionary supplement) after retirement. The overall effect of the various provisions is shown in Table 8. For non-financial companies the average increase granted between 1983 and 1986 was close to 4½ per cent, falling to 3½ per cent in 1987. Increases awarded by financial companies tended to average half a point less over the whole period.
- Contribution rates** 24. Companies were asked to report on employee's (but not employer's) contribution rates. Nearly one-quarter of Board members and just under one-fifth of senior executives in non-financial companies were not required to make any contribution. The average rate, where paid, was close to 5 per cent (4 per cent averaged over all postholders including those not paying). Among financial companies, most schemes are non-contributory and the average rate over all postholders was ½ per cent.
- Results—fringe benefits** 25. These are summarised in Tables 10 and 11. Except for company cars, results by company size are of limited interest and have not been shown.
- Company cars** 26. In the non-financial sector, 99 per cent of staff at these levels had a company car (95 per cent in 1984) and 10 per cent of Board members had a second car. Conditions of use of company cars for private motoring were more favourable at Board level: 84 per cent received free petrol for private motoring (72 per cent in 1984) compared with 61 per cent (unchanged) of senior executives; and employers levied annual or mileage charges for only 4 per cent of Board members against 14 per cent of senior executives. In the financial sector, both the provision of a car and conditions of use were more restricted than in the non-financial sector, particularly for free petrol which was only one third as frequent. As an indication of the value of the cars provided, companies were asked to state the minimum and maximum values allowed under the company scheme. The average maximum value for Board members was more than 50 per cent higher than in 1984 and that for senior executives nearly 30 per cent higher.
- Loans for house purchase** 27. This benefit is more common in the financial sector. Three quarters of those in the financial companies who reported (mainly clearing banks, together with building societies and insurance companies) had a loan with an average outstanding amount of some £30,000, about half as much again as in 1984. Few in the non-financial sector did so and the average amount outstanding had halved since 1984.

- Loans for other purposes** 28. These were also significant only in the financial sector and had increased since 1984, but less than one-fifth of postholders were in receipt of a loan. Both the discount on commercial rates and the average loan were much less than in the case of assisted house purchase.
- Private medical insurance** 29. In the non-financial sector, nearly all Board members and 80 per cent of senior executives received this benefit but only 60 per cent of each in the financial sector. The overall proportion covered has increased since 1984 but the average cost to the company per recipient has not.
- Free or subsidised lunches** 30. These were available to about 70 per cent of both Board members and senior executives in non-financial companies and to relatively more of those in financial companies. The average cost to the company had increased substantially compared with 1984. To the extent that the amounts reported reflect the full cost of operating senior staff dining facilities they may overstate the value of the benefit to the recipients.
- Profit sharing schemes** 31. For non-financial companies, the incidence of these had rather more than doubled since 1984 to 28 per cent of Board members and 17 per cent of senior executives, but with a fall in the value of the average allocation to the latter. Both the frequency and the average allocation were higher among financial than non-financial companies.
- Share option schemes** 32. The survey results confirm other reports about the widespread availability of these schemes, with three-quarters of non-financial companies (about one-eighth in 1984) and two-thirds of financial companies in the sample (5-10 per cent in 1984) operating a share option scheme. Under a half of postholders in non-financial companies with a scheme actually acquired shares in the year to 1 October 1987; in financial companies the proportions were somewhat higher.

Table 1 Response and coverage of survey

Sector	Number of organisations in 'Times 1000'	Questionnaires despatched	Replies used ^a	Members of main Board							Senior executives				Others ^b	Total			
				Chairman and Chief Executive	Deputy Chairman and Chief Executive	Chief Executive	All Chief Executives on Board	Deputy Chairman and Deputy Chief Executive	Deputy Chief Executive	All Deputy Chief Executives on Board	Other main Board members	Reporting to main Board					Reporting to those in (A)	Reporting to those in (B)	Reporting to those in either (A) or (B)
												Head of function (A)	Not head of function (B)	Total					
Non-financial Turnover (£m)																			
1,705 and over	62	25	21	12	1	6	19	1	6	7	94	166	40	206	93	17	110	10	446
885-	61	21	20	9	1	7	17	1	3	4	87	129	69	198	36	18	54	32	392
425-	87	27	22	9	—	11	20	2	2	4	73	152	55	207	} ^c	} ^c	} ^c	12	316
196-	138	23	21	4	—	11	15	—	6	6	75	140	57	197				13	306
89-	282	36	17	4	—	7	11	—	2	2	46	71	13	84				5	148
47-	370	41	29	11	1	10	22	—	3	3	70	166	55	221	6	322			
All non-financial	1,000	173	130	49	3	52	104	4	22	26	445	824	289	1,113	129	35	164	78	1,930
Financial	..	50	38	8	—	26	34	4	9	13	122	193	31	224	91	20	111	43	547
Total	..	223	168	57	3	78	138	8	31	39	567	1,017	320	1,337	220	55	275	121	2,477

^a Nine non-financial companies provided information for a subsidiary in a smaller size band, four of which had a turnover of less than £47 million.

^b 'Others' contains the following posts: Chairman and Deputy Chairman who are not the Chief or Deputy Chief Executive, Chief and Deputy Chief Executives not on the main Board, senior executives on executive committees and full-time members of Boards of subsidiaries not included in previous columns.

^c Information about these posts was not sought from companies in these size-bands.

Table 2 Median, quartile and decile salary, plus bonus^a at 1 October 1987, by level of post and size of company

Level of post		Non-financial						Total	Financial	
		Turnover (£ million)								
		1,705 and over	885-	425-	196-	89-	47-			
Main Board members										
1. Chief Executives										
	Highest decile	£000	*	*	*	*	*	96.0	165.0	233.9
	Upper quartile	£000	238.3	*	134.4	*	*	88.0	117.8	174.4
	Median	£000	170.0	156.0	98.5	97.2	88.4	72.8	88.4	126.0
	Lower quartile	£000	160.0	*	78.6	*	*	52.0	69.2	108.2
	Lowest decile	£000	*	*	*	*	*	45.0	52.0	59.9
	Mean	£000	204.1	167.8	110.9	101.4	89.5	70.1	100.1	144.7
2. Deputy Chief Executives										
	Highest decile	£000	*	*	*	*	*	*	152.1	*
	Upper quartile	£000	*	*	*	*	*	*	109.6	*
	Median	£000	145.0	*	*	91.1	*	*	79.3	97.0
	Lower quartile	£000	*	*	*	*	*	*	60.0	*
	Lowest decile	£000	*	*	*	*	*	*	51.1	*
	Mean	£000	155.8	157.9	112.9	85.2	56.8	72.4	93.7	135.7
3. Other main Board members										
	Highest decile	£000	145.0	123.1	92.0	75.0	70.7	52.6	95.5	221.1
	Upper quartile	£000	120.0	100.0	81.3	66.0	63.5	47.5	70.7	135.6
	Median	£000	100.0	86.3	68.2	53.0	52.8	43.2	52.0	88.6
	Lower quartile	£000	76.9	66.0	55.6	44.5	45.9	39.1	44.0	73.4
	Lowest decile	£000	66.3	45.0	45.1	38.5	37.8	34.1	37.7	60.2
	Mean	£000	103.8	85.7	69.5	56.9	54.7	43.9	60.6	127.9
Senior executives										
4. Heads of function reporting to main Board members										
	Highest decile	£000	70.0	70.0	60.0	50.0	44.0	46.2	57.0	82.9
	Upper quartile	£000	61.5	58.2	52.0	43.9	38.5	34.9	47.2	65.0
	Median	£000	52.5	46.5	42.1	36.0	33.2	28.0	36.0	55.3
	Lower quartile	£000	45.5	34.8	36.0	31.1	29.8	22.9	29.8	43.6
	Lowest decile	£000	40.0	30.4	31.8	27.4	26.9	19.1	23.8	37.1
	Mean	£000	54.3	48.2	44.4	37.3	34.7	30.2	38.7	56.9
5. Others reporting to main Board members										
	Highest decile	£000	78.2	83.9	61.8	43.0	*	36.1	64.6	86.1
	Upper quartile	£000	67.8	65.2	47.4	39.0	*	32.1	47.1	64.3
	Median	£000	56.3	58.0	42.2	32.5	27.4	29.0	34.3	42.7
	Lower quartile	£000	47.3	36.0	33.9	27.4	*	23.3	27.3	32.6
	Lowest decile	£000	43.5	24.3	30.8	20.0	*	19.3	21.3	32.6
	Mean	£000	58.7	53.1	42.4	35.7	29.1	28.4	39.5	51.2
6. Executives reporting to heads of function at 4 above										
	Highest decile	£000	58.0	48.0	} ^b	} ^b	} ^b	} ^b	58.0	74.8
	Upper quartile	£000	48.0	41.1					47.9	65.0
	Median	£000	41.0	34.9					40.6	45.1
	Lower quartile	£000	36.4	24.5					35.3	38.8
	Lowest decile	£000	31.4	20.2					27.0	35.9
	Mean	£000	43.2	34.9	41.8	51.6				
7. Executives reporting to those at 5 above										
	Highest decile	£000	*	*	} ^b	} ^b	} ^b	} ^b	52.0	62.6
	Upper quartile	£000	*	44.5					48.0	55.7
	Median	£000	42.8	33.2					34.4	52.5
	Lower quartile	£000	*	32.0					32.0	40.3
	Lowest decile	£000	*	*					28.5	33.6
	Mean	£000	43.4	35.5	38.8	50.5				

^aIncluding commission and profit-sharing.

^bInformation about these posts was not sought from companies in this sector.

* Number of actual posts too small to provide reliable figures.
For numbers of posts see Table 3.

