Review Body on
Senior Salaries

Fortieth Annual Report on Senior Salaries 2018

REPORT No. 89

Chair: Dr Martin Read, CBE

Cm 9694

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Review Body on Senior Salaries

Terms of Reference

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

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

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

Our terms of reference are now as follows:

The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Home Secretary, the Secretary of State for Defence, the Secretary of State for Health and the Minister of Justice for Northern Ireland on the remuneration of holders of judicial office; senior civil servants; senior officers of the Armed Forces; Very Senior Managers in the NHS;[1] *police and crime commissioners, chief police officers in England, Wales and Northern Ireland; and other such public appointments as may from time to time be specified.*

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

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

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

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

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

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

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

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

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

Members of the Review Body are:

Dr Martin Read CBE, *Chair*
Margaret Edwards
Sir Adrian Johns KCB CBE DL
David Lebrecht[2]
John Steele[3]
Dr Peter Westaway
Sharon Witherspoon

The Secretariat is provided by the Office of Manpower Economics.

[2] Ex Officio: Chair Police Remuneration Review Body.

[3] Ex Officio: Chair Armed Forces Pay Review Body.

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Summary

Annual review findings

1. Three remit groups are reviewed in this report: the senior civil service (SCS); the senior military; and police and crime commissioners (PCCs).[4] There are generally enough candidates to fill these senior roles and there are no widespread or immediate recruitment difficulties.

2. However, beneath the surface we see some worrying signs. These could lead to recruitment and retention problems or reductions in workforce quality in the longer term.

3. Pension changes have had a significant impact on the morale and motivation of some members of our remit groups. As we noted in our report last year, the changes to pension taxation have resulted in some very high marginal tax rates.[5] These changes are creating incentives for people to leave service earlier and are starting to influence individual behaviour and decisions.

4. Pay policy for our remit groups has tended to be characterised by long periods of rigidity, followed by reactive responses to specific pressures. Given that inflation and private sector wage growth have risen, the most talented staff may become increasingly dissatisfied with their overall levels of reward. It is not currently possible to quantify the extent to which these factors will affect retention rates or the future quality of recruits. However, the risk is greatest for staff with specialist skills and in the feeder groups, where staff are typically younger and have more time to build a second career.

5. We believe that the government does not currently have an adequate grasp of the extent of the potential risks nor a strategic approach to managing them. This should be addressed as a matter of priority. In this context, we are encouraged that we have been asked to carry out a Major Review of the judicial salary structure and that a commitment has been made to consider the results seriously and in a timely manner. There have also been welcome efforts to start developing a pay strategy for the SCS, although significant further progress is required to produce and articulate a coherent strategic plan.

The role of the SSRB

6. A body such as the SSRB can consider the unique characteristics of senior public sector roles, provide government with independent and objective evidence of early warning signs, and facilitate transfer of best practice between different workforce groups. It is consistent with the approach taken by large private sector organisations, where an executive remuneration committee or similar body is responsible for reviewing senior pay.

7. It is of some concern that the SSRB's remit group coverage has been curtailed this year. Chief police officers are defined by statute as within the remit of the SSRB. However, responsibility for this workforce has been temporarily passed to the Police Remuneration Review Body. In addition, we are not reviewing Executive and Senior Managers (ESMs) in the Department of Health's Arms' Length Bodies this year. This latter change was at our own request, as we did not believe that advising on this remit group as currently constituted was either practical or sensible.

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[4] A Major Review of the judicial salary structure is currently being undertaken by the SSRB and a separate report, which will include a review of the annual pay award, will be published later in 2018. Executive and Senior Managers in the NHS have been temporarily removed from the SSRB's remit at our suggestion (see Chapter 6). The Police Remuneration Review Body has been asked by the government to consider Chief police officers this year, instead of the SSRB.

[5] See Chapter 2 on Pay and Pensions, SSRB 2017 report.

8. In recent years, the SSRB has advocated a much more strategic approach. We believe that annual pay settlements need to be considered by employers in the context of long-term objectives, their future operating model and the reward and workforce strategies required to support them. Annual changes can then be used as incremental steps along the path towards the long-term vision.

9. While the SSRB's strategic approach has been generally welcomed by government, progress against our strategic priorities has been disappointing. Areas of concern include the quality of pay and workforce strategies; too much focus on managing basic pay increases rather than outcomes; the lack of key management data in many areas; and many unresolved tensions between central and devolved control of pay.

10. This year, we have highlighted to the government how it can make better use of the SSRB. We are of the view that a strategic approach to senior public-sector pay is essential if government is to make progress on its overarching goals of improving public services efficiently and sustainably. We remain very willing to offer advice on these matters, alongside our annual recommendations on pay and reward for the different workforces within the SSRB's remit groups.

11. We believe employers need to develop innovative pay and workforce proposals and, with the change in public sector pay policy this year, have no excuse not to do so. These proposals should be focused on long-term outcomes, rather than simply on limiting basic pay increases across the board and then reacting in an ad-hoc manner when action becomes unavoidable.

12. The SSRB could deliver considerably more value if the government genuinely embraced a more strategic approach to pay and reward and encouraged the use of the SSRB for periodic wide-ranging strategic reviews of senior pay-related issues. For this to happen, a single ministerial lead on senior public sector pay mirroring the Review Body's span of responsibility is needed. We are awaiting the opportunity to discuss these issues further with the government.

Summary of recommendations

Chapter 3: Senior Civil Service

We recommend an overall increase to the SCS paybill of 2.5 per cent, which should be allocated in accordance with the recommendations set out below.[6]

Recommendation 1: We recommend that all SCS members should receive a 1 per cent consolidated basic pay increase.

Recommendation 2: We recommend that an additional 0.25 per cent of the paybill should be used to increase the pay band minima for all pay bands to the following levels:

- Pay band 1: £68,000 (currently £65,000)
- Pay band 2: £90,500 (currently £88,000)
- Pay band 3: £111,500 (currently £107,000)

The 1 per cent consolidated basic pay increase set out in Recommendation 1 should be applied after the increase to the minima.

Recommendation 3: We recommend that the pay range maxima for new recruits and those people currently paid below the new maxima are reduced for 2018-19, to the following levels:

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

Recommendation 4: We recommend that an additional consolidated 1.25 per cent should be allocated and should be distributed to SCS members dependent on:

- Demonstration of sustained high performance, increased effectiveness and deepened expertise.
- Their position in the pay range.
- The extent to which they benefited from the increase to the minima.

Recommendation 5: The Cabinet Office should provide evidence to demonstrate, in particular in relation to Recommendation 4, that the application of the award has resulted in higher awards to those:

- who demonstrated evidence of sustained high performance, increased effectiveness and deepened expertise;
- who were relatively low in the pay range; and/or
- who have benefited less or not at all from the rise in the minima.

[6] As noted in paragraph 3.121, those SCS members who are subject to current performance improvement measures should not receive any increases in pay.

Recommendation 6: We endorse the proposals to:

- Extend the eligibility of in-year awards from 10 to 20 per cent of the remit group.
- Introduce a corporate recognition scheme with awards of around £1,000, authorised at Permanent Secretary level.

This is on the proviso that these schemes are applied consistently across departments with a central audit process put in place to confirm this. We should like to be updated on the result of this audit in future years.

Chapter 4: Senior Officers in the Armed Forces

Recommendation 7: We recommend that all members of the senior military receive a 2.5 per cent consolidated increase to base pay.

Recommendation 8: We recommend that the minimum guaranteed increase to base pay (excluding X-Factor) on promotion from 1-star to 2-star does not fall below 10 per cent.

Recommendation 9: We recommend no change to the current pay arrangements for Medical Officers and Dental Officers (MODOs):

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

Chapter 5: Police and Crime Commissioners

Recommendation 10: We recommend a consolidated pay uplift of £5,000 to each of the bottom four PCC salary levels, with effect from 1 May 2018.

Recommendation 11: We recommend a consolidated additional allowance of £3,000 for those PCCs who take on responsibility for the governance of fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.

Recommendation 12: From May 2019, PCC salaries should be increased by 2 per cent, in line with the pay award for local authority staff. Pay increases, linked to the pay award for local authority staff, should continue annually until the next formal review of PCC pay.

Recommendation 13: PCC pay should be reviewed again in 2020-21 to enable a full assessment of the role, particularly in light of the additional responsibilities for fire and rescue. Thereafter, full reviews should be conducted on a four-yearly basis.

Recommendation 14: We recommend that the Home Office carries out a review of the pay structure for PCCs, with a view to developing proposals to reduce the number of salary levels to a number below the current five.

Recommendation 15: We recommend that PCCs who lose their seat at election are entitled to a loss of office payment equivalent to the payment received by former MPs.

Box 1.1: **Strategic priorities**

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

Chapter 1

Report overview

Context and general themes

1.1 For the last two years, the SSRB has focused on a number of strategic areas where departments need to take action with respect to their senior workforces. These were intended to help government move beyond some of its self-imposed constraints and ensure that the SSRB receives the evidence needed to offer sound advice. We have continued to use this framework for the assessment of our recommendations in this report. These strategic priorities are listed in box 1.1 at the beginning of this report.

1.2 In September 2017, the Chief Secretary to the Treasury (CST) wrote to the Chair of the SSRB setting out the government's intention to move away from the 1 per cent basic public sector pay award policy. The letter said that whilst the last Spending Review budgeted for a 1 per cent average increase in basic pay and progression awards, the 'government recognises that in some parts of the public sector, particularly in areas of skill shortage, more flexibility may be required.' Nevertheless, we understand that departments have generally only budgeted 1 per cent for pay rises and have been told that any additional increases would need to be funded from existing budgets.

1.3 The SSRB strives to provide timely advice to enable its remit groups to receive their annual pay awards on time. As acknowledged in the CST's letter, the shift to an autumn budget impacted on the timetable for the 2018-19 pay round and the submission of evidence from its stakeholders. Therefore, the SSRB has had to submit the report later this year than we have done previously.

1.4 In contrast to previous years, we did not receive guidance for a specific base pay award for any of our remit groups. This makes us unable to ascertain whether or not employers have a clear view of what pay award is needed to deliver their objectives, or what is affordable. If they do have a clear view, they are not sharing it with the SSRB. Either position is a matter of concern. It is fundamental to the SSRB's consideration of pay awards to understand what the employer can afford and the parameters for their recommendations. We hope that the position this year is exceptional and that at least some guiding principles are received in next year's evidence.

1.5 In last year's report, we noted that the manner in which the 1 per cent pay policy was being implemented was holding back necessary workforce reform for our remit groups. We recommended that all employers actively considered developing genuinely innovative pay and workforce proposals that focus on maximising outcomes for lowest cost. Despite the government signalling the end of the blanket 1 per cent pay policy, the evidence received this year appears to be largely based around proposals which could be managed within 1 per cent budgetary assumptions. However, we welcome the Ministry of Justice (MoJ) commissioning the SSRB to undertake a Major Review of the judicial salary structure and committing to consider the findings seriously and in a timely manner. Additionally, we recognise the intent from the Cabinet Office to develop a future vision for the Senior Civil Service (SCS), interlinked with long overdue reforms to the pay framework.

1.6 Three remit groups are reviewed in this report: the SCS; the senior military; and police and crime commissioners (PCCs).[7] There are generally enough candidates to fill these senior roles and there are no widespread or immediate recruitment difficulties.

1.7 Morale and motivation vary across our remit groups and in some areas show signs of improvement from last year. Further statistical analysis of morale and motivation-related factors is presented in Appendix F to this report.

1.8 However, beneath the surface we see some worrying signs. These could lead to recruitment and retention problems or reductions in workforce quality in the longer term.

1.9 Pension changes have had a significant impact on the morale and motivation of some members of our remit groups. As we noted in our report last year, the changes to pension taxation have resulted in some very high marginal tax rates. These changes are creating incentives for people to leave service earlier and are starting to influence individual behaviour and decisions. These issues are explored further in Appendix G.

1.10 So far, the inherent motivation and goodwill of senior public sector workers have prevented significant recruitment and retention problems. However, it cannot be assumed that this will continue into the future. Last year, we recommended that public sector employers should closely examine the options for making pension packages more flexible and take action where appropriate. The limited progress we have witnessed is a matter for considerable concern. We believe action on this issue is urgently required.

