House of Commons
Public Administration Select Committee

Executive pay in the Public Sector

Written Evidence

This is a volume of submissions, relevant to the inquiry into Executive pay in the Public Sector, which have been reported to the House but not yet approved for publication in final form. Any public use of, or reference to, the contents should make clear that it is not yet an approved final record of the written evidence received by the Committee.
# List of written evidence

<table>
<thead>
<tr>
<th></th>
<th>Name and Organization</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Institute of Director (EXP 01)</td>
<td>3</td>
</tr>
<tr>
<td>2.</td>
<td>Public and Commercial Services Union (EXP 02)</td>
<td>9</td>
</tr>
<tr>
<td>3.</td>
<td>Dr Tony Cutler (EXP 03)</td>
<td>11</td>
</tr>
<tr>
<td>4.</td>
<td>Committee on University Chairs (EXP 04)</td>
<td>19</td>
</tr>
<tr>
<td>5.</td>
<td>The Taxpayers Alliance (EXP 05)</td>
<td>23</td>
</tr>
<tr>
<td>6.</td>
<td>Chartered Institute of Personnel and Development (EXP 06)</td>
<td>31</td>
</tr>
<tr>
<td>7.</td>
<td>Local Government Association and Local Government Employers (EXP 07)</td>
<td>37</td>
</tr>
<tr>
<td>8.</td>
<td>Association of First Division Civil Servants (FDA) (EXP 08)</td>
<td>43</td>
</tr>
<tr>
<td>9.</td>
<td>Stephen Taylor (EXP 09)</td>
<td>53</td>
</tr>
<tr>
<td>10.</td>
<td>Hay Group (EXP 10)</td>
<td>55</td>
</tr>
<tr>
<td>11.</td>
<td>Senior Salaries Review Board (EXP 11)</td>
<td>61</td>
</tr>
<tr>
<td>12.</td>
<td>Christopher Johnson (EXP 12)</td>
<td>71</td>
</tr>
<tr>
<td>13.</td>
<td>John Baker (EXP 13)</td>
<td>78</td>
</tr>
<tr>
<td>14.</td>
<td>NHS Employers (EXP 14)</td>
<td>84</td>
</tr>
<tr>
<td>15.</td>
<td>Managers in Partnership (EXP 15)</td>
<td>88</td>
</tr>
<tr>
<td>16.</td>
<td>Hamish Davidson (EXP 16)</td>
<td>92</td>
</tr>
<tr>
<td>17.</td>
<td>Dr Anne Wright, Chair of the National Lottery Commission (EXP 17)</td>
<td>99</td>
</tr>
<tr>
<td>19.</td>
<td>Ofcom (EXP 19)</td>
<td>103</td>
</tr>
<tr>
<td>20.</td>
<td>Cabinet Office (EXP 20)</td>
<td>106</td>
</tr>
</tbody>
</table>
Memorandum from the Institute of Directors (EXP 01)

About the IoD

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 50,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 81% of FTSE 100 companies and 73% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies. IoD members are entrepreneurial and resolutely growth orientated. More than two-fifths export. They are at the forefront of good working practices and have embraced the technology of the new economy.

IoD response to the inquiry

Our responses to the questions posed by the Committee are followed by further IoD data and recommendations.

Direct response to questions

1. Are the right arrangements in place for setting and monitoring pay and other benefits for top posts in the public sector?
   No
   a. Are they fair?
      No
   b. Are they transparent?
      No
   c. Do they produce the right results?
      No
   d. Do they provide value for money?
      No
   e. Do they inspire public and political confidence?
      No
2. Does there need to be consistency regarding these arrangements between different parts of the public sector?
Not necessarily, what matters is getting the right people to do good jobs and then being completely transparent about the total remuneration (i.e. salary, bonus, benefits in kind, employer pension contribution etc) they receive. Transparency is certainly one area where there is a damaging lack of consistency at present. For example, government department accounts list directors’ remuneration, but local authority accounts do not. There should be full transparency for all public bodies.

3. Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector?
Some sort of comparability may be useful, but only as a guide. There has to be a risk factor included i.e. the risk of dismissal for poor performance is much greater in the private sector, and so remuneration should be correspondingly higher in the private sector.

a. If so, how should equivalent posts in the private sector be identified?
Not solely from looking at the City of London and the largest UK companies. It is often argued that public sector executives could walk into City jobs. In some cases this may be true but, for executives who have spent their whole careers in the public sector, it is not obvious that this is the case.

4. Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?
Yes, although we don’t have any systematic evidence. But anecdotally, it is clear that senior civil servants and local authority executives, for example, frequently move from department to department, or from authority to authority, and receive higher remuneration. It is also worth examining reorganisations in, for example, local authorities, which tend to be accompanied by large increases for directors.

5. What role should consultancies play in the determination of pay for top public sector posts?
None. Using consultants for this purpose is a waste of taxpayers’ money and should be done in-house. There is a genuine risk of a form of cartel if the same consultancy advises a number of different public sector organisations.

6. Is the balance right between executive pay and other benefits? eg bonus, pension
What matters is not the relative size of salary, bonus and pension but whether it is sufficiently tied to proper performance measures. It seems that this is far from the case at the moment.

7. Do the pay levels for top posts in the public sector have a direct impact on the performance or qualities of the people filling those posts?
Again, it’s not about the precise level, but whether pay and conditions are tied to performance, so that good performance is rewarded and poor performance results in dismissal.

a. What impact do the performance or qualities of the people filling top posts in the public sector have on the performance of the organisations for which they work?
As in any organisation, the quality of the leader is crucial to the organisation’s success. However, senior civil servants generally operate under greater constraints than private sector executives.

8. Is there an appropriate benchmark or ceiling for top public sector salaries—eg the salary of the Prime Minister, or a factor of average pay?
It is difficult to say. The old culture of public service would lead to the conclusion that, yes, there should be a ceiling, and that being paid more than the Prime Minister is excessive. A new model, where executives move in and out of the public and private sectors and are much more accountable for their performance, would suggest that such a ceiling would limit the private sector talent that could be brought in. However, we currently seem to be in the worst of all worlds – a disappearing culture of public service, few executives moving between the public and private sectors, insufficient accountability, and high levels of remuneration.

9. Can England and the United Kingdom learn from the experience of other countries or the devolved governments in this area?
There are lessons to be learnt about transparency from the US. In a number of US states, the salaries of all state employees are available online for anyone to see. We would suggest that this could be adopted across the public sector in the UK for those with remuneration of £50,000 or more. The Obama administration has also frozen the pay of White House staff earning more than $100,000. In the middle of a recession, with increasing numbers of private sector firms agreeing pay freezes, this is a measure that could be followed. When recovery begins, there will need to be a severe fiscal tightening to restore the public finances to balance, and so such a measure could be adopted for senior public sector staff in the UK.

1 Existing data on executive pay and benefits

In addition to our responses to the above questions, the IoD has extensive member survey data on pay and pensions that may be useful when considering the issue. Some sort of comparison can be made with data concerning the public sector.

1.1 Basic pay for an IoD member who is a managing director of a small company (up to £5 million turnover) was £65,000 last year, for a medium-sized company £100,000 and for a large company (£50 million to £500 million turnover) £150,000.1

1 IoC/Croner Rewards Survey, November 2008
1.2 54% of IoD members who are managing directors of small companies received a bonus or dividend averaging £24,000 last year. For medium-sized companies the average bonus/dividend was £25,000 received by 61% of managing directors and in large companies the average was £42,000 received by 67% of Managing Directors.2

1.3 In the public sector, executive pay data is rather patchy. The most comprehensive pieces of research on the subject that we are aware of have been conducted by the TaxPayers’ Alliance. The organisation’s survey of executive pay in local authorities found over 800 executives receiving total remuneration of more than £100,000, including 14 earning more than the Prime Minister and 132 earning more than Cabinet Ministers.3 Similarly the organisation found that, among 140 government departments and other public bodies surveyed (excluding local authorities), there were almost 400 people receiving total remuneration of more than £150,000 a year, including 21 people earning more than £500,000 and almost 200 earning more than the Prime Minister.4 This represents strong evidence that executive remuneration in the public sector is more than comparable with that in the private sector.

1.4 The gap between the public and private sectors with regard to pensions is extremely large. And this applies to executives as well. Almost half (45%) of IoD members (encompassing directors of small, medium and large companies) are not members of an occupational or employer-sponsored pension scheme at all. 12% of directors are members of occupational defined benefit schemes, interestingly, the same proportion as in the private sector as a whole. The remainder of directors are members of occupational defined contribution, group personal pension or employer-sponsored personal and stakeholder pensions.5

1.5 By contrast, in the public sector, 90% of employees are members of defined benefit pension schemes.6 In terms of individual retirement benefits in the public sector, again as far as we know the TaxPayers’ Alliance has undertaken the most comprehensive research, estimating that there are over 17,000 retired public sector employees with retirement benefits worth at least £1 million each.7

2 Ibid.
5 IoD survey of approximately 1,000 members, February 2009. In 2007, the latest year for which data is available, there were 2.7 million members of occupational defined benefit pension schemes in the private sector, just under 12% of the 23.4 million private sector workers in that year (sources: Office for National Statistics, ‘Occupational Pension Schemes Annual Report 2007’, September 2008, Table 3.3; Office for National Statistics, ‘Public Sector Employment Q3 2008’, December 2008, Table 5 – includes private sector employment data). It is interesting that membership of DB pension schemes follows the same pattern among private sector directors as among their employees.
1.6 Large bonuses and ‘golden parachutes’ were once the preserve of the private sector. But the evidence suggests that they are on the increase in the public sector, and are not necessarily rewards for good performance. Indeed, it is clear that rewards for failure are not confined to the banking system.

2 IoD recommendations

It is reasonable to argue that executive remuneration in the public sector has got out of line, especially when considered alongside performance. The current recession makes the issue all the more important. In addition to our responses to the questions posed, we would offer the following suggestions to improve the situation.

2.1 First, the important measure to consider is not salary, but total remuneration. Total remuneration should cover such items as salary, bonus, benefits in kind, London allowances, relocation allowances, employer pension contributions and redundancy/early retirement payments. Annual increases of total remuneration should be analysed.

2.2 Second, we would suggest that the total remuneration, including a detailed breakdown, of all public sector employees with total remuneration of more than £50,000 (certainly all those with total remuneration of more than £100,000) could be published on a central website accessible to the public. The website could allow name searches, allow browsing by public sector organisation (including local authorities and quangos), and keep historical data so that remuneration increases can be tracked, including for individuals who move between organisations. It is important that people receiving large amounts of taxpayers’ money be accountable in this way.

2.3 Third, the level of remuneration should contain a sizeable performance element, although performance should not be simply a box-ticking exercise. This must be accompanied by loss of performance pay or dismissal for poor performance. Too often, bonuses of equal amounts are paid out to the directors of a public sector organisation, which suggests that individual performance is not monitored.

2.4 Fourth, it should be recognised that the risk of dismissal is far lower in the public sector than in the private sector (notwithstanding the above recommendation) and that executive remuneration should therefore be lower in the public sector to compensate for this reduced risk.

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8 To give two examples, in 2007 the former chairman of HMRC, Paul Gray, resigned following the department’s loss of millions of child benefit records. He was paid £137,000 for his departure. David Higgins, the chief executive of the Olympic Delivery Authority, was paid a performance-related bonus of £205,000 in 2007-08, despite the budget for the Games rising to over £9 billion (source: TaxPayers’ Alliance, ‘Public Sector Rich List 2008’, November 2008).
2.5 Fifth, the severe fiscal crunch that will be required to restore the public finances after the recession is over presents a great opportunity for reform of the current arrangements. Indeed, a performance bonus for permanent secretaries, conditional on the individual’s success in reducing administration and overhead costs without cutting frontline services, would be a positive development. Similarly, an incentive to deliver savings on regulatory burdens for businesses would be a very useful aid to economic recovery.

Thank you once again for inviting the Institute of Directors to participate in this inquiry. We hope you find our comments useful. We would be very happy to give oral evidence if required. Should you have any questions, please do not hesitate to contact me.

March 2009
Memorandum from the Public and Commercial Services Union (EXP 02)

Introduction

PCS welcomes the opportunity to make a written submission to the Public Administration Select Committee. PCS – a union representing over 300,000 members, the majority of whom work in government departments, agencies and public bodies - also welcomes the invitation to give oral evidence as the inquiry topics are issues that are of concern to our union.

Executive Pay in the Public Sector

It seems right that pay and benefit for top posts across all parts of the Public Sector should be determined in a reasonably consistent way, whilst making due allowance for specialised / technical nature of some posts. Also we would support a proper and comprehensive basis of comparability, being developed to enable these posts and equivalent post in the private sector to be analysed. It must, of course, be recognised that the basis of determining salaries and packages for private sector positions, usually decided by management boards or remuneration committees, does not always lend itself to a feasible comparison in all respects.

This aspect would need to be considered in much further detail. For PCS, there should also be a similar read across in terms of comparability for civil service posts below the Senior Civil service, as these are very often the “feeder grades / career paths” for the more senior posts.

PCS recognises that the question of performance pay and bonuses is currently controversial arising from the concerns expressed about bonuses payments in banking and other commercial entities. However, there is a serious question beyond the understandable skepticism and criticism about bonuses in parts of private industry, about whether performance pay constitutes value for money. Frankly, there is little evidence that performance pay systems contribute to, or assist organisations in reaching targets or objectives. Also, there is a lack of any mechanisms for achieving assurance where output or performance improves or deteriorates, that this is related (even partly) to the existence of performance pay arrangements.

Thus, the justification for use of performance pay and bonuses can be extremely thin, whilst there is evidence in OECD reports and elsewhere of bonuses having a demotivating effect on staff and managers. PCS has long held the view that performance pay is generally a bad way of spending money, as there is continuing evidence of
potential discrimination in pay systems particularly on the basis of race / ethnicity, disability and working patterns (to the disadvantage of many women).

PCS has not gathered evidence of such a trend or effect at the level of Senior Civil Service posts, but there are many experiences among the separate bargaining units across civil service organisations (over 200 of these) of a very real internal job market, applying particularly at recruitment levels. This is based on wide pay differences of 25% or more (for the same grade / job weight) in different civil service organisations. There has been considerable movement of individuals between lower paying and higher paying organisations and this has involved considerable cost for Government Departments. It is a recognised feature especially in London and other major cities.

Individuals can literally shop around for better salaries in the same high street. PCS believes that this is a very wasteful situation, and that much more coherence and commonality of pay systems and pay rates is needed

March 2009
Memorandum from Dr Tony Cutler, Centre for Research on Socio-Cultural Change, University of Manchester (EXP 03)

Summary

- The submission relates to Key Questions 1 and 8 and examines these questions with reference to research carried out, by the author, on five large executive agencies. The design of this research took account of the central government policy of seeking to apply ‘corporate governance’ approaches to senior management pay into the public sector.

- In the pursuit of a ‘fair’ approach senior management remuneration pay determination was undertaken (in most of the agencies) by pay committees in the sponsoring department.

- Research on large listed companies has questioned the effectiveness of remuneration committees in dealing with conflicts of interest in setting senior management pay. While this issue was not directly researched the overall constraints of the SCS framework considerably limit any scope for ‘unjustified’ pay increases in the agencies.

- Disclosure of details on pay in the agencies was very limited. The general norm was only to disclose aggregate pay levels for senior managers and there was no substantive publicly available information on how the SCS framework was applied to pay determination at agency level.

- Insofar as ‘value for money’ is interpreted (as in ‘corporate’ models) as performance linked pay for the achievement of targets this is constrained by the ‘forced distribution’ approach of the SCS pay framework.

- Insofar as pay inequality (measured by the ratio of chief executive pay to average pay) is deemed a problem and hence a cap on this differential is perceived as appropriate, then pay differentials in large listed companies pose a considerably greater problem than those in executive agencies.

1. The submission is primarily concerned with the Committee’s Key Question 1 (particularly sections a-b and d) and Key Question 8. However, before discussing these questions it is necessary to give a brief account of the research on which the evidence is primarily based. It focused on governance aspects of senior management pay in a set of larger executive agencies. Thus it is relevant to the
Committee’s ‘focus on civil service posts’. Senior managers were defined as board members and the research concentrated on executive managers. The agencies covered were the three largest by full time equivalent (FTE) employment, Jobcentre Plus (JCP), Her Majesty’s Prison Service (HMPS) and Her Majesty’s Court Service (HMCS). These agencies are principally dependent on their funding on financial allocations from central government. However agencies include ‘trading funds’ which have a substantial income derived from service related fees and the two largest trading funds, by FTE employment, the Driver, Vehicle and Licensing Agency (DVLA) and Her Majesty’s Land Registry (HMLR) were included to see if putatively more ‘commercial’ agencies exhibited different governance patterns. Table 1 gives a breakdown of the agencies in employment and expenditure terms, note that the two trading funds had an overall operational surplus.

### Table 1: Employment and Expenditure Data for Selected Executive Agencies 2007/8

<table>
<thead>
<tr>
<th>Agency</th>
<th>Sponsoring Department and year of creation</th>
<th>Employment</th>
<th>Gross Expenditure (£000)</th>
<th>Income (£000)</th>
<th>Net Expenditure ()/ Operating Surplus (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMPS</td>
<td>Ministry of Justice (1993)</td>
<td>49,293</td>
<td>2,314,140</td>
<td>256,169</td>
<td>(2,057,971)</td>
</tr>
<tr>
<td>HMCS</td>
<td>Ministry of Justice (1995)</td>
<td>19,345</td>
<td>1,777,436</td>
<td>592,895</td>
<td>(1,184,451)</td>
</tr>
<tr>
<td>HMLR</td>
<td>Ministry of Justice (1990)</td>
<td>8,457*</td>
<td>411,355</td>
<td>482,944</td>
<td>71,589</td>
</tr>
<tr>
<td>DVLA</td>
<td>Department for Transport (1990)</td>
<td>6,563</td>
<td>541,818</td>
<td>676,116</td>
<td>137,298</td>
</tr>
</tbody>
</table>

*HMLR employment data is average numbers employed not FTE.

Sources: DVLA (2008); HMCS (2008); HMLR (2008); HMPS (2008); JCP (2008)

2. A further prefatory comment is necessary on the prescriptive governance framework adopted for executive agencies. In common with other public sector bodies it has been modelled on ‘corporate governance’ (see for example Treasury,
2005; and for academic discussions of the attempt to transfer corporate
governance to a range of public bodies see Clatworthy et al, 2000 and Erturk et al,
2008). Thus governance practice in agencies aims to simulate corporate sector
‘best practice’ as currently embodied in the Financial Reporting Council’s (FRC)
Combined Code of Corporate Governance. The current version was issued in June
2008 and outlines recommended governance standards for companies listed on
the London Stock Exchange. The research involved three central questions, all
related to the appropriateness or otherwise of the putative transfer of ‘corporate
governance’ to the public sector. These were: (1) what were the similarities and
differences between performance related pay (PRP) for senior managers (strongly
endorsed for listed companies in the Combined Code, FRC, 2008: 13) in the
corporate sector and the agencies; (2) the Combined Code supports the principle
that senior executive managers should not participate in setting their own pay and
the recommended method for ensuring that this does not happen is to devolve the
decision to a remuneration committee of non-executive directors (ibid.: 15) thus
the second question concerned how such potential conflicts of interest were dealt
with in agencies; (3) the final question was concerned with whether there were
significant differences between agencies and listed companies with respect to
disclosure of the details of senior management pay.

3. The research was undertaken in two stages; firstly agency annual reports for a five
year period were analysed; secondly issues arising from this analysis were pursued
by contacting (by e-mail) the offices of the Human Resources Directors of the
agencies. Responses were received relating to all the agencies, three from
sponsoring departments (with respect to DVLA, HMCS, JCP), the other two from
agency HR officials.

4. Key Question 1a: the ‘Fairness’ of pay setting and monitoring. ‘Fairness’ is
naturally susceptible of a variety of meanings. As was indicated above it has been
implicitly regarded as ‘fair’ that senior managers do not play a role in setting their
own pay. Two observations are relevant with respect to the agencies researched.
The first is that there are mechanisms designed to ensure that conflicts of interest
are avoided. These, however, reflect a key difference between agencies and listed
companies. Agencies, unlike listed companies, are not pay determination units but
report to a sponsoring government department. Thus the principal mechanism
for avoiding conflicts of interest is that pay determination decisions for senior
managers are taken by committees in the relevant department: in DVLA a
Department for Transport remuneration committee; in HMCS and HMPS the
Ministry of Justice SCS Pay Committee; and the Department for Work and
Pensions SCS pay committee for JCP (communications to the author, HMCS,
2008: 44 and JCP, 2008: 20). In HMLR there is a closer approximation to private
sector recommended practice with board level pay determined by a committee of
non-executive directors of the agency (communication to the author).
5. Secondly, the private sector corporate governance literature includes significant sceptical commentary regarding the effectiveness of remuneration committees in preventing conflicts of interest. Thus, for example, critics refer to the impact of ‘community of interest’ between executive and non-executive directors on the grounds that the latter are generally active or retired executive directors (Bebchuk and Fried, 2004:33). The research did not investigate the effectiveness of remuneration committee in agencies. However, it is worth noting an important contextual difference with listed companies. Agencies operate within a tightly constrained SCS pay framework regulating pay scales, and setting overall cost constraints. Thus the scope for ‘unjustified’ pay increases is much more limited in agencies.

