Response to the Treasury Select Committee in respect of HM Treasury's 2013-14 Annual Report and Accounts

At the committee hearing on 2 September 2014, the committee asked questions relating to HM Treasury pay, PF2 guidance and retention of private office documents. I would therefore like to provide further detailed information on those three areas.

Treasury Pay

1) Treasury pay compared to other government departments

The committee asked how Treasury pay has compared with other government departments and the primary drivers for key differences.

The table below shows the comparison between HM Treasury pay medians and Whitehall pay medians as at 31 December 2013.

Table 1

<table>
<thead>
<tr>
<th>HMT Ranges ¹</th>
<th>CS Grade</th>
<th>Median</th>
<th>Whitehall Median</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range B</td>
<td>AO</td>
<td>£21,000</td>
<td>£22,593</td>
<td>7.05</td>
</tr>
<tr>
<td>Range C</td>
<td>EO</td>
<td>£24,688</td>
<td>£26,977</td>
<td>8.49</td>
</tr>
<tr>
<td>Range D</td>
<td>HEO/SEO</td>
<td>£31,320</td>
<td>£38,749</td>
<td>19.17</td>
</tr>
<tr>
<td>Range E</td>
<td>Grade 7</td>
<td>£46,689</td>
<td>£51,708</td>
<td>9.71</td>
</tr>
</tbody>
</table>

¹ Generally, Range B & C are business support roles, Range D are graduate entrants and policy advisors, Range E are senior policy roles and E2 are senior policy roles which high demand a high level of qualification and expertise.
The chart below shows the trend in the pay differential between Treasury pay medians and Whitehall pay medians for the years 2007, 2011-2013. Annex A provides comparisons of HM Treasury pay medians and Whitehall pay medians for each grade over these years.

Chart 1

The reasons for the differentials are historical and date back to when Civil Service pay was delegated to departments in 1 April 1996. The primary causes for the differences in pay medians between the Treasury and other government departments are:

- **Adherence to government pay policy** – Treasury has been keen to lead by example in following the restrictions of public pay policy.
- **Flatter grade structure** – Treasury has a flatter grade structure than other departments which retain a seven grade structure and sometimes have an additional separate fast stream grade.
- **No progression pay** – Treasury does not have progression pay, whereas other departments have had progression pay which enabled staff to move up in their pay grade. In some cases this was contractual and as a result entitlement to these increases remained during the pay freeze. The Government has implemented changes to pay policy to bring progression pay to an end; however, buying out of contractual entitlement has increased the gap between the Whitehall and Treasury medians.
- **Few machinery of government changes** – Other departments that have merged, such as the Inland Revenue and HM Customs, increased salaries as a result of harmonisation onto a standard set of terms and conditions.
- **Recruitment strategy** - Treasury has had a good track record of attracting individuals and was able to offer swift promotion opportunities for talented individuals, which helped mitigate the impact of lower salaries, but as promotion opportunities are fewer, retention is becoming of greater concern.

Senior Civil Service (SCS) pay is set across government and managed by the Cabinet Office. In 2013 the median salaries of Treasury staff at the SCS pay band 1 level were also below that of other government departments, as shown in the chart below.

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2 Comparisons are not given between 2007 and 2011 because no Whitehall medians are available as it was during the pay freeze and data was not collected.
The primary causes for the differences for Treasury’s median being lower are:

- **Fewer grades at delegated levels** (particularly prior to the introduction of E2) which results in a high proportion of staff who promoted internally just moving to the minimum of the grade.
- **Fewer external appointments** – Senior staff recruited from the external market tend to start on higher salaries.

To reduce the differences in pay, Treasury recently introduced two new sub-grades, within the pay remit guidelines, called Range D2 and Range E2. The introduction of Range E2 (equivalent to Grade 6) has reduced the differential, as shown in the graph below which shows the Grade 6 median pay in 2012-13 of other government departments compared to Treasury’s Range E and Treasury’s Range E2.

2) **Treasury pay compared to its other key public sector competitors**

Treasury’s other key public sector competitors for experienced HM Treasury staff are the Financial Conduct Authority (FCA) and the Bank of England (BoE).
The FCA has broad pay ranges and each level has an associated indicative pay range. They use pay ranges rather than a specific ‘rate for the job’ to reflect that there is no single market rate of pay for a given job. Each pay range is set in relation to the markets in which they compete for staff, in most cases this is the financial services sector. Individual salaries are set taking the individual’s skills, knowledge and experience and overall contribution; and with reference to their peers. The BoE also matches their salaries against the financial services markets to attract the skills and experience they need.

The table below compares Treasury pay for Ranges D, E and E2 against FCA and BoE equivalent grades as at 1 August 2014 and SCS equivalent grades as at 2013.

Note that just comparing base salaries is incomplete. For example the Civil Service Pension scheme provides double the benefit to that of the FCA pension scheme

Table 2

<table>
<thead>
<tr>
<th>HMT Range</th>
<th>HMT pay scales</th>
<th>FCA pay scales</th>
<th>BoE pay scales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum</td>
<td>Maximum</td>
<td>Minimum</td>
</tr>
<tr>
<td>Range D</td>
<td>£27,726</td>
<td>£38,255</td>
<td>£43,000</td>
</tr>
<tr>
<td>Range E</td>
<td>£46,193</td>
<td>£57,801</td>
<td>£65,000</td>
</tr>
<tr>
<td>Range E2</td>
<td>£54,540</td>
<td>£60,000</td>
<td>£65,000</td>
</tr>
<tr>
<td>SCS 1</td>
<td>£60,000</td>
<td>£117,800(^1)</td>
<td>£95,000</td>
</tr>
<tr>
<td>SCS 2</td>
<td>£84,000</td>
<td>£162,500(^2)</td>
<td>£95,000</td>
</tr>
<tr>
<td>SCS 3</td>
<td>£103,000</td>
<td>£208,100(^3)</td>
<td>£151,000</td>
</tr>
</tbody>
</table>

1. The Treasury SCS 1 median pay and highest salary paid in the year to 31 March 2014 were £62,336 and £105,840.
2. The Treasury SCS 2 median pay and highest salary paid in the year to 31 March 2014 were £88,410 and £170,000.
3. The Treasury SCS 3 median pay and highest salary paid in the year to 31 March 2014 were £127,450 and £132,950.