1.11 Pay policy for our remit groups has tended to be characterised by long periods of rigidity, followed by reactive responses to specific pressures. Given that inflation and private sector wage growth have risen, the most talented staff may become increasingly dissatisfied with their overall levels of reward. It is not currently possible to quantify the extent to which these factors will affect retention rates or the future quality of recruits. However, the risk is greatest for staff with specialist skills and in the feeder groups, where staff are typically younger and have more time to build a second career.

1.12 To improve our ability to assess the above issues, this year we particularly focussed on those leaving the remit groups and how to improve the collection of data on those resigning from the SCS and the senior military. This was to gain a deeper understanding of who is leaving and why, and to help us assess the likelihood of a change in future retention patterns. Both the Ministry of Defence (MoD) and the Cabinet Office recognise the value in capturing this information and have undertaken to provide further data next year where it was held or feasible to do so. This focus will continue in future years and will require collaboration with the government to implement changes to enable better data to be collected.

The value and better use of the SSRB

1.13 This year, we have looked at our own role and considered how the government can make better use of the SSRB and its expertise in future years. We have put forward proposals to the government and we look forward to receiving a response. A summary of these considerations is set out below.

1.14 The SSRB has existed since 1971, with one enduring purpose – to advise government on the ever-sensitive question of pay arrangements for senior public-sector leaders.

[7] A Major Review of the judicial salary structure is currently being undertaken by the SSRB and a separate report, which will include a review of the annual pay award, will be published later in 2018. Executive and Senior Managers in the NHS have been temporarily removed from the SSRB's remit at our suggestion (see Chapter 6). The Police Remuneration Review Body has been asked by the government to consider Chief police officers this year, instead of the SSRB.

1.15 There is a strong rationale for having a separate independent body to address senior public sector pay:

- It provides reassurance that senior remuneration is being reviewed by a body which focusses on issues of particular relevance to the top public-sector roles. These include recruitment, retention, diversity, pensions, taxation and the benefits, pressures and accountabilities that come with holding senior positions.
- It enables government and departmental ministers to get early warning from an objective and independent source of problem areas and potential risks. At times, it can also give the government reassurance that things may not be as bad as some voices might suggest.
- The existence of a separate body is consistent with the approach taken by large private sector organisations where an executive remuneration committee or similar body is responsible for reviewing senior pay.
- Considering senior pay across a number of public sector groups facilitates the transfer of best practice and enables comparability across these roles to be considered.

1.16 Historically, the government's main expectation of the SSRB, and the SSRB's main focus, has been the production of annual recommendations on increases in basic pay. However, over the last few years the SSRB has been encouraging a more strategic approach. We are of the view that pay decisions should not be made on an isolated annual basis, even in a period of restraint. We believe that annual pay settlements need to be considered by employers in the context of long-term objectives, their future operating model and the reward and workforce strategies required to support them. Annual changes can then be used as incremental steps along the path towards the long-term vision.

1.17 For the last two years, the SSRB has identified areas where departments need to take strategic action in respect of reward for their senior workforces. These actions are intended to help departments move beyond some of their self-imposed constraints and ensure that the SSRB receives the evidence needed to offer sound advice. The SSRB has strongly encouraged proposals to be put to us which use pay and reward as a vehicle for genuine reform.

1.18 While the SSRB's approach has been generally welcomed by government, progress against our strategic priorities has been disappointing. Areas of concern include the quality of pay and workforce strategies; too much focus on managing basic pay increases rather than outcomes; the lack of key management data in many areas; and many unresolved tensions between central and devolved control of pay, especially for the SCS and NHS Executive Senior Managers, (ESMS).

1.19 It is also of some concern that the SSRB's remit group coverage has been curtailed this year. Chief police officers are defined by statute as within the remit of the SSRB. However, responsibility for this workforce has been temporarily passed to the Police Remuneration Review Body, on the basis that it would enable the development of, and transition to, a new pay structure for the police. In practice, we understand that this review has not yet commenced and that there is little prospect of it delivering change in the near future. In addition, we are not reviewing ESMs in the Department of Health's Arms' Length Bodies this year. This latter change was at our own request, as we did not believe that trying to advise on this remit group as currently constituted was either practical or sensible. We understand that a scoping exercise is taking place on whether to expand the SSRB's remit to include Very Senior Managers in the wider NHS.

1.20 The SSRB believes that we could be put to more effective use by the government. We are of the view that a strategic approach to senior public-sector pay is essential if government is to make progress on its overarching goals of improving public services efficiently and sustainably. We remain very willing to offer advice on these matters, alongside our annual recommendations on pay and reward for the different workforces within our remit groups.

1.21 From the SSRB's perspective, a particular barrier is that its own cross-cutting set of responsibilities is not mirrored within government. There is no single Minister or administrative machinery that facilitates government-wide consideration of the sort of strategic objectives that the SSRB has been advocating. This means that decisions on senior public sector pay questions often get taken in isolation from each other, without a sense of their wider impact.

1.22 We are also of the view that we can add significant value by undertaking periodic detailed reviews of reward structures. A good example of this is the Major Review of the judicial salary structure that the MoJ has asked the SSRB to carry out.

1.23 Whilst we note the general approval of the SSRB's efforts over recent years, we feel we could deliver considerably more value if central government were to:

- underline the importance of pursuing a more strategic approach to pay and reward and encourage departments to embrace this;
- make a senior Minister responsible for providing clear central oversight of senior pay policy across government. Such a Minister would be the natural interface for SSRB thinking on the strategic aspects of senior pay, while departmental ministers retained oversight of their own particular workforces;
- encourage the use of the SSRB for periodic wide-ranging strategic reviews of senior pay related issues.

1.24 In conclusion, we believe that a much more strategic approach to senior reward in the public sector is necessary. The breadth of the SSRB's experience and the remit groups we cover provide a valuable source of expertise and advice. This should go beyond making annual pay recommendations. A single ministerial lead on senior public sector pay mirroring the Review Body's span of responsibility is needed. All this could enable government to secure even better value from the Review Body's expertise and independent voice.

The SSRB's strategic priorities

1.25 Our strategic priorities were set out in the 2016 report and remit groups were assessed against them in the 2017 report. The priorities are reiterated at the front of this report. They were intended to promote the development of effective workforce strategies, to help government move beyond some of its self-imposed constraints and to ensure that we receive the evidence needed to offer sound advice. A summary of their status for each of the SSRB's remit groups covered in this report is provided in table 1.1 at the end of this chapter.[8] Because the PCC workforce is elected, only some of the principles can be applied to that group.

Total reward

1.26 In making pay recommendations, the SSRB needs to consider a range of factors alongside basic pay and bonuses, including pensions, relative job security and the value of benefits in kind. It is beyond our remit to make recommendations on taxation or pensions policy but, where overall remuneration affects the recruitment, retention and motivation of public sector workers, it is a matter of concern to us.

[8] The assessment of the judiciary against the strategic priorities will be covered in the report on the Major Review of the judicial salary structure.

1.27 Many of our remit group members moved to new pension schemes from 2015. The new schemes base the pension on average salary earned over a career, rather than final salary as previously. However, they remain as defined benefit schemes, which now barely exist for new entrants in the private sector.

1.28 The 2015 pension changes affected public sector staff at all levels. However, changes over recent years to pension taxation have specifically impacted on senior employees in both the public and private sectors. The changes mean that more senior people are exceeding annual and lifetime pension tax thresholds. For many members of our remit groups, pensions and their taxation are currently a matter of greater concern than changes to base pay. Of the groups we are reviewing in this report, pension taxation is a particular concern for the senior military, although it also affects the most senior members of the SCS. Additionally, it is a matter of widespread concern among the judiciary, and our forthcoming Major Review of the judicial salary structure will consider the impacts on that group in detail.

1.29 Members of our remit groups lack the flexibilities to exchange pension contributions for higher pay that exist in some roles in the private sector and, to an extent, in the Local Government Pension Scheme. In last year's report, we again encouraged the government to consider the issue of pension flexibility for public sector workers. We set out three broad options that we believe merit consideration. The first was trading off pension benefits for lower contributions, thus lowering tax liabilities. The second was changing the focus of reward packages for senior people away from pensions and more towards pay, as can happen in the private sector. The third option was to offer voluntary enrolment into defined contribution schemes.

1.30 As discussed in Chapter 3, there has been some progress in terms of making the third of the above options available to members of the SCS. However, there has been no progress elsewhere. These issues therefore remain a source of significant concern and are discussed further in individual remit group chapters.

Pay and workforce strategy

1.31 Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.

1.32 In the remit groups considered in this report:

- The Cabinet Office has set out its vision for the SCS and linked its proposals for 2018-19 to its longer-term objectives, although considerable work remains to be done to translate this work into a complete long-term strategy.
- The MoD has a relatively clear view of the senior military workforce needed and has a plan to deliver it.
- The Home Office does not appear to have a clear strategic plan for PCCs.

Focus on outcomes

1.33 There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board. We are disappointed that for the second consecutive year, no specific proposals or plans have been received. The Cabinet Office has indicated that it wants to look at how productivity gains can be made as part of the ongoing review of the SCS pay framework and we look forward to hearing more details on this over the next year.

Performance management and pay

1.34 There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure, career development and action in relation to poor performers. Last year, we said that current pay models needed to be reviewed to ensure that they sufficiently incentivised good performance.

1.35 Although the Cabinet Office has put forward proposals for further in-year recognition for the SCS, there remains a widespread lack of confidence in the performance management system and an urgent review is needed.

Action on poor performance

1.36 Only limited evidence is provided on the performance of the members of our remit groups. We believe there should be further analysis and disclosure on performance, where value is being added and how action is being taken where it is not. There is little evidence that a concerted attempt is being made to identify and address poor performance where it may exist.

Better data

1.37 Better decision making requires better data, particularly in respect of recruitment, retention and attrition. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.

1.38 This year, we particularly focussed on those leaving the remit groups and how to improve the collection of data on those resigning from the SCS and senior military. There have been some improvements in the quality and breadth of data we have received on this issue this year, but we have also identified areas where further improvement is required. This is discussed further in later chapters.

Feeder groups

1.39 The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems, as is recognised by the MoD for the senior military.

Targeting

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

1.41 The MoD remains opposed to targeted pay for the senior military as it does not believe that this is the most appropriate way to reward this group. As a result, we received no targeting proposals to comment on. The Home Office did not offer any such propositions for PCCs. For the SCS, the Cabinet Office has put forward proposals for a new framework which seeks to provide consistency across departments, whilst retaining departmental flexibility to target funding to where it will be of greatest benefit. However, the current design of the performance management system limits the scope for targeting pay satisfactorily according to performance. The Cabinet Office has indicated that it will consider, as part of its wider review, whether regional differentiation in pay is required to address specific retention and recruitment issues in certain geographical areas.

Central versus devolved tensions

1.42 Tensions in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.

1.43 There is no sense of a planned and coordinated government approach to this issue. There is significant ambiguity regarding the division of accountability between the Home Office, chief constables and PCCs. Judicial pay is set according to a patchwork of reserved and devolved arrangements. The Department of Health is yet to decide what will replace the previous incoherent approach to the pay of NHS senior managers. For the SCS, the Cabinet Office believes that clearer rules and control on how people move through and around the SCS pay system are needed. It seeks to exercise control by restricting pay increases arising out of internal movement but there is a risk that departments, which retain significant delegated control over pay, will circumvent it. It is not clear whether the government wants a centralised management of the workforce, delegation to departments or a specified balance between the two.

Diversity

1.44 The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible. Generally, progress on these issues among our remit groups has been very slow, although this in part reflects the composition of the feeder groups they draw from. Looking across the SSRB's remit groups, the position on gender diversity, although still not representative, is generally more positive than on Black, Asian and Minority Ethnic (BAME) diversity. On disability, we have only received figures for the SCS, which are lower than for the wider population.

The Senior Civil Service

1.45 In previous years, we have identified a number of weaknesses with the SCS pay framework. These have included:

- An effective freezing of the pay of members of the remit group at a particular point within the pay range, regardless of skills, experience or performance.
- Significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below.
- A lack of confidence in the performance management system, particularly the forced distribution ratings.
- A resulting disconnect between pay on the one hand and seniority, performance and contribution on the other, which has not represented efficient or effective use of the pay budget.