Table 3 Mean salary and salary plus bonus^a, by level of post and size of company at 1 October 1986 and 1 October 1987

Level of post and sector	Number of posts		Mean salary			Mean salary plus bonus, etc.		
	Actually used	Scaled up	1986	1987	Percentage increase	1986	1987	Percentage increase
	No.	No.	£000	£000	%	£000	£000	%
Main Board members								
All Chief Executives on main Board								
Non-financial								
Turnover (£m)								
1,705 and over	19	56	166.6	192.9	15.8	170.6	204.1	19.6
885-	17	52	124.2	154.1	24.1	133.8	167.8	25.4
425-	20	79	87.7	99.8	13.8	99.0	110.9	12.0
196-	15	99	77.5	89.3	15.2	85.2	101.4	19.0
89-	11	182	72.7	80.9	11.3	76.4	89.5	17.1
47-	22	281	53.5	59.4	11.0	62.3	70.1	12.6
All non-financial	104	749	78.3	89.4	14.1	85.7	100.1	16.8
Financial	34	34	102.8	117.5	14.3	117.6	144.7	23.1
All Deputy Chief Executives on main Board								
Non-financial								
Turnover (£m)								
1,705 and over	7	21	134.7	147.4	9.4	142.9	155.8	9.0
885-	4	12	125.7	135.7	8.0	138.5	157.9	14.0
425-	4	16	80.6	102.5	27.2	92.8	112.9	21.6
196-	6	39	67.4	72.3	7.3	76.6	85.2	11.2
89-	2	33	49.8	55.0	10.6	51.2	56.8	10.7
47-	3	38	56.4	62.0	10.0	60.7	72.4	19.3
All non-financial	26	160	75.6	83.8	10.9	82.5	93.7	13.6
Financial	13	13	87.0	98.6	13.4	124.0	135.7	9.4
Other main Board members								
Non-financial								
Turnover (£m)								
1,705 and over	94	278	84.6	95.4	12.8	90.2	103.8	15.0
885-	87	265	70.1	79.6	13.6	75.0	85.7	14.3
425-	73	289	55.1	63.3	14.9	61.5	69.5	13.1
196-	75	493	44.1	49.5	12.2	52.4	56.9	8.6
89-	46	763	44.4	49.8	12.1	48.3	54.7	13.4
47-	70	893	35.3	39.3	11.2	38.8	43.9	13.2
All non-financial	445	2,981	48.7	54.8	12.5	53.7	60.6	12.9
Financial	122	122	71.8	85.4	18.9	88.3	127.9	44.9

Table 3 continued Mean salary and salary plus bonus^a, by level of post and size of company at 1 October 1986 and 1 October 1987

Level of post and sector	Number of posts		Mean salary			Mean salary plus bonus, etc.		
	Actually used	Scaled up	1986	1987	Percentage increase	1986	1987	Percentage increase
	No.	No.	£000	£000	%	£000	£000	%
Senior executives								
(A) Heads of function reporting to main Board members								
Non-financial								
Turnover (£m)								
1,705 and over	166	1,222	47.5	52.0	9.5	48.8	54.3	11.3
885-	129	720	38.7	43.3	11.8	42.0	48.2	14.7
425-	152	1,132	37.0	41.0	10.9	39.1	44.4	13.6
196-	140	1,400	31.3	34.2	9.1	34.2	37.3	9.1
89-	71	1,725	28.0	30.8	9.9	31.1	34.7	11.4
47-	166	2,718	25.4	27.7	9.1	27.6	30.2	9.5
All non-financial	824	8,917	32.4	35.6	9.8	34.8	38.7	11.2
Financial	193	317	46.0	52.1	13.2	48.3	56.9	17.8
(B) Others reporting to main Board members								
Non-financial								
Turnover (£m)								
1,705 and over	40	325	47.1	51.4	9.1	53.2	58.7	10.2
885-	69	509	45.0	48.9	8.8	50.2	53.1	5.8
425-	55	688	35.6	39.5	11.0	37.6	42.4	12.7
196-	57	565	28.3	31.4	10.8	31.9	35.7	12.1
89-	13	265	25.8	27.7	7.3	27.3	29.1	6.6
47-	55	919	22.0	24.8	12.6	24.3	28.4	16.6
All non-financial	289	3,271	32.3	35.6	10.3	35.6	39.5	11.1
Financial	31	57	39.6	44.7	12.7	42.0	51.2	21.9
Senior executives reporting to heads of function at (A) above^b								
Non-financial								
Turnover (£m)								
1,705 and over	93	1,709	39.2	41.9	7.0	40.2	43.2	7.5
885-	36	339	28.8	32.0	11.0	31.7	34.9	10.1
885 and over	129	2,048	37.4	40.3	7.5	38.8	41.8	7.8
Financial	91	418	44.0	49.4	12.3	45.6	51.6	13.0
Senior executives reporting to those at (B) above^b								
Non-financial								
Turnover (£m)								
1,705 and over	17	508	37.9	40.1	5.8	40.6	43.4	6.9
885-	18	695	31.1	34.2	10.1	32.5	35.5	9.1
885 and over	35	1,203	34.0	36.7	8.1	35.9	38.8	8.1
Financial	20	67	43.8	47.9	9.2	45.6	50.5	10.8
Others^c								
Non-financial								
Financial	78	420	59.3	67.3	13.6	64.0	73.2	14.3
Financial	43	43	72.1	82.5	14.5	85.6	104.0	21.5
All posts								
Non-financial								
Financial	1,930	19,748	38.1	42.2	10.6	41.2	46.0	11.6
Financial	547	1,071	51.0	58.1	13.7	55.9	67.9	21.3

^aIncluding commission and profit-sharing.

^bFor the non-financial sector information for posts at this level was only sought from companies whose turnover was £885 million and over.

^cSee note 2 to Table 1.

Table 4 Date of last increase in salary for each level of post

Level of posts	Percentage of posts with salary increase in														Number of posts		
	Oct 1987	Sept 1987	Aug 1987	July 1987	June 1987	May 1987	April 1987	March 1987	Feb 1987	Jan 1987	Dec 1986	Nov 1986	Oct 1986	Sept 1986 or earlier	Total	Actually used	Scaled up
Main Board members																	
1. Chief Executives	11.9	2.2	0.8	18.6	2.6	8.9	14.2	4.2	3.2	24.4	—	3.0	0.4	5.5	100.0	138	783
2. Deputy Chief Executives	19.0	—	—	22.0	1.8	9.1	5.7	—	5.5	23.3	—	3.8	—	9.8	100.0	39	173
3. Other main Board members	14.1	3.0	3.6	15.2	1.6	6.1	15.1	1.6	2.9	27.6	1.0	3.3	2.5	2.2	100.0	567	3,103
Senior Executives																	
4. Heads of function reporting to main Board members	14.8	2.9	1.4	15.0	4.6	6.0	17.6	1.5	2.8	26.3	0.6	3.8	1.3	1.5	100.0	1,017	9,234
5. Others reporting to main Board members	15.8	0.6	1.5	19.3	4.5	7.5	16.6	1.8	2.8	22.8	3.3	1.1	0.8	1.8	100.0	320	3,328
6. Executives reporting to heads of function at 4 above ^a	5.4	1.7	2.5	35.9	0.4	2.3	29.8	0.0	0.7	20.2	—	—	0.5	0.7	100.0	220	2,466
7. Executives reporting to those at 5 above ^a	0.6	8.7	2.4	55.1	0.6	5.6	15.2	—	—	5.5	—	1.7	—	4.6	100.0	55	1,270
Other posts^b	19.8	10.7	—	1.8	3.5	1.9	33.3	0.9	1.4	23.1	—	—	2.8	0.9	100.0	121	463
All posts	12.9	2.9	1.8	20.5	3.3	5.8	18.5	1.4	2.4	23.8	1.0	2.6	1.2	1.9	100.0	2,477	20,819

^aFor the non-financial sector information for posts at this level was only sought from companies whose turnover was £885 million or over.

^bSee note ^b to Table 1.

Table 5 Type of pension scheme

	Non-financial companies—turnover (£ million)						All non-financial companies	Financial companies	
	1,705 and over	885–	425–	196–	89–	47–			
Main Board members									
Total covered by questionnaire									
Actually used	No.	126	113	101	93	26	51	510	92
Scaled up	No.	372	345	399	675	1,047	1,179	4,018	92
Proportion of scaled posts	%	%	%	%	%	%	%	%	%
Covered by individual arrangements ^a	9	1	3	7	12	—	5	4	4
of which—qualifying for a maximum pension plus lump sum benefits under Inland Revenue rules	9	—	—	2	8	—	3	2	2
Within a senior staff scheme whether or not in addition to the main company staff scheme	58	80	82	71	69	65	69	20	20
Within the main company staff scheme only	32	17	15	23	15	35	24	74	74
No pension cover provided by the employer	1	3	—	—	4	—	1	2	2
Late entrants with less than 20 years reckonable service before usual retirement age	17	24	18	14	15	16	16	11	11
Of which									
—benefiting from discretionary arrangements to enhance pensions	6	15	8	10	8	6	8	11	11
—not benefiting solely because of retained benefits from previous employment	21	—	2	—	4	—	1	—	—
—not benefiting for other reasons	9	9	8	4	4	10	7	—	—
Senior Executives									
Total covered by questionnaire									
Actually used	No.	321	280	216	177	27	143	1,164	294
Scaled up	No.	3,764	2,263	1,827	1,990	1,732	4,070	15,647	679
Proportion of scaled posts	%	%	%	%	%	%	%	%	%
Covered by individual arrangements ^a	—	0	—	4	5	1	1	2	2
of which—qualifying for a maximum pension plus lump sum benefits under Inland Revenue rules	—	0	—	4	—	—	1	2	2
Within a senior staff scheme whether or not in addition to the main company staff scheme	38	72	73	72	34	29	48	5	5
Within the main company staff scheme only	62	28	27	23	60	70	50	92	92
No pension cover provided by the employer	—	—	—	0	—	1	0	—	—
Late entrants with less than 20 years reckonable service before usual retirement age	7	8	10	12	—	6	7	10	10
Of which									
—benefiting from discretionary arrangements to enhance pensions	6	—	3	2	—	1	2	10	10
—not benefiting solely because of retained benefits from previous employment	0	0	—	1	—	—	0	—	—
—not benefiting for other reasons	1	8	7	9	—	5	5	1	1

^a Whether or not in addition to a senior staff or main company staff scheme.