6. **Key Question 1(b): are arrangements for setting and monitoring pay ‘transparent’?** Two aspects of the research are relevant to this issue: the extent of disclosure of pay details; and of conditions related to performance related pay. Disclosure of pay details is very limited when contrasted with listed companies. The general pattern was that only aggregate pay levels were given in £5,000 pay bands (e.g. £135-140,000) (see DVLA, 2008: 60; HMCS, 2008: 42; HMLR, 2008: 61; HMPS, 2008: 44; JCP, 2008: 21). Thus no breakdown between changes in performance linked basic pay and in bonuses is presented. There were two exceptions. In DVLA annual reports the salary and bonus of the Chief Executive (CE) is given in each year (DVLA, 2004: 33; 2005: 31; 2006: 55; 2007: 57; 2008: 60). However this breakdown is *not* given for any other board members. In HMPS in 2006/7 and 2007/8 the overall range of bonus payments for the board is given but no information is presented on which board members received which bonuses (HMPS, 2007: 54; 2008: 44). Such breakdowns are the norm in listed companies thus allowing for comprehensive salary surveys showing the elements of the senior management pay (e.g Income Data Services, 2007). It should also be noted that, while DVLA did publish a breakdown of CE pay and bonus this did not reflect systematic differences between trading funds and the other agencies. Thus, for example, HMLR did not publish such a breakdown.

7. A further significant disclosure issue was the performance conditions attached to PRP. Information on such conditions would require evidence on how committees at departmental or agency level interpreted the SCS framework. The agency reports contained neither information on this issue nor a reference to any publicly available source for reports from these committees. A question posed to each agency was whether such reports were publicly available. All respondents reported that no such reports were publicly available. In HMCS and JCP reference was made to Cabinet Office guidance on how the SCS pay framework should be applied. In the other three cases reference was made to pay strategy documents for the particular agencies (DVLA and HMLR) or, in the case of HMPS, to the Home Office resource accounts (communication to the author). However, these more specific references leave the mode of application of the framework opaque. For
example the HMLR pay strategy states that, in deciding bonus awards, whether ‘objectives are met’ and, where appropriate, ‘the ease of difficulty in meeting objectives’ will be considered. However, no illustrative information is given on how such criteria are applied in the context of the agency. There was also the possibility that the information on the breakdown of senior management pay and performance conditions were included in Senior Salary Review Body reports. However while this source does provide interesting discussions of policy and presents data both are at an aggregate level for the SCS as a whole and hence do not provide guidance on individual agencies. If, therefore, a ‘member of the public’ wished to discover (a) the breakdown of the pay of senior agency managers between base pay and bonus and (b) how the SCS pay framework on PRP was applied at agency level for the agencies covered in this submission such information would not (with the exceptions noted on bonus details) be publicly available.

8. **Key question 1 (d) Do arrangements for pay setting and monitoring provide ‘value for money’?** Like ‘fairness’, ‘value for money’ can be interpreted in a variety of ways. However, given the attempt to transfer ‘corporate governance’ noted above it may be worth referring back to a view of pay and performance embodied in the 2008 FRC Combined Code. This (FRC, 2008: 13) is that senior corporate managers should be set targets linked to their pay which embody ‘shareholder interests’. In this respect if the targets are achieved (and if the remuneration committee has fulfilled its function of making them sufficiently ‘demanding’) then the triggering of PRP represents ‘value for money’. There are some respects in which agencies might be seen as exhibiting a similar approach. Thus in reporting year 2007/8 all the agencies used the term ‘targets’ in reports on their ‘performance’ (DVLA, 2008: 16; HMCS, 2008: 24; HMLR, 2008: 16; HMPS, 2008: 16; JCP, 2008: 8). In three cases all key performance targets were quantified and reporting took the form of comparing out-turns with such targets (HMCS, 2008: 24-7); HMPS 2008: 16-19; JCP, 2008: 10-11). In the other two quantitative targets accounted for 75% (DVLA 2008: 16) and 70% (HMLR, 2008: 16) of the set of targets. Furthermore all the annual reports include a commentary by the CE analogous to similar statements in listed company annual reports (see for example DVLA, 2008: 4, HMCS, 2008: 4, HMLR, 2008: 8-9, HMPS, 2008: 6-7, JCP, 2008: 2-3). However, the link to pay does not apply in the same way. The SCS pay framework operates with a ‘forced distribution’ approach where individuals covered compete for a share of a limited funding pool (Cutler and Waine, 2004: 60). Thus, as the SSRB (2008: 24) puts it: ‘in the private sector …conditions for the payment of bonus tend to be fixed in advance so that employees know what targets they have to meet in order to receive a bonus’. However, ‘in the SCS…it has been possible for an SCS member to achieve all his or her objectives but not receive a bonus because other colleagues…were judged to have performed better’ (ibid.). This does not mean that the SCS PRP scheme is not delivering ‘value for money’. However, if this term is interpreted as performance linked pay for the
achievement of targets then this is not consistent with the prevailing ‘forced distribution’ SCS framework.

9. **Key Question 8: Is there an appropriate benchmark or ceiling for top public sector salaries e.g. the salary of the Prime Minister or a factor of average pay?** This is a complex issue and the observations made are limited to the conception of using a ratio to average pay as a benchmark. The reference to a ‘ceiling’ can carry the implication that a cap is needed because current ‘top public sector salaries’ are excessive. Table 2 shows CE salary in the four of the agencies as a ratio of average pay in the agencies. As was indicated above, salary is shown in £5,000 bands not as an exact figure so the assumption of a mid point is made and while this is arbitrary it is unlikely to have led to any significant error. HMLR is not included because of the absence of employment figures on an FTE basis. Data for 2006/7 is used for HMCS and DVLA as in both cases there was a change of CE during the year which meant there was no single figure for salary given.

<table>
<thead>
<tr>
<th>Agency</th>
<th>CE: Average Pay Ratio</th>
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<tbody>
<tr>
<td>JCP, 2007/8</td>
<td>5.9:1</td>
</tr>
<tr>
<td>HMPS, 2007/8</td>
<td>5.0:1</td>
</tr>
<tr>
<td>HMCS, 2006/7</td>
<td>5.7:1</td>
</tr>
<tr>
<td>DVLA, 2006/7</td>
<td>5.5:1</td>
</tr>
</tbody>
</table>

*Source: DVLA (2007); HMCS (2007); HMPS (2008); JCP (2008).*

CE overall pay at the agencies varied between a range of £135-140,000 per annum (DVLA) to £165-170,000 (HMPS) and the HMLR CE salary fell within this range. It is perhaps interesting to put these figures in a longer term perspective. Froud et al (2006: 56) present data on FTSE 100 ‘survivors’ over the period 1978-9 to 2002-3 (i.e. data for firms who have been constant members of the FTSE 100). The 1978-9 data referred to the highest paid director and the ratio to average pay was 9:1 higher but not wildly out of line with the ratios in the fives shown in Table 2. However, by 2002/3 this ratio (now measured by CE pay: average pay) had risen to 54:1. Thus if the ratio of CE to average pay is treated as a potentially relevant benchmark it is not clear why this should apply purely to the public sector. If it does not then any ‘problem’ of excessive differentials would appear to be focused on large listed companies. Not it should be noted on the private sector per se since, as Froud et al (2006: 57) point out CE pay levels even in large unlisted companies (with turnover up to £500 million per annum) are relatively modest and of a similar order to those found in the agencies covered in the research reported.

**References:**


March 2009
Memorandum from the Committee of University Chairs (EXP 04)

The Committee of University Chairs (CUC) welcomes the opportunity to contribute to the inquiry into Executive Pay in the Public Sector. CUC is the representative body for the Chairs of UK Universities, encompassing all universities irrespective of their mission or origins. Its purpose is as an enabling body to ensure that its members are well informed of relevant issues, developments, and best practice so that they are better able to discharge their roles effectively. It also acts as an influencing body, engaging in dialogue on policy with ministers and government departments across the UK on a range of strategic issues.

The governing bodies that our members chair are responsible for establishing the remuneration committees which set pay for their institutions’ executive heads (the Vice-Chancellor or Principal). The Chair will usually sit on their institution’s remuneration committee.

Summary

1. As noted in the inquiry scope, Vice-Chancellors’ pay does not fall directly within the Public Administration Select Committee (PASC)’s areas of experience, so the following submission is intended to provide the Committee with some contextual information on the setting of executive pay in the higher education sector.

2. Principally, it is important to note that universities are not-for-profit private institutions. They should not therefore be compared to schools, FE colleges, or indeed any other quasi-public organisation. Their Vice-Chancellors or Principals (the executive heads) are personally responsible for the administration of staff numbers and turnover comparable with medium-sized or large private sector companies and, on average, 40% of university revenue now comes from non-state sources.

3. The executive heads of universities are remunerated in line with what it takes to attract and retain those of the required calibre to lead a unique and complex organisation and bearing in mind the level of risk and responsibility that the role entails. The details of their salary packages are open and transparent and made public on an annual basis.

4. The contextual information below is structured around some of the questions listed in the inquiry’s remit. The questions have been taken as they apply to

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9 Membership of the Committee is open to the lay chairs of all institutions in the UK which have full university status.
universities, and chosen because of their relevance to the case of university executive pay.

Arrangements for setting and monitoring pay and other benefits for top posts in universities

5. The salaries and conditions of service of Vice-Chancellors and Principals (as well as Pro Vice-Chancellors and some Senior Management Team members) are independently determined by remuneration committees in which the individual concerned plays no part. These committees, which are usually made up of representatives from business and elsewhere, seek to take an objective view of the appropriate remuneration for Vice-Chancellors that is proportionate to the scope and scale of their responsibilities and achievements.

6. Remuneration packages therefore reflect what it takes to attract, retain and reward talented individuals undertaking demanding roles as chief executives of complex, multi-million pound, world-class organisations. The committees ensure the pay is proportionate to the scope and scale of the responsibilities that Vice-Chancellors carry, not only for students and staff, but also as part of their communities. Every university is unique in size, shape, and in the character of its interactions with the business and cultural world in which it is located; the role of every Vice-Chancellor is equally unique, and as well as taking the responsibility for the success of their institutions, they and their institutions also contribute to the infrastructure of their local communities and beyond. Consideration of all these factors is brought to bear on the decisions made by the remuneration committees.

7. Transparency is key to promoting a proper understanding of, and confidence in, remuneration arrangements. The composite pay packages of university executive heads (salary, benefits, bonuses and pensions) are therefore published on an annual basis.

8. With regard to value for money, universities on any measure are successful relative to many parts of the private sector. They produce highly employable graduates with high satisfaction levels (evidenced by the 2008 National Student Survey) and world-class research. As summarised in a recent Higher Education Funding Council for England (HEFCE) report:

'UK higher education leads the world in terms of research productivity: its academics produce 16 citations per US dollar, compared with 10 in the United States and four in Japan. With 1 per cent of the global population, it produces 9 per cent of the world’s scientific publications and 12 per cent of citations. Universities are also one of the nation’s biggest earners of foreign
currency, bringing in more than £5.8 billion a year in tuition fees, transnational enterprises and other activities’.\textsuperscript{10}

The sector’s world-class research success was again borne out by the results of the latest Research Assessment Exercise (RAE 2008). As the strategic decision-makers for their organisations, university Vice-Chancellors play a central role in this success.

Does there need to be consistency regarding these arrangements between different parts of the public sector?

9. Again, universities are not public, but are not-for-profit private, institutions. University remuneration committees are aware of public, private, and sector pay levels when calculating the appropriate pay for the executive head of their specific institution. The relative importance of any such comparisons will differ from university to university, in line with the each institution’s particular activity, its unique character, and the candidates it hopes to attract to the role. Because every institution is different, this has proved an appropriate way of attracting the right candidates.

Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector?

10. Private sector pay is certainly a useful guide in setting Vice-Chancellors’ pay because the responsibility for strategic decision-making is carried by Vice-Chancellors is comparable with that of a private sector CEO. It would make sense then, that equivalent posts in the private sector might be identified by turnover and staff sizes. At the moment, Vice-Chancellors’ pay falls well behind those of CEOs of private sector organisations of a similar size of staff and turnover. Any such comparison will always be limited, however, as it cannot account for the uniqueness of the university and its purpose, and what it takes to attract the right individual to lead it.

Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?

11. Not in the case of Vice Chancellors. Recent increases in executive pay in the higher education sector have been determined by the market, that is, by a rising demand for the best people to lead organisations, not by any artificial factors. There is significant disparity between Vice-Chancellors’ salaries, which is strong evidence to suggest that market forces are working and working well through the

current system of remuneration committees, and that these committees are effective in ensuring a close link between pay and responsibility.

What impact do the performance or qualities of the people filling top posts in universities have on the performance of the organisations for which they work?

12. Again, the role of a university executive head is essentially that of a private organisation CEO and so has considerable influence over the success or failure of the institution. Vice-Chancellors have a free rein to realise the mission aims of their university as they see fit, through the strategic distribution of resources. These aims will encompass, to varying degrees, student recruitment (international and national), quality and standards in teaching, research excellence and funding, and external links with other sectors of the economy, and so the work of the executive head will have a significant impact on the shape and the health of the institution.

Is there an appropriate benchmark or ceiling for top public sector salaries – e.g. the salary of the Prime Minister, or a factor of average pay?

13. It does not seem sensible to set a pay ceiling for executive heads in the higher education sector because universities are both varied and evolving organisations. As business-orientated institutions, they should be able, where appropriate, to compete with the private sector in appointing their executive head (that is, to be part of the market). All higher education institutions should also have open to them the possibility of becoming more business-orientated in the future, and a pay ceiling could well curtail any such endeavour.

April 2009
Memorandum from the TaxPayers’ Alliance (EXP 05)

Summary

- The current levels of executive pay in the public sector are a matter of serious concern. The escalating costs of senior managers and executives over the past decade, without parallel improvements in services or efficiency, have done much to undermine the public’s faith in taxpayer funded bodies. Furthermore, a lack of transparency over pay in some parts of the public sector has weakened already minimal levels of accountability.

- It was with the aim of throwing light on public sector executive pay that the TaxPayers’ Alliance (TPA) instigated the annual Town Hall and Public Sector Rich Lists, the impact of which is noted in the Committee’s call for evidence. These two documents have exposed the rewards for failure, excessive wage inflation, and frequent over-promotion which are now all too common in the public sector.

- It should be noted that increased transparency and rigour in the setting and monitoring of executive level public sector pay does not have to mean an end to appropriate financial rewards. Many senior public sector jobs are not only difficult but critically important, requiring a level of professional skill or a past career of service that needs to be remunerated accordingly. This will sometimes necessitate pay and conditions sufficient to compete with private sector employers.

The real abuses in senior public sector pay take place away from the very few high profile positions that demand valuable qualification or experience. The majority of highly paid senior public sector jobs are not affected by a particular scarcity of suitable candidates and the key consideration in the setting and monitoring of executive pay must be value for money; “what is the lowest amount we can pay while securing a suitable candidate”.

At the moment taxpayers are not getting value for money. Most top posts are not filled by individuals with a history of well remunerated private sector work, and there is little chance that senior managers will leave for better paid work elsewhere. The Chief Executives of England’s Regional Development Agencies for instance, are universally career public servants, whose prospects in the private
sector are far fewer than they would suggest. Pay must reflect these realities (including benefits, job security and accountability) not just faux-comparisons with private sector executives in charge of equivalent budgets or staff numbers. It must also be completely transparent to the general public, allowing them, through ‘shareholder activism’, to monitor and assess whether top public sector remuneration is fair and well earned. The fact that such practices are not always obvious in the private sector should not inhibit the public sector from embracing them; the public sector has the opportunity to lead the way.

Response to Key Questions

1. Are the right arrangements in place for setting and monitoring pay and other benefits for top posts in the public sector?

TPA – No. At best public sector bodies and authorities are covered by central government guidance on pay, but most are free to set pay and conditions entirely independently. The system of ‘remuneration panels’ and ‘remuneration boards’, in which most public sector executive pay is set are inadequate; ordinary taxpayers are rarely represented. As currently set up, those responsible for setting and monitoring pay and benefits are likely to gain directly from salary increases and improved benefits, eliciting a clear conflict of interest.

A. Are they fair?
TPA – No. Current arrangements will seem fair to public sector executives, but they are unfair to taxpayers. For instance the generous rewarding of public sector executives after serious management failures are an abhorrent abuse of resources, particularly as they are awarded to executives who enjoyed massive salaries, prior to their dismissal, for being ‘excellent managers’ when clearly they were not. We understand that current contractual agreements often necessitate pay-outs and compensation. That does not excuse them however. In the future public sector executive employment contracts must contain clauses that exclude the possibility of payouts or compensation for loss of office should the individual be made to resign for reasons of proven poor performance.

B. Are they transparent?
TPA – No. It is extraordinarily difficult for the public to establish the exact pay and conditions of public sector executives, let alone the details of how such
remuneration packages were agreed. Often it is only at the termination of contracts that we find out what pay and benefits individuals received. All minutes, agreements and memos pertaining to the setting of pay and conditions for board level and £100,000 plus earning members of public sector bodies should be available online, and a clear remuneration report (containing details of all board level and £100,000 plus earning employees) should be made a mandatory part of every public sector body’s annual publications.

C. Do they produce the right results?
TPA – No, as the many cases of unwarranted and egregious pay and benefit settlements evidence. For example, despite multiple independent reports concluding that the outbreak of MRSA at Maidstone and Tunbridge Wells NHS Trust came about from a tragic failure in hospital management, Rose Gibb, the Trust’s Chief Executive, left with a generous compensation package. The public was rightly outraged.

Similarly, Parliamentary Committees, the NAO and the Financial Services Authority’s own investigation all concluded that the FSA’s management had been asleep at the wheel in the run up to collapse of Northern Rock and subsequent financial crises, but Clive Briault (Managing Director of Retail Markets at the FSA) still received a compensation package in excess of half a million pounds on his dismissal.

D. Do they provide value for money?
TPA – No. Current arrangements do not provide value for money, allowing as they have the explosion of over-generous salaries, enormous pay-offs and excessive benefits.

E. Do they inspire public and political confidence?
TPA – No. As stories such as those outlined in answer C become ever more common, the public loses confidence in the current arrangements. Note the commitment of all three main political parties to reforming aspects of top level public sector pay.

2. Does there need to be consistency regarding these arrangements between different parts of the public sector?
TPA – Not necessarily. The public sector is vast, encompassing a huge variety of professions. Arrangements to set executive pay will need to reflect this. However there should be consistency across the public sector regarding transparency. All individuals employed at executive level positions, in organisations funded by the taxpayer or controlled by Government (whether central or local) should have their total remuneration details published each year. The ‘total remuneration’ shown must include salary, bonus, benefits in kind, employer pension contributions, compensation for loss of office, relevant termination payment, etc.

This level of transparency is already found in certain parts of the public sector, but it should be mandatory for all of it.

3. Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector?

TPA – Only for a select few senior posts in the public sector is comparability necessary or desirable, and even then the comparative private sector job should be used only as a reference, not a benchmark. If nothing else it is very difficult to find comparable jobs between the private and public sectors, beyond crude comparisons on organisational size and budget. These crude comparisons ignore the fact that private sector chief executives have different sets of priorities (profit maximisation) and pressures (competition), and thus different risks to public sector top posts.

One obvious difference is job security; the risk to one’s job is higher in the private sector, as poor performance is far more likely to lead to dismissal. Additionally, poor performance of an executive in the private sector can mean many other workers lose their jobs; this is rarely the case in the public sector. Remuneration in the private sector should therefore be higher to reflect these risks.

A. If so, how should equivalent posts in the private sector be identified?

TPA – Most top public sector jobs do not have a comparator in the private sector; with a virtual monopoly on healthcare, NHS managers cannot bench their pay to some private sector equivalent when private sector healthcare is almost exclusively a high value niche. The same applies to Council Chief Executives, whose closest comparator would be a central government permanent secretary
(whose pay is far less than most Council Chief Executives). Comparisons with positions in the City of London or FTSE 100 companies are particularly distorting and should be avoided; the claim that public sector executives, who have worked in the Civil Service or public sector all their lives, could walk into higher paid private sector jobs is often not very credible. Again, the primary factor in determining the correct level of pay must be an assessment of the availability of suitable candidates and value for money.

4. *Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?*

**TPA** – Yes, but largely anecdotal. Competition between councils over Local Authority Chief Executives is a common occurrence, as is competition between NHS Trusts. In central government, senior civil servants now move between departments regularly, often receiving higher remuneration packages with each move. Among non-departmental public bodies, in some areas the sector is so entirely dominated by taxpayer funded bodies (most obviously in health, but also with the near total monopolisation of green and environmental issues by DEFRA, the Department for Energy and Climate Change, the Environment Agency, Carbon Trust, WRAP, Energy Savings Trust, Encams and various taxpayer funded NGOs) that job competition is almost entirely constrained to that between public sector (or publicly funded) organisations.

5. *What role should consultancies play in the determination of pay for top public sector posts?*

**TPA** – None; the use of consultancies to advise on pay does little to encourage public confidence in the system or deliver value for money, often acting as little more than an expensive rubber stamp. Some consultancies are little more than employee groups designed to push up pay. Local councils in particular have been guilty of relying too heavily on the services provided by companies such as Solace Enterprises, a company owned by the Society of Local Authority Chief Executives and Senior Managers, the professional body for senior Local Government employees and thus a directly interested party. Note too that recent sharp rises in public sector executive pay is concomitant with the increased use of consultancies.
6. *Is the balance right between executive pay and other benefits? Eg. bonus, pension*

**TPA** – The issue is more complex than simply getting the relative amounts right. For one, the generous employer contributed pensions linked to most top posts in the public sector must be understood as significant additional pay awarded each year. The fact that such pension schemes very occasionally exist in the private sector does not make them excusable for the public sector. Such arrangements are – as the Institute of Directors have shown – incredibly rare in the private sector, where most executives do not enjoy anything like the benefits enjoyed by retired senior public sector workers.

Secondly, the methodology behind the awarding of performance related bonuses or pay is unclear. Does the ‘performance’ relate to the individuals or the organisation? If performance is measured on the organisation as a whole (and public sector bodies are almost always found to be performing ‘well’) top posts will be constantly rewarded. But this does not tell us anything substantive about the performance of the individuals or the organisation as a whole, and it does not form an appropriate basis for a bonus. Performance related pay must be linked to proper measures of performance (of the individual and the organisation as a whole), clearly stated and explicable.