1.46 We have also highlighted:

- Weaknesses in pay proposals in recent years which have not been designed to support a workforce strategy. There has been too much fixation on limiting basic pay increases across the board and too little attention to maximising outcomes for lowest cost.
- Tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. The current arrangements are leading to widespread inconsistencies.

Government proposals for reform

1.47 In our 2017 report, we recommended that the government undertake a fundamental review of the SCS pay system which should take into account our overarching strategic conclusions as detailed earlier in this chapter. In particular, we emphasised that the government should develop more innovative approaches to pay.

1.48 The government accepted this recommendation. Work on the SCS pay framework was conducted during 2017 and identified weaknesses which aligned with those previously identified by the SSRB. The FDA and Prospect, although not engaged in the review, also concurred with this analysis. Following this work, the government has put forward a number of proposals this year. These proposals are designed to support a move towards a future pay framework which forms part of the government's overall vision for a future SCS workforce. They were shared with the SSRB only shortly before being finalised. We believe we could have made a more meaningful contribution had we been engaged earlier in the process.

The SSRB's views on government proposals

1.49 The SSRB welcomes the government's intent to undertake reform of the SCS pay structure, and to develop a long-term vision for the SCS. We acknowledge that this work is taking place in a challenging political and economic climate, where the whole civil service faces high levels of workload and pressure. The number of people joining the SCS has been growing since 2012, and half of the SCS now have less than four years' experience at this level. These changes underscore the importance of thinking strategically about what the government wants from its senior civil service and what pay arrangements will support its vision.

1.50 In general, while welcoming the direction of travel, we do not believe the review has so far been sufficiently strategic in its reach. Whilst some of the proposals provide a good foundation for a reformed SCS pay structure, others do not go far enough.

1.51 Our remit requires us to advise on the pay of the SCS as a single cadre. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. The government needs to determine, and clearly articulate, the system that it wants, whether that be a centralised management of the workforce, delegation to departments or a specified balance between the two. It then needs to ensure that mechanisms are in place to manage it, that the rules are communicated and understood, and that there is accountability for them. If a significantly decentralised route is taken, the government will need to carefully consider how the SSRB can best play an effective role in advising on SCS pay.

1.52 Considering the specific government proposals that have been made:

- We support the proposal to raise the minima for all pay bands. For pay band 1, this has the potential to reduce the significant overlap with the non-SCS grades immediately below it.
- We agree with the proposal for pay ranges based on professional groupings, although we note that clear guidelines and principles will be needed to ensure they are workable and fair; we would be happy to work with the government in developing more detailed proposals.
- We have doubts about the application of the proposal to restrict pay increases on internal lateral moves and promotions. There would certainly be advantages in encouraging most SCS members to stay longer in their posts and develop greater specialist expertise. However, restricting pay increases on internal movement is likely to result in at least some reduction in the number of internal applicants, a rise in the numbers of external, more expensive appointments, and potentially an increase in members leaving the SCS to seek higher salaries elsewhere.
- We consider that some of the issues with the SCS pay framework would be better tackled by offering meaningful pay progression. **A credible salary progression model within the new pay ranges is an urgent priority.**

- We are disappointed that the government has not yet brought forward proposals to address the deep and long-standing lack of confidence in the current performance management arrangements. **A fundamental review of the performance management system is overdue.**

Pay recommendations for the SCS 2018-19

1.53 Data for the remit and feeder groups does not suggest there are any immediate issues with recruitment and retention, either amongst the remit group or the feeder grades, except in some specialist areas. However, there is clear evidence that the pay system is not working effectively. The government's proposed restrictions on SCS members moving departments in order to secure higher pay imply that, at present, some of the SCS are motivated to do just that, because of inadequate pay progression in their current role.

1.54 We also note the generally improved picture for pay growth in the private sector, as detailed in Chapter 2. This may make external roles more attractive to SCS members and create recruitment and retention pressures, particularly amongst those staff whose skills are most transferable to outside the civil service.

1.55 We believe that a 2.5 per cent increase in pay budgets is justified. The first 1 per cent should be an across the board consolidated pay award for all SCS members, other than those subject to performance improvement measures. The next 0.25 per cent should be used to raise the minima for all pay bands. A final 1.25 per cent should be used to address anomalies, including rewarding those with sustained high performance and who have increased their effectiveness and deepened their expertise. This should apply, in particular, where staff are relatively low in their pay range and have not seen significant pay rises in recent years. Those SCS members who are subject to current performance improvement measures should not receive any increase in pay. Therefore, the above pay recommendations should not be applied to these staff until they have exited such measures.[9]

1.56 However, we do not wish to see a continuance of the inconsistent application of awards that has previously occurred. The Cabinet Office should, therefore, put in place a monitoring system to ensure that these pay awards have been fairly and appropriately distributed by departments in accordance with the principles we have recommended. We would like to see evidence on the application of these awards next year.

1.57 Overall, we welcome the intention shown by the Cabinet Office to start reform of the SCS pay framework. However, there is a long way to go. We encourage the government not to lose momentum or focus and we look forward to receiving more developed proposals in the forthcoming year on the development of the new framework.

Senior Officers in the Armed Forces

1.58 At present, recruitment to and retention of the senior military remains at satisfactory levels. The senior military continues to attract sufficient numbers of personnel from the feeder group and there is no evidence to suggest a decline in the quality of these individuals.

1.59 However, we stress again this year that the situation in the feeder group needs to be kept under careful review. Although voluntary outflow rates in the OF4 and OF5 ranks have fallen over the last year, the numbers in the OF6 rank choosing to leave the Armed Forces has increased. There is anecdotal evidence to suggest that increasing workloads, reducing promotion opportunities and changes to pension taxation are causing more individuals

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[9] SCS members who have received a "low" performance box marking, but who are not subject to performance improvement measures are not excluded from these recommendations, meaning that Recommendations 1, 2 and 3 would apply to them. However, it is not expected that Recommendation 4 would apply to them.

in the feeder group to consider whether or not they want to serve for a full career. The MoD reported that senior management is now spending significantly more time on career counselling people in this group.

1.60 We share the MoD's concern that members of the remit group and the feeder group perceive that the military offer is becoming less attractive in comparison to equivalent roles in the civilian sector. This presents an ongoing risk to the Services being able to attract and retain sufficient numbers of high quality individuals required to fill the most senior ranks in the military.

1.61 We understand the argument for broad comparability with the pay award recommended by the Armed Forces Pay Review Body (AFPRB) this year. We acknowledge the importance of an across the board award in maintaining morale and ensuring that all members of the senior military are seen as being valued. We note that there are signs of increasing discontent within the group, driven in part by the pension taxation changes. Some concern also remains about the adequacy of incentives for the best members of the feeder group to continue to seek progression in the future. All that said, the fact remains that the senior military, unlike some other cadres within the Armed Forces, is not currently experiencing problems with recruitment or retention and overall morale is high.

1.62 The above considerations lead us to recommend an across the board consolidated pay award of 2.5 per cent for all members of the senior military.

Police and Crime Commissioners

1.63 The role of a police and crime commissioner (PCC) appears both larger and more complex than many anticipated when the first PCCs were elected in 2012. It has evolved and continues to do so. New statutory functions, for example the commissioning of local victims' services, have impacted on the role and workload. The effect of other legislative changes, in particular in relation to the governance of fire and rescue services, cannot be fully assessed at this stage but could also be significant.

1.64 There is no lack of candidates for these roles, for which elections are held every four years. However, a high number of willing applicants for the role does not necessarily mean there is a secure or diverse supply of quality candidates. This risk is heightened in the current context where the purpose and function of the PCC role is still maturing. Individual PCCs are granted significant powers and largely left to work out for themselves how to exercise them. We believe that pay levels should reflect the quality of candidates that need to be attracted to an important role of this nature.

1.65 Although there are some common core responsibilities within the PCC role, other aspects differ in scale depending on the size of the police force area. There therefore remains a strong rationale to retain pay differentiation across different police force areas. However, for such a small and non-hierarchical workforce, the current structure of five pay levels is unnecessarily complex. We believe that a more streamlined structure, with no more than three pay levels, would be more suitable. However, we have received neither propositions nor evidence that would allow us to recommend precisely what shape the new structure should take. We urge the Home Office to consider a reduction in the number of levels as part of the next PCC pay review.

1.66 PCC salaries have been unchanged since the role was created. We consider that, after six years, an increase in pay is justified. This is primarily to properly recognise the weight of the PCC role and to help ensure that high quality candidates are attracted to it in the future. It will also help to realign PCC pay with that of other senior public sector workers, and will partly compensate PCCs for increases in the cost of living.

1.67 In addition, whilst we retain the view that being a PCC in a larger and more complex police area does justify a higher level of reward, the core responsibilities which are part of every PCC role suggest the current levels of pay differentiation are too wide. We therefore recommend that each of the bottom four pay levels should be uplifted by an identical cash amount of £5,000. We do not recommend change in pay for the top band, which will remain significantly higher.

1.68 Although it is too early to assess the impact of bringing fire and rescue governance into the PCC role, we believe that this will be a significant duty to undertake. Whilst we would not wish to see PCCs seeking these responsibilities simply in order to secure more pay, the added responsibility should be given some recognition in the pay structure. We therefore recommend an additional consolidated pay uplift of £3,000 for those PCCs that take on responsibility for fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.

1.69 This is a small remit group, with a limited evidence base on which to make annual uplifts in the pay award. We do not think it necessary or proportionate to conduct a full review of the pay of this remit group every year and recommend a review in 2020-21 to fully assess the impact of fire and rescue governance. This should be preceded by an automatic uprating of pay in 2019-20. Because of the nature of the role, we believe pay increases should be aligned with those in local government. Pending the next formal review, we therefore recommend that PCC salaries are increased in line with pay awards for local authority staff. Given the current two-year local authority pay settlement, this implies a pay increase of 2 per cent from 1 May 2019. This link should continue to be applied annually to PCC pay increases until the next formal review of PCC pay. Subsequent reviews should then be conducted every four years.

1.70 Whilst we understand the role of a PCC is unique, a number of our strategic priorities for senior workforces still apply. It is evident that the Home Office has no clear workforce strategy for PCCs and that it has limited engagement with them. We would encourage the Home Office and the Association of Police and Crime Commissioners (APCC) to have a more active and constructive dialogue in order to address areas of concern. During our current review, PCCs have expressed, for example, concern about the reimbursement of expenses they incur and a request to have a loss of office payment introduced. Both of these issues could have been raised and potentially resolved without recourse to the SSRB. We therefore propose that, following liaison with the APCC, the Home Office conducts a review of the rules and guidance relating to expenses incurred by PCCs, while undertaking their duties. We also recommend the introduction of a loss of office payment for PCCs, using the arrangements for MPs as guidance.

Other SSRB remit groups

1.71 Three groups mentioned within our current Terms of Reference are not reviewed in this report.

1.72 The government accepted the SSRB's 2017 recommendation to develop a coherent proposition on how best to set the pay of ESMs in the Department of Health's Arm's Length Bodies. It agreed with our recommendation that ESMs are removed temporarily from our remit. We understand that a scoping exercise is being undertaken to consider whether the SSRB's remit should be extended to cover Very Senior Managers (VSMs) in the wider NHS. An update on the position is provided in Chapter 6.

1.73 The Home Office advised the SSRB that, for the 2018-19 and 2019-20 pay rounds, a single evidence submission would be made for all police ranks and consideration of chief police officer pay for this period would therefore be considered by the Police Remuneration Review Body. The rationale for this was to enable the development of, and transition to, a new pay structure for the police. However, we understand that this review has not yet commenced and that there is little prospect of it delivering change in the near future. **We therefore suggest that the remit should be restored to the SSRB for 2019-20 to enable the remit group to be considered alongside other senior public-sector workers.**

1.74 A Major Review of the judicial salary structure is currently being undertaken by the SSRB and a separate report, which will include a review of the annual pay award, will be published later in 2018.