Table 6 Pensions benefits

		Non-financial companies—turnover (£ million)						All non-financial companies	Financial companies
		1,705 and over	885–	425–	196–	89–	47–		
Number of posts									
Actually used	MBM	113	109	98	87	22	51	480	86
	SE	321	279	216	167	26	141	1,150	289
Scaled up	MBM	334	332	388	632	886	1,179	3,751	86
	SE	3,764	2,256	1,827	1,907	1,642	4,024	15,419	662
		%	%	%	%	%	%	%	%
Normal age of retirement:									
Under 60 years	MBM	—	3	—	—	—	—	0	—
	SE	—	1	—	—	—	—	0	—
60 years	MBM	63	40	44	40	82	—	40	72
	SE	54	8	19	19	25	2	22	77
61 years	MBM	—	—	—	—	—	—	—	—
	SE	—	—	—	—	—	—	—	—
62 years	MBM	17	22	17	8	—	18	12	6
	SE	11	28	15	17	—	3	11	2
63 years	MBM	4	4	8	7	—	29	12	—
	SE	13	4	16	14	—	16	12	—
64 years	MBM	—	—	—	10	—	—	2	—
	SE	—	—	—	10	—	—	1	—
65 years	MBM	9	17	18	29	18	53	30	22
	SE	12	23	39	39	75	79	44	21
Various ages ^a	MBM	7	15	12	6	—	—	4	—
	SE	10	36	10	1	—	—	9	—
Years' reckonable service to qualify for full pension^b									
10 or less	MBM	15	13	5	15	9	4	9	—
	SE	7	4	3	7	11	5	6	—
16–20	MBM	24	32	44	28	23	27	28	13
	SE	14	44	30	26	2	10	20	5
21–25	MBM	13	—	—	5	—	4	3	—
	SE	2	—	—	2	—	1	1	—
26–30	MBM	20	21	15	8	36	20	21	—
	SE	16	13	18	7	13	—	10	—
31–35	MBM	7	7	4	7	—	—	3	2
	SE	4	8	—	8	—	—	3	13
36–40	MBM	13	10	8	38	32	45	31	78
	SE	46	20	22	51	61	77	50	81
Over 40	MBM	7	17	23	—	—	—	4	7
	SE	10	10	27	—	12	7	10	0
Basis of pensionable pay									
Final pay or final year's pay	MBM	54	57	58	63	36	63	55	71
	SE	53	57	64	41	42	59	54	88
Final pay plus average of recent years' bonuses	MBM	11	7	—	—	—	—	2	—
	SE	12	7	—	—	—	—	4	—
Average of final 2 or 3 years	MBM	4	3	9	—	—	4	3	—
	SE	9	6	3	1	—	7	6	—
Best year in final 3 years	MBM	8	—	—	—	27	—	7	3
	SE	9	—	—	—	—	—	2	6
Best year in final 5 years	MBM	11	6	3	2	18	—	7	1
	SE	2	3	1	2	34	—	5	0
Best year in final 10 years ^c	MBM	4	15	8	29	18	22	18	12
	SE	13	17	12	52	20	27	23	4
Pay in a period before retirement updated to date of retirement	MBM	—	—	5	2	—	—	1	13
	SE	—	—	—	0	—	—	0	2
Other ^d	MBM	9	12	16	3	—	12	8	—
	SE	2	10	21	4	4	6	7	—
Definition of pensionable pay^e									
Basic salary	MBM	53	75	65	53	36	61	55	74
	SE	58	55	73	48	30	64	57	89
Salary plus bonus	MBM	46	25	34	47	45	39	41	26
	SE	36	45	25	52	36	36	38	11
Salary and proportion of bonuses	MBM	1	—	1	—	18	—	4	—
	SE	5	—	3	—	34	—	5	—

MBM = Main Board members. SE = Senior executives.

Percentages relate to scaled numbers shown at head of table.

^aeg depending on grade.

^bThere were none in the interval 11–15 years.

^cIncluding average of best 2 or 3 years in final 10.

^dMost were best of two or more options.

^eAll returns stated that pension amounted to 2/3 pensionable pay for those with full pensionable service by normal retirement age apart from one non-financial scheme giving half of pensionable pay.

Table 7 Provision for pension increases after retirement

		Non-financial companies—turnover (£ million)					All non-financial companies	Financial companies
		1,705 and over	885–	425–	196–	89–		
No provision for increase	MBM	%	%	4	3	%	8	%
	SE	—	—	—	4	—	1	—
Firm commitment to increases of: RPI movements in full	MBM	—	5	10	—	—	1	5
	SE	—	7	17	—	—	3	5
3-5% or RPI if lower	MBM	8	25	11	24	36	2	17
	SE	15	12	5	11	54	9	16
Fixed 3-5% at regular intervals	MBM	4	20	5	15	36	16	19
	SE	5	40	3	12	15	22	16
Other	MBM	7	7	—	12	—	12	7
	SE	2	4	—	4	—	6	3
Discretionary increases which have amounted to:								
RPI movements in full	MBM	—	4	3	10	—	2	3
	SE	—	3	5	13	—	6	4
Proportion of RPI—70%	MBM	11	—	13	—	—	16	7
	SE	24	—	24	—	—	16	13
—Other	MBM	—	13	4	12	—	4	5
	SE	—	3	6	16	—	2	4
Unspecified amounts dependent on periodic review of pensions fund	MBM	8	6	12	—	27	6	11
	SE	11	9	5	—	31	13	11
Other	MBM	10	—	6	7	—	—	3
	SE	11	—	5	8	—	—	4
Firm commitment supplemented by discretionary payments resulting in:								
3-5% or RPI if lower	MBM	53	8	21	3	—	14	13
	SE	32	9	16	7	—	15	16
Fixed 3-5% at regular intervals	MBM	—	—	9	14	—	4	5
	SE	—	—	14	25	—	—	5
Other	MBM	—	12	—	—	—	4	2
	SE	—	13	0	—	—	7	4

Table 8 Actual post-retirement pensions increases^a 1983 to 1987

		Non-financial companies—turnover (£ million)					All non-financial companies	Financial companies	
		1,705 and over	885–	425–	196–	89–			47–
No increases paid (per cent of scaled posts)	MBM	—	—	—	6	—	18	7	
	SE	—	—	—	8	—	4	2	
Increases paid but not stated for each year in period (per cent of scaled posts)	MBM	4	21	21	24	36	24	25	
	SE	13	5	20	8	25	16	14	
Where increases stated, average percentage increase:									
Main Board members	1983	5.0	5.9	4.2	5.0	3.7	4.8	4.8	3.5
	1984	4.7	5.2	4.3	3.2	4.5	5.5	4.4	4.4
	1985	4.7	4.3	4.1	5.7	4.1	4.7	4.7	4.9
	1986	4.6	4.9	4.2	3.6	4.8	5.7	4.5	3.0
	1987	3.9	4.0	3.2	3.9	3.5	3.1	3.6	3.6
Senior Executives	1983	5.1	4.8	3.9	4.8	3.7	5.1	4.7	3.7
	1984	4.5	4.4	4.8	3.7	4.6	5.5	4.5	4.2
	1985	4.7	4.2	3.8	5.6	4.2	4.0	4.5	5.0
	1986	5.0	4.3	4.4	3.6	4.9	4.9	4.5	3.1
	1987	4.0	4.2	3.1	3.6	3.5	2.8	3.6	3.4

MBM = Main Board members SE = Senior executives

^a For those who retired at least one year prior to each of the years stated.

Table 9 Employee's contribution rates

	Non-financial companies—turnover (£ million)						All non-financial companies	Financial companies
	1,705 and over	885–	425–	196–	89–	47–		
Main Board members								
Proportion of scaled posts for which no contribution is payable	43	24	26	33	—	26	22	81
Other posts	5	19	10	—	—	8	6	8
Less than 4%	11	—	10	28	—	20	13	—
4%–	18	50	42	29	64	26	38	10
5%–	22	7	12	10	36	22	21	—
6% and over								
Average percentage contribution rate—								
for those paying	4.9	4.7	4.7	4.8	5.4	4.9	5.0	3.6
for all posts ^a	2.8	3.6	3.5	3.2	5.4	3.6	3.9	0.7
Where a contribution is payable rate applies to: (per cent of scaled posts)								
Basic pay ^b	54	70	51	50	55	68	59	38
Salary plus bonus ^b	46	30	49	50	45	32	41	62
Senior executives								
Proportion of scaled posts for which no contribution payable	26	14	19	36	—	8	17	69
Other posts	2	27	13	12	—	18	12	22
Less than 4%	14	—	9	20	—	31	15	—
4%–	30	47	42	25	75	25	37	9
5%–	28	13	18	6	25	17	19	—
6% and over								
Average percentage contribution rate—								
for those paying	5.1	4.6	4.9	4.5	5.2	4.5	4.8	2.6
for all posts ^a	3.8	4.0	4.0	2.9	5.2	4.1	4.0	0.8
Where a contribution is payable rate applies to: (per cent of scaled posts)								
Basic pay ^b	53	53	59	40	76	64	59	83
Salary plus bonus ^b	47	47	41	60	24	36	41	17

^a Including those in schemes requiring no contributions.

^b With or without allowance for State pension element.

Table 10 Provision of a company car for private use

		Non-financial companies—turnover (£ million)						All non-financial companies	Financial companies	
		1,705 and over	885–	425–	196–	89–	47–			
Main Board members										
Total number of posts covered by the sample—										
Actually used	No.	126	113	101	93	26	51	510	92	
Scaled up	No.	372	345	399	675	1,047	1,179	4,018	92	
Proportion of posts provided with—										
an individually-assigned car	%	100	100	100	100	100	100	100	88	
a second such car	%	13	14	7	1	23	2	10	1	
Proportion of cars replaced when more than four years old										
	%	7	10	10	17	—	—	5	—	
Average value of car provided—										
minimum	£	21,900	21,200	21,900	17,500	13,500	15,800	17,000	18,200	
maximum	£	40,900	37,500	30,800	24,800	26,300	24,700	28,300	26,500	
Proportion of cars for which petrol for private motoring is provided										
	%	82	78	81	85	94	77	84	28	
Proportion of cars for which user pays a charge for private motoring										
	%	16	7	14	—	—	—	4	32	
Average annual payment										
	£	559	951	700	—	—	—	683	781	
Range of annual business mileage covered—										
less than 2,500	% of cars	{	19	20	5	3	16	—	9	15
2,500—			71	35	72	72	66	60	63	83
18,000 or more			10	44	23	25	19	40	28	1
Senior Executives										
Total number of posts covered by the sample—										
Actually used	No.	321	280	216	177	27	143	1,164	294	
Scaled up	No.	3,764	2,263	1,827	1,990	1,732	4,070	15,647	679	
Proportion of posts provided with—										
an individually-assigned car	%	99	99	100	100	100	97	99	94	
a second such car	%	2	—	—	—	9	—	2	—	
Proportion of cars replaced when more than four years old										
	%	9	2	11	7	—	—	5	—	
Average value of car provided—										
minimum	£	14,100	13,500	13,800	12,300	10,700	9,800	12,200	14,800	
maximum	£	20,400	20,400	18,700	16,500	15,400	11,600	16,800	19,800	
Proportion of cars for which petrol for private motoring is provided										
	%	61	85	82	82	34	42	61	22	
Proportion of cars for which user pays a charge for private motoring										
	%	28	12	16	7	19	—	14	19	
Average annual payment										
	£	471	484	589	438	320	—	461	681	
Range of annual business mileage covered—										
less than 2,500	% of cars	{	15	4	4	2	9	4	6	18
2,500—			82	72	86	82	88	84	82	80
18,000 or more			3	24	10	16	4	12	11	2

Table 11 Fringe benefits (other than cars)

	Main Board members		Senior executives		
	Non-financial companies	Financial companies	Non-financial companies	Financial companies	
Loans or preferential mortgages for house purchase^a					
Proportion of companies providing	%	4.5	82	11	86
Proportion of posts receiving	%	3.3	74	6.2	77
Average amount outstanding per recipient	£	11,100	30,100	9,100	28,700
Average rate of interest charged	%	6.2	5.2	2.5	4.6
Loans for other purposes (including purchase of shares)					
Proportion of companies providing	%	<i>b</i>	23	<i>b</i>	36
Proportion of posts receiving	%	..	16	..	18
Average amount outstanding per recipient	£	..	12,000	..	8,300
Average rate of interest charged	%	..	8.2	..	7.0
Private medical insurance					
Proportion of companies providing	%	92	45	84	54
Proportion of posts receiving	%	95	58	81	62
Average cost to the company per recipient	£	295	240	251	207
Free or subsidised lunches					
Proportion of companies providing	%	61	86	59	86
Proportion of posts receiving	%	69	96	68	85
Average cost to the company per recipient	£	882	1,128	687	1,166
Profit sharing schemes (allocation of shares during year to 1 October 1987)					
Proportion of companies with a scheme	%	26	50	20	50
Proportion of posts acquiring shares	%	28	38	17	55
Value of average allocation during year per recipient	£	2,300	3,600	1,300	2,900
Share option schemes					
Proportion of companies with a scheme	%	73	64	73	64
Proportion of posts acquiring shares (during year to 1 October 1987)	%	36	41	24	35

^a Other than on appointment or relocation.