Importantly, the debate over public sector bonuses and benefits must not be hijacked by discussions about activities associated with the relatively small and unique parts of the private sector, in particular the City of London. Such practices are applied to very few individuals, and are highly unrepresentative of how pay and conditions are set for the vast majority of those who work in the private sector.

7. *Do the pay levels for top posts in the public sector have a direct impact on the performance or qualities of the people filling these posts?*

**TPA** – Top posts in the public sector are very well remunerated, by any standard or measure. Moreover, if individuals in top posts do not perform to the best of their abilities at all times, regardless of pay, then they are not suitable for the job. Public sector workers often stress that they do their jobs, in part, out of sense of duty; this attitude must be reintroduced into the top levels of the public sector.
A. *What impact does the performance or qualities of the people filling top posts in the public sector have on the performance of the organisations for which they work?*

**TPA** – Leadership can have a considerable influence on the performance of an organisation. The qualities and performance of the senior members of public sector bodies will no doubt have a significant impact, as we have too often seen when over-promoted officials take on top posts, leading to unfortunate results.

Improving the quality and motivation of staff in the public sector is not just, or even primarily, a matter of money. Giving staff real autonomy, the freedom to make decisions and the chance to take responsibility for the results (good or bad) will improve staff satisfaction, motivation and performance, much more than increased pay.

8. *Is there an appropriate benchmark or ceiling for top public sector salaries – eg. the salary of the Prime Minister, or a factor of average pay?*

**TPA** – Most public sector employees should not earn more than the Prime Minister, who is quite well paid compared to senior managers in all but the largest private sector companies. However, if we want to see good managerial talent come in from the private sector, taking over public sector organisations, than we may (in a few, very special circumstances) have to accept pay at levels higher than the PM. It is important to accept that hard rules and simplistic benchmarks are no substitute for transparency and controlling pay on the basis of a democratic judgement about the level of pay that is acceptable.

9. *Can England and the UK learn from the experience of other countries or the devolved governments in this area?*

**TPA** – The United States has pioneered transparency in public sector pay. Easily accessible databases with positions and pay scales are available in many states, with some going further still, detailing the exact pay and perks of every state employee by name. Such a level of transparency should be imposed on all senior management positions in the UK public sector.
In terms of the levels of executive pay, President Obama acknowledged the need for action (for both political and economic reasons) and froze the pay of any White House Staff earning over $100,000 on his first day in office. A similar move should be replicated here, with the pay of all senior public sector staff frozen immediately to reflect the recession and falling pay in the private sector.

April 2009
Memorandum from Chartered Institute of Personnel and Development (CIPD) (EXP 06)

Background

1. The CIPD’s primary purpose is to improve the standard of people management and development across the economy and help our individual members do a better job for themselves and their organisations.

2. As the UK’s leading professional body for those involved in the management and development of people, we are ideally placed to contribute to the development of public policy across the spectrum of workplace and employment issues.

3. We are able to draw on the experience and knowledge of our 133,000 members and our wide range of research to provide a pragmatic stance on public policy that is based on solid evidence and the real world.

4. Our membership base is wide, with 59% of our members working in private sector services and manufacturing, 34% working in the public sector and 7 per cent in the not-for-profit sector. In addition 82% of the FTSE 100 companies have CIPD members at director level.

The Committee’s inquiry into executive pay in the public sector

Good reward practice

5. Although the CIPD feels it cannot comment on the appropriateness of specific arrangements for setting executive pay in the public sector, we can, in our capacity as human resource experts, advise on what constitute good reward practices across all sectors.

6. CIPD encourages all reward practitioners to deliver pay transparency so that employees know why they earn their level of pay, why others earn theirs and what they need to do to achieve a pay rise, bonus award or promotion. This particularly means there should be a clear statement of those behaviours, competences and values that are required by the organisation and how they will be rewarded and recognised.

7. In creating and developing such pay structures and progression mechanisms, reward professionals should try to ensure that an element of pay at all levels is linked to organisational and/or individual performance. The CIPD annual Reward
Management Survey shows that pay is becoming increasingly individualised particularly at senior management levels.11

Total Reward

8. We also believe that good reward practice encompasses a 'total reward' approach which considers not only the cost and value of base pay or bonuses, but also employee benefits such as share options, healthcare and importantly pension schemes.

9. Unfortunately, this year’s CIPD Reward Management survey indicates that only 11 per cent of employers in the public sector have adopted a total reward strategy and that few evaluate the impact of their reward practices on the organisation.

10. Bearing this in mind, it is unlikely that these public sector employers will have examined what values, attitudes, performances and behaviours are required from their senior executives and articulated how they will reward and recognise these financially and non-financially. Not examining these performances and tying them to pay may mean that people are rewarded indiscriminately.

11. Public sector employers that do assess the impact of their reward practices use a wider range of HR and business measures than their private sector counterparts indicating ‘a balanced scorecard approach’ to organisational performance.

12. We believe that such an approach to rewarding and recognising both short and long-term employee contribution could be beneficial to most public sector employers and should be adopted more widely.

CIPD principles for good remuneration practice

13. The CIPD is currently creating a set of principles for good remuneration practice at the board level. The principles are attached to this consultation document as an appendix. Our guidance will be followed up by a report explaining how practitioners should implement the principles.

14. These principles have been developed by reward professionals for reward professionals and are designed to be applicable to all organisations, regardless of economic sector.

15. The purpose of these principles is to help design remuneration packages that act as enablers to support an organisation’s talent agenda (e.g. attraction and retention of talented employees), their business context and to create and deliver long-term value to its shareholders and/or other stakeholders.

11 The 2009 annual Reward Management Survey showed that 92% of organisations used individual performance to manage pay progression for senior managers as compared with 73% in the 2006 survey.
Summary

16. To sum up, the CIPD believes that much of the current media and political focus on public or private sector executive pay is misguided. What is just, and potentially, more important than pay levels and pay increases is which performances are being rewarded and why and how they are going to be funded.

17. For a reasoned judgement to be made there must be disclosure not only of the full remuneration package but also what the individual has done and is doing to earn that sum.

18. This principle applies equally across the public, private and voluntary sectors and organisations should remember that there is more to an employees’ reward package than just money.

April 2009

Appendix – Principles for good remuneration

The CIPD has developed this set of principles for good remuneration practice at the board level. These principles were developed by reward professionals for reward professionals and are designed to be applicable to all organisations, regardless of economic sector.

The purpose of these principles is to help design remuneration packages that act as enablers to support an organisation’s talent agenda (e.g. attraction and retention of talented employees), their business context and to create and deliver long-term value to its shareholders and/or other stakeholders.

The CIPD considers that to be effective, board level reward packages should be:

1. **Context-based**
   1.1 There is no ‘one size fits all’ solution to executive remuneration. What works in one situation may not be appropriate in another.
   
   1.2 Organisations need to offer remuneration packages that are appropriate for their sector, the business context, the organisation’s agenda and other circumstances, e.g. domestic or foreign owned and where they are in their business cycle.
   
   1.3 The time frames used to assess performance and remuneration will be different between organisations [e.g. what is considered long-term for an organisation in one industry, such as retail, maybe viewed as short-term by another, such as pharmaceuticals].

33
2. **Competitive**

2.1 Remuneration packages for executives should be competitive for their market and sector, in the same way as packages offered to other employees.

2.2 The market and sector should be reviewed regularly (in particular – global, international, local) to ensure the comparators remain appropriate.

3. **Commensurate**

2.3 Executive remuneration packages should support and be aligned with an organisation’s philosophy, market practice, strategy and values.

2.4 The quantum of any award should reflect the value that the executive has created for the organisation over the short and longer-term. The more value that is created or delivered, the greater the reward.

4 **Performance based**

4.4 Executive remuneration packages should be linked to value creation over the short and longer-term and there should be clear alignment of interest between the executive, shareholders and other stakeholders.

4.5 Each organisation needs to consider how best to align the interests of its executives to the interests of its shareholders/stakeholders.

4.6 Each organisation needs to decide which of the various performance measures available are most appropriate to an executive in its particular context and at a particular time in the business cycle.

4.7 Judgement will need to be applied in assessing the quantum of an award, including the impact of history and how much of current value creation is a result of the present or past leadership. The reward should be proportionate to the effort of the individual and the impact on the organisation.

4.8 There should be the facility to claim some [or all] of a variable payment back (sometimes referred to as a malus clause) if the performance underpinning such payments subsequently proves to be unjustified.

4.9 An organisation will need to be able to explain and justify the rationale behind the remuneration decisions made to its stakeholder/owners.

4.10 An executive should understand what is expected of them, how they will be rewarded and recognised and what will happen if they do not meet expectations.

5. **Balanced**
5.1 Components of the remuneration package should recognise and balance internal conflicts, such as between short and long term, individual and collective, what has been achieved and how it has been achieved, etc and should be structured and managed holistically.

6. **Transparent**

6.1 The design of the remuneration package should be clear and simple enough to be motivational to the executive.

6.2 The process for determining the quantum of an award needs to be clear and understandable both to the executive, shareholders and other stakeholders (including other employees).

6.3 The remuneration package should be fully disclosed to shareholders/stakeholders, such as through the annual accounts.

6.4 However, public disclosure and transparency should not be used as an excuse by employers to copy the remuneration practices of other employers as that will just ratchet up pay.

7. **Consistent**

7.1 Executives must understand the expected level of performance, attitudes and behaviours, and how these will be recognised and rewarded.

7.2 The achievement of these should result in the consistent application of remuneration processes both for themselves (over time), between themselves and other executives, and between executives and the rest of the workforce.

8. **Costed**

8.1 The overall remuneration package for executives should be expressed in total remuneration terms such that the executives and shareholders/stakeholders are aware of the value of the total package.

8.2 The overall cost to the organisation of providing each element of the package should be expressed such that stakeholders can judge the return on investment.

9. **Integrated**

9.1 The remuneration strategy that an organisation adopts for its executives needs to be set in the context of its overall business strategy, HR policies (e.g. talent management, development, inclusion etc).
9.2 Remuneration committees should ensure that the underlying remuneration philosophy and strategy of the organisation is not contradicted by the way executives are recognised and rewarded.

9.3 Pay approaches in the rest of the organisation is one of the factors that need to be taken into account by remuneration committees in designing executive packages. When developing executive remuneration packages, a Remuneration Committee should have regard to the reward policies and practices across the organisation, seeking to provide alignment on key design features where possible and practical.

10. Independent

10.1 To ensure that shareholders, external stakeholders and staff trust the way that executive packages are determined, it is important that the body making this decision, such as remuneration committees in UK PLCs, have a significant number of members who are independent of the organisation.

10.2 All decision makers should be HR and reward literate and have access to various sources of independent and quality remuneration advice and data.

10.3 Remuneration committees should have regard to appropriate guidelines, e.g. combined Code on Corporate Governance, NAPF/ABI guidance for UK PLCs or the Charities Act for voluntary sector employers.
Memorandum from Local Government Association and Local Government Employers
(EXP 07)

Introduction

The Local Government Association (LGA) represents over 400 local authorities across England and Wales, **including all twelve councils which** currently have directly-elected mayors. In its role the LGA aims to put councils at the heart of the drive to improve public services and to work with government to ensure that the policy, legislative and financial context in which they operate, supports that objective.

Summary

1. We would like to thank the Committee for this opportunity to present some considered thoughts on the subject of executive pay in the public sector. Like all bodies with some responsibility for executive remuneration, we recognise that there is real political and public concern about both the level of top remuneration and growth in packages and also about how well the mechanisms for setting top pay are operating. For us, this concern predates the current economic downturn but has undoubtedly been exacerbated by it.

2. Our evidence is written from the perspective of our role in agreeing annual basic pay increases and some core terms and conditions for Chief Executives and Chief Officers but we hope that our observations will help in developing a more general picture.

3. Our key observations are as follows:

   - Local Government operates a system in which the main decisions on executive remuneration are taken by individual councils as employers. This is very important in ensuring that local politicians can be held to account for the decisions they make. It also enables councils to operate flexibly in the markets they need to recruit in.
   - This approach has served the local government sector very well in recruiting leadership teams capable of running very complex organisations. No other parts of the public sector and few if any parts of the private sector operate such a wide range of critical services with such large budgets as local authorities. No hospital chief executive, for example has to manage education, public safety, housing and highways services on top of social care. Added to this is the unique political environment of being responsible to local elected members as well as having to interact with the national government.
• The salaries and rewards agreed by local determination sometimes reflect a better economic climate and local priorities in recruitment that may no longer be sustainable in the current economic downturn. Councils need talented people in top management positions; however they must take steps to be more accountable in setting top pay and rewards and balance this with the need, in a tight financial situation, for all salaries to be demonstrably reasonable.
• We have long recognised that the perception of the system and its apparent fairness is very important and that councils must take decisions about pay for senior executives in an accountable way. The LGA Group has recommended that councils should establish independent remuneration committees and this advice is now set out in the national terms and conditions for chief executives.
• We will shortly be issuing guidance to the sector advising councils to review their own remuneration strategies and setting out some recommendations for strengthening the use of remuneration committees and on how councils can manage growth in top pay more rigorously.
• We believe that councils must be completely open and transparent about the full range of pay and benefits in top reward packages. We therefore support the Government’s decision to require public disclosure of remuneration information in local government in a way that is equivalent to the current requirements in the Civil Service. We look forward to the forthcoming consultation on detailed proposals.
• We are sure that it is appropriate for different parts of the public sector to develop remuneration strategies that suit their very different responsibilities and methods of operation, though of course there are some important common principles about accountability.
• development of leaders across the public sector to promote a partnership approach, so common training and enhanced chances to work across sectors will be important developments.

The Role and impact of Chief Executives in Local Government

4. Local authority Chief Executives have always had complex roles and the level of complexity is increasing. They have overall responsibility for budgets of £370m on average and well over £1bn in a number of cases. They are responsible for nearly 5500 staff on average—over 48,000 in the biggest council. They oversee dozens of statutory services including the whole vital range of services for children, public protection, highways and so on. It is estimated that upper tier local authorities have over 700 different occupations. In recent years, Chief Executives have had to lead the development of new responsibilities working in partnership with the Health Service, Police and others on community issues. Councils also have wide and growing responsibilities for economic and community development, which is
central to national recovery. One example of new responsibilities that will be devolved next year is responsibility for brokering training and skills development for all 14-19 year olds. All this has to happen in the context of democratic politics.

5. The impact that a strong Chief Executive and management team can have in practice is considerable. A council that is well managed both politically and managerially can have a strong impact on local communities. The whole team is responsible for running some very large business units.

6. An exhaustive listing of responsibilities is not possible here but the point is well made that the top leadership team overseeing this range of core responsibilities requires exceptional capabilities. The reward package has to reflect this need as well as the need to provide demonstrable value in the use of taxpayers’ money. All these observations apply proportionately to Chief Officers, such as Directors of Children’s Services, as well.

**Reward Structure for Top Executives in Local Government**

7. The main responsibility for setting pay and rewards for Chief Executives—and indeed all staff—in local government lies with individual councils as employers. There is a voluntary arrangement whereby all but around 10% of councils take part in national negotiations through Joint Councils involving the recognised Trade Unions. The JNC is a collective bargaining mechanism that agrees a national annual basic pay increase and some other core terms and conditions—particularly the disciplinary process for Chief Executives.

8. The individual salary level to which any national increase is applied is set entirely at local level, based on an assessment of the size of the job and relevant market comparators. The way in which pay is adjusted each year is also a matter for local discretion. In practice, around 64% of Chief Executives are paid on an incremental pay range and 36% have a 'spot salary', which is reassessed periodically.

9. On top of this, some councils offer various additional payments and, to a lesser extent, performance related pay. Additional payments include things like regional allowances, long-service supplements, fees for administering regional bodies etc. Around 49% of Chief Executives receive additional payments and 6% are known to receive some performance related pay.

10. All the various elements of remuneration packages produced an average actual payment of £128,922 (not including pension entitlements) to Chief Executives according to the latest LGE survey in 2008. The survey found that the overall average (mean) annual basic salary for chief executives excluding additions was £124,784. The corresponding figure was £90,965 for 1st tier officers, £69,528 for
2nd tier officers, £58,575 for 3rd tier officers and £53,877 for other executive officers.

11. The evidence from last year’s report on chief executive pay by the Audit Commission, ‘Tougher at the top?’ was that basic salary levels for single tier and county council chief executives increased by 34% between 2003-04 and 2007-08, whereas the total pay of private sector chief executives increased by 78% from 2002-03 to 2006-07. Part of the increase in the pay of council chief executives was related to growing turnover, which increased from 11% in 1998 to 17% in 2007 for single tier and county councils. The Audit Commission’s research observed an emerging consensus that effective political and managerial leadership are fundamental in creating high performing local authorities, and a perception that the appointment of an existing chief executive with a good track record is the best way to improve performance.

12. The range of individual salaries is quite wide though salaries at the upper end are the exception to the rule. In our most recent survey the distribution was as follows:

<table>
<thead>
<tr>
<th>Salary Range</th>
<th>No in receipt</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>£200,000-£225,000</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>£180,000-£199,999</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td>£160,000-£179,999</td>
<td>46</td>
<td>11</td>
</tr>
<tr>
<td>£140,000-£159,999</td>
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<tr>
<td>£120,000-£139,999</td>
<td>46</td>
<td>11</td>
</tr>
<tr>
<td>£100,000-£119,000</td>
<td>123</td>
<td>31</td>
</tr>
<tr>
<td>£80,000-£99,999</td>
<td>91</td>
<td>23</td>
</tr>
<tr>
<td>Less than £79,999</td>
<td>14</td>
<td>3</td>
</tr>
</tbody>
</table>

13. The salary range is not out of line with the rest of the public sector, however, in common with the public sector as a whole, we need to ensure that further growth in reward packages is carefully managed in order to ensure that executive reward reflects current economic circumstances.

The balance of reward packages

14. Additional financial benefits and bonuses are not as significant a component of pay as they are in the private sector. However, work is being done to establish a full picture of additional payments, so that recommendations can be developed about how best to control them.

15. The pension scheme is an important additional part of the overall reward package. It is a funded scheme with contributions from individual employees, as well as from employers. Employer contributions can add around 20% on average to
individual reward packages. The pension scheme has recently been reformed to introduce banded payments so that higher earners pay more, with rule changes to make the scheme more affordable. This will need to be kept under review, to ensure that the scheme continues to take account of longer-term economic and demographic factors.

Ensuring public accountability

16. We believe that local government needs to balance the benefits of local decision-making with complete clarity and openness about the reward packages given to top executives.

17. Councils take their fiduciary duty in accounting for top executive remuneration very seriously. There is already a high level of public disclosure of salary levels and we support government moves to extend these. Councils also produce extensive audit material according to the requirements of the Audit Commission and CIPFA. The sector is also unique in its signed commitment to completing equal pay audits across the workforce.

18. LGE and LGA do believe, however, that local government must take careful note of concern about top salary levels. We intend to recommend that councils should review their local remuneration strategies, improve accountability through appointment of remuneration committees with members from outside the council and examine ways to demonstrate that annual growth in pay is reasonable and justified.

19. The LGA Group has advised councils to set up independent remuneration committees to oversee the process of setting top pay and reward packages. Advice on setting up committees—preferably with representatives from outside the council—is contained in the national terms and conditions for chief executives. Such committees can provide powerful oversight of the mechanisms for setting pay and the advice and information taken into account. We have now expanded our advice to recommend that councils should take steps to ensure that top pay growth does not move out of line with general pay growth in the economy, unless changes can be fully justified by exceptional performance.

Benchmarking across sectors

20. The question of providing an appropriate benchmark for salaries across the public sector has been raised. We think it is important to understand what this would entail. We have already outlined the particular specialist roles of top executives in local government. We feel sure that other sectors should highlight their own specialist roles as well. If any attempt is to be made to develop good comparable benchmark salaries for the public sector, the exercise will need to involve the
entire public sector and take account of detailed differences in job roles beyond simple job titles, in order to create an accurate analysis.

21. We believe that it is increasingly important to develop a cadre of multiskilled leaders who can work increasingly across and between different parts of the public sector delivering services in partnership. We believe that it is important to enhance the scope for common development and learning as well as for sharing experience via secondment from government departments to local authorities.

22. It is also very important for councils working alone and in partnerships to do more to develop their most talented employees to take up leadership positions in the future. This will increase the supply of potential leaders.

International comparisons

23. We have not made a close study of systems in other countries but we do believe that it is valuable to note that in Scotland, where a more highly centralized form of pay setting for Chief Executives has been retained, there is some intense discussions about growing problems. In particular there is some disagreement about finding appropriate benchmark comparators for Chief Executives because the old comparators of civil servants and head-teachers are regarded as inadequate.

24. Also, we are aware that some years ago the Republic of Ireland attempted to conduct a wide-scale salary benchmarking exercise across the whole public sector, which resulted in significant anomalies and disagreements.

25. Our conclusion is that the best approach is for individual sectors to have flexibility to operate within their own requirements and relevant markets, although this flexibility must be used responsibly and accountably.

April 2009
Memorandum from FDA (EXP 08)

Introduction

0.1 The FDA welcomes the decision of the Public Administration Select Committee to launch an inquiry into executive pay in the public sector. The FDA is aware that in the current economic environment there is public concern that relates both to scrutiny of public expenditure and to issues of executive pay across the economy as a whole. As the recession deepens, the public has become more conscious of the increasing inequality in the UK and, while some of the expressions of concern maybe over-heated or irrational, nonetheless valid questions are now being asked about reward in both the public and the private sectors. Moreover, whilst there are significant differences between public and private employment and the issues surrounding executive pay, there are some points of congruence.