Timing of future reviews

1.75 We are grateful for the written evidence submitted to us this year and understand that the late submission of it was due to the decision to move the autumn budget. The SSRB is not willing to compromise on the quality of its advice. In order to avoid delays to remit groups being awarded pay rises, we request that all departments submit robust evidence in a timely fashion in future years.

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

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

SSRB priority in 2017 report	Assessment of position in 2018		
	Senior Civil Service	**Senior Officers in the Armed Forces**	**Police and Crime Commissioners[3]**
Pay and workforce strategy: Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Cabinet Office has conducted an initial review of the pay framework and linked its proposals for 2018 to its future vision. However, considerable further progress is required. ↑	A plan exists for the future size and structure of the workforce, which is linked to strategic priorities. However, the SSRB's strategic priorities were not addressed in the evidence provided. ↓	No clear workforce strategy.
Focus on outcomes: There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	Some proposals to make savings from operating more consistent pay policies. However, detailed costings were not provided and there is concern about the ability to generate savings. ↑	No proposals were made in respect to taking new action over pay. However, we recognise that this is a small group with limited scope to produce flexible pay proposals. ↔	n/a No scope for workforce reconfiguration.

SSRB priority in 2017 report	Assessment of position in 2018		
	Senior Civil Service	**Senior Officers in the Armed Forces**	**Police and Crime Commissioners**[3]
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	The proposals put more emphasis on rewarding high performers but there is little evidence on how poor performance is being identified or addressed. ↔	May not be an issue but no evidence presented. ↔	n/a Directly elected role.
Performance management and pay: There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	Established performance management system, but not trusted by staff. Increase in use of in-year awards. Commitment to review in 2018. ↔	May not be an issue but no evidence presented. ↔	n/a No career structure and accountability is to the electorate rather than an employer.
Better data: Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good and improved workforce data. Better exit interview data is required. ↔	Good basic workforce data, but needs to respond to emerging data needs. Better exit interview data and more detailed analysis of whether the feeder group is sufficient to meet future needs is required. ↔	Some data was provided but it remains difficult to make robust evidence-based pay recommendations for this group.
Feeder groups: The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Some data on motivation and pay of feeder group provided. Further work required. No evidence of major concerns. ↔	Further analysis of data on the feeder group presented this year. However, there is growing concern around future retention, in particular as a result of pension taxation. The situation needs to be kept under review. ↔	n/a Elected body: not possible to identify or target the feeder group.

SSRB priority in 2017 report	Assessment of position in 2018		
	Senior Civil Service	**Senior Officers in the Armed Forces**	**Police and Crime Commissioners[3]**
Targeting: Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	The new framework seeks to provide consistency across departments whilst retaining departmental flexibility to target. However, the current system limits scope for strategic targeting of awards. ↑	Targeting consistently argued to be inappropriate for this group. Whilst there is an argument for this, it leads to a highly rigid pay system over the long term. ↔	The current system differentiates pay in relation to the size of the police force. No new propositions for targeting were made.
Central versus devolved tensions: Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	Tension between central and departmental control not resolved by new proposals. ↔	No evidence that such tensions exist. ↔	No management of PCCs by central government. Significant ambiguity regarding division of accountability between the Home Office, chief constables and PCCs.
Diversity: The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Relatively improved performance on gender but still not satisfactory. ↔ Despite increases in numbers, still poor on ethnicity, in particular in relation to Permanent Secretaries. ↓	Positive steps and considerable efforts are being made to improve the diversity profile of the Armed Forces as a whole. However, in an organisation like the Armed Forces which promotes from within, it will take some time before significant improvements in the diversity profile feed through. ↔	n/a Few initiatives to improve diversity. However, limited exercisable control due to party political control of many of the candidates who are elected by the public.

Notes:

1 The SSRB was asked not to conduct an annual review of Executive and Senior Managers in Arm's Length Bodies. The judiciary will be covered in a separate report.

2 All the SSRB's strategic priorities are set out in box 1.1. The focus of the first strategic priority, total reward, is for the SSRB rather than evidence providers to consider. It is therefore not included in this table.

3 Police and crime commissioners pay was not reviewed in 2017 and, therefore, no assessment on trajectory is provided.

Chapter 2

Economic context

Summary

2.1 The UK economy grew by an estimated 1.8 per cent in 2017, ahead of the Office for Budgetary Responsibility (OBR) forecast that was available to us at the time of our last report. Growth in gross domestic product (GDP) is forecast to be 1.4 to 1.5 per cent in 2018. The uncertainties over the outcomes of Brexit are increasing the range of economic growth forecasts.

2.2 The labour market continues to exhibit strong growth, particularly for full-time employees. Labour market growth is expected to slow, and employment rates to stabilise, in 2018.

2.3 Average earnings growth was modest in 2017, at 2.4 per cent over the year, and real wage growth was negative, at -0.2 per cent over 2017.[10] Looking over the longer-term, real average earnings across the whole economy have fallen by 4.7 per cent in the decade to quarter 1 2018, with both public and private sectors significantly affected. However, the data for 2018 so far show a pick-up in both average earnings growth and pay settlements.

2.4 Earnings growth at the top end of the earnings distribution was slightly higher than at the middle in 2017. Earnings growth for full-time employees was 2.2 per cent at the median, 3.2 per cent at the 90th percentile, and 2.6 per cent at the 95th percentile in the year to April 2017, according to the Annual Survey of Hours and Earnings.

2.5 Pay and pensions are but two factors determining why people work in our remit groups. Others include a sense of public service, relative security of employment and, in some cases, a more flexible approach to work. That said, as noted in our previous reports, the base pay of those in our remit groups has been frozen or restricted since 2011, resulting in reductions in real take-home pay of almost a quarter for some groups. Public sector pensions, although still relatively generous, have also become less valuable over this period.

The economy and labour market[11]

Economic growth

2.6 The UK economy grew by an estimated 1.8 per cent in 2017. Economic growth has averaged 2.0 per cent a year since 2010, while growth in the decade leading up to the 2008-09 recession averaged 2.9 per cent a year. In March 2018, the OBR expected growth of 1.5 per cent in 2018, slowing to 1.3 per cent in 2019, then picking up slowly over the subsequent three years. In its May 2018 Inflation Report, the Bank of England revised down its forecast for 2018 GDP growth from 1.8 to 1.4 per cent, in the light of the weak figures for the first quarter of the year. It then projected GDP growth of 1.7 per cent in 2019 and 2020. The uncertainties over the outcomes of Brexit are increasing the range of economic growth forecasts.

[10] Wages are adjusted to real terms using CPIH, which is the main price inflation measure used by the ONS. However, alternative inflation measures remain in common use and are therefore cited at some points in this chapter.

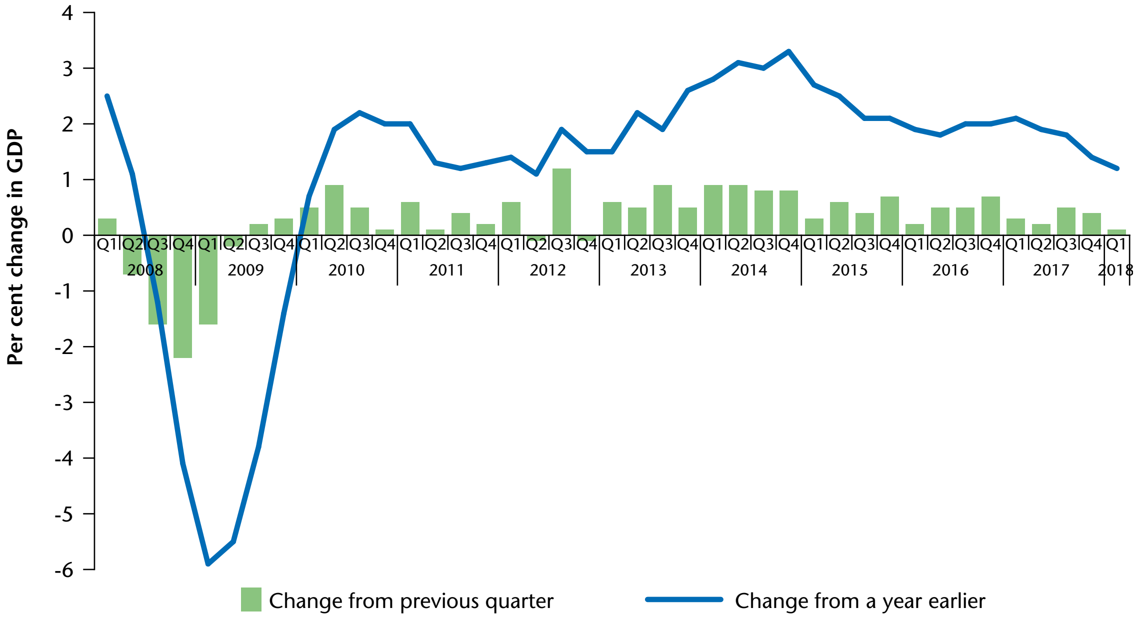
[11] This chapter takes into account official data published up to the end of May 2018.

Table 2.1: **GDP forecasts, year on year growth**

	Office for Budgetary Responsibility %	Bank of England central projection %	Treasury independent median %
	March 2018	May 2018	May 2018
2018	1.5	1.4	1.4
2019	1.3	1.7	1.6
2020	1.3	1.7	1.7
2021	1.4	-	1.8
2022	1.5	-	1.8

Source: Bank of England Inflation Report, May 2018; OBR, Economic and fiscal outlook, March 2018; HM Treasury, Forecasts for the UK economy, May 2018.

Figure 2.1: **Gross Domestic Product growth, UK, 2008 Q1 to 2018 Q1**

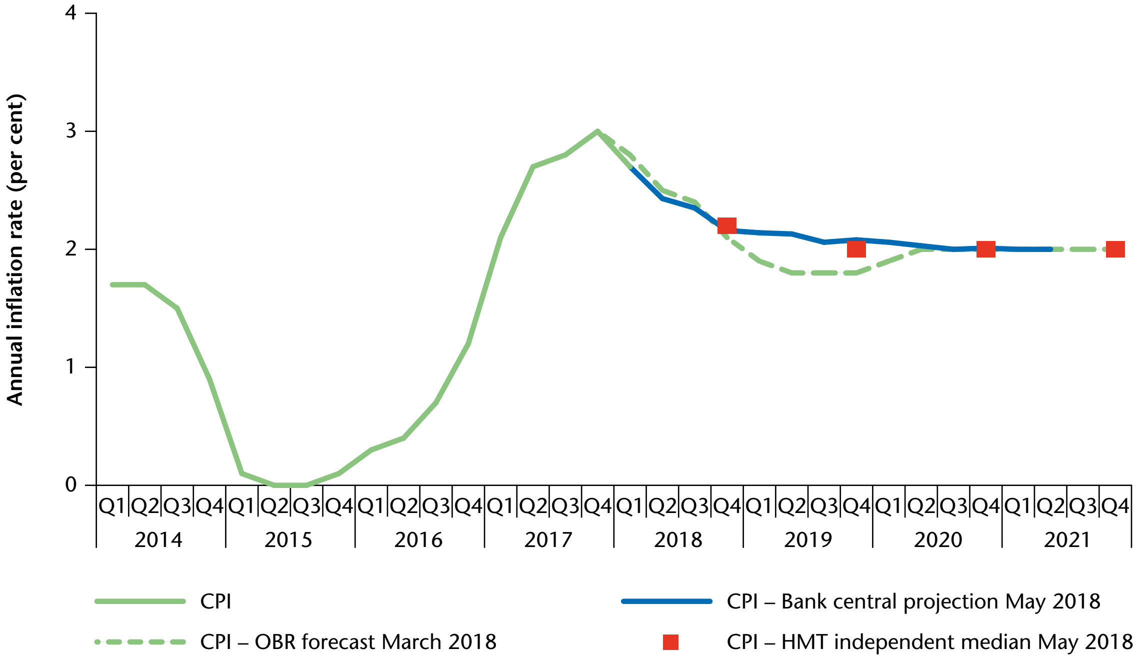


Source: ONS, gross domestic product, quarter-on-quarter growth (IHYQ); four-quarter growth (IHYR), seasonally adjusted, UK, Q1 2008 to Q1 2018.