^b Too few observations.

Note. 'Proportion of posts' represents the scaled numbers of persons receiving each benefit as a percentage of all posts covered by the survey. Total numbers of posts are given in Table 10.

Appendix H

Evaluation of superannuation benefits

Report by the Government Actuary

1. Introduction

1.1 At the request of the Office of Manpower Economics (OME) on behalf of the Review Body I have made a new assessment of the value of superannuation benefits in various employments for the use of the Review Body in the current (1988) review of top salaries in the public sector. The last assessment by my Department was made in March 1985, providing the basis for Appendix F to the Review Body's Report No. 22. Consideration has again been given to senior civil servants, senior officers in the armed forces, members of the judiciary and, for comparison, executives in the private sector covered by the OME survey of private companies.

1.2 An assessment of the value of the benefits of a superannuation scheme can best be made on the basis of the expected value of the benefits to an average member. The value of the contributions made by the member can be deducted to give the net value to the member of the benefits paid for by the employer. This is the effective addition to salary arising from superannuation benefits. A convenient way to measure the value of this addition to salary is to express it as the level percentage of salary that, if paid into a pension fund and accumulated throughout the career of the average member, would just suffice to provide his benefits if the assumptions made as to interest, inflation, mortality, salary scales etc. were exactly realised.

1.3 I have been asked to make the evaluation taking account of the actual salary progressions at the present time in each group, and also to advise on whether typical senior executives retire on a higher proportion of salary than senior civil servants.

1.4 The results of the assessment of the relative values of benefits are given in section 7 and are followed by some explanation of the results. Some information is given in section 4.5 on the relationship between final salaries and subsequent pensions.

1.5 The calculations have been made for men; for women the value of the personal pension is higher on account of their longevity. However, in the public sector, and normally in the private sector, the greater value of widows' benefits compared with widowers' benefits means that the total value of the superannuation benefits is not very different for women and men.

2. Superannuation benefits

2.1 Members of the non-industrial civil service retiring at the normal retirement age of 60 generally obtain a pension of 1/80th of their final salary for each year of service, with a maximum of half pay if they entered before their 20th birthday. In addition a lump sum of three years' pension and a contingent widow's or widower's pension is payable. Members of the armed forces with more than thirty years' service also generally receive a pension at retirement of nearly half their final pay, together with a lump sum of three years' pension and a widow's pension of half the member's pension (for example, if service is from the 22nd birthday to the 55th birthday, the proportion is 47.4 per cent). Members of the judiciary generally receive a pension of one half of their final salary after a 15 or 20-year career, together with a lump sum (equal to two years' pension payments) and a widow's pension. Further details about the schemes are given in Annex 1.

2.2 Information has been provided by the OME, from its 1987 survey of private sector remuneration, about the superannuation benefits of some 2,000 individuals holding office as chief executive, deputy chief executive, other main Board member and two levels of senior executive in 127 unnamed companies, which have been divided into seven groups. Two levels of senior executives are distinguished in the

larger companies: level 1 — those who report direct to a main Board member — and level 2 — those who report to executives in level 1. Summaries of the main benefits and the employee contributions for each company scheme were given in the form of a questionnaire summarising the main provisions of the scheme. The information provided was adequate for analysis except in so far as it related to deputy chief executives of companies, where the numbers involved were too small to provide a reliable assessment.

2.3 An analysis of the superannuation arrangements of the private sector schemes is given in Annex 2. In 95 per cent of companies the accrual rate of the pensions is such that a two-thirds final salary pension can be attained after 40 years' service. However, the tables show that in the scheme rules of two-thirds of private sector schemes the retirement age is higher than 60, so that ostensibly there is a greater chance of the full pension being granted in the private sector than in the civil service. Indeed in half the private sector schemes a two-thirds pension can be achieved after less than 40 years' service. The question of whether in fact typical senior executives retire on a higher proportion of salary than senior civil servants depends on the details of their career patterns and this is dealt with in section 4.5. (In making these comparisons it can be assumed that a pension of eightieths with a 3/80ths lump sum, as in the civil service scheme, is almost equivalent to a sixtieths pension with an option to commute a part for a lump sum.)

2.4 Despite the fact that the third table in Annex 2 shows that in recent years the majority of private sector schemes have increased pensions in payment at least in line with increases in the retail price index, it is important to note that outside the public sector few schemes have rules which guarantee that the pensions will always be fully protected against inflation. Furthermore, a substantial number of schemes (generally those of the small firms) are at the present time increasing pensions by only 3 per cent a year.

2.5 Details were also provided by the OME of weighting factors, which have been applied to each scheme when deriving the weighted average value of company pension schemes for each subdivision of the companies by size and category of employee.

3. Pensionable salaries

3.1 Aggregate data on salaries have been provided by the OME for each of the posts in each group of companies, analysed by age. This indicated that average pensionable salaries plus bonuses probably ranged in 1987 from about £30,000 a year for senior executives in the smallest size group of companies to about £205,000 a year for chief executives in the largest size group. It also indicated that within a particular post and size group the salary varied significantly with age in only a few cases and in these cases the data was not sufficient to judge by how much the final salaries diverged from the average paid to all persons in the group. It has therefore seemed reasonable again to assume that the average pensionable salaries for a group are the final salaries for persons who retire in that group.

3.2 Information on the careers in the higher civil service, the armed forces and the judiciary was collected for my 1982 report and has been used again this year, together with the current remuneration levels of each rank or grade. No information is available on the salary careers of those reaching top positions in the private sector. It has been assumed that entry into the pension scheme is at the same average age as for civil servants (the 24th birthday), that the salaries are identical for the first five years or so, starting at £9,500 in the first year, and that no further promotion takes place after age 55. If those who reached top positions in the private sector had even by age 30 attained a higher salary than comparable public sector employees then this would only have a marginal effect on the evaluation. Assumptions made about the final salaries attained in different posts are given in Annex 3, Table A3.3. Examples of the assumed average salaries at different ages are given in Annex 3, Table A3.4 for both public and private sector careers.

3.3 It must be emphasised that the assessments given in this report are highly dependent on the steepness of the assumed salary scales, particularly after age 35. The assumption is made implicitly that the steepness of these scales will not change in the future.

4. Careers

4.1 For senior civil servants recruitment at age 24 and retirement at age 60 has been assumed, reflecting recent averages. It has been assumed that the current normal maximum salaries for each grade will be reached, as shown in Table A3.4 in Annex 3. For the armed forces retirement at age 55 after a career of 33 years has been assumed, although currently many senior officers do not retire until about age 57 or 58. We have considered four variations in our evaluation: assuming no officers or all officers take up further employment and in each case including and excluding the payment of pensions below age 60. For the judiciary typical appointments lasting nearly 20 years, starting at about age 50, have been considered. These take into account that magistrates are on average appointed at about age 49 and judges at about age 51.

4.2 In the private sector the normal retirement age provided for in the rules of each scheme (usually 60 or 65) has been taken as the average retirement age, although in recent years there has been a tendency towards earlier actual retirement. A little under 20 per cent of companies surveyed reported retirements taking place before the normal retirement age. The ages at which these retirements took place varied greatly, even within the same company, but were (with only a few exceptions) 60 or below.

4.3 In all schemes it has been assumed that there is in addition some early retirement due to ill-health. Further details of the probabilities of early retirement and of death in service are given in Annex 3, Table A3.2. Information about life expectancy after retirement is given in Annex 3, Table A3.1. As virtually no information is available on the relative experience of the different groups, apart from the armed forces, the same assumptions have been used for all groups. For the armed forces, the same rates of mortality and ill-health retirement during service have been used as were used for officers in my report for the Review Body on Armed Forces Pay, the details of which were appended to the published report.¹

4.4 In the public service it is usual for most benefits to vary directly with length of service. By contrast, in the private sector there is often provision for benefits to be enhanced on a discretionary basis for those with less than 40 years' service, so that those with 20 or more years' service may be given benefits little, if any, smaller than those awarded for a 40-year career. It may be argued that an individual who has changed his employment several times and derived no benefit from, say, his first 20 years' service other than a refund of his pension fund contributions, but who nevertheless receives substantially enhanced benefits in respect of his final employment, is no better off on this account than a career civil servant. With the increasing impact of preservation legislation and, in particular, the requirement for preserved benefits now to be revalued in line with inflation (or at 5 per cent a year if less), the value of benefits earned in previous employments will become more significant and may be expected to lead to nearly all private sector executives receiving a full pension.

4.5 Senior civil servants who entered as graduates are normally unable to complete 40 years' service by age 60 and hence cannot qualify for the maximum pension. There is no direct evidence available on whether or not typical senior executives are retiring with a full two-thirds final salary pension, although indirect evidence suggests that this is so. The data provided for the private sector show that only about 10 per cent of the individuals covered were late entrants with under 20 years of service possible by normal retirement age. Of these, the majority of the main Board members, but only a minority of the senior executives, were described as benefiting from some degree of enhancement of pension rights. In addition, it is

¹ Review Body on Armed Forces Pay, Fifteenth Report 1986 Cmnd. 9784.

reasonable to assume that a proportion of those with over 20 (but under 40) years of service possible by normal retirement age will also benefit from such arrangements. I have in this report assessed the value of superannuation benefits in the private sector on the assumption that, as for the civil servants, pension scheme membership begins on the 24th birthday. For those employees who subsequently move to a different employer, the recently strengthened preservation requirements are assumed to reduce the extent to which there will be any loss of pension rights as a result of their move, and it is assumed that in many cases they will benefit from a higher than a sixtieth rate of pension accrual which will make up any difference. Thus, mainly relying on the evidence in the rules of each scheme, I have in effect assumed that in 75 per cent of company schemes all the senior employees will obtain the maximum two-thirds pension.

5. Discounting of future payments

5.1 Of particular importance in the calculations are the assumptions regarding the future yield on investments in the hypothetical fund which underlies the calculation of a normal contribution, and the rates of increase in prices and earnings. As the results of the calculations are to be applied to all persons now earning top salaries in the public sector, it is necessary to have regard to reasonable assumptions for the long-term rather than just to consider the immediate future. I have assumed that, over the long-term, the yields on investments (including capital appreciation as well as interest) will on average exceed increases in the general level of earnings by $1\frac{1}{2}$ per cent a year and exceed increases in prices by 3 per cent a year.