0.2 Further, in the light of the likely impact of the economic crisis upon public spending, and noting the grim forecast set out in the Budget about the level of government debt, and the major reductions in public expenditure thus anticipated, over the next decade (forecasts which many independent bodies nonetheless regard as optimistic), the public will rightly question all aspects of public expenditure and wish to be satisfied that the taxpayer is getting both value for money and ‘a fair deal’.

0.3 These concerns are also shared by many public sector employees themselves. Even those holding senior posts in the public services are aware of the wide disparities and the apparent lack of any coherence in pay and reward structures at senior levels across the public sector. This problem is compounded in the public mind by the arguments surrounding the future of public sector pension provision in the context of the collapse of pension provision in the private sector.

0.4 This inquiry therefore offers an opportunity to help frame a more meaningful and constructive debate about the executive pay levels since the issue began to be aired widely last year.

0.5 In considering the way forward, the FDA sees five underpinning principles:

Firstly, reward packages and overall pay levels should be seen by the Government, employer and taxpayer as ‘fair’. (There is a concept used in job evaluation of ‘felt fair’ which, whilst not objective, is nevertheless a useful measure).

Secondly, pay levels should be adequate to avoid the public service concerned becoming or appearing to become, an inferior service compared to other parts of the economy. This means that pay levels must have regard to recruitment, retention, morale, motivation and capability.
Thirdly, pay and reward should be transparent. For example, as discussed below, the pay of the most senior staff in the Civil Service is a matter of public record (within a £5000 band) and levels are set, and the structure determined, by an independent pay Review Body. This is not the case for all senior staff in public sector employment.

Fourthly, there should be a degree of consistency. This not only underpins fairness but assists in movement around the public sector as senior staffs are more obviously transferable without undue salary inflation. The Public Sector Pension Transfer Club which allows people to move across the public sector and transfer pension entitlement without significant loss (and which also applies to MPs who take up office from public sector employment) is a practical example of this approach.

Fifthly, there should be certainty that once a structure or agreement is in place, this will not be constantly changed, particularly for short-term political reasons.

0.6 The FDA believes that such principles are best supported by having autonomous and independent pay determination mechanisms, which to a large extent the pay Review Bodies currently offer.

1. Are the right arrangements in place for setting and monitoring pay and other benefits for top posts in the public sector?

   a. Are they fair?
   b. Are they transparent?
   c. Do they produce the right results?
   d. Do they provide value for money?
   e. Do they inspire public and political confidence?

1.1 In considering this question, and subsequent issues raised in this inquiry, there is the difficult matter to consider of what should be understood by the term 'public sector'. There is no question that one can relatively easily identify the Civil Service, local government and the NHS (although the term 'civil servant' is often used to cover senior managers in both local government and the NHS when issues of reward are being argued in the media). We can also add the NDPBs (or quangos) into this framework given that all report through government departments, and HM Treasury has influence over pay levels set (see below). The armed forces and the judiciary (and the UK's parliamentarians) are already covered by the remit of the Senior Salaries Review Body (SSRB) as are doctors and dentists, prison officers, teachers and the police by other pay Review Bodies.

1.2 However, this still leaves substantial room for debate about how wide to extend an inquiry into senior public sector pay given the ambiguous status of universities, the need to consider whether the BBC should be considered within the framework of the public sector or the wider private sector media industry, and public utilities such as Network Rail and the Post Office. There are also organisations such as those delivering the 2012
Olympics which are clearly public sector bodies but for which the Government appears to have explicitly used only the private sector as the comparator in setting salaries. The FDA would welcome debate on how such senior pay in such arms-length publicly funded organisations might be considered.

1.3 As noted above, there is no question that the Senior Salaries Review Body, and the other pay Review Bodies with a remit for senior staff, achieves fairness and transparency in executive pay for those groups for which it is responsible, although the Select Committee will wish to be aware of the anomaly within the NHS where the pay of some Chief Executives, responsible for Primary Care Trusts, is determined by SSRB but other senior NHS managers’ pay is determined solely by their Trust within a loose framework set by the NHS.

1.4 A further issue in respect of NHS salaries is that medical consultants are able to receive “merit awards” which relate to the valuable contribution that they make through excellent clinical practice. These graded awards can double a consultant’s salary with the highest award and whilst they are restricted in numbers they are held by quite a number of staff. Often, the CEO salary is linked to doctors’ pay as it is usually the greater financial award made and it would allow the CEO to keep pace with the general trend. The awards however significantly undermine any concept of parity and appear to remain a closely guarded ‘perk’ that many are unaware exists.

1.5 However, whilst the FDA does not wish to argue that pay for individuals such as Chief Executives of local authorities or of quangos is in any way unfair, there has been relatively little transparency about their pay determination arrangements, and little wider understanding of how decisions are made on overall pay levels or individual reward packages.

1.6 Moreover there is a question not only about simply the mechanisms used for determining reward but also the relationship between the levels of pay across different public sector bodies. Some of the stark differences in pay levels are clearly undermining public and political confidence.

1.7 Evidence of this concern can be seen when, for example, in April 2009 HM Treasury issued its annual ‘remit guidance’ for the use of departments in determining civil service pay and included within this for the first time an obligation upon departments that “the proposal for any pay and bonus arrangements for any NDPB Chief Executives must be submitted to the sponsored department alongside the organisations pay remit. In addition any proposals to re-structure the remuneration package of a Chief Executive must continue to be referred to the Treasury”. It is also apparent that Ministers are not confident about pay levels set for local authority Chief Executives in the light of recent statements by John Healey, Minister for Local Government.
1.8 In the Civil Service, the salaries of all Permanent Secretaries and Director Generals (Grade 2s) are published in their department’s annual report (given that all these individuals are members of their department’s management board). However, local authorities are currently under no obligation to publish the salaries of very senior staff and where they are published there is no immediate explanation of why salaries differ between authorities. Although many London local authorities refuse to publish data on pay, the Chief Executive of Islington earned £152,500 as salary in 2007-8 whilst the Chief Executive of Lambeth earned £193,075 in salary over the same period. There may well be a very straightforward explanation of the differences between those salaries of what are similar local authorities but there is no way of knowing.

1.9 Problems also emerge in comparing pay in the Civil Service. Whilst most civil servants promoted internally have pay levels which, whilst differing, can be assessed and are within the parameters set by the SSRB there are significant differences between the pay of internally promoted members of the Senior Civil Service and those in comparable SCS jobs appointed from outside, even from the wider public sector. The Select Committee has seen the evidence submitted to SSRB by the FDA and Prospect, and the reports of the SSRB which have highlighted these differences.

1.10 In summary, far too often the Civil Service has focused on recruiting a particular individual and subsequently offering as a starting salary whatever may be required to persuade that individual to take up a civil service post (sometimes at significantly higher levels than the salary earned by the department’s Permanent Secretary) rather than, as in most organisations at most levels, setting parameters within which the department is prepared to pay a successful candidate, and ultimately leaving it to the candidate to decide whether to take up an offer of a post at the pre-determined salary. This has been highly wasteful of public expenditure but has also eroded the integrity of the pay arrangements in the SCS and caused significant problems for morale.

2. Does there need to be consistency regarding these arrangements between different parts of the public sector?

2.1 It has been noted above that there is no obvious consistency between different parts of the public sector. In the coming period consideration should be given to establishing a more ‘level playing field’ to help to avoid unnecessary salary inflation and facilitate movement across the public sector, as well as helping to allay public concern. This will be however a very difficult task.

2.2 There are two aspects to this issue. Firstly, there is the more straightforward issue of the level of annual increase on whatever salary is in payment. Those public sector staff covered by pay Review Bodies already receive a similar level of annual increase given the framework set by the Government in its annual evidence to individual Review Bodies, and their terms of reference. Using the SSRB as an example, the Government requires them in determining an annual increase to consider factors such as "the need to recruit,
retain and motivate suitably able and qualified people to exercise their different responsibilities; regional/local variations in labour markets and their effects on the recruitment and retention of staff; Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services; the funds available to departments as set out in the Government’s departmental expenditure limits; and the Government’s inflation target” (SSRB remit).

2.3 The second, more complicated, aspect is seeking to achieve some degree of relativity between different posts across sectors. In turn, the first step towards this would be greater relativity within individual sectors, in particular in local government where as already noted Chief Executive salaries differ considerably. There would then need to be a gradual realignment of pay levels more widely which would probably need to be underpinned by a process of job evaluation.

2.4 The FDA is not arguing that there should be one pay structure or job evaluation scheme (or a complex of evaluation schemes) operating across the public sector given the many different accountabilities that senior managers and professionals face across the public sector. However, it would be possible for all senior staff in the public sector to be brought within the aegis of a Review Body (which might require establishing new bodies eg for local government, or significantly extended the remit of the SSRB), and through this route it is not inconceivable that a basic system of job weighting could be extended across the main functional areas of the public sector that would enable those responsible for pay setting to determine a framework within which a pay level could be established. Even without a formal job evaluation mechanism, it is possible to adopt some of the underpinning concepts of job evaluation, such as the size of responsibilities and the degree of autonomy and decision-making, to assist in pay determination.

2.5 Given the considerably greater scrutiny that is likely that is to be brought to bear in the coming decade on public sector reward, such an approach may be the only way of allaying public concern.

3. Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector?

a. If so, how should equivalent posts in the private sector be identified?

3.1 An even more difficult question than that of pay relativities across the public sector arises in seeking to determine relativities between the public and private sectors. There is experience of such an approach in the Civil Service. Until 1996, the pay of what is now the core grade of the Senior Civil Service (Assistant Directors or Grade 5’s, who were not then under the aegis of the Top Salaries Review Body but instead had their pay determined by collective bargaining between the FDA and HM Treasury) was adjusted every four years on the basis of a ‘levels survey’.
3.2 In summary, the Office of Manpower Economics (which acts as the secretariat to all of the pay Review Bodies) oversaw a process by which consultants designed a job evaluation system for the particular exercise and then compared a range of civil service posts with the pay of private sector posts that appeared to be comparable in function, selected by the consultants. An assessment was then made of the overall reward package of a particular private sector post compared to the reward package for a comparable civil service job. Although time-consuming, this four-yearly exercise did enable civil service posts to maintain a relationship with pay in the private sector that also allowed the Civil Service to compete adequately in a wider market.

3.3 The annual level of any pay increase between the four-yearly 'levels exercise' was then determined by an annual pay 'movements' index which was based on a basket of increases awarded to private sector workers. This meant that public sector annual pay increases were broadly in line with those in the private sector and seen to be fair across the wider economy. It would be easy to restore such an index.

3.4 Were such an approach to be considered again, it would also be important to look at the reward package on the basis on lifetime earnings (both in work and in retirement) rather than simply at work at that moment. The FDA believes that this would demonstrate that, as far as the Civil Service is concerned, what may appear to be a better pension arrangement does not fully compensate for the difference in salary during the working career.

3.5 Ultimately the Civil Service, or rest of the public sector, cannot isolate itself from the outside labour market pressures completely, nor should it be seen to be chasing short term market movements one way or another. A balance has to be struck between rewarding public servants fairly so they will feel valued and not be constantly looking for opportunities elsewhere, and the need to reflect concern over the use of public money.

4. Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?

4.1 The FDA has highlighted the growing gap between the pay of internally promoted Senior Civil Servants and that of other senior public sector staff, as have the SSRB and Civil Service Commissioners. This is one factor in the 'dual market' referred to in paragraph 1.9, as the Civil Service has recruited externally and found itself paying higher salaries to new entrants from elsewhere in the public sector. The Government has also referred recently to wage inflation in local government as a 'market' has developed for Chief Executives and other senior managers.

5. What role should consultancies play in the determination of pay for top public sector posts?
5.1 There would almost certainly have to be a role for consultancies in the determination of pay for public sector posts, just as there is in supporting the existing work of pay Review Bodies. However, this must be seen as a support and technical role for organisations such as pay Review Bodies rather than a delegation of decision making to management consultants. Any other approach is only likely to exacerbate public and political concern.

5.2 Many local authorities currently employ consultants to help set senior pay levels, but there is no obvious transparency.

6. Is the balance right between executive pay and other benefits? eg bonus, pension

6.1 Consideration does need to be given to the different elements of public sector reward. The current Government has fostered the extension of performance related pay arrangements for many public sector workers, together with a major extension of the use of bonuses.

6.2 The use of such bonuses has in practice caused considerable reputational damage to senior managers in the public sector, even where such bonus arrangements, as in the SCS, bear no relation either in size or in their framework to bonus arrangements usually operating in the private sector. (The SCS bonus system is simply a method for distributing a percentage of the annual pay increase but in a way that is cheaper to the tax payer because it does not incur ‘on costs’ for the employer such as a pension contribution, and is in reality a form of variable pay).

6.3 Many tax payers fail to understand why someone should be recruited at a salary well above the national average and then receive a bonus for simply doing the job they have been employed to do. As an example, delivering an aspect of the Olympic preparations by July 2012 rather than January 2013 is at the core of the job itself, not a welcome addition. (And it is, as an aside, noticeable that the Government has not proposed the use of either performance related pay or bonuses for Ministers themselves).

6.4 Performance related pay is now common at even the most junior levels of employment, but as with bonuses, the FDA can find no evidence that there is any impact on performance and such forms of pay are often as much a demotivating factor as a boost to morale.

6.5 There are more subtle motivating factors for senior managers and professionals, including the ‘public sector ethos’. Put simply, most senior public servants are very committed to their work, want a fair level of pay and a reasonable pension, and the restoration of professional discretion and autonomy (and less political scapegoating) are far more important than bonuses. A fuller analysis of the problems associated with performance pay and bonuses for the SCS has been set out in the FDA’s evidence over recent years to the SSRB which the Select Committee has seen. Further, evidence of the
corrupting influence of bonus systems in the finance sector has been all too publicly displayed over the past year.

6.6 The FDA can find no evidence to justify the extension or continuation of such arrangements in the public sector and would welcome their phased withdrawal in the coming years. This has to be in the context of resolving the long term pay issues for the SCS rather than simply abolishing one aspect of the reward mechanism.

6.7 The aspect of reward that has raised the greatest public concern and political debate is pension provision. Whilst all of the public sector pension schemes have been reformed and have reduced costs in recent years, they currently have similar structures even if contribution levels and benefits, together with some other technical aspects of schemes, differ slightly. All are defined benefit schemes and, moreover, pension schemes in the public sector operate in the same way for staff at all levels. For example, a Permanent Secretary is a member of the same pension scheme as an Executive Officer paid a tenth of the Permanent Secretary—only the size of the pension differs, not the quality of benefits. The major change has been the introduction in 2007 of a career average (but still defined benefit) scheme for all new civil servants in place of the final salary scheme.

6.8 Moreover, not only has the cost of public sector pensions if anything reduced in recent years, defined benefit schemes in the private sector are similar in scope and employer cost to those in the public sector. However, the vast majority of private sector workers who are in a pension scheme at all are now in defined contribution schemes which offer considerably poorer benefits than defined benefit schemes, and the closure of many private sector defined benefit schemes, and rapid erosion of pension provision more generally in the private sector, has led to criticism and at times resentment of public sector provision. (It should be noted though that the exception to this rule in the private sector is usually at senior executive level where very generous defined benefits schemes are still often found, as the excesses of Sir Fred Goodwin’s pension entitlements at RBS have all too vividly illustrated).

6.9 The FDA believes that the current public sector pension provision is fully justified, and affordable in the long term. Most of the media criticism is economically ill-informed, and the answer to the problems of private sector pension provision should not be a rush to a lowest common pension’s denominator, an ‘equality of misery’, but to address the need for better pensions for private sector workers. The pension is also an integral part of the reward package for senior public servants and any attempt to remove or dilute it would inevitably create an inflationary pressure on the other elements of the pay package.

7. Do the pay levels for top posts in the public sector have a direct impact on the performance or qualities of the people filling those posts?
a. What impact do the performance or qualities of the people filling top posts in the public sector have on the performance of the organisations for which they work?

7.1 Clearly, high calibre candidates with a proven track record are likely to be able to secure higher pay levels than less experienced or slightly less capable colleagues. Moreover, many of the skills necessary to manage large public sector organisations have a market value in the wider economy, particularly once the economy recovers from the current recession. However, the FDA has not seen any evidence one way or the other that establishes a direct link between the reward package and performance.

7.2 That said, obviously some senior executives have stronger leadership capabilities or, for professionals, greater expertise in their particular field, that can benefit the overall performance of the organisations in which they have a senior role, and the FDA has been supportive of work to enhance leadership and management capabilities in public sector bodies.

8. Is there an appropriate benchmark or ceiling for top public sector salaries—eg the salary of the Prime Minister, or a factor of average pay?

8.1 In considering the question of relativities in the public sector (including the possible use of a simple framework of job evaluation), the FDA has focussed on the problem of relativities between different public sector senior managers and professionals. However, we recognise that any such an approach is also likely to have to take account of the remuneration package for elected parliamentarians, although it will be difficult to address this until decisions are taken on the remuneration for MPs more generally in light of the scandal of MPs’ expenses.

8.2 However, elected politicians are not in a conventional employment situation and the FDA is wary of trying to establish a straightforward correlation between the reward package for politicians and that for senior public sector executives. There was historically a link between the levels of MPs’ pay and that of a certain grade of civil servant (Grade 6/Senior Principal). However, in practice this led to distortions in the civil service pay arrangements as changes felt necessary for the efficiency of the pay system were extremely difficult to implement because of their political implications.

8.3 Successive governments have not helped this discussion by pegging back the levels of the salaries of MPs and Ministers (including the pay of the Prime Minister) in many years as a political gesture, as we now know relying on extensive expenses regime to ‘cushion the blow’. This has over the medium term been a very short-sighted strategy and has left Ministerial pay at a level that is not necessarily comparable to relevant public sector roles.
8.4 It is not obvious therefore that one single benchmark is a sensible mechanism, but rather senior pay should be considered holistically and a better appreciation of fair relativities introduced in line with the principles set out in the introduction.

9. Can England and the United Kingdom learn from the experience of other countries or the devolved governments in this area?

9.1 The FDA is not aware of any such experience that would be helpful to this inquiry.

April 2009
Memorandum from Stephen Taylor, Director of Taylor Haig (EXP 09)

A few quick thoughts which may run against the underlying implication of some of the questions:

- it is highly desirable that managers at many levels, including the top, are able to move reasonably easily between the public and private sector. Each sector would be much the poorer without the mutual understanding which this movement enables. The loss of that understanding in return for a little money saved from senior public sector salaries would be a very bad bargain indeed. So I am afraid you cannot insulate the public sector remuneration debate from the private sector one

- the skills, demands, accountability, exposure and insecurity of running, say, a £500m council are absolutely not of a different order from those of running a £500m business (I know, I’ve dealt with lots of both over the last 30 years). The pay of the latter - your remuneration consultants will give you the correct answer - is probably at least four times the former

- the pay of local government chief executives should be determined by local politicians. If the local populace don’t think they get value they can vote for a new lot

- in general we get extraordinarily good value for money from the roughly 1000 people at the top of our public services; more than we deserve given the small-minded abuse they get

- you cannot deal with this subject without dealing also with both performance pay and pensions; the mix of salary + performance pay + pension (never mind the total) is very different in public and private sector. The answer is a much larger performance element and the end of index-linked pensions for the public sector

- history shows that holding down top pay does no more than that, ie it does not hold down pay at lower levels. All that happens is differentials are squeezed and then fewer people strive for the top jobs. That is already the case in the Civil Service

- senior public servants don’t have the tax planning/avoidance opportunities of the private sector. In other words, they pay the full marginal rate on all their earnings.

The only thought I’d add is that while in principle ‘the market’ should determine top salaries, it is as we know highly imperfect. So we need some additional mechanism, but not please national control on the grounds of ‘consistency’, ‘fairness’ or some other
nonsensical rationale for centralisation. I’m attracted to the idea of a ratio, eg that we
wouldn’t expect the top salary in a public sector organisation to be much more (or indeed
much less) than X times its average salary and would look for justification if it was. We
can then debate what X is, and perhaps it changes over time. I think it’s about 8.

I’d also, by the way, be interested in the ratio of chief executive salary to the level
immediately below. Needs to be at least 1.3:1.

Re your question 7, my main learning about pay after 30 years is that people don’t in fact
think about it very much provided they don’t feel unfairly treated, that the greatest source
of feeling unfairly treated is not the absolute but relative level, and that relativities near to
home (eg if I’m a university vice-chancellor then other vice-chancellors, not company
marketing directors) are what matter.

May 2009
Memorandum from the Hay Group (EXP 10)

This paper does not attempt to answer all the Select Committee’s questions - although we would be happy to do this - but concentrates instead on a few observations and suggestions.

Comments on Executive Pay in the Public Sector

Committee Members, MPs and members of the public are understandably concerned about the value for money they get from public sector pay. We believe that the best way to improve value for money is not to complain about specific salary levels or bonus payments but to look at the market as a whole and concentrate public and regulatory attention on a small number of practicable reforms.

First, therefore, some comments about public sector reward systems:

1. The Public Sector is not one market

Public sector organisations occupy a broad spectrum. In practice they operate very differently and it will not help them or the taxpayer to lump them all together. For example, the Senior Civil Service is largely recruited from within the ranks of public servants rather than in the open market. Unsurprisingly, they have the lowest base salary levels of all main public services.

Local government offers higher salaries for jobs of similar weight and challenge, but this is because chief executives, directors and heads of service are recruited in the open market across the UK. In addition, as the Audit Commission has noted, pay has begun to reflect the performance of councils as measured by Comprehensive Performance Assessment and there is a demand for senior managers who have helped to improve local authorities (‘Tougher at the Top?’, Audit Commission discussion document July 2008).

Universities recruit their Vice Chancellors in the international market - mainly from other higher education institutions - and they select the heads of business schools from among international competitors and the private sector. The pay of university heads has increased significantly in recent years and heads of business schools receive more. In both higher education and business schools, international measurement systems are available which enable recruiters to identify people who are associated with the best performing organisations, just like they can in local government but this time on the international stage.