Inflation

2.7 The consumer prices index (CPI) rate of inflation fell to 2.4 per cent in April 2018, having been above this rate for the previous 12 months. CPIH inflation[12] was at 2.2 per cent and retail prices index (RPI) inflation was at 3.4 per cent in April 2018. Forecasts suggest that inflation will fall a little further during 2018, towards 2.0 per cent for the CPI rate, as the food and fuel price rises of a year earlier fall out of the 12-month index, and the effect on inflation of the strong depreciation in sterling since 2016 wanes.

Figure 2.2: **CPI annual growth rate and forecasts, UK, 2014 to 2021**



Source: ONS, consumer prices index, 12-month growth (D7G7), quarterly, not seasonally adjusted, UK, Q1 2014 to Q1 2018; Bank of England, Inflation Report, May 2018; OBR, Economic and fiscal outlook, March 2018; HM Treasury, Forecasts for the UK economy, May 2018.

Table 2.2: **Inflation forecasts**

	Office for Budgetary Responsibility %		**Bank of England central projection %**	**Treasury independent median %**	
	March 2018		May 2018	May 2018*	
	CPI	**RPI**	**CPI**	**CPI**	**RPI**
2018 Q4	2.1	3.3	2.2	2.2	3.1
2019 Q4	1.8	2.9	2.1	2.0	3.0
2020 Q4	2.0	2.9	2.0	2.0	3.0
2021 Q4	2.0	2.9	-	2.0	3.2
2022 Q4	2.0	3.0	-	2.0	3.3

*2020 to 2022 are annual averages (rather than Q4).

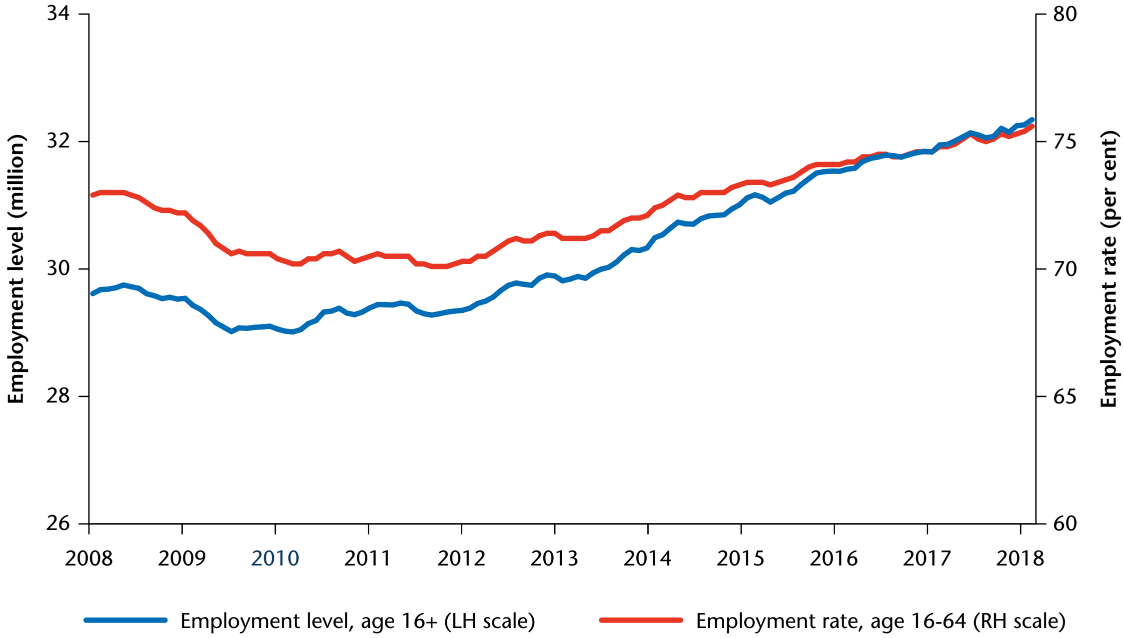
Source: Bank of England Inflation Report, May 2018; OBR, Economic and fiscal outlook, March 2018; HM Treasury, Forecasts for the UK economy, May 2018.

[12] CPIH (H for housing) is based on the CPI measure, but also includes owner occupiers' housing costs and council tax. While CPIH is a more comprehensive measure of inflation, it is not currently forecast by the OBR or the Bank of England.

The labour market

2.8 Employment has grown by more than 3 million over the last eight years (since the low point in the first quarter of 2010), to reach 32.3 million in the first quarter of 2018 (see figure 2.3). The employment rate has also increased steadily over the last five years: it now stands at 75.6 per cent, the highest since comparable records began in 1971. The past year has seen particularly strong growth in the number of full-time employees, of 406,000 in the year to March 2018 (2.0 per cent growth) while the number of part-time employees grew by 73,000 (1.1 per cent). Self employment fell by 38,000 (0.8 per cent) over the year.

Figure 2.3: **Total employment, UK, 2008 to 2018**



Source: ONS, number of people in employment aged 16 and over (MGRZ); employment rate, aged 16 to 64 (LF24), seasonally adjusted, UK, November to January 2008 to January to March 2018.

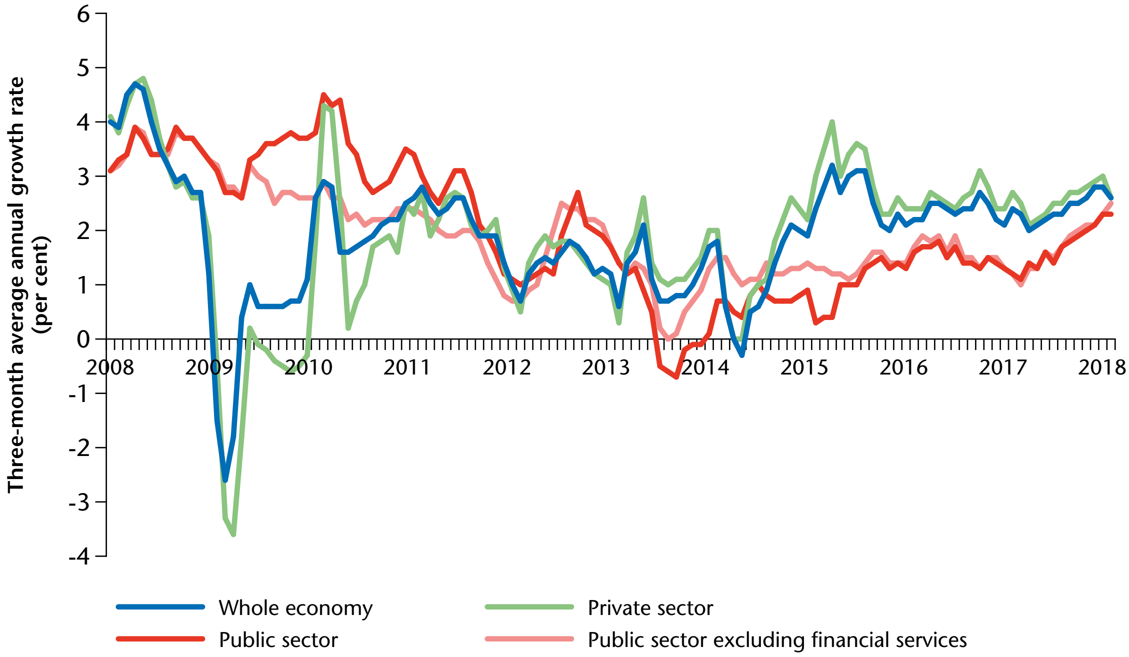
2.9 The OBR expects employment growth to slow over the next four years from the strong rates seen in much of the post-recession period. This reflects its view that unemployment is currently just below its sustainable rate and that the ageing of the population will place downward pressure on the overall participation rate.

2.10 The OBR forecasts a 0.4 million rise in employment over the next four years, to reach 32.7 million in 2022, which comes entirely from population growth over the period, as participation rates are expected to fall slightly over this period. It also expects self employment to continue its longer-term rise.

Average earnings growth and pay settlements

2.11 Whole economy average earnings growth was 2.6 per cent in the three months to March 2018, up from the 2.4 per cent seen on average in 2017 (see figure 2.4). Regular average earnings growth (i.e. excluding bonus payments) was 2.9 per cent, its highest since July 2015. Private sector (total) average earnings growth was 2.6 per cent in the first quarter of 2018, while public sector average earnings growth (excluding financial services) was 2.5 per cent, the joint highest (with August 2012) since May 2010.

Figure 2.4: **Average weekly earnings growth (total pay), three-month average, GB, 2008 to 2018**



Source: ONS, average weekly earnings annual three-month average change in total pay for the whole economy (KAC3); private sector (KAC6); public sector (KAC9); public sector excluding financial services (KAE2); monthly, seasonally adjusted, GB, January 2008 to March 2018.

2.12 The higher average earnings growth meant that real average earnings growth (adjusted for CPIH), became positive in the three months to February 2018, at 0.2 per cent, for the first time in 11 months. Looking over the longer term, real average earnings across the whole economy have fallen by 4.7 per cent in the decade to quarter 1 2018.

2.13 The OBR expects wage growth to pick up in the short term, to 2.7 per cent in 2018, partly on the basis of early indications of stronger growth in pay settlements. Real earnings growth over the next five years is expected to remain subdued, however, averaging just 0.7 per cent a year. The Bank of England expects wage growth to pick up in 2019 and 2020, to above 3 per cent (see table 2.3). Its Agents' annual pay survey forecast an average private sector pay settlement of 3.1 per cent in 2018, half a percentage point higher than in 2017.

Table 2.3: **Average earnings growth forecasts**

	Office for Budgetary Responsibility %	**Bank of England indicative projection %**	**Treasury independent median %**
	March 2018	May 2018	May 2018
2018	2.7	2.75	2.7
2019	2.4	3.25	2.9
2020	2.5	3.5	3.2
2021	2.8	-	3.2
2022	3.0	-	3.2

Source: Bank of England Inflation Report, May 2018; OBR, Economic and fiscal outlook, March 2018; HM Treasury, Forecasts for the UK economy, May 2018.

2.14 Pay settlements picked up at the start of 2018, having recorded a median of 2.0 per cent across 2017. XpertHR and Incomes Data Research (IDR) both recorded a median settlement of 2.5 per cent in the three months to March 2018, while Labour Research Department (LRD) saw a median pay award of 3.0 per cent. A survey from XpertHR, published in March 2018, indicated that the median predicted private sector pay award, over the 12 months to February 2019, was 2.5 per cent.

Public and private sector senior remuneration

2.15 As noted in our previous reports, the base pay of those in our remit groups has been frozen or restricted since 2011, resulting in reductions in real take-home pay of almost a quarter for some groups.

2.16 In our last report, we considered different approaches to benchmarking remuneration for our remit groups against appropriate comparators. We note that any comparison necessarily does not compare like jobs with like, as many of our remit group roles are unique to the public sector. Notwithstanding this, market data from Korn Ferry Hay Group showed that base pay varied from less than 50 per cent of the private sector equivalent in some remit groups, to approximately 90 per cent in others.

2.17 Data from the ONS shows that in 2017 the remuneration[13] (including pensions) of private sector workers at the 98th percentile of the earnings distribution in large organisations[14] was 15.7 per cent ahead of public sector workers at the same point on the pay distribution. This gap has grown from 6.6 per cent in 2011.[15] Excluding pensions and salary sacrifice, this gap in 2017 was 19.7 per cent, up from 11.2 per cent in 2011. This is consistent with previous analysis undertaken for the Office of Manpower Economics by Towers Watson which showed that pension benefits for our remit groups remained generally more attractive than private sector comparators.[16]

Conclusions

2.18 GDP growth remains subdued compared to pre-crisis levels and the future economic picture is particularly uncertain, in part due to Brexit. We note that the government evidence on the affordability of public sector pay has not changed significantly since the time of our last report. Our remit groups are small enough not to have a significant direct impact upon government borrowing, although we recognise that pay in our remit groups should not rise significantly faster than in the private sector or economy at large unless there is a solid rationale for it doing so. While inflation is expected to fall back towards 2 per cent, we note that many in our remit groups have already seen a significant erosion in the real value of their remuneration packages over recent years, in common with many other public sector workers. We also need to make our recommendations in the context of an increasingly tight labour market, and upward pressures on pay across the economy.