5.2 For the civil service, the armed forces, and the corresponding private sector careers, separate allowance has been made for increases in earnings throughout the various careers considered. I have assumed that, apart from this, their salaries have increased and will, on the average in the long-term, continue to increase in line with the average level for all employees in the whole economy. I have also assumed that the yield on investments will average $8\frac{1}{2}$ per cent a year. Taken together, these assumptions imply that the general level of earnings will increase on average by nearly 7 per cent a year and that the rate of increase of prices will be just under $5\frac{1}{2}$ per cent a year. This implies an increase in real earnings of about $1\frac{1}{2}$ per cent a year. Assumptions as regards prices are required in addition to those in respect of earnings to allow for the fact that pensions are assumed to be adjusted after retirement at most only for price increases.

6. Pension increases

6.1 Closely linked to the question of inflation, and its assumed level in the future, is the question of pension increases in the private sector. In the public sector it has been assumed that pension increases will continue to follow increases in the cost of living, but in the private sector relatively few schemes granted increases at this level when the rate of inflation was much in excess of 5 per cent a year, although some schemes have recently granted additional increases to make up the shortfall. Almost all schemes now grant some increases. A summary of data provided by the OME for the five years 1983-87, relating to schemes to which retired Board members and senior executives belong, is given in Annex 2, Table A2.3. It appears that the average increase was 3.9 per cent a year during this period, as compared with an average increase in the index of retail prices from June 1982 to June 1987 of 4.5 per cent.

6.2 The years 1983-87 have seen a reduction in inflation and, as expected, the schemes show a higher degree of price protection than was apparent at the time of my 1985 report. The majority of company schemes under consideration are contracted-out of the State pension scheme. For such schemes some price protection for part of the company pension (the guaranteed minimum pension, or GMP) will be provided by the State scheme (from April 1988 only the excess over 3 per cent a year). I have, therefore, assumed that the occupational schemes themselves will not provide any increase where it is already provided by the State scheme. Because of the relatively low ceiling of the State scheme, the GMP will usually form only a small part of the pension for those earning top salaries.

6.3 Taking all these considerations into account, the following assumptions were made as regards pension increases:

- (i) where fixed-rate increases (usually at between 3 and 5 per cent a year) are provided, increases at that rate will continue;
- (ii) where increases are discretionary only, the scheme will continue to give increases that represent the same proportion of full cost of living protection as in the recent past, subject to a limit of 95 per cent;
- (iii) where both fixed-rate and discretionary increases are provided, the scheme will in future provide the fixed-rate increase plus discretionary increases that represent the same proportion of the excess of increases in the cost of living over the fixed-rate as has applied in the recent past, subject to a limit of 95 per cent;
- (iv) for the few schemes where it is known that discretionary increases are given, but the actual amounts given in the past are not known, and also where no information has been provided on pension increases, it is assumed that increases a little below the average for all schemes known to be giving discretionary increases will be provided.

6.4 If these assumptions are realised, schemes will in future, as in the past, provide a considerable degree of protection. With price increases of approximately 5½ per cent a year, protection against 76 per cent of price increases would on average be given, i.e. the pensions would be increased by 4.1 per cent a year. However, as Annex 3, Table A3.5 shows, the figures assumed vary considerably by size of company. It will be noted that the pension increases assumed to be granted in the future are only slightly higher than the average of those granted over the period 1983-87, even though the inflation assumed for the future is about 1 per cent higher than was recorded for those years.

7. Results of evaluation

7.1 The results of an evaluation on this basis are shown in Tables 1 and 2 in the form of contribution rates. These are the percentages of earnings, which, if paid into the fund throughout each person's career, together with any relevant employee contributions, will be just sufficient on average to provide the benefits.

Table 1 Value of superannuation benefits for public service careers as a percentage of salary throughout career net of employee contributions

Branch of public service	Career leading to retirement as:		
	Grade 1	Grade 2	Grade 3
Civil service	31	26½	24½
Armed forces:	General	Lieutenant General	Major General
(i) All taking up civilian employment:			
(a) All benefits	56	48	44½
(b) Excluding pension paid 55-60	46½	40	37
(ii) None taking up civilian employment:			
(a) All benefits	48½	41½	38½
(b) Excluding pension paid 55-60	39	33½	31
Judiciary	High Court Judge	Circuit Judge	Metropolitan Magistrate
	32	32	27½

Table 2 Value of superannuation benefits in the private sector as a percentage of total salary throughout career net of employee contributions

Sector and size		Chief executive	Other main Board members ^a	per cent of salary	
				Senior executives Level 1	Level 2
Non-financial companies					
Size group	Turnover				
	£ million				
1	over 1,705	41	37	30	27
2	885 — 1,705	39	34	27	22
3	425 — 885	36	32	24	} ^b
4	196 — 425	35	30	23	
5	89 — 196	34	27	21	
6	47 — 89	27	19	17	
Financial companies		44	38	35	32

^aExcluding deputy chief executive.

^bSurvey information not collected.

7.2 In Table 1 the percentages for the armed forces are higher than for civil servants because their retirement ages are assumed to be five years earlier. In addition retired officers may earn pension benefits from civilian employment, assumed to last from age 55 to age 63, and here expressed in value as a percentage of their service career earnings in the manner described in my report to the Review Body on Armed Forces Pay of April 1981¹. For the judiciary the effect of the older age at retirement is offset, as compared with the other groups, by the much shorter careers assumed. A further feature shown in Tables 1 and 2 (taken in conjunction with Annex 3, Tables A3.3 and A3.4) is that the steeper the salary progression during the career the greater the value of the benefits in relation to career earnings.

7.3 Table 2 covers only private sector posts. The percentages of salary shown allow for the combined effect of superannuation benefit structure (including the normal retirement age), the definition of pensionable salary, and the average salary pattern appropriate to the particular post and the sized group of the company. The figures for the posts shown in Table 2 are comparable to those for the careers in the civil service, the armed forces and the judiciary in Table 1, in that each is based on the salary pattern appropriate to the career in question.

7.4 Although Table 2 does allow for recent changes downwards in the normal retirement age as stated in the rules of a few companies it does not make any allowance for the lower average age at retirement actually experienced in some schemes in the recent past. As has been said in section 4.2, age at retirement varies greatly even within the same company, and so it is not feasible to calculate the value of pensions assuming that the practice of the recent past is continued into the future. However, one can say that if the average age of retirement were to fall by one year, the contribution rates would increase by between one and two percentage points, depending on the scheme and the salary scale.

7.5 The figures in Tables 1 and 2 are not directly comparable with the equivalent tables in the 1985 review because the current figures are quoted net of employee contributions, whereas in the 1985 review they were quoted without any allowance for employee contributions. In addition the figures for the armed forces are shown in a different format: four sets of values are shown and it is the figures on line (ii)(a) which are equivalent to the figures in the 1985 review. The employee contribution rates vary from one group to another. The civil service contribution rate is 1½ per cent, the armed forces scheme is non-contributory and the judiciary rates are 4 per cent for judges and 3 per cent for magistrates. For most of the private sector

¹ Review Body on Armed Forces Pay. Tenth Report, 1981 Cmnd. 8241.

groups considered (according to size of company and level of responsibility) the average contribution rates are between $3\frac{1}{2}$ and 4 per cent, but there are some exceptions, the most notable being the financial companies where most schemes are non-contributory, so bringing down their average contribution rate to $\frac{1}{2}$ per cent. Table 3 shows a distribution of the different contribution percentages.

Table 3 Members' contributions in company schemes as a percentage of earnings

Contribution percentage	Number of companies	Percentage of companies
Nil	46	36
0-1.9	1	1
2.0-3.9	8	6
4.0-5.9	53	42
6.0 and over	19	15
Totals	127	100

7.6 The changes in the economic assumptions have reduced the value of the superannuation benefits for all groups in the public and private sectors. This is because the prospect for real investment returns (i.e. returns in excess of inflation rates) is considered to have improved, so that smaller contributions to pension funds should suffice to provide the benefits. The size of this reduction is of the order of one eighth of the 1985 review values. This reduction has been completely offset for the private sector groups by steeper salary scales, an increase in the extent to which it is assumed that pension increases will match increases in the cost of living, and also, in some schemes, by a reduction in the pension age prescribed in the scheme rules. The steepness of the salary scales has affected both the public and the private sectors, but by different amounts. Generally the higher the final salaries, the greater has been the steepening in the salary scales. Some groups have had exceptional steepening, in particular chief executives of companies with a turnover of more than £885 million, and the chief executives of financial companies.

7.7 At a number of points in this report it has been emphasised that the comparisons between the public and private pension values are particularly sensitive to certain of the assumptions underlying the calculations. Foremost amongst these is the degree of protection against inflation after retirement in the private and public sectors: The calculations assume an average shortfall of 1.4 per cent a year in the private sector as compared with public sector full indexation. The average shortfall in the period 1983-87 was only 0.6 per cent a year, but the circumstances were exceptionally favourable. The assumptions made are intended to represent average conditions over a long period in the future, and could be said to allow for an occasional burst of relatively high inflation. If inflation were to average 10 per cent a year from now on into the long-term future, then the average shortfall in private sector pensions might be, perhaps, 2.5 per cent a year, which would reduce their value by a little under a tenth, or, say, two or three percentage points for most groups.

7.8 Now that senior executives are often appointed at an earlier age than in the past, they may increasingly tend to retire at age 60, as is currently the norm in the civil service. If this became normal without pensions being reduced in consequence, the effect would be to increase the value of private sector pensions as a proportion of salary by about a tenth, though in the context of evaluating the remuneration from a whole career the loss of earnings after age 60 would have to be taken into account.

7.9 Some information was available on the ages of the top salary earners in both sectors. However, assumptions other than those shown in Table A3.4 in the annex could justifiably have been made. For instance it could be assumed that the retirement grade or level is reached in all cases by age 50, and for some people somewhat earlier, rather than generally being reached between 50 and 55. Then,

although the amounts of pension would not be affected, the salary base for the (hypothetical) contribution rate would be increased and the percentages quoted would be reduced by about a sixteenth for the civil servants and for senior executives in large companies and by about a tenth for chief executives of large companies. Thus the difference in pension values between the chief executives and the other levels or grades would be somewhat reduced.

7.10 It may be useful to have a rule of thumb for estimating roughly the effect of steeper (or less steep) salary scales for senior civil servants. If the salary at retirement is increased by a tenth and the salaries at ages under 35 are unchanged, with corresponding changes between ages 35 and 55, the value of pension benefits as a proportion of salary is increased by about one percentage point. Similarly a reduction of a tenth in the salary at retirement relative to salaries at ages under 35 would reduce the value of pension benefits by about one percentage point.