So even in the public sector, pay levels reflect the openness of the market and the track record of the individual. The point is underlined by experience in the Senior
Civil Service, which recruits a minority from the wider market. That minority is paid around 20% more than those who have been promoted within the service (Government Evidence to the Senior Salaries Review Body, December 2008).

2. The sector includes a wide range of organizations

Policy towards the public sector in recent years has created a spectrum of organisation types. In part, this spread reflects the level of control from the centre of government, in part the opportunity and responsibility to operate commercially.

For example, central departments and the agencies which they fund are relatively closely controlled and are subject to the standard Senior Civil Service pay arrangements. There are various public bodies which have earned greater autonomy and are more likely to determine their own pay arrangements at executive level such as academy schools, foundation trust hospitals and agencies operating as Trading Funds. Then at one further remove from direct control are public corporations and government owned companies, which determine pay themselves throughout their employment structure. As public sector organisations become more independent and commercial, they are more likely to operate in the open recruitment market and to see a need to match wider market practice in salary level and the configuration of the total employment package.

These differences are reflected in the NHS in England. The directly managed part of the NHS including Strategic Health Authorities, Ambulance Services and Primary Care Trusts - is covered by the national framework for Very Senior Managers, which is reviewed annually by the Senior Salaries Review Body. Provider trusts which do not have foundation status set executive pay locally. Foundation Trusts also set executive pay locally, have further pay freedoms and certainly pay more than the Very Senior Manager system, although their governance arrangements (including for remuneration) are regulated independently by Monitor.

While the position in the NHS is a little confusing, it makes sense to relate autonomy in setting pay to the acquisition of other policy and commercial freedoms.

3. There is an overreaction against performance related pay in all its forms

There is a long tradition of hostility in most of the public sector both to linking salary progression to performance and to the use of bonuses. The Senior Civil Service, senior jobs in local government and the commercial public sector are exceptions, but outside these groups it is often argued that linking performance and pay does not suit the work and culture of the public sector.
Suspicion of performance related pay has grown recently as a reaction to the bonus culture in City institutions and certain banks and the combination of high bonus payments and obvious performance failures. However, the investment banking sector is not typical of how performance-related incentives operate in the private sector. Just because a few organisations pay far too much for the wrong things does not make the whole principle bad. In addition, in spite of indications to the contrary from recent publicity, a good system of bonuses and incentives takes care to encourage people to do the basics well and then to achieve more on top. It does not reward them for meeting a few targets while ignoring the main features of the job.

Most important, it is only sensible to relate rewards to performance. The alternative is to pay people the same whether or not they perform - which is not even common sense, let alone good use of public money.

The real difficulty with public sector pay is that it is not sufficiently related to performance. The negotiated pay systems covering the majority of public sector staff, generally up to quite senior levels, are still dominated by incremental pay structures which reward length of service and discourage effective performance management. Some executive pay also bears little relationship either to the performance of the organisation, or the top team or the individual.

The most obvious example is the NHS, where many top salaries are supposedly set based on market rate and little use is made of bonus payments. The approach is exemplified by the Remuneration Report from one of the country’s largest Foundation Trusts, which states: ‘No element of the executive... directors’ remuneration is performance related’. This cannot be right. It is essential to provide a clear definition of good performance, and executives should not continue to receive high salaries and good increases unless they deliver the required performance.

Finally, insofar as public service has operated performance-related, non-consolidated bonuses, these have tended to be focused on individual rather than organisational performance. As such they are much harder to justify to external stakeholders than arrangements related to the value the organisation itself delivers.

4. Stakeholders should have information but not all public bodies provide it

There has also been debate about the right of the public to clear information about the pay of executives in the public service.

The clearest rules and practices of disclosure are in the commercial public sector and the NHS, where top team salaries, bonuses and pension entitlements are published - although the salaries are often in bands rather than actual figures. There is also a strong element of disclosure in: the Senior Civil Service (where permanent secretaries’ salaries are published and information about the top 5,000 or so civil servants is
released each year); police forces, where salaries are set and publicised nationally; and universities, which state the remuneration of the Vice Chancellor and list other senior salaries in bands.

The exception among major organisations is local authorities. They do not generally publish annual accounts in a format which members of the public can obtain and understand, nor do they disclose the remuneration of the top team. Most public information about executive pay in local government comes from press articles and freedom of information requests by individuals and lobby groups.

It is arguable that all organisations funded by the public should have a common duty to disclose executive remuneration at least to the standard required of a PLC. At very least, there should be a duty placed on local councils to make available the remuneration of the chief executive and directors.

Whilst there is some evidence that pay disclosure creates pressure for pay increases from executives, there is also strong evidence (from both the public and private sectors) that transparency improves the decision making of remuneration committees. On balance pay disclosures are of net benefit to the setting of appropriate pay packages, even leaving aside the governance arguments for such disclosures.

5. Remuneration Committees should consider the terms and conditions of senior executives

Many public sector bodies have - or are working towards - single sets of terms and conditions that apply across the whole workforce. Whilst “single status” is a useful principle for the wider employee population, it is debatable whether this approach should apply at top executive level. In our view, senior executives should be employed on service contracts with terms and conditions that are appropriate to their roles and which reflect the significant pay they receive. As a specific example, it is inappropriate for senior executives to be eligible for generous redundancy payments.

6. Pensions are a separate issue

In recent years, the private sector has moved away from final salary pension schemes because their cost is unsustainable. Whilst a proportion of longer-serving private sector executives are still in final salary schemes, some companies are looking to end even these legacy entitlements - a process that is likely to be accelerated by the changes to pensions taxation set out in the 2009 Budget.

Meanwhile, although there have been changes in entitlements, the major public sector schemes still offer final salary or at least (for new joiners) salary average schemes, with index linking and at modest employee contribution rates. The cost of many schemes has been pushed-up by above inflation salary growth in parts of the public
sector and the tendency to target pay increases into consolidated salary. For a long-
server the pension costs of any salary increase will far outweigh the value of the salary
increase itself.

There has already been public and media comment on the gap between public and
private sector pensions and disquiet on this point can be expected to grow. We
believe that this point should be separated from concerns about pay and given proper
attention in its own right. Public sector pay is not necessarily too high but simply too
detached from performance. But the public sector pension bill is extremely high and,
sooner or later, the gap between different parts of the economy will have to be
reduced.

However, we would note that the pension gap between public and private sector is
much less evident at senior levels. This reflects the private sector practice of providing
proportionally higher pension benefits to senior executives.

Suggestions on public sector pensions policy go beyond the scope of the Committee’s
inquiry and we therefore do not include any below. However we would observe that a
potential solution that might be acceptable to all stakeholders would be as follows:

- Insofar as public sector pension provision continues to be linked to final or average
  salary, these arrangements should be capped at a given level of salary (say, £30,000);
- Provision on the slice of earnings above this level should be on a defined contribution
  basis.

**Suggestions**

Our suggestions are simple:

a. There should be no attempt at greater intervention in the public sector market,
diverse as it is or at capping the salaries of particular groups. This will simply
constrain rewards for specific organisations and limit their access to talent.

b. The regulatory framework for executive pay in the public sector should concentrate
on three areas:

- The requirement for a full and published policy on executive remuneration and a
  clear process for setting and reviewing it, overseen by a properly constituted, trained
  and advised Remuneration Committee.
- A consistent requirement for disclosure of executive remuneration which applies
  throughout the public sector (ie organisations which are wholly or mainly funded by
  direct or indirect public grant). This requirement should include local authorities. As
  part of this requirement, the practice of disclosing salaries in £5,000 bands should be
  replaced with disclosure to the nearest £1,000 in line with private sector practice.
• A duty on Remuneration Committees to relate pay to performance (of the organisation, team or individual, as appropriate) and to explain in their policy statement how this link works.

c. Where public sector executives receive pay and benefits that are competitive in the wider external market, their terms and conditions of employment should also reflect conditions in the external market.

May 2009
Introduction

1. The Review Body on Senior Salaries (SSRB) is an independent body established in 1971 (as the Top Salaries Review Body) to advise the Government on the pay of various groups ('remit groups') of senior public sector workers. Currently the SSRB reports annually to the Prime Minister and the relevant Secretaries of State on the pay of:

- salaried holders of judicial office throughout the United Kingdom;
- senior military officers¹² throughout the United Kingdom;
- senior civil servants in England, Scotland and Wales; and
- senior managers (other than those on medical contracts) in English Primary Care Trusts, Ambulance Trusts, Strategic Health Authorities and Special Health Authorities.

In addition the SSRB reports when requested on the pay, pensions and allowances of Members of both Houses of Parliament, Members of the Devolved Parliament and Assemblies and of the Mayor of London and Members of the London Assembly. The SSRB has also carried out ad hoc reviews, for example of the remuneration of tribunals’ judiciary and senior NHS managers in Northern Ireland. The SSRB’s full terms of reference are at Appendix A.

2. The SSRB’s reports are normally published as command documents and since 2001 have been made available on the website of the Office of Manpower Economics (OME), together with reports of research commissioned by the SSRB.

3. The SSRB has ten members, appointed following advertisement and a selection procedure supervised by the Office of the Commissioner for Public Appointments. The current membership is listed at Appendix B. Members have a wide range of skills and backgrounds, including business and HR, and two are specialist labour market economists. The secretariat is provided by the Office of Manpower Economics which is staffed by civil servants.

¹² Senior military officers are those of the ranks of Rear Admiral, Major-General and Air Vice-Marshal and above
Responses to questions posed by the PASC

1. Are the right arrangements in place for setting and monitoring pay and other benefits for top posts in the public sector?
   a. Are they fair?
   b. Are they transparent?
   c. Do they produce the right results?
   d. Do they provide value for money?
   e. Do they inspire public and political confidence?

4. Pay review bodies exist to provide independent advice on the pay of groups of public sector workers for whom the state is the sole or major employer (e.g. the armed forces, judiciary, school teachers, doctors and dentists, prison officers) and especially for those such as the armed forces who are prohibited from joining trade unions and taking industrial action.

5. The SSRB can comment only on the pay arrangements for its own remit groups. Broadly the SSRB is satisfied that it is able to obtain sufficient evidence from the Government and other parties, including members of the remit groups themselves, to make well-founded, balanced recommendations on the pay of those groups, taking account of the matters set out in our terms of reference. In most years the Government accepts and implements those recommendations although this year it reduced the SSRB’s proposed pay awards for the judiciary, senior civil service and senior NHS managers to below the levels the Government had proposed in its own evidence to the SSRB.

6. However, there is a particular problem with the pay for political posts where successive governments have declined to follow the SSRB’s recommendations on many occasions. The result has been that pay of Ministers and Members of Parliament is now lower than is justified, in the SSRB’s view, by the responsibilities of those posts. Thus the Prime Minister is currently paid £194,250 13, Cabinet Ministers in the Commons receive £141,866 while Members of Parliament are now paid £64,766. These rates, especially for the Prime Minister and Ministers, are not commensurate with their levels of responsibility. This has led to a number of public sector workers being paid more than the politicians whom they serve. This might indicate that the intangible benefits of political office are significant and higher than elsewhere in the public sector. Moreover, pay for political posts in the UK is not out of line with that in most other European

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13 The Prime Minister and other Ministers who are Members of the House of Commons receive an MP’s salary plus a ministerial supplement. The figures quoted here are the sum of the two.
countries. In our report of our Review of parliamentary pay, pensions and allowances\textsuperscript{14} we provided comparisons of the pay of Members of Parliament and Prime Ministers in selected countries, using Purchasing Power Parities to convert currencies. At that time British MPs were paid more than most of the other countries we looked at, with the exception of Canada, Italy, the Netherlands and the USA. Looking at Heads of Government using the same methodology, only the US President (who is also Head of State) was paid more than the British Prime Minister. It appears, therefore, that a substantial 'political discount' operates in most countries.

7. At higher responsibility levels, public sector pay in the UK is significantly lower than that in the private sector, as is shown by the following chart.

**National pay distribution in 2008**

![National pay distribution chart](chart.png)

Source: Office for National Statistics (Annual Survey of Hours and Earnings)

Note: Basic pay for all public and private sector employees at April 2008.

We believe that pay levels for our remit groups, other than MPs and Ministers, are set broadly at the minimum necessary to recruit, retain and motivate suitable people.

8. Our arrangements are transparent. We are recruited by open competition. We consider evidence from all the parties and indeed from anyone who wishes to submit evidence to us. That evidence is normally published by the parties and we publish on the OME website any research we commission to assist us in making recommendations. We submit our reports to Government and they are normally published as command papers.

\textsuperscript{14} Report No. 64, Cm 7270
9. It is not for SSRB to judge whether its efforts produce the right results. For the most part the Government accepts our recommendations but occasionally it stages them (as in 2007) or abates them (as this year), at least in part. In the introduction to our Thirtieth Report\textsuperscript{15} we argued against treating this small group of leaders and senior managers (our main remit groups total fewer than 8,000 people) in the same way, for pay purposes, as all other public sector workers. We suggested that the Government did so out of “fear that higher awards for our remit groups will lead to irresistible pressure from other, larger groups of public sector workers. In this view of the world ‘signalling’ becomes the dominant consideration.”

10. As to whether the SSRB represents value for money, again that is not for us to judge. Currently the Chairman of the SSRB is paid £350 per day or part of a day when on SSRB business, plus travel expenses. Other members are paid £300 a day plus travel expenses. Our secretariat currently comprises some four full-time equivalent civil servants (including one person working exclusively on the review of MPs’ pensions). The approximate total cost of operating the SSRB for the last financial year was £440,000. We cannot say whether our work inspires public confidence - it is doubtful whether much of the public is aware of what we do - but the arrangements have now been in place for nearly 40 years. The SSRB continues to attract high quality members and new groups have been added to our remit: most recently the senior NHS managers. We try to meet as many members of our remit groups as possible through annual visit programmes during which we both listen to the views and concerns of members of our remit groups and explain to them how we work. We believe the arrangements of which we are a part have served the country well, helping to avoid disputes and to balance the interests of our remit groups and taxpayers.

2. Does there need to be consistency regarding these arrangements between different parts of the public sector?

11. Pay varies across the public sector in part because of specific conditions or circumstances. The public sector is not a single market. Different public sector workers have different earnings potential. The demand for their skills and knowledge varies. For example, it is clear that most senior barristers or solicitors who might become High Court judges are able to earn much more in the private sector than on the bench. On balance we believe it is better to allow flexibility across the public sector to respond to differing labour market needs. Moreover, it may be necessary on occasions to recruit individuals with specialist skills, sometimes for a fixed term, for example to manage large construction contracts in connection with the 2012 Olympics, and to pay significantly above the normal rates for such posts in order to secure the services of people with skills and experience not otherwise available in the public sector. Too rigid a pay system could

\textsuperscript{15} Thirtieth Report on Senior Salaries 2008, Cm7388
make it impossible to recruit specialists of the necessary calibre and would run counter to the policies of successive recent governments to encourage recruitment from the private sector into the public sector at senior levels. The current broad pay band system for the Senior Civil Service provides the necessary flexibility to fill exceptional posts.

12. On the other hand, there are undoubtedly tensions caused by the fact that pay levels differ between different parts of the public sector and we have, for example, heard complaints from senior civil servants who tell us that they deal with and do much the same work as people in other public sector bodies, e.g. regulatory bodies, local authorities, while being paid appreciably less than those people.

3. Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector?

a. If so, how should equivalent posts in the private sector be identified?

13. In SSRB’s view it is neither necessary nor justified as a general principle for the public sector to seek to match the pay of top posts in the private sector. Experience suggests that there is no difficulty in obtaining high quality people to work in the public sector. It seems clear that there are many factors which together can compensate for lower pay in the public sector: job interest, job security, pension, less competitive pressure, better work/life balance etc.

4. Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?

14. SSRB has heard anecdotal evidence that this may be the case, for example where poorly performing local authorities, schools or NHS Trusts compete to recruit chief executives, heads or other senior managers with successful records of improving organisational performance. However, we are not aware that this is a problem with the SSRB’s own remit groups which have clearly defined pay systems. Nevertheless, as noted in paragraph 12, members of our remit groups increasingly point to other parts of the public sector where pay appears to be higher for no obvious reason.

5. What role should consultancies play in the determination of pay for top public sector posts?

15. It is normal for government departments seeking to fill specific senior posts to use recruitment consultants who will advise, among other things, on the appropriate salaries
for posts. There is a danger that it is in the consultants’ interest to set such salaries higher than strictly necessary in order to make posts easier to fill, and even because in some cases the consultants’ remuneration may be linked to the salary on appointment. The SSRB has expressed concerns in the past, as have the Civil Service Commissioners, about departments’ practices when recruiting externally. For example, in our Thirtieth Report we recommended that the Government urgently review the practices of allowing successful external candidates in recruitment competitions to negotiate salaries substantially above those advertised and of forcing existing civil servants successful in open competitions to accept salaries substantially below those available to similarly qualified external candidates. We are pleased to note that our concerns were echoed in the Normington report on Senior Civil Service Workforce and Reward Strategy, and that the Government appears to be acting on them, for example by providing better guidance to departments on recruitment practice.

16. The SSRB uses consultants to carry out job evaluation of posts from time to time to ensure that pay levels are broadly correct within organisations (internal relativity) and to check levels against the wider market. However, in SSRB’s view job evaluation is not a precise science and should not be the only tool used to set pay levels. As noted in paragraph 13 above, there are often benefits other than pay from working in the public sector.

6. **Is the balance right between executive pay and other benefits, eg bonus, pension?**

17. The SSRB believes that a significant element of pay should be performance-related. Those who perform better should be paid more. We have therefore encouraged and supported the introduction and development of performance-related pay for the SCS and senior military. The judiciary argue strongly that performance-related pay is not appropriate for them. We recognise that there are some difficulties in designing and applying performance pay systems in parts of the public sector, notably for policy work, where outputs are difficult to measure. We believe there is scope to improve and extend the existing performance management and pay systems for our remit groups but we remain attached to the principle.

18. We are fully aware of the value of public sector pensions. We have commissioned work by specialist consultants to quantify the benefit of our remit groups’ pensions and we take full account of total reward when making our pay recommendations.

7. **Do the pay levels for top posts in the public sector have a direct impact on the performance or qualities of the people filling those posts?**
a. What impact do the performance or qualities of the people filling top posts in the public sector have on the performance of the organisations for which they work?

19. In our Thirtieth Report on Senior Salaries (2008) we wrote:

“The groups of people whose remuneration is our concern are the leaders of several pillars on which British society is built: the law; the armed forces; the Civil Service, and (now added) the NHS. They command billions of pounds of national resource (of which their own pay is a tiny fraction) and the work of millions of people. Their quality, efficiency and motivation can improve our public services and save the taxpayer millions of pounds. The nation rightly expects these people to perform at the very highest level of their capability and that incompetent performance should not be tolerated or rewarded. These hugely dedicated people do not expect to receive the financial rewards of comparable leaders and senior managers in the private sector in return for this vital work, but they do expect recognition of the value of what they do, respect for their commitment to public service and fair pay.”

8. Is there an appropriate benchmark or ceiling for top public sector salaries—eg the salary of the Prime Minister, or a factor of average pay?

20. We do not think there is an appropriate benchmark or ceiling because the public sector is not a single labour market. It needs to recruit and retain people with many different skills and abilities. There are different markets for e.g. finance directors, IT managers and HR specialists. Moreover, those markets can change over time. There are also sectoral variations, as noted in paragraph 11, above and regional differences. This makes it impossible in our view to set rigid pay rates for many public sector jobs. Moreover, as noted in paragraph 6, politicians have held down their own pay for political reasons. If the Prime Minister’s salary were to constitute the ceiling for public sector pay, then either that salary would have to be increased substantially or there would be very serious difficulties in recruiting and retaining good quality senior staff in the public sector.

9. Can England and the United Kingdom learn from the experience of other countries or the devolved governments in this area?

21. As noted in paragraph 1 above, some of SSRB’s remit groups are UK- wide while others are limited to parts of the UK. SSRB and its secretariat has frequent contact with pay-setting bodies in other countries. We are always willing to learn from other countries but on the whole we find that pay systems and levels (linked as they are to tax, social security, pensions and the cost of living) are highly specific to local circumstances.
Appendix A

Review Body on Senior Salaries – Terms of reference

The Review Body on Top Salaries (TSRB) was appointed in May 1971 and renamed the Review Body on Senior Salaries (SSRB) in July 1993, with revised terms of reference. The terms of reference were revised again in 1998 as a consequence of the Government’s Comprehensive Spending Review, in 2001 to allow the devolved bodies direct access to the Review Body’s advice and in 2007 to add certain NHS managers to the remit.

The terms of reference are:

The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence and the Secretary of State for Health on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; very senior managers in the NHS; and other such public appointments as may from time to time be specified.

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

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

the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;

regional/local variations in labour markets and their effects on the recruitment and retention of staff;

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16 NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers with board level responsibility who report directly to the chief executive, in: Strategic Health Authorities, Special Health Authorities, Primary Care Trusts and Ambulance Trusts.
Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;

the funds available to departments as set out in the Government’s departmental expenditure limits;

the Government’s inflation target.

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

differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;

changes in national pay systems, including flexibility and the reward of success; and job weight in differentiating the remuneration of particular posts;

the need to maintain broad linkage between the remuneration of the three main remit groups, while allowing sufficient flexibility to take account of the circumstances of each group; and

the relevant legal obligations, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief and disability.

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

to ensure that, as appropriate, the remuneration of the remit groups relates coherently to that of their subordinates, encourages efficiency and effectiveness, and takes account of the different management and organisational structures that may be in place from time to time;


to relate reward to performance where appropriate;


to maintain the confidence of those covered by the Review Body’s remit that its recommendations have been properly and fairly determined; and
to ensure that the remuneration of those covered by the remit is consistent with the Government’s equal opportunities policy.