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[13] Base pay and bonuses plus pensions and salary sacrifice.

[14] Over 500 employees.

[15] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/008543privateandpublicsectorwagedifferences2011to2017

[16] https://www.gov.uk/government/publications/comparative-pension-valuation-for-review-body-remit-groups

Chapter 3

The Senior Civil Service

Summary

3.1 In previous years, we have identified a number of weaknesses with the senior civil service (SCS) pay framework. These have included:

- An effective freezing of the pay of members of the remit group at a particular point within the pay range, regardless of skills, experience or performance.
- Significant pay overlaps between the bottom grade of the SCS and the non-SCS grades immediately below.
- A lack of confidence in the performance management system, particularly the forced distribution ratings.
- A resulting disconnect between pay on the one hand and seniority, performance and contribution on the other, which has not represented efficient or effective use of the pay budget.

3.2 We have also highlighted:

- Weaknesses in pay proposals in recent years which have not been designed to support a workforce strategy. There has been too much fixation on limiting basic pay increases across the board and too little attention to maximising outcomes for lowest cost.
- Tensions between the government having central oversight of the pay system and the delegation of responsibility to departments. The current arrangements are leading to widespread inconsistencies.

Government proposals for reform

3.3 In our 2017 report, we recommended that the government undertake a fundamental review of the SCS pay system which should take into account our overarching strategic conclusions as detailed in Chapter 1. In particular, we emphasised that the government should develop more innovative approaches to pay.

3.4 The government accepted this recommendation. Work on the SCS pay framework was conducted during 2017 and identified weaknesses which aligned with those previously identified by the SSRB. The FDA and Prospect, although not engaged in the review, also concurred with this analysis. Following this work, the government has put forward a number of proposals this year. These proposals are designed to support a move towards a future pay framework which forms part of the government's overall vision for a future SCS workforce. They were shared with the SSRB only shortly before being finalised. We believe we could have made a more meaningful contribution had we been engaged earlier in the process.

The SSRB's views on government proposals

3.5 The SSRB welcomes the government's intent to undertake reform of the SCS pay structure, and to develop a long-term vision for the SCS. We acknowledge that this work is taking place in a challenging political and economic climate, where the whole civil service faces high levels of workload and pressure. The number of people joining the SCS has been growing since 2012, and half of the SCS now have less than four years' experience at this level. These changes underscore the importance of thinking strategically about what the government wants from its senior civil service and what pay arrangements will support its vision.

3.6 In general, while welcoming the direction of travel, we do not believe the review has so far been sufficiently strategic in its reach. Whilst some of the proposals provide a good foundation for a reformed SCS pay structure, others do not go far enough.

3.7 Our remit requires us to advise on the pay of the SCS as a single cadre. We can see that giving greater freedom to departments to make awards, within an overall envelope, has some merits. However, we believe that it restricts the centre's capacity to resolve some of the acknowledged flaws in SCS pay arrangements. The government needs to determine, and clearly articulate, the system that it wants, whether that be a centralised management of the workforce, delegation to departments or a specified balance between the two. It then needs to ensure that mechanisms are in place to manage it, that the rules are communicated and understood, and that there is accountability for them. If a significantly decentralised route is taken, the government will need to carefully consider how the SSRB can best play an effective role in advising on SCS pay.

3.8 Considering the specific government proposals that have been made:

- We support the proposal to raise the minima for all pay bands. For pay band 1, this has the potential to reduce the significant overlap with the non-SCS grades immediately below it.
- We agree with the proposal for pay ranges based on professional groupings, although we note that clear guidelines and principles will be needed to ensure they are workable and fair; we would be happy to work with the government in developing more detailed proposals.
- We have doubts about the application of the proposal to restrict pay increases on internal lateral moves and promotions. There would certainly be advantages in encouraging most SCS members to stay longer in their posts and develop greater specialist expertise. However, restricting pay increases on internal movement is likely to result in at least some reduction in the number of internal applicants, a rise in the numbers of external, more expensive appointments and potentially an increase in members leaving the SCS to seek higher salaries elsewhere.
- We consider that some of the issues with the SCS pay framework would be better tackled by offering meaningful pay progression. **A credible salary progression model within the new pay ranges is an urgent priority.**
- We are disappointed that the government has not yet brought forward proposals to address the deep and long-standing lack of confidence in the current performance management arrangements. **A fundamental review of the performance management system is overdue.**

Pay recommendations for 2018-19

3.9 Data for the remit and feeder groups does not suggest there are any immediate issues with recruitment and retention, either amongst the remit group or the feeder grades, except in some specialist areas. However, there is clear evidence that the pay system is not working effectively. The government's proposed restrictions on SCS members moving departments in order to secure higher pay imply that, at present, some of the SCS are motivated to do just that, because of inadequate pay progression in their current role.

3.10 We also note the generally improved picture for pay growth in the private sector, as detailed in Chapter 2. This may make external roles more attractive to SCS members and create recruitment and retention pressures, particularly amongst those staff whose skills are most transferable to outside the civil service.

3.11 We believe that a 2.5 per cent increase in pay budgets is justified. The first 1 per cent should be an across the board consolidated pay award for all SCS members, other than those subject to performance improvement measures. The next 0.25 per cent should be used to raise the minima for all pay bands. A final 1.25 per cent should be used to address anomalies, including rewarding those with sustained high performance and who have increased their effectiveness and deepened their expertise. This should apply, in particular, where staff are relatively low in their pay range and have not seen significant pay rises in recent years. Those SCS members who are subject to current performance improvement measures should not receive any increase in pay. Therefore, the above pay recommendations should not be applied to these staff until they have exited such measures.[17]

3.12 However, we do not wish to see a continuance of the inconsistent application of awards that has previously occurred. The Cabinet Office should, therefore, put in place a monitoring system to ensure that these pay awards have been fairly and appropriately distributed by departments in accordance with the principles we have recommended. We would like to see evidence on the application of these awards next year.

3.13 Overall, we welcome the intention shown by the Cabinet Office to start reform of the SCS pay framework. However, there is a long way to go. We encourage the government not to lose momentum or focus and we look forward to receiving more developed proposals in the forthcoming year on the development of the new framework.

Introduction

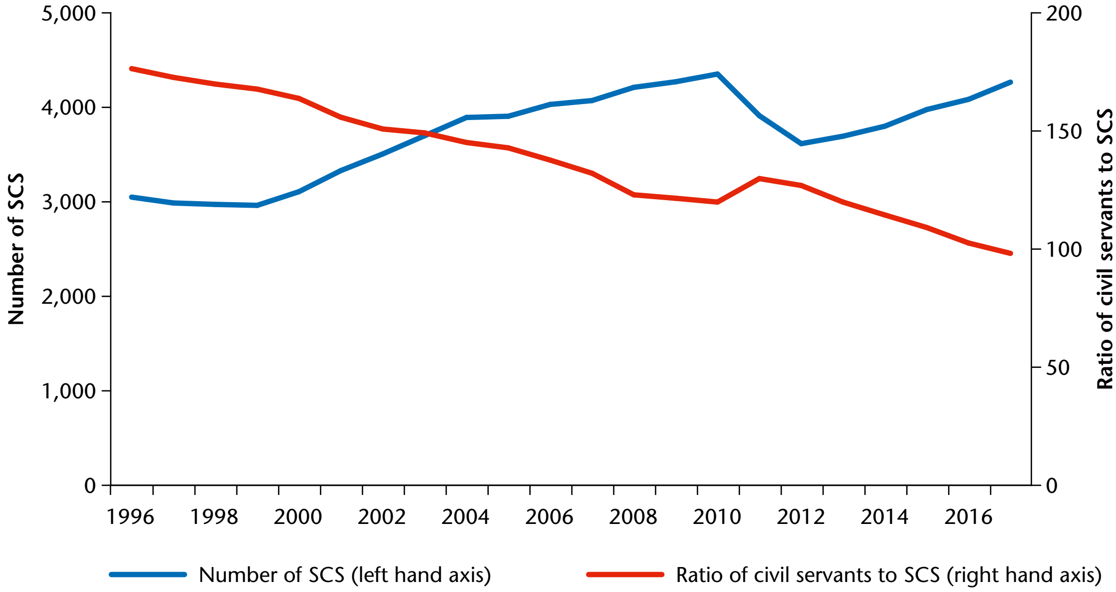
The remit group

3.14 In the second quarter of 2017, there were 4,374 members of the SCS, an increase of 234 (5.7 per cent) from 2016.[18] This increase appears to include a rise in the number of members at pay band 1A, which we are told is a closed grade. Figure 3.1 shows the size of the remit group over time. It also shows the ratio of SCS members to all civil servants. Overall, the SCS accounts for 1.0 per cent of the civil service. However, the proportion varies across departments from 14.4 per cent at the Northern Ireland Office to just 0.3 per cent at the Department for Work and Pensions. The overall size of the civil service grew by 1.7 per cent in the year to 2017, its first increase in eight years. However, the relatively rapid growth of the SCS, means that the ratio of all civil servants to SCS fell below 100 for the first time last year, to 97 in the second quarter of 2017.

[17] SCS members who have received a ‘low’ performance box marking, but who are not subject to performance improvement measures are not excluded from these recommendations, meaning that Recommendations 1, 2 and 3 would apply to them. It is not expected that Recommendation 4 would apply to them.

[18] The quarter 1 2016 SCS headcount in the 2017 report was recorded as 4,070. Further to a data cleansing exercise, the quarter 1 2016 headcount is now recorded by Cabinet Office as 4,085, while the 2016 quarter 2 headcount was 4,140.

Figure 3.1: **Total SCS staff (headcount), 1996 to 2017 (quarter 1)**



Source: Cabinet Office supporting data to the SSRB, unpublished. ONS, Public Sector Employment by Sector, Civil Service, GB, headcount (G7D6), quarter 1. Note SCS numbers are UK based, while whole civil service numbers are GB only, thereby increasing the ratio.

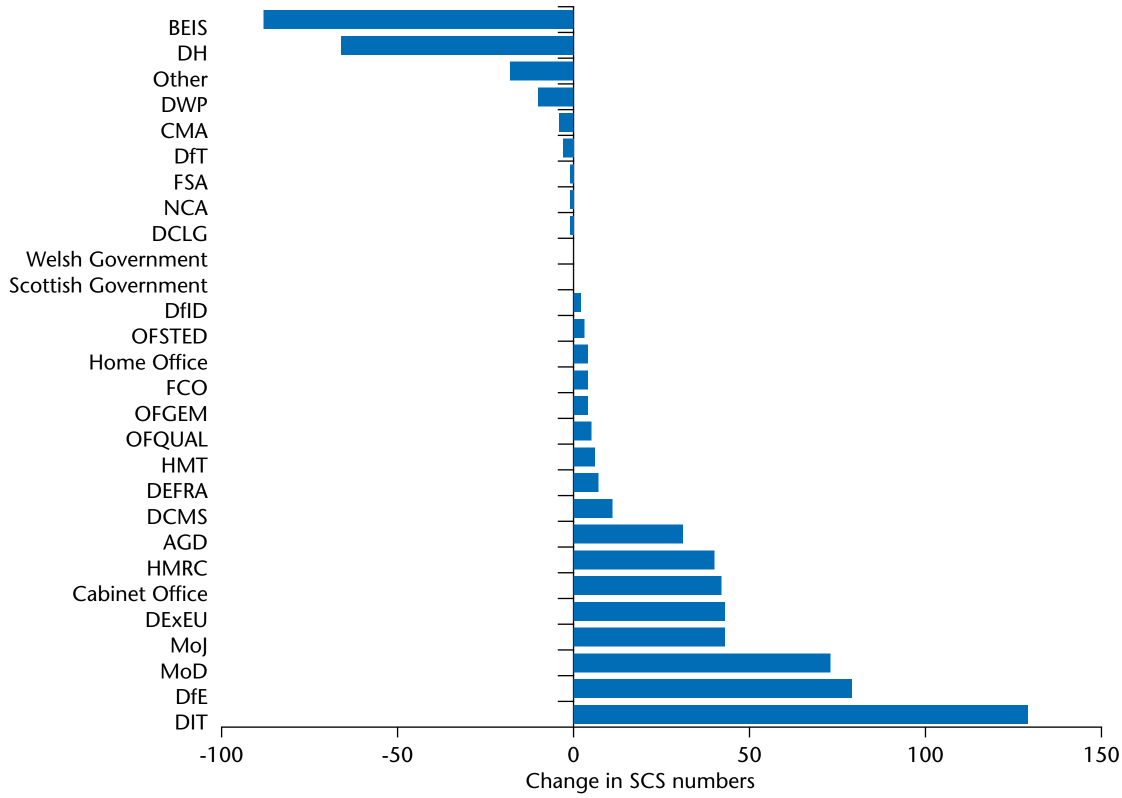
3.15 Excluding those departments that have undergone major structural changes since 2016, those with the largest absolute increases in SCS numbers in 2017, compared with 2016, were the Department for Education (+79), the Ministry of Defence (+73) and the Ministry of Justice (+43). The department with the largest absolute decrease was the Department of Health (-66) (see figure 3.2).[19] It is important to note this only shows changes over five quarters and may not be representative of longer-term trends in these departments. We recognise that meeting the demands of Brexit will probably have accounted for some of this growth.