PF2 guidance

The committee asked about the progress of the Treasury’s publication of updated quantitative assessment guidance for PF2 projects.

By way of background, as part of the review of PFI the Treasury withdrew the quantitative assessment tool which formed only part of the quantitative assessment guidance for PFI projects. The quantitative assessment tool, a standardised spreadsheet model, was introduced in 2004 with the aim of providing a simpler, more proportionate and cost effective way for procuring departments and authorities to undertake the quantitative assessment of potential PFI projects. The remainder of the guidance was contained in the Green Book, which remains in force.

The National Audit Office (NAO) had previously raised concerns about the complexity of quantitative modelling associated with PFI projects. Experience of using the tool demonstrated, however, that it presented certain limitations and that it wasn’t always used in the manner intended. The standardised nature of the tool was found to be insufficiently flexible to accommodate the broad range of projects across sectors. In addition, the approach encouraged procuring authorities to compare a PFI solution against a conventionally funded – and in some cases undeliverable – alternative, rather than consider alternative contracting approaches. Sometimes it was interpreted as a pass/fail test with insufficient weight given to qualitative judgements. For these reasons the Treasury withdrew the spreadsheet at the end of 2012.

Quantitative assessment remains an integral part of the decision making process for procuring departments and authorities considering how to deliver a project. The value for money analysis of a PF2 project is based on both a quantitative and qualitative assessment, in line with Green Book principles. But, in performing the quantitative assessment, departments need to prepare their own quantitative assessment rather than using a predefined model. Standardised, Treasury-provided models of this nature are not used in the assessment of
other forms of complex procurement approaches, and therefore this approach is consistent with that which
would be undertaken for all other procurement options.

Since the introduction of PFI the use of private risk capital has been supplemented by more widespread
framework agreements and alternative partnership arrangements with the private sector, generating new
delivery mechanisms. Departments follow the Green Book guidance to make these comparative commercial
judgements and so, in order to ensure conformity of analysis between PF2 and other commercial solutions
now available, the Treasury wants to ensure there is a single approach to the assessment of value for money
between these competing delivery mechanisms.

Consequently, The Treasury is currently developing its PF2 quantitative guidance, with the intention of
publishing guidance as an annex to the Green Book and its supplementary guidance, Public Sector Business
Cases – Using the Five Case Model. This work will integrate the Green Book principles, with value for money
judgments for PF2 and aligns with the guidance on procurement models in the Infrastructure Route Map.

The limited number of projects considering PF2 has afforded an opportunity to consider and test the
approach to the quantitative assessment on real projects, and for this reason guidance has not been
published to date. The ambition is to publish the new PF2 annex late in 2014 but this will be subject to
continuing consultation processes and the Treasury Green Book approval process which will involve
consultation with the NAO.

Retention of private office documents

The committee asked about Treasury’s retention of private office documents.

Treasury’s approach to records management incorporates guidance published by the National Archives
(TNA). TNA’s guidance sets out how to manage public records, such as those held in private offices relating
to the business of Treasury that have the formal status of public records, under the Public Records Act 1958.

The custody of public records worthy of permanent preservation (i.e. with enduring administrative or
research value) may be transferred to TNA at any point after their regular use ends. The law stipulates that
all of these records then have to be reviewed, prepared and opened to the public after 30 years, at the
latest.

Treasury’s ministerial office record keeping began in 1982. Before this, all papers received by ministers were
sent back to policy teams for filing. Treasury is currently working with TNA, Cabinet Office and its private
offices to agree criteria for retaining records held in private offices that merit permanent preservation and
excluding extraneous papers that have no historical value. This is part of a process that TNA calls ‘appraisal
and selection’. The material will also be comprehensively scanned for sensitivity, a prerequisite of transfer to
TNA.

Treasury has yet to transfer any ministerial office material to TNA. It has a plan to start transferring the
Treasury’s earliest such records later this financial year.

While ministerial collections continue to remain in Treasury custody, we make them available, on demand, to
former ministers under the Radcliffe Rules. Most recently we provided research access to Alistair Darling.
Owing to resource constraints however, it is difficult to comply with requests for general public access.
Treasury’s systematic transfer to TNA starting this financial year will ensure that historical private office papers
are as widely available as they should be.
There is a provision in law that public records can be held outside TNA, by an academic library or other repository. Therefore ministers can offer their collections to external bodies if the National Archives declined them. However, there has been no indication of any kind that TNA will decline the transfer of Treasury's ministerial office material once it has gone through the appraisal and selection process.

[Signature]

N I Macpherson
Annex A
Treasury pay medians compared to Whitehall pay medians

The graphs below show comparisons of HM Treasury pay medians and Whitehall pay medians for each grade for the years 2007, 2011-2013\(^3\).

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\(^3\) Comparisons are not given between 2007 and 2011 because no Whitehall medians are available as it was during the pay freeze and data was not collected.
Range D compared to HEO/SEO

Range E&E2 compared to G7 & G6