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

My 2009

Appendix B

Senior Salaries Review Body

Bill Cockburn CBE TD
Professor David Greenaway
Michael Langley
Sir Peter North, CBE QC
Paul Williams
David Metcalf
Richard Disney
Martin Fish
Christopher Stephens
Bruce Warman
Memorandum from Christopher Johnson (EXP 12)

Personal background

I welcome the opportunity to give evidence to the Committee and to assist with its inquiry in to executive pay in the public sector. For over twenty years, I have worked with leading management consultancies, including Hay, Towers Perrin and currently Mercer, providing reward advice to large organisations in the private and public sectors in the UK, US and other countries in Europe and Asia. Between 2005 and 2008, I was the Director at the Cabinet Office responsible for employee relations and reward across the Civil Service, which included responsibility for senior civil service reward.

Currently, I lead Mercer’s human capital business in the UK, which includes provision of advice on executive remuneration and broader workforce planning, performance and reward to a range of clients in the private and public sectors.

My evidence draws on my involvement in public sector reward over more than two decades.

Evidence to the Committee

1. The first part of this evidence is a brief response to each of the Committee's questions. This is followed by observations about possible ways forward for determining and managing executive reward in the public sector.

Response to the Committee's questions

Are the right arrangements in place for setting and monitoring pay and other benefits for top posts in the public sector?

2. No. Executive reward is set and monitored through different mechanisms - pay review body, remuneration committees (with and without external membership), management process and political decision - there is no coherent approach to or common set of principles for executive pay in the public sector. There is public and political disquiet about executive reward in the public sector. There has not been a debate about the appropriate arrangements for rewarding senior public servants.

a. Are they fair?

3. If “fair”implies reasonable and appropriately consistent, no.

b. Are they transparent?

4. The level of transparency in the public sector varies across the sector; it would be helpful if there was more consistency broadly in line with that adopted in other parts of the economy.
c. Do they produce the right results?

5. No. Overall, executive reward in the public sector is not well managed. It insufficiently supports the acquisition, development, management and retention (and exit) of the talent required to provide leadership of service delivery for and on behalf of citizens and to ensure value for money for the taxpayer.

d. Do they provide value for money?

6. It is unclear. The cost of employing public sector talent is low compared with the private sector. That low cost may result in less competent talent being available to provide leadership of service delivery for and on behalf of citizens and to ensure value for money for the taxpayer; evidence on the calibre of public sector executive talent is unclear.

e. Do they inspire public and political confidence?

7. No. The continued debate suggests that more needs to be done to inspire confidence. There has not been an informed public or political debate about executive reward (or reward for the workforce generally) in the public sector; the Committee's inquiry may provide the basis for building confidence in future arrangements.

Does there need to be consistency regarding these arrangements between different parts of the public sector?

8. The degree of consistency depends to a large extent on the public sector's approach to the acquisition, development, management and retention of the talent.

9. Part of a talent strategy for public sector organisations should be the internal development of senior talent, which would be consistent with best practice in other large organisations. At the same time, it is important for public sector organisations to have access to leading practices, experience from other parts of the service delivery system, innovation and the stimulus of alternative thinking. This implies part of a talent strategy should be the acquisition of proven talent from other parts of the public and private sectors.

10. In my experience in the Civil Service, it proved easier to recruit talent from the private sector to senior roles in the public sector than from other parts of the public sector. Private sector candidates were attracted by the intrinsic value of the work and quality of experience to be gained, and this was a part of the “package” along with reward. However, candidates from other parts of the public sector already enjoyed intrinsically valuable work and had gained quality experience. The gap in pay between the Civil Service and chief executives in local government and senior managers in the NHS, made it difficult to attract candidates from those parts of the public sector.

11. Looking forward, it is reasonable to anticipate greater inter-change across the
public sector. This suggests that there will need to be more consistency between different parts of the public sector than today. However, consistency should take the form of principles leaving scope for decisions to reflect local and individual circumstances.

**Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector?**

12. Comparability is broader than just pay levels. It covers three broad elements of reward:

- **Level** - the amount of reward available.

Although actual reward levels for senior civil servants are significantly lower than for comparable roles in the private sector, there is flexibility in the pay structures to offer external candidates reward at more competitive levels, though still below what they earned in the private sector. Most external candidates from the private sector have taken a reduction in pay because they also place value on the professional challenges and public sector ethos.

However, use of flexibilities to facilitate recruitment is causing problematic internal relativities between external candidates and internal appointments; there is, in effect, a two tier workforce amongst senior civil servants and this situation is unsustainable in the near to medium term.

- **Structure** - the balance of fixed and variable reward reflecting performance delivered or not, in the short and longer terms.

Variable performance related pay in the public sector is limited and is significantly lower than both in the private sector and what would be effective recognition for performance delivered. Public sector variable pay should not be as geared as for the private sector, but the risks and rewards of performance accountability should be higher than at present.

An issue that confuses the debate about performance related pay is the term “bonus”: it used pejoratively by commentators to imply *additional* reward. It would be helpful to use language more clearly to mean variable or conditional pay that can be lower or higher depending on the performance delivered.

- **Scope** - reward is a much broader concept than just pay.

Some parts of the public sector manage total reward (as do many private sector organisations), which covers pay; benefits including pension; career development and management; and, work life factors. In the debate about executive pay, these other factors can be overlooked - see question 16 below.

**a. if so, how should equivalent posts in the private sector be identified?**
13. The focus should be on relevant organisations and functional roles in those organisations. But it is important not to create an expectation of like for like pay determination. Comparability should be one input in determining pay alongside other factors that enable the public sector to attract and retain the talent it needs, and that take into account affordability.

**Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?**

14. Anecdotally, yes. The market most often mentioned is for local authority chief executives and chief officers in which local authorities compete with each other to recruit and retain successful talent. Base pay has risen over the last few years at about twice the rate of, for example, the Civil Service. About a third of local authority chief executives are paid at or above the same level as permanent secretaries, which has made it difficult to attract chief executives into the Civil Service.

**What role should consultancies play in the determination of pay for top public sector posts?**

15. Although there are individual exceptions, the overall competence of reward professionals in the public sector is low; this impacts the effectiveness of reward strategies and pay management. Consultancies play a valuable role providing reward management advice and developing reward management capabilities within the public sector.

**Is the balance right between executive pay and other benefits? e.g. bonus, pension**

16. No. There are three areas where a better balance can be struck between the different elements of reward. A better balance should result in more cost-effective reward arrangements measured by employment costs, performance and appropriateness of executive talent. These areas are:

- Balance between base salary and variable pay

There is limited use of performance related variable pay (paid as non-consolidated, one-off payments) across the public sector. The Civil Service uses variable pay more widely than other parts of the public sector with a budget (or "pot") of 8.5% of base salaries. Although it would not be appropriate to adopt generally the level of variable pay in the private sector for senior executives, there is scope to increase variable pay budgets to 15 or 20% of base salaries: this would give greater emphasis to performance without losing the public service ethos

- Balance between pay (base and variable pay) and benefits
Some benefits are competitive with private sector practice, for example, leave arrangements and pension provision, while other elements are below market practice, for example, private health insurance, share plans, car policy.

Consideration should be given to moving away from defined benefit pension provision (especially linked to final salary) towards some form of base line pension provision alongside more flexible savings programmes in which the executive can choose to take part depending on their judgment of the level of financial planning they need to make. Some parts of the public sector are beginning to provide a range of benefits within which the individual can make choices that better meet their specific needs; this flexibility could make the reward package more attractive to the individual at no extra cost to the employer.

- Balance between tangible reward (pay and benefits) and intangible reward (career and work life) - a total reward approach

There are good examples of how the public sector makes use of intangible rewards that are attractive to individuals and normally inexpensive to the employer to offer. More can be done actively to manage or optimise the balance between these elements and communicate their value to potential recruits and employees alike.

**Do the pay levels for top posts in the public sector have a direct impact on the performance or qualities of the people filling those posts?**

17. Pay level is a reward to the individual for undertaking a role; it does not differentiate between different levels of delivered performance and has little direct impact on the individual’s performance.

18. Pay level can impact recruitment and retention of talent; the further below the market, the more difficult it is to recruit (and to a lesser extent retain) good talent. There is little hard evidence that the public sector can or can not recruit and retain the talent it needs. The evidence that does exist suggests the public sector has some talent challenges, for example:

- leadership and people management - see civil service capability review findings
- small fields of suitable candidates for externally advertised senior vacancies - feedback from recruitment agencies.

**What impact does the performance or qualities of the people filling top posts in the public sector have on the performance of the organisations for which they work?**

19. Weak leadership, professional expertise and delivery experience adversely impact the effectiveness of senior management and thereby the performance of organisations they lead. At a time when public expenditure, service delivery expectations and value for money are all
under growing pressure, the need for effective talent is greater than ever.

Is there an appropriate benchmark or ceiling for top public sector salaries—e.g. the salary of the Prime Minister, or a factor of average pay?

20. Adopting the Prime Minister's salary would provide an artificial, absolute limit on salaries that does not reflect labour market circumstances, and therefore could impact the public sector's ability to recruit and retain good talent.

21. An alternative approach suggested in the Government's evidence in 2005 for the Senior Civil Service, to the Senior Salaries Review Body (SSRB) was to link pay levels to a specific percentage of the market median.

Can England and the United Kingdom learn from the experience of other countries or the devolved governments in this area?

22. Practice in other administrations could provide valuable insights about reward policy and governance. However, public and political confidence, as well as that of public sector employees, depends on full debate about the optimal approach to executive reward in the public sector. The inquiry by the Committee is therefore to be welcomed.

Some observations about the way forward

23. Acquisition, development, management and retention of talent, at any level, but especially for executives, takes time and needs a sustainable reward strategy and governance arrangements. The features of these arrangements should include the following.

Reward governance

a. The public sector is not one sector. Different parts of the public sector compete for executive talent in different markets. For example, government owned companies typically compete with the private sector for business leaders with proven track record; the civil service has grown about 213% of its executive talent from within and recruited 113% externally from the public and private sectors.

b. Public sector reward should be guided by a common set of principles within which different parts of the public sector develop and manage reward specific arrangements.

c. An independent review body should advise on the reward principles and provide guidance to national and local government, as appropriate, for the different parts
of the public sector.

d. Executive reward decisions - policy and application to individuals - should be made through remuneration committees that include independent members and report to Ministers or authority members or boards, as appropriate, to each organisation.

e. Executive reward should be published in annual reports by analogy with requirements for public companies.

Reward policy

f. Executive reward levels (and for all employees too) should be set sufficiently competitive to attract and retain good talent while taking into account the attractiveness of the intrinsic features of making a contribution in the public sector, and the valuable experience that can be gained in the public sector.

g. All elements of reward should be managed as a whole - a total reward approach and delivered in ways that maximise individual choice to tailor the elements of the reward deal that work best for them.

h. Executive reward should be linked to performance of the individual and the organisation in the short and longer terms, and should be rewarded through variable pay in which there is both risk and opportunity.

i. Executive pension provision should be reformed to reflect emerging market practice and affordability through defined contribution arrangements at least for new entrants and possibly for future service.

j. Executive benefit provision should be extended in scope to include benefits more typically found outside the public sector and employee savings vehicles to facilitate financial planning alongside the new pension arrangements.

k. Executive reward should be affordable in public expenditure terms and should take account of public sector pay policy.

May 2009
Memorandum from Sir John Baker (EXP 13)

Summary

1. I am no longer in a position to help the Select Committee in terms of the detailed factual background to their inquiry, but I am happy to provide some comments and opinions based on my ten years as a member, then Chairman, of the Senior Salaries Review Body (SSRB) and a member of the Senior Heads of Mission Remuneration Committee of the Foreign and Commonwealth Office. In brief, my views on the questions identified by the Select Committee are as follows:

a. **Are the right arrangements in place?**
   In so far as remuneration is dealt with by Pay Review Bodies, the arrangements work well and probably better than any other system. Their work is independent, evidence based, fully transparent, has shown appropriate degrees of flexibility, and broadly produced the right results as between serving the needs of recruitment and retention on the one hand and securing value for money for the taxpayer on the other. At senior levels there is no evidence that the public sector is a pay leader.

b. **Consistency?**
   Consistency should not be a prime consideration. There is of course a significant degree of consistency but greater flexibility is of even more importance.

c. **Public and Private Sector Comparability?**
   Such comparability is not necessary for recruitment and retention of good people to the public sector as witnessed by the huge discrepancies between private and public sector remuneration at senior levels already pertaining.

d. **Wage Inflation?**
There is no substantive evidence of systematic wage inflation at top levels in the public sector, rather the contrary. There is some anecdotal evidence of some Local Authorities or NHS Trusts, especially those in trouble, bidding up a minority of posts in an effort to secure scarce very able talent, but the consequences are probably trivial given it is necessary to attract the very best talent to where it is most needed and it cannot be conscripted.

e. **Consultancies?**
The use of consultants both in relation to recruitment of certain individual posts and in the provision of labour market data is necessary to make good deficiencies in public sector capabilities and to keep touch with the market. The key is for the public sector to ensure it has the capacity to manage consultants effectively and secure value for money—the Office of Manpower Economics is a good exemplar.

f. **Balance in the Remuneration Packages?**
Broadly, within the total remuneration package of base pay, performance pay, and pension rights, public sector senior posts are generous in terms of pension provision but inadequate in respect of reflecting performance in terms of pay progression and bonuses.

g. **Pay and performance?**
Remuneration can certainly impact performance. More emphasis needs to be given in public sector pay arrangements to better rewarding exceptional or consistently very high level performance. But this has to be done in the context of target setting and monitoring, and high integrity appraisal systems.

h. **Benchmarks?**
Wholly inappropriate.
i. Value of overseas experience?

Negligible.

Discussion

2. Pay Review Bodies

There is a lot that is right in the determination of the remuneration of top-level public service posts. Taking the Senior Civil Service, Senior Military, the Judiciary and some senior posts in the NHS (the principal remit groups of the SSRB) as examples, it seems to me that the Pay Review Body system is working well in ensuring that remuneration (base pay, performance-related awards, pensions) is just about adequate to recruit and retain quality people whilst also taking account of public sector pay policies, the diversity amongst and differences between different labour markets and pay groups, and the need to ensure that senior public service pay does not become a pay leader, driving up pay elsewhere. I believe this good situation has been reached as a result of the professional capability of the Office of Manpower Economics in providing research and analysis; the fact that the recommendations of Pay Review Bodies are evidence-based and independent of the parties, and not the outcome of horse-trading or government decree; the judicious use of external consultants to provide labour market analysis and comparative pay data; the quality and hard work of pay review body members themselves in understanding the issues and exercising judgement in the formulation of their recommendations; the fact that all the review bodies’ reports and the evidence supporting them are published and fully transparent to all the parties and the public; and the continuity of knowledge and expertise that has thereby built up over many decades and is unrivalled elsewhere in public sector pay management. No better way has yet been found to determine the pay of public sector employees.

3. But there are still issues

This is not to say that the situation is perfect. If I take the Senior Civil Service as an example there are aspects of the current remuneration arrangements which may need further thought:

- **pay comparability**

At very senior levels, civil service remuneration has not kept pace with private sector executive pay by a large margin. This is not important whilst sufficient people of talent still make themselves available for senior positions in public service. But awareness of what is happening in the private sector is important, as is careful monitoring of the quality of new recruits and retention rates. This argues, however, for retaining diversity in the way different parts of the public sector set pay for senior appointments—a monolithic system would be more likely to lose touch with the various markets for high level talent and be less able to differentiate between the differing needs of differing organisations or sectors in terms of leadership and top management. The consequent lack of uniformity in senior pay levels as between, say, the Senior Civil Service and some Local Authority or NHS
Chief Executives is a minor problem measured against the advantages and flexibility of diversity.

- **use of external recruitment**
  External recruitment direct to senior posts in the SCS, itself desirable, has led to the emergence of a two-tier pay structure, with externally recruited candidates systematically being appointed at higher pay than internal promotees whose pay is set by the minimum necessary to recruit and retain good people already committed to that type of employment. Whilst this is not wrong in principle, if this practice becomes too widespread and the gulf too wide, it could bring the whole pay system into disrepute with adverse effects on morale and, in time, recruitment and retention. Indeed, it could also expose the system to the risk of litigation on the issue of equal pay. Flexibility is desirable, indeed essential, in attracting talent from outside, but it is essential that those making external appointments and negotiating pay packages, are expert enough to secure value for money. More internal expertise may be required here, not least to question any advice received from external recruitment consultants.

- **performance pay**
  Performance related pay is a necessary and fundamental feature in the pay of the SCS, both for base-pay progression and the determination of any bonuses. This is highly desirable in securing the highest levels of performance and value for money. For performance pay systems to be fully effective and motivational, there needs to be an effective and well-disciplined system of target-setting for group and individual performance and monitoring of outcomes, coupled with a realistic, humane but honest appraisal system. The SCS has made real progress in these areas in recent years, but more still needs to be done. However, the best of systems will not be properly effective in rewarding good performance and assisting motivation if the differences in reward from doing an exceptional job and simply performing adequately are small. As a general observation it can be said that the performance-related (especially the bonus element) aspects of SCS pay are as yet too small to be fully effective.

4. **Flexibility is vital**
  As a generality it can be said that the determination of pay at senior levels in the public sector needs to be flexible to reflect diverse requirements and markets and, at the very top level, often needs to be tailored to very specific needs where skills are scarce and real talent perhaps in short supply. Some top jobs will have an accent on leadership, some on policy analysis and formulation, some on professional expertise, some on change management, some on the delivery of services, some on presentational skills. This will create tension in the face of the normal centralising forces of central government to control things (in general and in detail), to impose one-size-fits-all policies (e.g. in relation to public sector pay policy), and to avoid taking difficult (i.e. presentationally difficult) decisions. For example, it has been the increasing tendency of the Government to treat all pay awards in the same draconian
way to avoid the problem of the "wrong signals" being sent from one pay group to another. The application of this (misguided) policy to senior appointments partly explains why senior civil service salaries have lost touch with those in the private sector. To members of a pay review body the oppressive weight of government control, which only gets heavier and never lighter, imposes frustrating constraints on finding sound and creative solutions to problems with pay levels and systems that inevitably emerge because labour markets, the nature of demands of the work to be done, the organisation of business, are dynamic. Problems and anomalies tend to build up, creating more and more tension until a crisis breaks. These tensions, which will always exist to a greater or lesser degree, would become more challenging if there were even greater efforts made to bring more and more public sector top appointments and senior pay groups within a yet more centralised and regulated system. It would be a gross mistake to impose greater central control to deal with a handful of high-profile outlying cases. And it is worth noting that, when it comes to the pay of the Cabinet Secretary and Permanent Secretaries, Ministers are already involved on a person by person basis with the appraisal of the individual’s performance and that the Prime Minister takes the final decision on the pay progression of each Permanent Secretary. There are also benefits in terms of flexibility in the pay bands for senior civil servants being as wide as they currently are.

5. **Benchmarks**

I would caution against any concept that there should be a single "benchmark" to set a limit on public sector pay. There already is a degree of homogeneity. For example, it is an accepted policy that the pay of each of the heads of the three great pillars of the state (the Cabinet Secretary, the Chief of the Defence Staff and the Lord Chief Justice) should be broadly similar. The post of Cabinet Secretary is the easiest of the three to evaluate for remuneration purposes by reference to other markets in the public and private sectors for whom data is readily available: the read-across to the other two top posts for which there are no real market comparators is thus helpful in setting their pay and hence that of the rest of the senior military and judiciary. The SSRB has also proposed that the pay of the Prime Minister should, in principle, be at least equal to that of the Cabinet Secretary, and Secretaries of State to that of their Permanent Secretaries, on the basis that the permanent officials are accountable to them. This has found no favour with the Government, however, and ministerial pay lags well behind, i.e. there is a de facto "political discount". I see no current prospect of any government arguing the logic case for a hike in ministerial pay to a sceptical public, so it is clear that no benchmark derived from, say, the pay of the Prime Minister would be realistic for the wider public sector, which would become totally uncompetitive for top talent if the pay of the most senior posts were held down to a level determined by the pay of the Prime Minister. Equally, the imposition of an arbitrary ceiling based on a particular multiplier of, say, average personal income would also risk severe
distortions between public and private and NGO pay over time, and impose inflexibility as to how the various and very divergent organisations within the public sector react to changes in the particular labour market dynamics in their field of activity. It is already arguable that public sector pay policy is over-rigid in the way it works, with national pay scales in education and health care, for example, making posts in London relatively unattractive and those remoter from London and other expensive towns and regions more attractive than required for recruitment and retention. Creation of some benchmark ceiling would in time be likely to lead to further rigidity, limiting room for manoeuvre in adjusting pay to meet the changing requirements of shortages, new skill requirements, organisational change, or the need to bring in outsiders to provide fresh ideas or a new impetus.

6. **Overseas Experience**

In practice it is very difficult to find useful ways of comparing remuneration in different countries. Circumstances are always different, with different values in different countries being put on the relative value of similar jobs and the merits of public/private sector work, different values put on pay versus prestige, different values put on state control versus market freedom, different skill shortages in different markets, plus, of course, the methodological problem of drawing conclusions when underlying economic conditions are different (e.g. unemployment levels) and exchange rates are fluctuating.

May 2009
Memorandum from NHS Employers (EXP 14)

Summary

- The NHS employs in the region of 3000 posts at Chief Executive and Executive Director level across 400 organisations in England.

- There are two approaches to remuneration of senior appointees, according to organisational type.

- Around two thirds are enabled by statute to set executive pay locally by remuneration committee.

- The remaining third is required to operate the ‘pay framework for Very Senior Mangers’ specified by the Department of Health – this framework is currently under revision.