3.16 The proportion of the SCS based in London was 68.0 per cent in 2017, largely unchanged from 67.4 per cent in 2016 and 67.0 per cent in 2015. The proportion of all civil servants in London was 18.7 per cent in 2017, compared to 18.8 per cent in 2016 and 17.6 per cent in 2015.

3.17 The proportion of SCS who have been members for less than four years has risen from 43.8 per cent in 2015, to 46.5 per cent in 2016, and to 50.7 per cent in 2017. The median tenure of SCS members in their current post is just under two years and the median time they have spent in their current pay band is three years. The lack of senior experience in the SCS cohort is, therefore, notable and increasing.

[19] Full details of machinery of government changes between 1 April 2016 and 31 March 2017 can be found at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/publicsectoremployment/mar2017#whats-changed-in-this-release

Figure 3.2: **Change in total number of SCS between quarter 1 2016 and quarter 2 2017 by department (including executive agencies)**



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

Notes:

1 The Department for Business, Energy and Industrial Strategy (BEIS) was created in July 2016 as a result of a merger between the Department of Energy and Climate Change (DECC) and the Department for Business, Innovation and Skills (BIS).

2 The Department for International Trade (DIT) was created in July 2016 and took on the responsibilities of UK Trade and Investment, which was previously operated by both the Foreign and Commonwealth Office and BIS. It also took on the latter's other relevant trade functions, as well as responsibility for UK Export Finance.

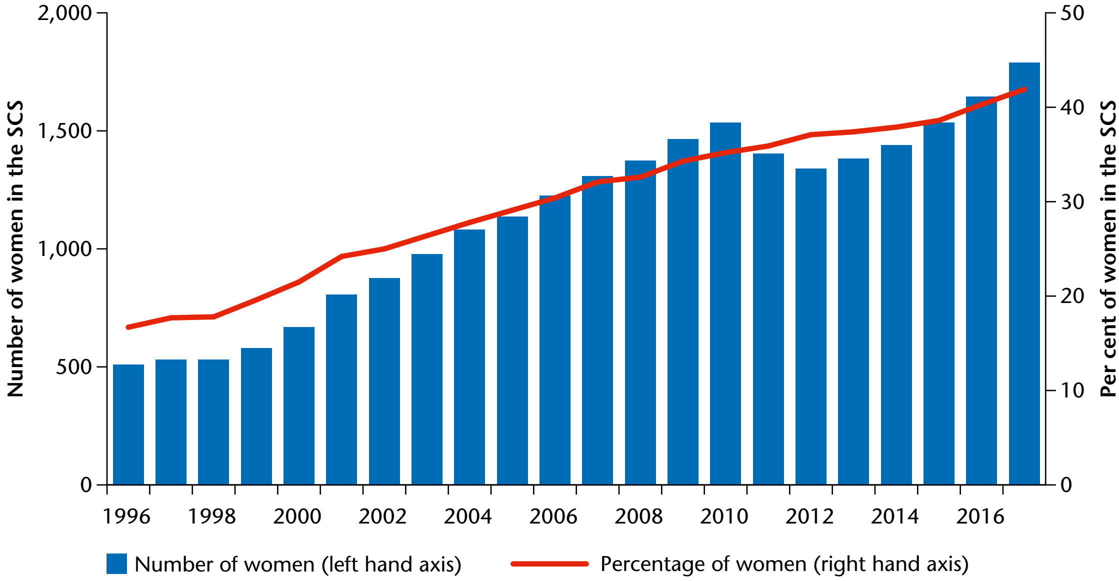
3 The Department for Exiting the European Union (DExEU) was formed in July 2016.

3.18 Between 1996 and 2017, the proportion of female members of the SCS increased from 16.7 per cent to 42.4 per cent.[20] In comparison, the percentage of females in grade 6 and 7 roles was 45.4 per cent in March 2017.[21] Figure 3.3 shows that, while the proportion of women in the SCS is gradually increasing, it will still be sometime before parity of representation is achieved.

[20] Data is provided from Cabinet Office records from 1996. The latest data is for quarter 2 2017.

[21] Grade 6 and 7 data can be found at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/civilservicestatistics/2017

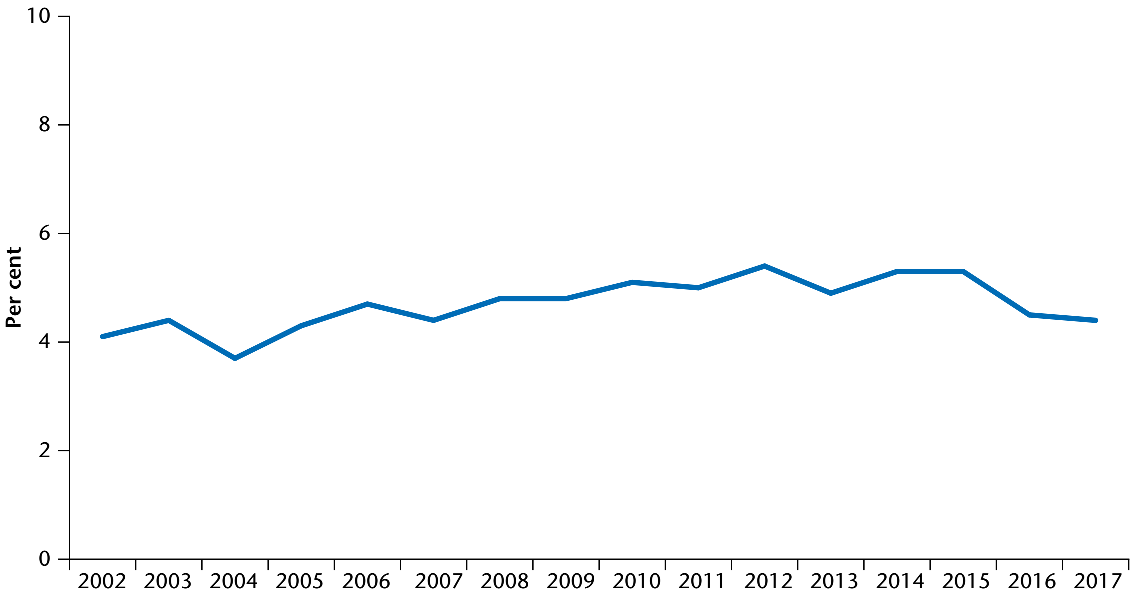
Figure 3.3: **Female representation in the SCS (quarter 1)**



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

3.19 In terms of median basic salary, and across all grades in the SCS, the gender pay gap was 4.4 per cent in favour of men in 2017. This gap has not changed significantly in 15 years. Female median base pay in the SCS was £78,000 in 2017, up 0.9 per cent on 2016. Male median base pay was £81,600, up 0.7 per cent on 2016. Part of the gender pay gap is likely to be due to seniority effects, as women make up a lower proportion of Director (pay band 2) and Director General (pay band 3) grades. On the other hand, a higher proportion of women were assessed as 'top' performers, thus qualifying for performance bonus payments, in 2016-17 (26.1 per cent) compared to their male counterparts (24.6 per cent).

Figure 3.4: **SCS gender pay gap, median base pay, 2002 to 2017**

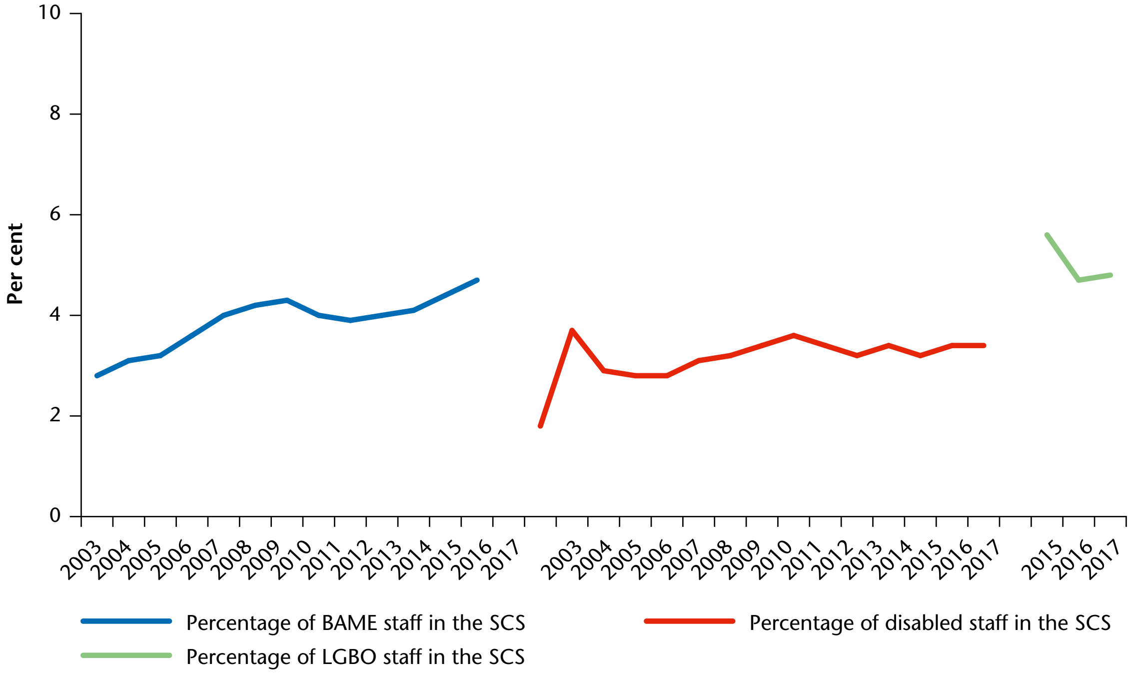


Source: Cabinet Office supporting data to the SSRB, unpublished.

3.20 The proportion of the SCS from a Black, Asian and Minority Ethnic (BAME) background was 4.8 per cent in the second quarter of 2017. This is up from 4.4 per cent in 2016 and is the highest recorded level to date. This is, however, still much lower than in the wider population; 11.9 per cent of all those in employment in the UK at the start of 2017 were from a non-white background.[22] This means that the SCS does not reflect the ethnicity of the UK population.

3.21 The proportion of SCS with disabilities was 3.6 per cent in the second quarter of 2017. This is broadly unchanged since 2004. Nationally, around 11.3 per cent of those in employment in the second quarter of 2017 had a disability.[23] The proportion of SCS who declared their sexual orientation, and who identified as lesbian, gay, bisexual or other in the second quarter of 2017, was 4.9 per cent. This figure is higher than the wider population; the ONS reports that 3.0 per cent of 16 to 65-year olds who declared their sexual identity identified as lesbian, gay, bisexual or other in 2016.[24]

Figure 3.5: **Proportion of BAME, disabled and LGBO in the SCS, 2003 to 2017**



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

3.22 In August 2016, SCS members were asked to complete a socio-economic background survey, to inform a set of recommended talent and diversity measures. Although this data has been shared with the SSRB, it has not yet been published and therefore we are unable to quote from it. The SSRB would welcome further data in future years to enable an analysis of socio-economic trends to be considered.