8. Summary

8.1 In making an assessment of the value of superannuation benefits at senior levels in the public and private sector, I have on this occasion evaluated the value of the benefits payable to pension scheme members net of their own contributions. The percentages of salary shown in section 7 thus represent a measure of the additional value of total remuneration which is accounted for by pension scheme benefits. To this extent the figures in this report are not directly comparable with the figures in my March 1985 assessment, which represented the total value of superannuation benefits before taking into account members' contributions.

8.2 Changes in the economic assumptions made because of the improved prospects for real returns on investments have resulted in the values of pension benefits for both sectors being reduced by about an eighth. As far as the differences between public and private sectors are concerned, the more stable situation regarding inflation has led to a relative increase in the value of private sector benefits, since the degree of inflation-proofing may now be expected to be higher. A general steepening of salary scales since the last assessment has increased the values placed on pension benefits in both sectors, although more so in the private sector.

8.3 It is less common in the private sector than in the public sector for individuals to spend their whole career in one employment. Nevertheless, a substantial proportion of those retiring at the most senior levels in the private sector do so with a full pension, since it is common for late entrants to be given accelerated accrual of pension rights. In the past pension benefits accrued in previous employments have generally been of relatively little value by the time retirement age is reached. However, preserved benefits earned during earlier appointments are likely to become increasingly valuable and should ensure in due course that almost all private sector executives retire on full pension. Most senior civil servants, on the other hand, retire with a slightly less than full pension because few complete the 40 years necessary to become entitled to a full pension. This difference has been taken into account in making the assessments in this report.

8.4 Comparisons of the value of superannuation benefits in different employments can never be precise. The figures shown in this report are intended to bring out the most important features of the differences between the public and private sector careers examined. Paragraphs 7.7 to 7.10 give some quantification of the uncertainty which needs to be borne in mind in making use of the numerical results in Tables 1 and 2.

Edward Johnston
Government Actuary

Government Actuary's Department
London WC2
April 1988

Details of public sector schemes

A. The Principal Civil Service Pension Scheme

1. This Scheme is operated by means of Rules laid down under Sections 1 and 2 of the Superannuation Act, 1972. The present Rules are set out in the Principal Civil Service Pension Scheme 1974, third edition, as amended. The Scheme is very complicated but the main provisions, as they affect benefits accruing for current service as a civil servant, are set out below.

2. **Membership and Service.** Almost all civil servants working over 15 hours a week are members, and all service as a member reckons for benefit, including part years of service, subject to a limit of 40 years' reckonable service before age 60 and 45 years' total service.

3. **Benefits on retirement at or over age 60.** A pension of one-eightieth of final pay for each year of reckonable service plus a lump sum of three times the pension. Final pay is pay (defined as basic pay plus permanent emoluments only) in the best year of the last three years of service.

4. **Benefits on ill-health retirement after at least 2 years' service.** Immediate benefits calculated as for age retirement but with service enhanced as follows:

- (i) if it is less than 5 years there is no enhancement
- (ii) if it is between 5 and 10 years, to double its length
- (iii) if it is 10 years or more, to the better of
 - (a) 20 years and
 - (b) actual service plus $6\frac{2}{3}$ years.

However, enhanced service under (ii) or (iii) (a) may not exceed potential service to age 65, and under (iii) (b) may not exceed potential service to age 60.

5. **Benefits on withdrawal.** If service is under 2 years, the employee's GMP entitlement would normally be met by the payment of a contributions equivalent premium to the State scheme. If service is over 2 years, a preserved pension and lump sum calculated as in paragraph 3 above is awarded, coming into payment at age 60. A transfer value may be paid to the new employer's scheme or to other approved pension arrangements in accordance with Statutory requirements.

6. **Benefits on death in service.** A lump sum of two years' pay.

7. **Family benefits and contributions.** Civil servants pay family contributions of $1\frac{1}{2}$ per cent of pay. A widow's or widower's benefit is payable at the rate of one-half of the spouse's pension, on death after retirement, or one-half of the pension that would have been received on ill-health retirement on death in service. A deduction of $1\frac{1}{2}/80$ ths of pay is made from the lump sum benefits for each year of service for which family contributions have not been paid—this is mainly the enhancement of service mentioned in paragraph 4—and contributions are returned on the retirement or death of a bachelor or spinster. Widow's or widower's benefit is paid at a higher rate for the first three months of payment (and this short-term pension is also paid in the event of the spouse's death in service with less than two years' service) and there are additions of one-half of the pension in respect of each dependent child (for up to two children). Widows' and widowers' pensions cease on remarriage.

8. There are other provisions of the scheme for premature retirement in certain circumstances and injury benefits. There is also optionally available to the member, at no cost to the scheme, allocation of pension in favour of a spouse or dependant and purchase at full cost of added years of service.

9. Pensions under the scheme are protected against price inflation after retirement under the Pensions (Increase) Acts.

B. The Armed Forces Pension Scheme (Officers)

1. The Scheme is operated by means of Prerogative Instruments which set out the rates of benefit payable and the conditions of award. The scheme is non-contributory and members of the scheme are contracted-out under the Social Security Pensions Act, 1975. The Scheme is very complicated but the main provisions as they affect benefits accruing for current service as a member of the armed forces, are set out below.

2. **Membership and service.** All members of the regular forces, both male and female, are members of the scheme except for officers on short-service gratuity-earning commissions. All service from age 21 reckons for benefit, subject normally to a limit of 34 years' reckonable service.

3. **Pensionable pay.** Pensionable pay is based on the length of service and the rank attained rather than on actual pay received by the individual. Representative pay rates (based on the current appropriate combatant rate for the rank in the case of officers) form the basis for calculating pension entitlement.

4. **Benefits on retirement other than on grounds of invaliding.** Officers with at least 16 years' reckonable service are entitled to retire with an immediate pension. The pension is 28.5 per cent of representative pay after 16 years' reckonable service increasing uniformly until it is 48.5 per cent of representative pay after 34 years' reckonable service. The level of pension may be reduced by up to 10 per cent in cases of voluntary retirement. In all cases a lump sum of three times the pension is payable.

5. **Benefits on retirement on grounds of invaliding.** If reckonable service is less than 2 years, the member may be awarded a gratuity and will be bought back into the State scheme unless a transfer value is paid. If reckonable service exceeds 2 years there is an immediate pension plus a lump sum of three times the pension. The level of pension is based on the full career pension for that rank i.e. that awarded after 34 years' reckonable service. For officers the invaliding pension is 30 per cent of the full career pension after 5 years' reckonable service increasing uniformly to 100 per cent after 31 years.

6. **Benefits on withdrawal.** If reckonable service is less than 2 years, the member will be bought back into the State scheme unless a transfer value is paid. If service exceeds 2 years but the member is ineligible for an immediate pension, a preserved pension is payable from age 60 together with a lump sum of three times the pension, also payable at age 60. For officers the preserved pension is 3 per cent of full career pension for each year of reckonable service. Alternatively a transfer value may be paid under Statutory provisions to the new employer's pension scheme or to other approved pension arrangements.

7. **Benefits on death in service.** A lump sum is payable equal to the greater of one year's salary at the representative pay rate (approximately) or the lump sum that would have been payable on retirement on invaliding grounds.

8. **Family benefits.** A spouse's pension is payable at the rate of one-half of the member's pension on death after retirement, or one-half of the pension that would have been received on retirement on invaliding grounds if death occurs in service. A higher rate of pension based on the member's pension or pay at the date of his death is payable for the first three months of widowhood. There are additions of one-half of the spouse's pension in respect of each dependent child (for up to two children). Spouses' pensions cease on remarriage.

9. Other provisions of the Scheme permit a higher level of invaliding pension or widow's pension where the invaliding or death is attributable to service in the forces. Also available to the member, at no cost to the scheme, is a facility to purchase added years of service.

10. Although the Pensions (Increase) Acts do not apply to the Armed Forces Pension Scheme, pensions increases on similar lines are provided for by means of the Prerogative Instruments. Thus pensions under the Scheme are protected against price inflation after retirement, except that no increases are actually put into payment until age 55 (except where it is an invaliding or widow's pension).

C. Judicial pensions

1. The superannuation arrangements for members of the judiciary within the scope of this report are covered by around twenty separate statutes. For instance, the Courts Acts (Section 19) provide for the granting of a pension to Circuit Judges but the Administration of Justice (Pensions) Act, 1950 (SS. 2-9 and 11) as amended by the Administration of Justice Act, 1973 (S. 10) provides for the payment of a lump sum and widows' and children's pensions generally. The following is a brief summary of these provisions.

2. **Pensions—higher judiciary.** After 15 years' service the pension is one half of last annual salary. If the period of service is less than 6 years, the pension is one quarter of last annual salary, and if the period is 6 or more years but less than 15 years, the pension is one quarter of last annual salary plus $\frac{1}{40}$ of that salary for each completed year of service exceeding 5. The pension is payable on retirement from age 70 or after 15 years' service, whichever occurs earlier.

3. **Pensions—Circuit Judge.** After 15 years' service the pension is one half of last annual salary. If the period of service is less than 5 years, the pension is $\frac{6}{40}$ ths of last annual salary, and if the period is 5 or more years but less than 15 years, the pension is one quarter of last annual salary plus $\frac{1}{40}$ th for each completed year of service exceeding 5. The pension is payable on retirement from age 72 or after 15 years' service and after attaining age 65, whichever occurs earlier.

4. **Pensions—Stipendiary Magistrate.** After 20 years' service the pension is one half of last annual salary. After 10 or more years but less than 20 years, the pension is one quarter of that salary plus $\frac{2}{80}$ ths for each completed year of service after the first 10 years. After 5 or more years but less than 10 years the pension is $\frac{15}{80}$ ths of last annual salary plus $\frac{1}{80}$ th for each completed year of service exceeding 5. The pension is payable on retirement from age 65.

5. **Lump sum on retirement.** A lump sum is paid on retirement equal to twice the annual amount of pension.

6. **Family benefits and contributions.** Contributions for family benefits are generally payable at the rate of 4 per cent of salary, but at the rate of 3 per cent of salary for Stipendiary Magistrates (whose pensions accrue over 20 years rather than 15). A spouse's pension is payable of one half of the personal pension, and there are additions of one-half of the widow's pension in respect of each dependent child (for up to two children). A deduction is made from the lump sum benefits of married men for each year of service for which family contributions have not been paid.

7. Pensions are protected against price inflation after retirement under the Pensions (Increase) Acts.

Details of private sector schemes

Note: In the following three tables companies making different provisions for two different groups—usually Board members and others—are counted as one half in each of the appropriate categories

Table A2.1 Retirement age in rules

Age	Number of companies	Percentage of companies
55	1	1
60	42	33
61-64	31	24
65	53	42
Total	127	100

The average age was 62½ but varied from 61½ for the largest companies to nearly 65 for the smallest (with financial companies having an average of 60½).