Background

1. There are in the region of 1.3m staff employed by the NHS in England in 400 organisations. Of these around 3000 are Chief Executives or Executive Directors. The arrangements for executive pay vary according to the type of organisation and are explained below. However, other aspects of the reward package are common across the NHS.

2. NHS staff below director level are either employed on specific national agreements for doctors and dentists, or (over 1.2 million) on a national pay system based on a job evaluation framework, entitled ‘Agenda for Change’, which was introduced in 2004. The Agenda for Change arrangements include a NHS Staff Handbook17 which details terms and conditions of service such as leave and redundancy arrangements. These terms (but not the accompanying pay system) are generally extended to all in the executive group and should be referenced in individual contracts.

3. There are pension schemes, Ill Health Retirement and Injury Benefit Scheme for the NHS in England and Wales and these also apply to the executive group. Since 1 April 2008, employees with higher earnings have paid an increased pension contribution (7.5% of pensionable pay between £63,417 and £99,999, rising to 8.5% of pensionable pay of £100,000 or above.

Executive Pay in NHS Trusts and Foundation Trusts

4. Since 1991, when NHS trusts came into being, they have been able to use local pay setting machinery in the form of a remuneration committee. This will be chaired by a non-executive director and report to the Trust Board. The introduction of Foundation Trusts in 2004 provided a different legal basis for NHS organisations and further cemented their right to set remuneration independently. There is no mechanism for central intervention in determining executive roles or payment.

17 See: http://www.nhsemployers.org/SiteCollectionDocuments/afc_service_handbook_aw_010708.pdf
5. This system appears to work well with little complaint by organisations which operate it. They have the flexibility to design director roles to suit the organisation and to set pay appropriately. It is good practice for Remuneration Committees to benchmark their pay against market and industry levels using independent advice. As with most senior roles there is little evidence of pay scales in use at this level with a spot rate being determined on appointment. Some drift has been noted by independent reviewers Capita and Incomes Data Services who have undertaken longitudinal surveys of NHS boardroom pay. This is understood to be caused by increased pay offered on appointment rather than annual rises above the median in any one year.

6. Transparency is obtained by the requirement of NHS organisations to publish the detail of board remuneration in the trust accounts. Variable pay forms a very small part of the package overall, and is not used by the majority of organisations. There is no common form of contract documentation.

7. The Department of Health pay circular advising on annual pay uplift described below for very senior managers indicates that the uplift applies to NHS trusts also (even though they are not part of the national pay framework). This is the only extent to which the two systems can be said to interact. However, the circular has no direct effect for Foundation Trusts.

**Pay framework for Very Senior Managers**

8. The Department of Health has determined that pay for executives in Primary Care Trusts (151), Ambulance Trusts (11), Strategic Health Authorities (10) and Special Health Authorities (10). The framework was introduced in 2006 and since 2008 has been under the auspices of the Senior Salaries Review Body (SSRB). Salaries for Chief Executives are set in bands according to organisational type and those for supporting directors are set as a percentage of the Chief Executive salary. There are allowances for certain additional responsibilities. There is also a model form of contract to accompany the framework.

9. In 2009, the Department of Health rejected a recommendation of a 2.4% uplift by the SSRB. The Department’s circular advised instead that in light of the economic climate and the need to show leadership and pay restraint, the uplift would be 1.5% for 2009/10 and the bonus pot would remain at 5% of the VSM pay bill.

10. The VSM Pay Framework was independently reviewed in 2008. The ‘Wright review’ and the Department of Health response to it formed the Department of Health’s evidence to the SSRB in 2008.

11. Employers subject to the VSM pay framework have long argued for change and have, on two occasions, submitted evidence to the SSRB seeking more flexibility and local control. The ability to design board level roles, attract the best candidates, enable movement

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18 http://www.dh.gov.uk/en/Publicationsandstatistics/Lettersandcirculars/Dearcolleagueletters/DH_097394
between sectors and give local remuneration committees freedom to act rather than to rubber stamp the use of a framework, has been the main thrust of the submissions. As a programme of work is underway at the Department of Health to revise the framework the arguments are not pursued further here. However, your Inquiry sought an opinion on the interaction of the systems and a view on whether there should be centrally controlled or devolved arrangements across the public sector.

12. From our engagement with employers, the general view is that it would be preferable if NHS organisations were all able to manage their own senior pay arrangements. The VSM framework does not have the confidence of the organisations which are obliged to implement it. It is not ‘felt fair’.

13. Fully devolved arrangements would facilitate recruitment of the best candidate for a role in any organisation and encourage movement between organisational types. It would remove barriers to recruitment in ‘hard to fill posts’ and enable organisations to incentivise challenging assignments. Currently, there is a strong disincentive for a successful manager of an NHS Trust or Foundation trust to move to a post in an organisation operating the Very Senior Managers pay framework. This is potentially restricting the candidate pools for the ‘world class commissioning’ of patient care.

14. There is no indication that executive pay in the NHS is out of line with reward in other sectors where the management challenge is of a similar order of complexity, or that NHS pay requires any form of cap. The averages are well below the benchmark of the Prime Minister’s pay referred to in your reference document. Examples for Chief Executives and Directors of Finance from the most recently available aggregated statistics are included in the table below.

15. Each organisation is required to publish details of the remuneration package of its senior officers in its annual report.

16. Finally, we are an organisation representing England only so have not commented on practice in Devolved Administrations or international public sector comparisons.

[20http://www.nhsemployers.org/PayAndContracts/AnnualPayReview/SSRB/Pages/SeniorSalariesReviewBodyEvidence.aspx]
### Incomes Data Services NHS Boardroom Pay report 2009 Edition

**Chief Executive average basic salaries (£)**

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**Director of Finance average basic salaries**

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June 2009
Managers in Partnership (MiP) welcomes the opportunity to give the Committee a short submission about executive pay in the NHS.

MiP is the trade union organisation for over 5,300 senior healthcare managers, including more than 300 NHS chief executives. MiP gives evidence to the Senior Salaries Review Body (SSRB) for its board-level members in primary care trusts, strategic health authorities, special health authorities and ambulance trusts. Our most recent evidence to the SSRB is attached to this submission.21

1. Are the right arrangements in place for setting and monitoring pay and other benefits for top posts in the public sector?
   a. Are they fair?
   b. Are they transparent?
   c. Do they produce the right results?
   d. Do they provide value for money?
   e. Do they inspire public and political confidence?

Our members in receipt of Very Senior Managers Pay in the NHS have made it clear that they do not think the current arrangements for pay are the right ones. They are not fair or transparent and there are many examples of their failure to produce the right results, either for the responsibilities of the post or in relation to other posts within the NHS and in other public and private bodies. Moreover, it is our view that the current arrangements leave organisations vulnerable to challenge under equal pay legislation. We would therefore argue that they do not provide value for money and cannot inspire confidence. Our evidence to the SSRB provides a more detailed critique.

2. Does there need to be consistency regarding these arrangements between different parts of the public sector?

We are not against the principle of consistency between different parts of the public sector, but some key questions include whether the market factors for pay levels for senior managers are broadly the same in all public services and therefore whether a common approach is possible.

We would certainly like to see greater consistency within the NHS. We argue that consistency can only be realistically achieved by giving all NHS remuneration committees the same powers to appoint and remunerate directors as applies to foundation trusts.

21 Not printed
3. Does there need to be comparability of pay between top posts in the public sector and equivalent posts in the private sector? If so, how should equivalent posts in the private sector be identified?

Yes. There are job markets that cross the sectors. The finance duty in the NHS is a good example. Salaries below board-level compare well with the private sector, but directors of finance in the NHS are paid much less than their counterparts on private sector boards.

Most NHS boards mirror the corporate governance of most private sector boards. On the face of it comparators are available. However, the question will be how we can ensure that we are comparing the boardroom posts of comparable organisations. There is, of course, also a private healthcare sector in the UK from which to draw potential comparators.

4. Is there evidence of executive wage inflation caused by public sector organisations competing with one another for candidates?

The latest IDS report on NHS boardroom pay suggested that salary rises are driven by starting pay rather than pay rises to existing postholders. We have no evidence about the factors considered by remuneration committees, but anecdotal evidence suggests that NHS foundation trusts and local authorities use their greater pay freedoms to outbid the rest of the NHS for the best managers.

The Committee might like to note that MiP’s advice to our members is, where possible, to maximise starting salary in pre-appointment negotiations, in order to counter (1) the absence of pay progression after appointment and (2) the likelihood of relatively short tenure in post.

5. What role should consultancies play in the determination of pay for top public sector posts?

Consultancies have a role to play in ensuring boards make informed decisions about market rates and job evaluation. The commercial terms on which such consultancies are engaged should be open to scrutiny.

6. Is the balance right between executive pay and other benefits? eg bonus, pension

The bonus arrangements for NHS managers covered by the SSRB are modest. The current arrangements for those on VSM are criticised in our evidence to the SSRB.

The pension scheme, especially for those managers with long service, is a valuable benefit.

The balance with risk, however, is completely wrong. Tenure is seen as short, with senior executives held to account by a system that is often arbitrary, subjective and amateurish. Good
HR practice, which is a benefit of any employment, is normally non-existent. Many organisations have struggled to appoint key people, in circumstances where pay is not the only factor. In our evidence to the SSRB this year we intend to explore the views of many assistant directors that directorships are not worth the candle. They don’t see the relatively small increase in pay compensates for the career risks and exposure of working at board-level.

7. Do the pay levels for top posts in the public sector have a direct impact on the performance or qualities of the people filling those posts? What impact does the performance or qualities of the people filling top posts in the public sector have on the performance of the organisations for which they work?

We don’t believe that, in the short to medium term, pay levels have a direct impact on the performance of people filling top posts. Vocational rewards drive many managers. For example, our members in primary care trusts are highly motivated by the commissioning agenda, despite feeling hard done by compared to their colleagues in trusts and foundation trusts. For the reasons given in the answer to question 6, we believe pay does prevent the best managers seeking directorships.

When things go wrong in the NHS, politicians and regulators blame managers. This is the negative side of the coin. The other side is that managers are very important for the performance of NHS organisations.

8. Is there an appropriate benchmark or ceiling for top public sector salaries— eg the salary of the Prime Minister or a factor of average pay?

No. Pay in the NHS tends to be viewed hierarchically, i.e. the highest salaries should be in the Department of Health, then the strategic health authorities, and then trusts. Why should this automatically be the case? If the politically acceptable salary at the top of the tree is set too low, then salaries lower down are artificially depressed. This is the experience of our members in Scotland. Salaries ought to be compared using commonly recognised principles of executive remuneration and job evaluation. These would provide a degree of benchmarking.

The elephant in the room is, of course, the pay of top doctors.

9. Can England and the United Kingdom learn from the experience of other countries or the devolved governments in this area?

It may be useful to review the arrangements for remuneration in other countries, ensuring the review covers a cross-section of models of healthcare provision. Please note our comment in the answer to question 8 above about the problems with the arrangements in Scotland.
In conclusion, MiP welcomes this inquiry into executive pay in the public sector, and we would be happy to elaborate on any of the answers provided.

June 2009
Memorandum from Hamish Davidson, Chairman, Davidson & Partners

Introduction

Submissions for other witnesses appear comprehensive and in many respects deliver some consistent themes. Rather than repeat them, I shall merely comment on or add some additional thoughts and perspectives, as well as raise some issues that do not appear to have surfaced as yet and which may be of interest to the Committee:

Culture within the public sector generally is ‘never take a pay cut, and never take a cut in status’

Christopher Johnson (Mercer) alludes to this in his submission when he talks of it being easier to attract talent from the private sector than from other roles in the public sector – intrinsic value of the work and quality of experience to be gained – whereas candidates from other parts of the public sector already enjoyed intrinsically valuable work.

Within the private sector, it is my experience that candidates will be much more flexible about an ‘apparent’ drop in status as regards literal job title in order to take on a wider role with more responsibility – or a more focused delivery role. They are also more open to being flexible on the make up of the compensation package, which might involve a lower base salary.

Within the public sector, I have found that other than a potential move to the ‘Not for Profit’ or ‘Third’ sector, candidates are almost always unwilling to take a drop in status/title – and most definitely are unwilling to take a drop in salary. The exceptions to this behaviour are, in my experience, rare and exceptional.

This ‘culture’ has had a series of knock-on effects, as I will note below.

The roots of recent salary inflation at Chief Executive (CX) level in local government

There are a number of causes:

1) The role of a Local Authority CX has become much more complex

The net impact of central government policies over the last 20 years means that the role of a Local Government CX (and with a few notable exceptions, I am primarily thinking of unitary, city, metropolitan and counties – rather than districts) has become a larger one and much more demanding in recent years.
Rather than presiding over a ‘steady-state’ machine with little in the way of change and a large, top-heavy bureaucracy – the role of today’s CX is much more complex, involving ensuring delivery of services through third parties as much as through directly employed staff, via a slimmed down top team and has become much more community and outward facing, and now has very much a shared ‘leadership’ role alongside the elected political Leader of the Council. Actually, the modern role of a CX of a unitary, Met or City authority is probably the broadest in all of public sector. These are tough jobs. The talent required to be successful in this new model CX role is now much greater than was the case in years past, and inevitably then, the pool of such candidates of such calibre is small. Candidates of this calibre are in great demand – and this has contributed to their ability to command higher salaries.

2) *Much of central government now ‘rates highly’ the best of local government CX’s*

When I first began recruiting within the public sector, local authority CX’s were, with very rare exceptions, not rated very highly – to such an extent that when conducting a search for a senior civil service appointment, I would generally have been laughed out of court if I had suggested headhunting within the local government community.

Over the last ten and particularly over the last five years, with the focus on ‘delivery’ local government is today considered one of the few parts of the public sector that actually ‘gets’ delivery, and from where talent that understands how to achieve such in a complex context can be readily sourced. Today, when undertaking a search for a senior civil service or agency role, local government is one of the first areas typically to be considered. The best of local authority CX’s now find themselves to be a highly sought after commodity, able to command much higher salaries.

3) *The unintended impact of CPA*

The Audit Commission alluded to this issue in its report. A perhaps inevitable impact of the CPA regime was the almost desperate need of local authorities to move out of the danger zone of one or no stars – and if at all possible hit four stars. Fair enough. However, what I noticed over the next few years was an emerging trend for elected members, when appointing a new CX, to increasingly veer towards appointing a serving CX who had already made their mistakes elsewhere, would therefore know what to do different, and thus hit the ground running with the barest minimum of learning curve.
It is the impact of this trend that the Committee will want to take note of. Increasingly, there emerged a reluctance to make an internal appointment as CX and to opt for the external. Now, had the internal candidate been appointed, then the salary could typically be set at the lower end of the range. However, given the increasing trend to appoint ‘externally’, and given my point about the prevailing culture within the public sector of never taking a pay cut, the inevitable consequence is ever increasing salary inflation.

4) A general reluctance to appoint candidates from outside of local government

I note with interest that this was a point David Clark of Solace chose not to comment upon in his evidence to the Committee.

My own personal philosophy regarding talent, remains the same as when I last gave evidence to this Committee back in 2003. Specifically:

- diverse teams tend to make more informed decisions
- the best of talent from any one sector is as good as the best of talent in any other sector
- and, talent comes in all shapes, sizes, guises, genders, accents, nationalities, sectors, etc

However, for whatever the reason (and perhaps this is another unintended consequence of the CPA regime), local government has continued to be very wary of appointing CX’s from outside of the local government family – and very rarely does so, despite more candidates from other sectors (including private) increasingly being drawn to vacancies when they occur, particularly given the more attractive remuneration levels. So whilst one might have thought that increased supply of candidates would take the pressure off the trend of rising salaries, in fact, that potential supply has either tended to be ignored or the specifications for the roles written in such a fashion as to exclude candidates from outside of the sector.

5) A general reluctance by head-hunters to challenge restricted personal specifications

6) An increasing tendency ‘not’ to respond to open adverts

In Europe (but not the US), the UK (and most especially England) is quite unusual with regard to the common practice and extent to which recruitment consultancies/head-hunters are used to recruit to local authority CX roles.

There are a number of reasons for the UK situation:
- the thinning and reduction of HR capacity leaving organisations less able or confident to undertake occasional, top level recruitment
- the increased complexity of the role of CX in local authorities, leaving many less confident about their ability to ‘grow their own talent’
- the increased complexity of the role of CX in local authorities has also meant that the candidate pool of candidates perceived able to do the job from within the local government community has declined
- an increased trend to bring some ‘independent assessment’ element to the recruitment process
- even where there may be potential internal candidates, a growing trend to ‘test the market’
- the increased turnover and ‘mortality’ rate of CX’s, meaning that local authorities, faced with fishing more frequently in a smaller pool (bearing in mind the general reluctance to ‘open up’ the person specifications to candidates from outside of the local government community) have had little choice but to employ external consultancies (head-hunters) to identify, approach and encourage potential candidates to move jobs
- the desire in some cases to address issues of ‘diversity’ and under-representation, and thus the need to target specific individuals or categories of individuals

All of the above reasons have served to increase the tendency to use external consultancy assistance (head-hunters) in senior level recruitment. This is a trend that is increasing, steadily.

However, in recent years, the principle reason for the increased use of head-hunters has been a shift in candidate behaviour. 10-20 years ago, candidates typically:

- will not have been overly concerned about confidentiality regarding their potentially applying for another role
- will not have worried too much re the knock-on impact of applying for an external role on their relationship with their Leader, and indeed, likely to have informed their Leader of their action at the outset
- will not have worried too much re the knock-on impact of applying for an external role on the organisation as a whole

Today, by comparison, we see very different behaviours: Today, the ‘trend’, particularly amongst the strongest and highest profile candidates is for them to be:

- very concerned indeed about confidentiality
- unlikely to wish to ‘rock the boat’ with the Leader unless absolutely necessary, and therefore not tell their Leader that they have applied for another role until they have been short-listed for final panel interview
- be very concerned about ‘leaks’ regarding their application, and word getting back to their organisation and potentially ‘de-stabilising’ it
- extremely concerned and at times, almost paranoid about seeking promises and guarantees that confidentiality will be maintained and that references will not be taken up until very late in the process
  - [It is worth pointing out, here, that public sector is very different from private sector in this regard. Formal current employer references still tend to be taken up prior to panel interview in the public sector, whereas this will almost never happen in the private sector – references only being taken up if the decision has been taken to offer the person the role, and that offer being conditional upon satisfactory references]
  - It is also worth noting that the extent of informal ‘referencing’ (or ‘checking up on’) of candidates for searches conducted for private sector clients tends to be much more extensive than is typically undertaken within the public sector]
- much less willing to ‘put their hat in the ring’ and formally apply for a role where they perceive or think that there may be many other strong candidates applying, and thus the recruitment begins to feel more like a lottery
- very nervous about the emotional and physical distraction that preparing an application and going through a full scale interview and assessment process involves unless they think there is a very strong chance they will get the role

The net consequence of all of the above is that candidates are increasingly:

- sitting on their hands and waiting to be approached and persuaded to apply for senior public sector roles
- very unwilling to respond directly to job ads
- assuming that if they are not so approached, then it is highly likely that the employer is not interested in them
- unwilling to apply for roles unless they are reassured that their application is likely to be very favourably received, that the effort they will have to put into preparing the application and going through a recruitment process with all the attendant emotional and physical distraction will be worth it and that they are likely to be a ‘strong contender’ to be appointed

Overall, then, the local government recruitment market (and indeed, at a slightly slower but still inexorable rate, the rest of the senior level public sector recruitment market) is moving towards a more ‘private sector’ model of recruiting, where although, because of the open and fair competition’ tenet, roles are still advertised, the
working assumption amongst increasing numbers of employers is that the strongest candidates are likely to be generated through headhunting.

And all this increased having to ‘tease candidates out of their existing roles’ has meant that the balance of power in negotiations has shifted from the employer and more towards the candidate when it comes to talking about remuneration. Thus we have the final key element that has contributed to perceived salary inflation for senior posts within local government.

Polly Toynbee saying ‘role of head-hunters ought to be looked at in the course of this investigation’

The point that Polly completely missed (and indeed, was incorrect in her evidence) is that, unlike in the private sector, where typically a head-hunter’s fee will be based a percentage of their eventual remuneration (their pay), that does not apply in the public sector. For the most part and with few exceptions, in the public sector recruitment consultants charge a flat fee, agreed in advance with the client – with the implication that (and here I am specifically contradicting Polly), that there is absolutely no incentive (through gaining a higher fee based on a percentage of the final agreed remuneration) for head-hunters to ‘up the ante’ on salaries.

Movement of senior execs between public and private sectors, and vice versa

Lots of people in public sector talk about believing they could do a job in private sector but few do in practice; equally, they keep finding reasons why private sector people would find it hard to do public sector jobs

“The majority of highly paid senior public sector jobs are not affected by a particular scarcity of suitable candidates” … Taxpayers Alliance

Candidly, though many of the contributions from the Taxpayers Alliance were interesting and relevant, this particular statement is ‘utter rubbish’.

‘More focus on growing talent from within and growing successors …’ per Chris Johnson

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22 Q 30
23 EXP 05
Spot on. This is a massive area of lost opportunity. The extent to which public sector, despite the literal explosion of ‘leadership development bodies’ fails miserably to invest effectively in growing its own talent (especially amongst women and BME communities) is staggering. In this area, the private sector (most particularly within global multinationals) is far ahead of the public sector.

To confirm, the supply of suitable candidates for senior roles is hampered and impacted by:
1) overly narrow specifications in the person specification;
2) those drafting the specifications and making appointments tending to be ‘pale, male and stale (and this includes too many of the head hunter advisors);
3) a tendency to not take perceived risks (‘out of the box’ candidates – often those from private sector or minority communities and women who may have had what are seen as ‘unconventional’ career tracks) in making appointment and thus appoint ‘safe’ (typically, white, male and more conventional career track) candidates;
4) ‘Byzantine’ appointments processes that ‘effectively’ un-nerve and often end up discriminating against candidates from outside of the public sector, for whom these processes resemble some archaic, process-driven ritual.

July 2009
Memorandum from Dr Anne Wright CBE, Chair, National Lottery Commission

Inquiry into Executive Pay in the Public Sector – 18 June 2009

As requested by the Committee, please find attached the details of our Chief Executive’s maximum bonus levels and actual award made each year since the National Lottery Commission was set up in 1999.

The Chief Executive’s current contract, which dates from 2005, is open-ended. It provides for an annual review by the Remuneration Committee, on the basis of appraisal of performance against targets for the year. The Remuneration Committee has discretion to determine a bonus payment of up to 20%, of which up to 5% can be consolidated in salary. There is no other provision for salary increase: i.e. the Chief Executive does not receive the NLC staff pay award.

In determining the bonus payment, the Remuneration Committee has regard to the wider economic context, and available guidance including the HM Treasury affordability guidance, and pay advice from the sponsor department, within the overall framework of the Chief Executive’s contract.

You will note that this year the Chief Executive has decided to forgo a part of the bonus payment awarded by the Remuneration Committee, and also requested that the consolidated bonus be limited to the amount of the NLC staff pay award of 1.5%.
Chief Executive Remuneration details

<table>
<thead>
<tr>
<th>Year</th>
<th>Salary</th>
<th>Non-Consolidated Bonus</th>
<th>Non-Consolidated Bonus</th>
<th>Consolidated Bonus (1)</th>
<th>Consolidated Bonus</th>
<th>Total Bonus</th>
<th>Total Bonus</th>
</tr>
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<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>%</td>
<td>£</td>
<td>%</td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>1999/2000</td>
<td>75,000.00</td>
<td>7,325.00</td>
<td>9.77</td>
<td>2,175.00</td>
<td>2.90</td>
<td>9,500.00</td>
<td>12.67</td>
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<td>2000/2001</td>
<td>77,175.00</td>
<td>3,472.88</td>
<td>4.50</td>
<td>2,315.25</td>
<td>3.00</td>
<td>5,788.13</td>
<td>7.50</td>
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<td>2001/2002</td>
<td>79,490.00</td>
<td>8,012.00</td>
<td>10.08</td>
<td>1,988.00</td>
<td>2.50</td>
<td>10,000.00</td>
<td>12.58</td>
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<td>2002/2003</td>
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<td>0.00</td>
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<td>2003/2004</td>
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<td>11,750.00</td>
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<td>0.00</td>
<td>11,750.00</td>
<td>14.07</td>
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<td>2004/2005</td>
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<td>2005/2006</td>
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<td>4,850.00</td>
<td>5.00</td>
<td>16,490.00</td>
<td>17.00</td>
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<td>2007/2008</td>
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<td>16,041.00</td>
<td>15.00</td>
<td>5,347.00</td>
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<td>21,388.00</td>
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<td>2008/2009</td>
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<td>1,684.35</td>
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<td>2009/2010</td>
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</tr>
</tbody>
</table>

Notes

1. Consolidated bonus represents the element of bonus which is consolidated as a cost of living increase
2. Uplift does not form part of total bonus amount as these were one year contracts of employment
3. Uplift does not form part of total bonus amount as this was first year of a new contract of employment
4. The Chief Executive’s bonus can be up to 20% of his annual salary, subject to performance. The bonus is non-pensionable and non-consolidated, although up to 5% may be consolidated (as a pay increase). The bonus, and any consolidated increase, is set by the Commission’s Remuneration Committee, who review the Chief Executive’s
performance against the objectives set at the start of the year. The Remuneration Committee and Commission have considered the Chief Executive’s performance for the 2008-09 year which included the successful delivery of a transition to the third licence. Having regard also to the economic climate and to available guidance, including current HM Treasury affordability guidance, the Remuneration Committee and Commission determined a total bonus payment of 9%. The Chief Executive has waived part of his bonus and accepted only a non-consolidated payment of 5% and a pay increase of 1.5%
Memorandum from the Higher Education Funding Council for England (HEFCE)

Bonus information

HEFCE’s previous Chief Executive, Professor David Eastwood, was employed by HEFCE from 1 September 2006 to 31 March 2009. His entitlement to an annual non consolidated cash bonus payable in April each year was subject to the following criteria:

Outstanding 10%; Very Good 8%; Good 5%; Acceptable or Weak 0%.

Following appraisal by the HEFCE Remuneration Committee he actually received a 10% non-consolidated bonus on 1 April 2007, 2008 and 2009. The bonus information for HEFCE Chief Executives since we began as a Non-Departmental Public Body on 1 April 1993 is provided in the table below.

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<thead>
<tr>
<th>CE Bonus</th>
<th>Financial Year</th>
<th>max bonus</th>
<th>actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09 David Eastwood</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2007-08 David Eastwood</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2006-07 David Eastwood</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2005-06 Sir Howard Newby</td>
<td>9.92%</td>
<td>9.92%</td>
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<tr>
<td>2004-05 Sir Howard Newby</td>
<td>10%</td>
<td>10%</td>
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</tr>
<tr>
<td>2003-04 Sir Howard Newby</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2002-03 Sir Howard Newby</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2001-02 Sir Howard Newby</td>
<td>10%</td>
<td>10%</td>
<td></td>
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<tr>
<td>2000-01 Sir Brian Fender</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>1999-2000 Sir Brian Fender</td>
<td>8%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>1998-99 Sir Brian Fender</td>
<td>8%</td>
<td>8%</td>
<td></td>
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<tr>
<td>1997-98 Sir Brian Fender</td>
<td>8%</td>
<td>6%</td>
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<tr>
<td>1996-97 Sir Brian Fender</td>
<td>8%</td>
<td>4%</td>
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<td>1995-96 Sir Brian Fender (from Oct 95)</td>
<td>£2,250</td>
<td>£2,000</td>
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<td>1995-96 Sir Graeme Davis (to Sep 95)</td>
<td>0%</td>
<td>0%</td>
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</tr>
<tr>
<td>1994-95 Sir Graeme Davis</td>
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July 2009
Memorandum from Ofcom

During Millie Banerjee’s oral evidence session with the Committee, Charles Walker requested a note on the maximum bonus that can be earned and how much of that bonus is paid out.

**Q216 Mr Walker:** I think what would be very helpful is if you could provide the Committee with a note showing for each year what the maximum bonus that could be earned was and how much of that bonus was paid, because then we can ascertain whether it really is a bonus or just part of the salary.

**Ofcom’s Bonus Policy**

Ofcom offers a limited annual bonus payment, awarded for good performance. Performance is measured against objectives set in line with the annual plan and agreed at the start of the financial year. Colleagues who are rated as unsatisfactory are not eligible for consideration. Each individual’s performance is reviewed before determining the actual bonus amount. In the case of the Chief Executive and current Executive Committee the selected amount cannot exceed the contractual maximum of 20% of base salary and these bonus proposals must be agreed by the Ofcom Remuneration Committee.

**Ofcom Bonuses 2008/09**

In light of the current economic circumstances, Ofcom froze pay for this financial year, and halved the amount to be allocated for bonuses. Members of Ofcom’s Executive Committee were not considered for a bonus. Any bonuses awarded were weighted to more junior pay grades.

**Chief Executive and Executive Committee Bonuses**

Mr Walker expressed particular interest in the Chief Executive’s salary and bonus. Ofcom was established in 2003 and during this first year, the Chief Executive’s maximum bonus potential was 12%. In 2004, this maximum bonus potential was increased to 20%. The bonuses awarded to both Ofcom Chief Executives reflected the high quality of leadership they have provided for the organisation. A bonus is not a guaranteed part of his salary and the Chief Executive has not always received the full amount.

The variable award of bonuses applies throughout the organisation and is reflected in the bonuses awarded to members of the Executive Committee (ExCo). ExCo is the senior executive team responsible for overseeing the management of Ofcom. Its core focus is on setting direction for the organisation, financial and administrative decision-taking and monitoring. Its policy-making responsibilities are limited to management policy only.

The colleagues listed in Table 1 have all sat on ExCo. When Ed Richards became Chief Executive ExCo was restructured and is currently made up of Ed Richards (CEO), Jill Ainscough (COO), Peter Phillips (Partner), Stewart Purvis (Partner) and Stuart McIntosh (Partner). In addition, Christopher Woolard was appointed to ExCo as Partner in July 2009 and there is vacant position for which Ofcom is recruiting.
### Bonus Awards for Chief Executive and Members of the Ofcom Executive Committee – 2003-2009

Blank boxes indicate a year during which the individual was not Chief Executive or serving on ExCo

<table>
<thead>
<tr>
<th>Name</th>
<th>Position and Team</th>
<th>Bonus CAP</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
<th>2007/08</th>
<th>2008/09</th>
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<tr>
<td>Robin Foster</td>
<td>Partner, Strategy Team</td>
<td>20%</td>
<td>6%</td>
<td>19%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Peter Phillips</td>
<td>Partner, Strategy and</td>
<td>20%</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Graham Howell</td>
<td>Secretary to the</td>
<td>20%</td>
<td>0%</td>
<td>8%</td>
<td>10%</td>
<td>10%</td>
<td>7%</td>
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Notes to Table

1) The colleagues listed below have all sat on the ExCo and their salary and bonus were published in the annual report. The annual reports give the pro-rated salary for the time on ExCo but the bonus for the full year, including any time when they were not a member. In order to accurately reflect the relationship between their published salary for their work as a member of ExCo and the bonus they received, the percentages here have been calculated by annualising the salary figures published.

The records of some former Ofcom employees are stored off site. The figures in this table have been calculated using information readily available and should be taken as a strong indication of the bonus award.

2) Prior to Ofcom’s vesting at the end of 2003, a number of colleagues were working for Ofcom and one of our legacy regulators. The figures given are based upon the salary and bonus awarded for their time working for Ofcom.

3) In the 2006/07 financial year, the performance assessment period was changed from calendar to fiscal year. In the annual report the salary figures were for a 12 month period and the bonus for a 15 month period. The bonus has been pro-rated to match the salary period.

4) In 2007/08 ExCo was restructured.

5) Ed Richards was appointed Chief Executive in 2006. This bonus figure reflects his time as Chief Executive in that year.

6) The individual packages negotiated with Peter Ingram and Rona Chester when they joined Ofcom included a 25% maximum bonus. Rona Chester has now left Ofcom, Peter Ingram is no longer a member of ExCo and bonuses have been standardised.

July 2009
Memorandum from the Cabinet Office

Thank you for your letter of 30 March 2009, requesting background information in relation to the Committee’s inquiry into Executive Pay in the Public Sector.

Please find attached the answers to your questions, which I hope you will find helpful.

1. **What procedures are in place and what guidance exists for determining remuneration packages for public appointments made by the Crown and by Ministers, including to the boards of public bodies?**

   Individual Departments are responsible for determining the levels of remuneration paid to public appointments for which they are responsible. This recognises the fact that public appointments vary greatly in terms of roles, responsibilities, profile and importance. It is important that Departments have flexibility to determine an appropriate level of remuneration based on what can be very particular circumstances.

   It is for each Department to put in place internal procedures to assist in the determination of remuneration for public appointments for which the Department is responsible. Some Departments, for example, have issued general guidance to officials, but allow decisions on remuneration to be made on a case by case basis. Some allow flexibility but require senior level oversight and “sign-off”. And other Departments have set specific benchmarks or ranges to help inform the levels of remuneration set for all their public appointments.

   All Departments, however, are bound by the general principles set out in the HM Treasury publication *Managing Public Money*. This can be downloaded from:

   [http://www.hm-treasury.gov.uk/psr_mpm_index.htm](http://www.hm-treasury.gov.uk/psr_mpm_index.htm)

   This means that each Department must ensure that any remuneration offered to a public appointment for which they are responsible is appropriate, affordable and provides value for money to the taxpayer. The Cabinet Office guidance *Making and Managing Public Appointments* states that Departments should adopt a consistent approach in the levels of remuneration offered to public appointments for which they are responsible.

   **1A. What co-ordination role – if any – is played by the Cabinet Office and/or Treasury in setting guidelines, giving advice, and monitoring in this area?**

   24 Not printed

   25 There are a small number of public appointments where the relevant founding statute requires HM Treasury approval. There are also some bodies which are prohibited from providing remuneration to their board members by their founding legislation or by virtue of their charitable status.
The Cabinet Office publication *Making and Managing Public Appointments* contains advice and guidance to Departments on the public appointments process. Chapter 15 of *Making and Managing Public Appointments* sets out the policy position on remuneration and provides advice and guidance to Departments on setting remuneration for public appointments. A copy can be downloaded from:

http://beta.civilservice.gov.uk/about/work/public-appointments.aspx

The guidance makes it clear that, in the majority of cases where remuneration is paid, the office-holder should receive a flat fee or rate. Offering performance-related pay or bonuses should be exceptional. Most public appointments can claim reasonable expenses in line with the rules drawn up by the relevant body/Department. The majority of public appointments are non-pensionable.

The Cabinet Office provides advice to Departments on a case by case basis and works with Departments and other stakeholders to identify and share good practice in all aspects of the public appointment process (including on remuneration-related issues). The Cabinet Office also requires Departments to publish annually in their Public Bodies reports or Annual Report, summary details of all their public appointments. This includes information on the levels of remuneration paid to individual Chairs and Chief Executives of public bodies.

HM Treasury advises and approves remuneration packages for public appointments in the small number of cases where HM Treasury approval is required. HM Treasury also requires executive NDPBs and similar public bodies to publish annual reports and accounts. These will include details of salaries and allowances paid to Chairs and non-executive board members - as well as to senior staff.

2. **What procedures are in place and what guidance exists for determining remuneration packages for non-executive appointments to the boards of Government departments and agencies?**

As with public appointments, each Department and Agency is responsible for determining the levels of remuneration paid to non-executive members on their boards.

The Cabinet Office issues guidance setting out some common principles which underpin the recruitment, selection, appointment and development of non-executive board members on civil service boards. This includes principles which should underpin decisions on remuneration. The guidance makes it clear that there must not be a presumption that any remuneration offered is comparable with non-executive directors in the private sector - or in other parts of the public sector - as the responsibilities and liabilities are very different.

3. **What procedures are in place and what guidance exists for determining remuneration packages for senior executives in public bodies?**
3A. According to paragraph 8.4.4 of *Public Bodies: A Guide for Departments*, “in general, approval for Chief Executive pay is primarily the responsibility of the sponsor department in consultation with the Treasury”. How do sponsor departments exercise this responsibility? What exceptions exist for this process?

**Non Departmental Public Bodies (NDPBs)**

**Existing guidance**

Existing central guidance concerning NDPB Chief Executive pay can be found in the 2009-10 edition of the *Civil Service Pay Guidance* and in *Public Bodies: A Guide for Departments*. This can be downloaded from:

http://www.civilservice.gov.uk/about/work/codes/public-bodies.aspx

**New Chief Executives**

Sponsor departments discuss proposed remuneration packages for new Chief Executives with HM Treasury which are significant or potentially repercussive. They submit a proposed starting salary and bonus range, along with a business case in support of the proposals. This business case compares the proposals for the new Chief Executive with remuneration arrangements for appropriate comparators, outlining reasons why the proposed remuneration is appropriate. NDPBs and sponsor departments are expected to take into account public sector pay policy when preparing and considering remuneration proposals. As announced in the 2009 Budget (paragraph 6.43), when vacancies from NDBP chief executives arise, NDPBs and sponsor departments must undertake a first principles review of remuneration packages to ensure that these reflect the current labour market conditions. Subject to specific requirements in the NDPB’s founding legislation, the sponsor department will approve the final package following discussions with HMT, in line with *Public Bodies: A Guide for Departments*.

**Restructuring of existing Chief Executive posts**

Sponsor departments also consult HMT on proposals to increase the remuneration of an existing Chief Executive beyond existing uplift arrangements if significant or potentially repercussive. As for new Chief Executives, these proposals are supported by a business case, giving comparative remuneration data and details of the reasons for wishing to change the remuneration, including, for instance, any change in the job responsibilities, or retention issues. Again, public sector pay policy needs to be borne in mind in the preparation and consideration of proposals. The approval arrangements are the same as for new Chief Executives.
Annual remuneration decisions

The process for approving annual pay uplifts and any performance-related pay where relevant is the responsibility of the sponsor department. Details for specific departments should be confirmed with the department itself.

Further guidance has been included in the 2009-10 edition of the *Civil Service Pay Guidance*, to ensure that NDPBs consider the remuneration of their Chief Executives alongside the pay of the rest of their staff, according to the same principles, and consistent with the principles of public sector pay policy. The 2009-10 *Civil Service Pay Guidance* gives details of the kind of information required in business cases put to sponsor departments supporting remuneration proposals.

Remuneration proposals for other executives

HMT also asks to be consulted on remuneration proposals for other executives who are to be paid, the same as, or more than, the Chief Executive, following the same process. On occasion, sponsor departments consult HMT on the remuneration of other executives but this is not a requirement.

HMT is not aware of any exceptions to these arrangements.

Government, through the official led Public Sector Pay Committee, is currently in the process of examining the setting of senior pay in the public sector. The Government shares the objectives of the Public Administration Select Committee to ensure that total remuneration packages are set in a transparent and accountable way, that high quality candidates are recruited to these important positions through evidence based benchmarking of roles and responsibilities, and that outcomes are value for money. Our concern in this matter pre-dates the PASC inquiry and we are in the process of considering future reform. Government looks forward to the Committee’s findings as a valuable contribution to such reform.

4. What procedures are in place and what guidance exists (either from central government or from another co-ordinating source) for determining remuneration packages for senior executives and non-executives to other bodies either generally or sometimes considered to be within the public sector? (for example, local authorities, NHS Trusts, universities, the BBC, Network Rail, UK Financial Investments, British Nuclear Fuels, Partnerships UK).

Public Corporations

Generally Public Corporations are governed in accordance with their constitutional documents.
For those public corporations covered by the publication *Public Bodies: A guide for Departments*, guidance is provided to Government Departments on the approach for establishing and managing bodies. There are also important sections of *Managing Public Money* and the Consolidated Budgeting Guidance that Departments should apply.

**NHS**

**Boards**

Remuneration rates for Chairs and non-executive board members of NHS bodies (excluding Foundation Trusts) are set by the Department of Health. Foundation Trusts are free to set their own rates.

**Senior Staff**

Chief Executives and executive directors (and other senior managers with board level responsibility who report to the CEO) working in Strategic and Special Health Authorities, Primary Care Trusts and Ambulance Trusts are subject to a national pay framework - the Very Senior Managers (VSM) Pay Framework - introduced in 2006. Each year the Senior Salaries Review Body makes recommendations to Government on the level of annual uplift and value of the non-consolidated performance pot for staff covered by the VSM Pay Framework.

NHS Acute Trusts, Foundation Trusts and Mental Health Trusts are responsible for their own decisions about executive pay. All have remuneration committees, comprising independent non-executive directors, which make objective decisions about pay and allowance. Foundation Trusts are also subject to the scrutiny of MONITOR – the independent regulator of NHS Foundation Trusts – which ensures that pay decisions are affordable. Acute, Mental Health and Foundation Trusts fully disclose what they pay their executive and other staff in their annual reports.

**Local Authorities**

No guidance is issued by Government on senior officers’ pay and conditions in Local Authorities. All decisions about pay are taken locally. The Local Government Employers (LGE) is the co-ordinating body for senior pay amongst Local Authorities – and they monitor and advise on remuneration. The LGE, along with the relevant trade unions, negotiates annual pay increases. There is no central Government involvement.

**Universities**

University are not considered public bodies. They are more generally considered private sector, not-for-profit bodies. The Government has no role in determining the pay of senior staff – or other staff. Pay for senior staff will normally be determined by the University’s Governing Body on the basis of market rates.
5. How are decisions taken on which groups of senior public sector posts to include within the ambit of the Senior Salaries Review Body? (e.g. the recent inclusion of very senior managers in the NHS).

The groups which fall within the remit of the Senior Salaries Review Body is largely a matter of history; although Ministers have sometimes added to them. The Review Body on Top Salaries (TSRB) was appointed in May 1971 and renamed the Review Body on Senior Salaries (SSRB) in July 1993. The review body provides independent advice on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces and other such public appointments as may from time to time be specified. In 2007, its remit was expanded to include Very Senior NHS managers,\(^{26}\) following the introduction of a national pay framework for the group.

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

6. How (if at all) does central government monitor remuneration at senior levels in the wider public sector? (i.e., in those areas outside the ambit of the SSRB)

**NDPBs and Public Corporations**

Unless there is a new appointment or restructuring of an existing post, HMT does not currently monitor remuneration of NDPB Chief Executives (or those paid the same or more) and departments establish their own monitoring arrangements. Individual departments should be consulted on these. HMT guidance is that the pay of other executives is to be included in the NDPB’s pay remit.

HMT does not ordinarily oversee remuneration of public corporation Chief Executives. Where Government Departments are the shareholder of a public corporation they would be expected to oversee and discuss Board remuneration with the relevant remuneration committees. Departments establish their own monitoring arrangements. Individual departments should be consulted on these.

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\(^{26}\) NHS Very Senior Managers in England are chief executives, executive directors (except medical directors), and other senior managers with board level responsibility who report directly to the chief executive, in: Strategic Health Authorities, Special Health Authorities, Primary Care Trusts and Ambulance Trusts.
The Cabinet Office does require all Departments to publish annually summary information on the NDPBs they sponsor. This includes information on the levels of remuneration paid to Chairs and Chief Executives. All executive NDPBs also publish detailed Annual Reports and Accounts containing information on any salaries and allowances paid to Chairs and non-executive board members – as well as to senior staff. In general public corporations will produce Annual Reports and Accounts and those that are bound by the Companies Act will be required to comply with the relevant legislation.

September 2009