Table A2.2 Years of service required for a pension of two-thirds final salary on retirement at the normal pension age

Years	Number of companies	Percentage of companies
		%
Up to 20	32	25
Over 20, but less than 40	31½	25
40 years	57½	45
Not attainable ^a	6	5
Total	127	100

^aPension accrues at less than 1/60th of final salary for each year of service.

Table A2.3 Average annual pension increases granted 1983-87

Annual increase	Number of companies	Percentage of companies
No increase	7	5
Increase, but less than 2%	5	4
2% but less than 4%	41	32
4% but less than 6%	63	50
6% but less than 8%	6	5
8% or more	2	2
Not known	3	2
Total	127	100

The average increase in the index of retail prices between June 1982 and June 1987 was 4.5 per cent a year.

Assumptions about mortality rates, careers and pension increases

Table A3.1 Life expectancy of pensioners

Age at retirement	Normal retirement Life expectancy ^a	Early retirement Life expectancy ^b
	years	years
30	—	20.0
35	—	19.2
40	—	18.2
45	—	17.0
50	—	15.6
55	22.6	13.9
60	18.7	12.4
65	15.2	8.3
70	12.1	—

^aAs PA(90) Tables for Pensioners, published by the Institute and Faculty of Actuaries, but entering at an age one year younger.

^bAbout one year longer for the armed forces.

Table A3.2 Probability of death in service or of early retirement in the year following the age stated

Age at beginning of year	Death in service	Early retirement
27	0.0007	0.0004
32	0.0008	0.0006
37	0.0012	0.0008
42	0.0017	0.0013
47	0.0033	0.0027
52	0.0060	0.0057
57	0.0095	0.0140
62	0.0150	0.0315
67	0.0242	0.0620

Probabilities of early retirement are assumed on average to be about three times higher than shown above for officers in the armed forces, and their probabilities of death in service somewhat smaller than for other groups.

Table A3.3 Private sector: assumed salaries plus bonuses at retirement (based on salaries plus bonuses estimated as applicable in 1987)

Sector and size		Chief Executive	Other main Board member ^a	Senior Executive	
Size group	Turnover			Level 1	Level 2
	£ million	£	£	£	£
Non-financial companies					
1	over 1,705	205,000	105,000	55,000	45,000
2	885 — 1,705	170,000	85,000	50,000	35,000
3	425 — 885	110,000	70,000	45,000	}
4	196 — 425	100,000	60,000	35,000	
5	89 — 196	95,000	60,000	35,000	
6	47 — 89	75,000	45,000	30,000	
Financial companies		140,000	80,000	65,000	55,000

^aExcluding deputy chief executives.

^bSurvey information not collected.

Table A3.4 Average pensionable salaries estimated as applicable in 1987

Age group	Civil Servants retiring as:			Private sector careers (examples) retiring as:			
	Grade 1	Grade 2	Grade 3	Chief Executive ^a	Other Board member ^a	Senior Executive ^a	Senior Executive ^b
	£	£	£	£	£	£	£
24-29	12,100	12,100	12,100	12,100	12,100	12,100	12,100
30-34	17,500	17,500	17,400	17,500	17,500	17,500	17,000
35-39	25,500	23,400	21,700	43,000	30,500	24,300	21,000
40-44	36,800	29,700	26,100	89,300	51,800	33,100	25,000
45-49	48,100	36,000	30,500	135,600	73,100	41,900	29,000
50-54	59,400	42,300	34,800	181,900	94,400	50,700	33,000
55-59	65,000	45,500	37,000	205,000	105,000	55,000	35,000
60-64	—	—	—	205,000	105,000	55,000	35,000

^aCompanies with a turnover of £1,705 million and over.

^bCompanies with a turnover of at least £89 million but under £196 million.

Age group	Members of the judiciary retiring as:			Officers in armed forces retiring as:		
	High Court Judge	Circuit Judge	Metropolitan Magistrate	General	Lieutenant General	Major General
	£	£	£	£	£	£
22-24	N/A	N/A	N/A	10,200	10,200	10,200
25-29				13,400	13,400	13,400
30-34				19,400	17,900	17,100
35-39				26,600	25,100	22,600
40-44				41,100	32,400	28,000
45-49	55,900	41,000	33,700	65,000	45,500	37,000
50-54	65,000	43,500	33,500	N/A	N/A	N/A
55-59	65,000	43,500	33,500			
60-64	65,000	43,500	33,500			
65-69	65,000	43,500	33,500			

Average salary at age 24 assumed to be £9,500, except in the armed forces where it is assumed that this level is reached on the 23rd birthday. Civil servants' salaries up to Grade 4 include London Weighting. For the armed forces the figures relate to the actual level of pay received, including allowances, for typical careers, with the bottom line also representing the final pensionable pay.

For private sector careers the full range of salaries assumed at retirement are given in Table A3.3.

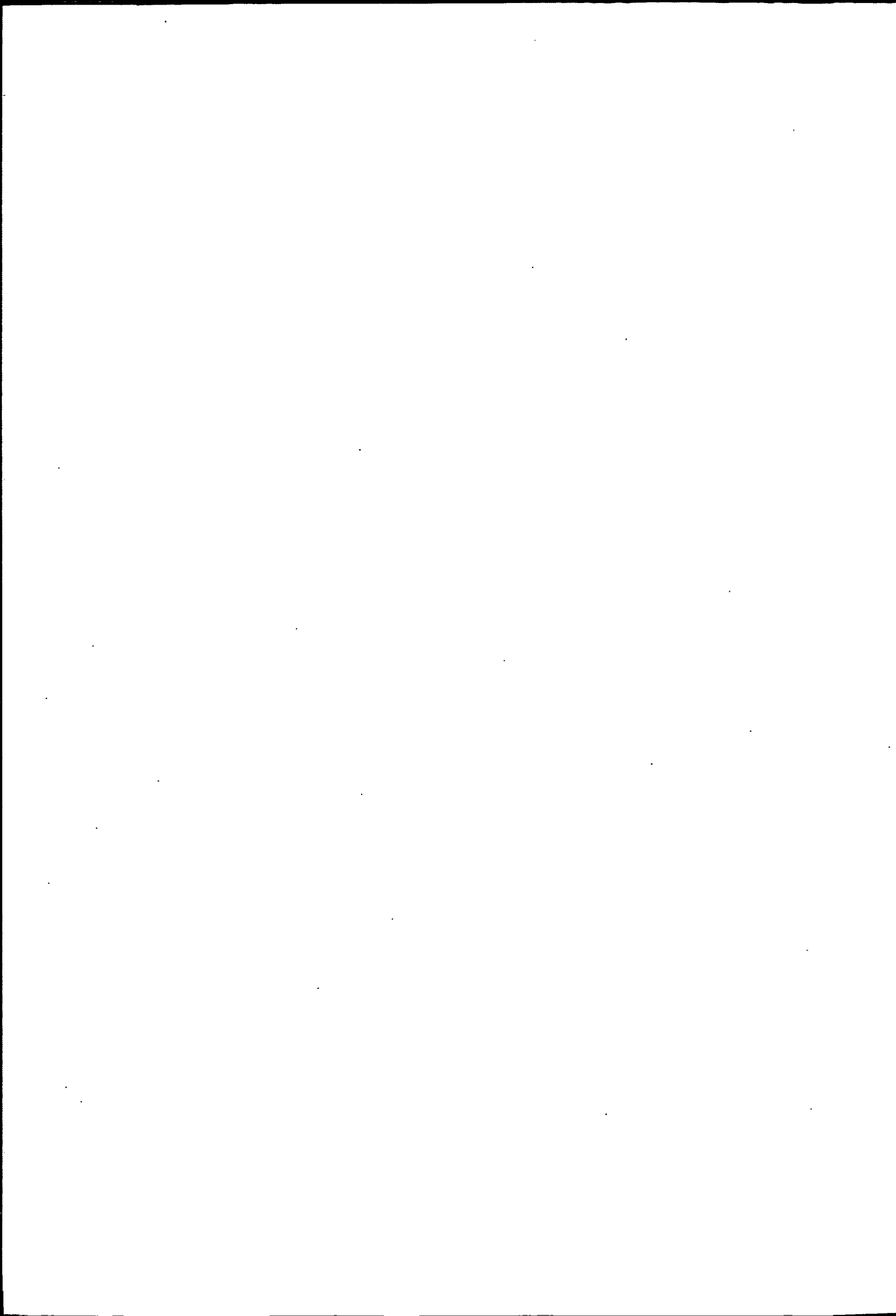
N/A = Not applicable.

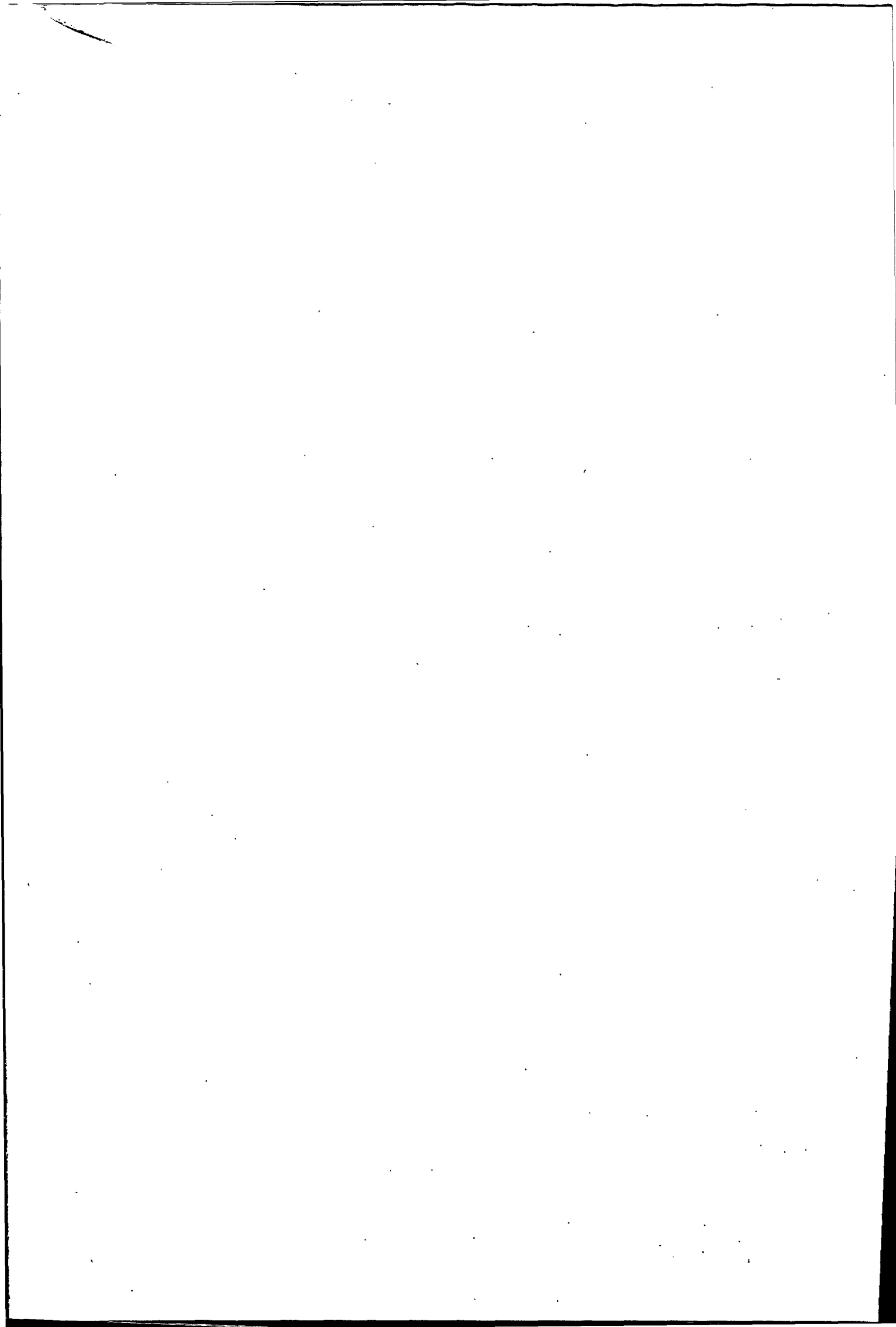
Appendix I

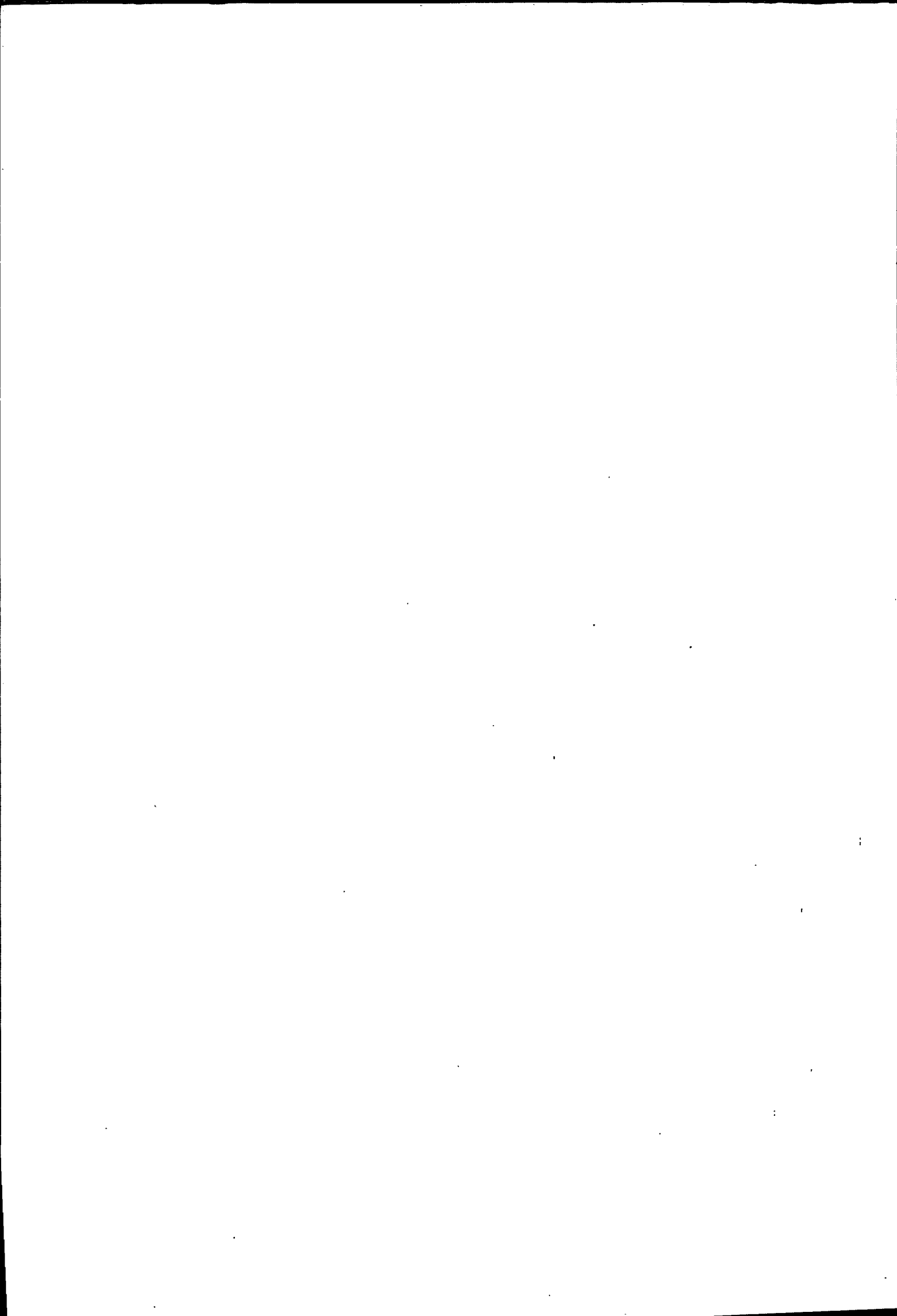
Salary differential between one star officers (Brigadiers) and two star officers (Major Generals) in the armed forces

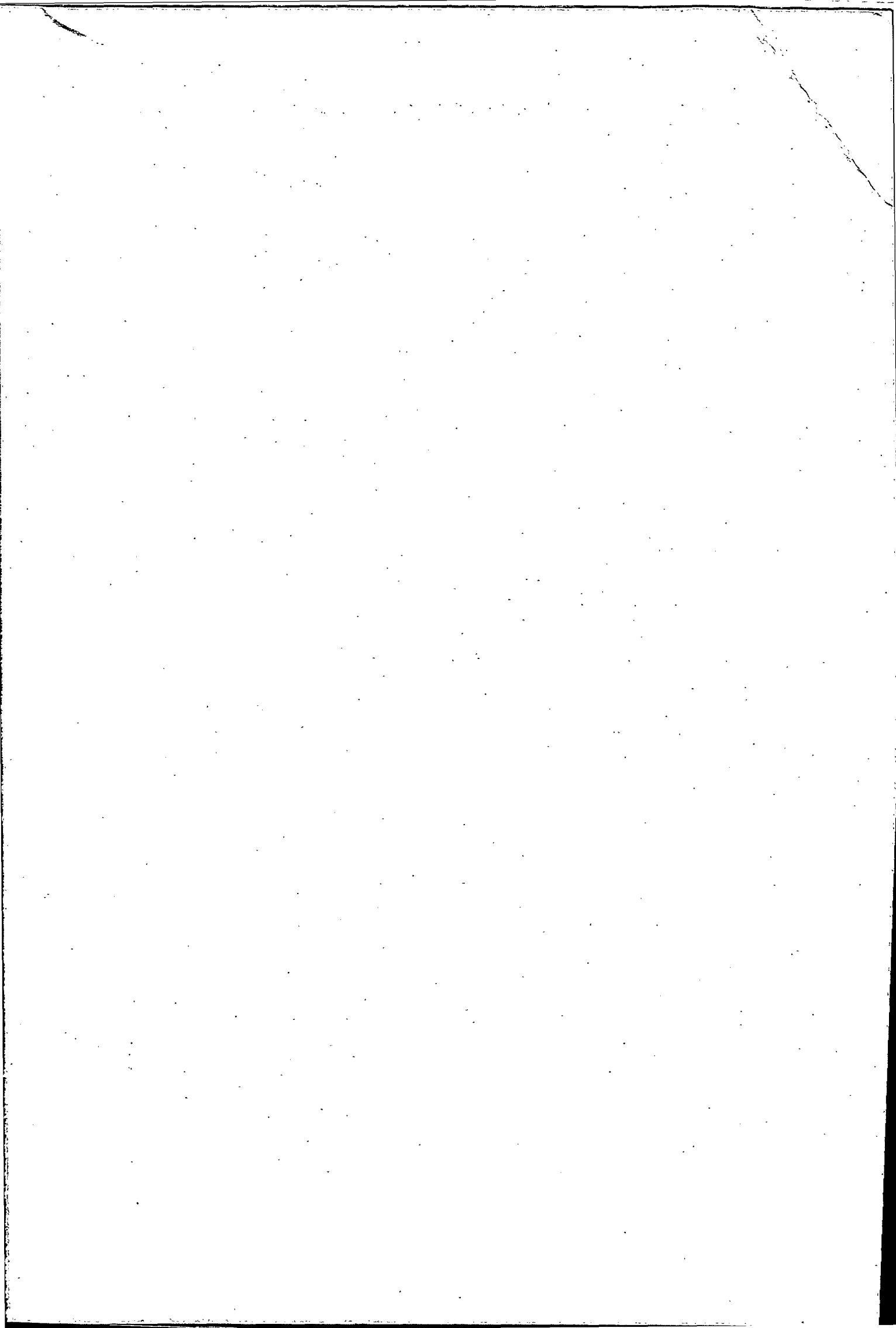
1. The pay of one star officers is recommended by the Review Body on Armed Forces Pay (AFPRB); the pay of two star officers is recommended by the Review Body on Top Salaries (TSRB).
2. In 1974 the one star/two star differential was 24 per cent. Since 1978 it has varied as follows:

<i>Date</i>	<i>Differential %</i>	<i>Remarks</i>
April 1979	9.6	
April 1980	12.3	
April 1981	5.0	
April 1982	9.9	
April 1983	NIL	AFPRB award but no TSRB award
August 1983	7.0	TSRB interim award
January 1984	11.0	TSRB second stage
April 1984	11.0	TSRB and AFPRB first stage
November 1984	8.9	TSRB and AFPRB second stage
April 1985	0.3	AFPRB award but no TSRB award
July 1985	8.0	TSRB first stage
March 1986	15.6	TSRB second stage
July 1986	9.9	TSRB and AFPRB deferred awards
April 1987	8.1	AFPRB full award and TSRB first stage
October 1987	8.5	TSRB second stage











HMSO publications are available from:

HMSO Publications Centre

(Mail and telephone orders only)

PO Box 276, London SW8 5DT

Telephone orders 01-622 3316

General enquiries 01-211 5656

(queuing system in operation for both numbers)

HMSO Bookshops

49 High Holborn, London, WC1V 6HB 01-211 5656 (Counter service only)

258 Broad Street, Birmingham, B1 2HE 021-643 3740

Southey House, 33 Wine Street, Bristol, BS1 2BQ (0272) 264306

9-21 Princess Street, Manchester, M60 8AS 061-834 7201

80 Chichester Street, Belfast, BT1 4JY (0232) 238451

71 Lothian Road, Edinburgh, EH3 9AZ 031-228 4181

HMSO's Accredited Agents

(see Yellow Pages)

and through good booksellers