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

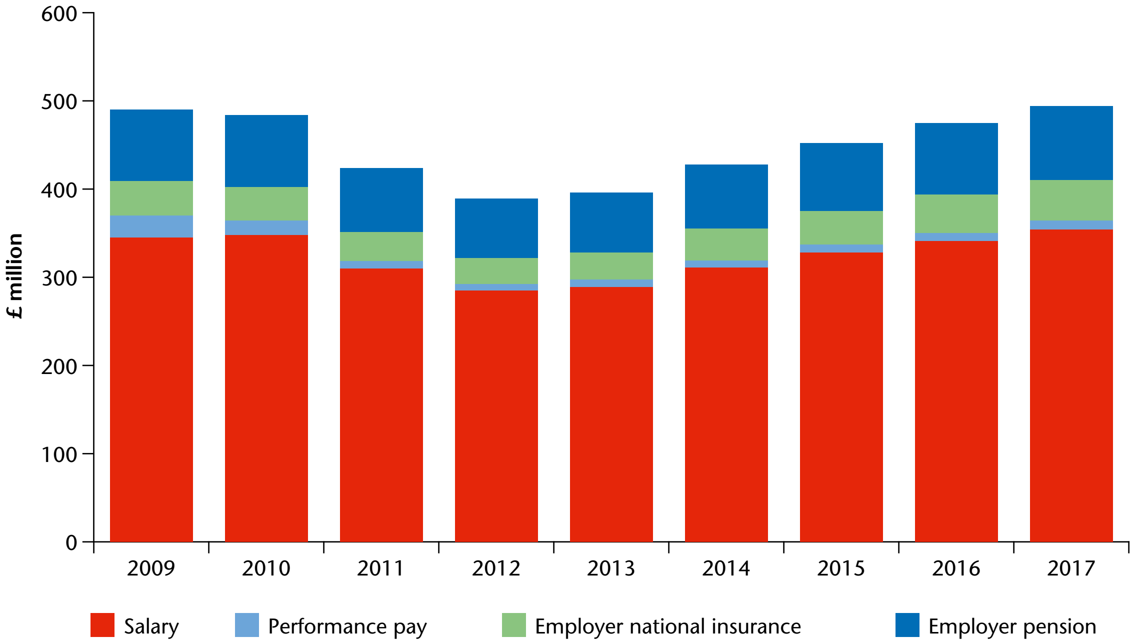
[23] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/labourmarketstatusofdisabledpeoplea08

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

Pay and the pay system

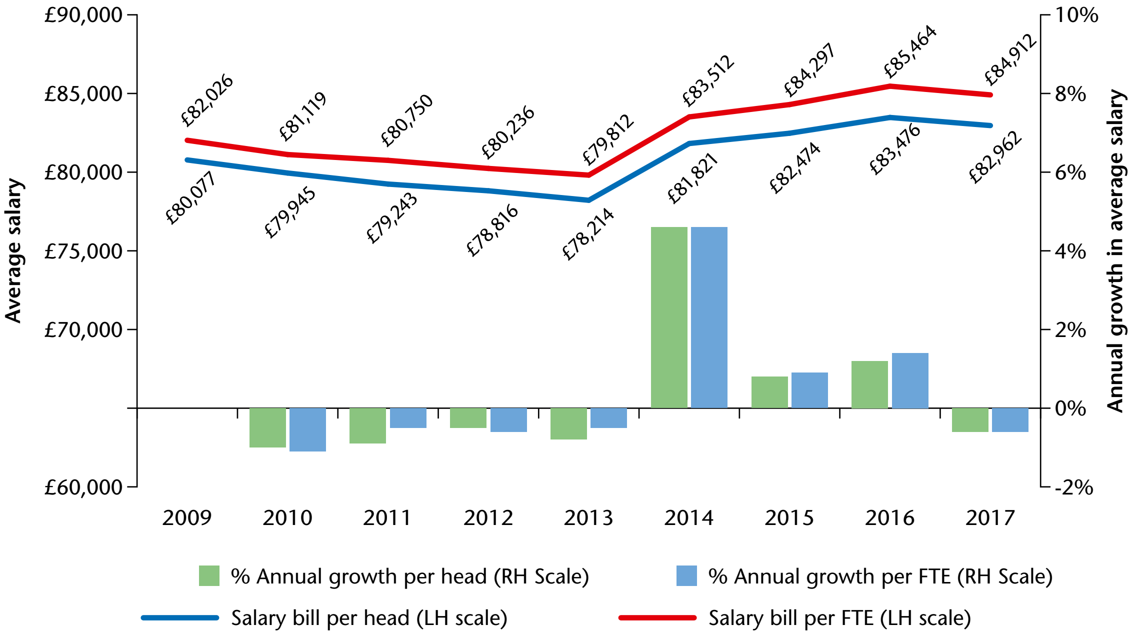
3.23 As shown in figure 3.6, the SCS paybill in 2017 was £493 million, a rise of 3.8 per cent from 2016. This was driven by an increase in the size of the SCS: figure 3.7 shows that the average (mean) SCS salary fell by 1.0 per cent, from £83,784 in Q1 2016 to £82,962 in Q1 2017. Average salary will be affected by recruitment, redundancies and other restructuring, as well as pay increases for those in post. The proportion of the paybill that is non-consolidated performance pay has declined from 2009 and 2010 levels.

Figure 3.6: **SCS paybill, 2009 to 2017**



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

Figure 3.7: **Average (mean) salaries in the SCS (excluding on costs), 2009 to 2017**



Source: Cabinet Office.

3.24 Table 3.1 sets out the current SCS pay ranges. The median pay level at each grade is towards the bottom end of the scale.

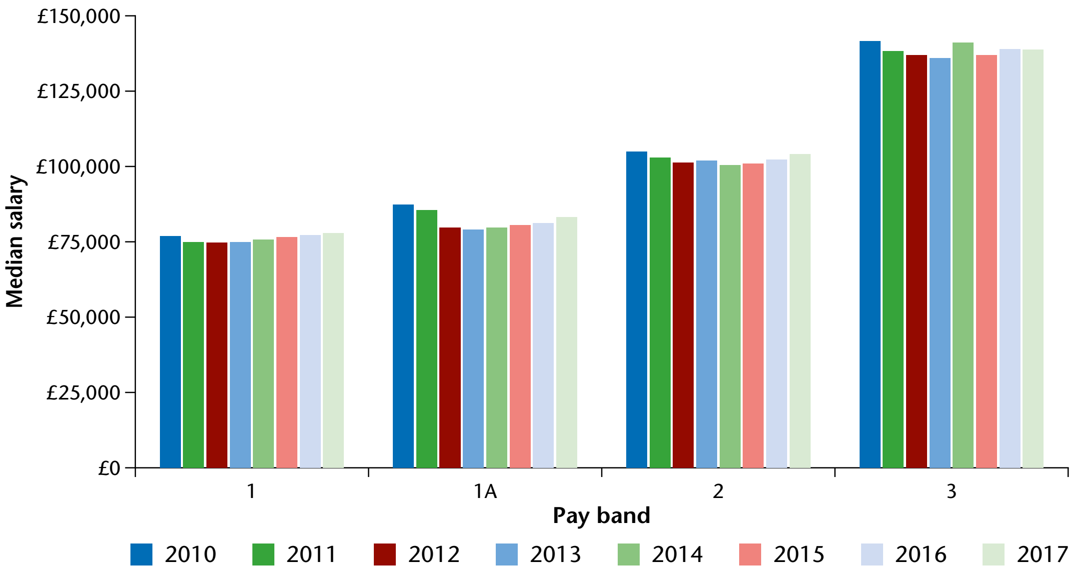
Table 3.1: **SCS pay ranges and median pay by pay band in 2017-18**

Pay band	Number in pay band	Pay band minimum £	Pay band maximum £	Median salary (excl. bonus pay) £
1 (Deputy Director)	3,247	65,000	117,800	75,900
1A[2] (Deputy Director)	100	67,600	128,900	81,200
2 (Director)	843	88,000	162,500	99,900
3 (Director General)	139	107,000	208,100	134,000
Permanent Secretaries	40	150,000[3]	235,000	167,500[4]
Total	**4,369[1]**			

Notes:
1 This figure is lower than the total number of SCS members in paragraph 3.14 because it excludes five members who are not assigned to pay bands.
2 The government's evidence says that departments have not been allowed to recruit to pay band 1A for a number of years. Existing staff will remain in the grade and may receive pay awards, but departments should not recruit into it. Consequently, the government has excluded pay band 1A from the proposed increases in pay band minima. Pay band 1A is discussed further in paragraph 3.118.
3 The Permanent Secretary 'minimum' is taken as the bottom of the Permanent Secretary tier 3 pay band and the 'maximum' is the top of the tier 1 pay band.
4 Mid-point of £5,000 pay band. Calculated from Cabinet Office figures.
Source: Cabinet Office.

3.25 Median salaries, including bonuses, in 2017 were higher for staff in all pay bands than in 2016 with the exception of Directors General, which fell by £100 (less than 0.1 per cent). However, for pay band 1A and pay band 2, median salaries are lower than in 2010. Changes in median salaries by pay band are set out in figure 3.8.

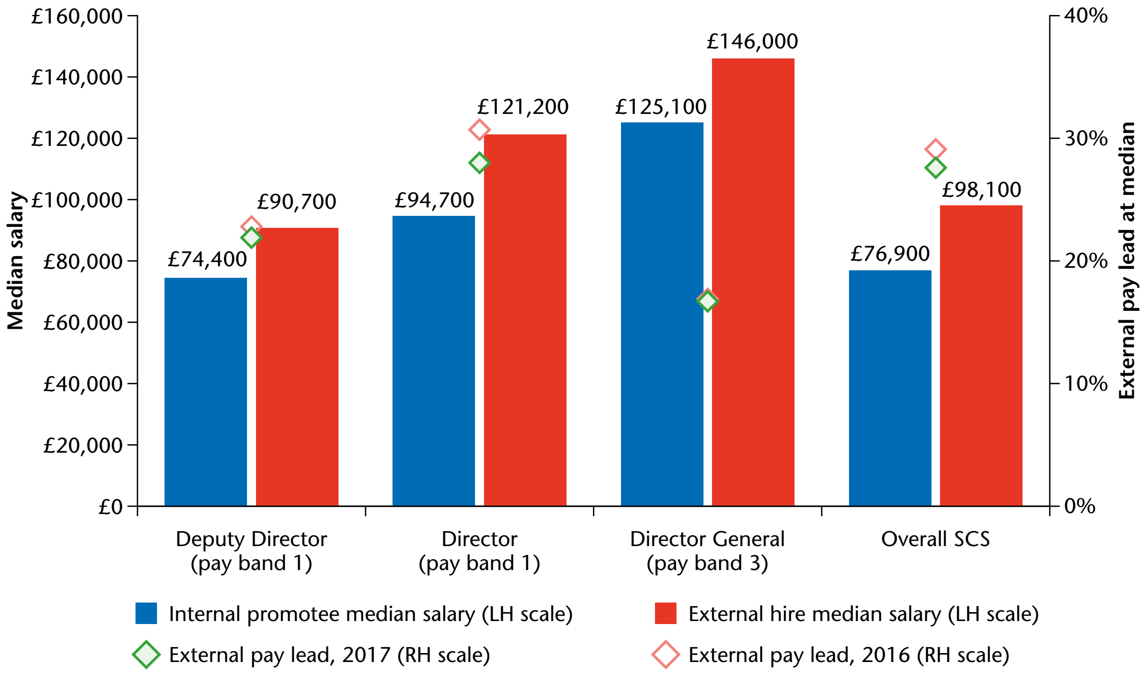
Figure 3.8: **SCS median salaries, including bonuses, by pay band, 2010 to 2017**



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

3.26 There continues to be a substantial pay differential between members of the SCS who were promoted internally and those who were recruited externally. The difference in median base pay between internal promotees and external hires across the SCS as a whole is 27.6 per cent, having closed marginally from 29.1 per cent in 2016 (see figure 3.9). The gap is substantial within all pay bands. This may in part reflect the fact that externally recruited SCS members are more likely to be in jobs where there is a strong private sector labour market, such as commercial and digital roles.

Figure 3.9: **Current SCS median base salaries for internal promotees and external hires, 2017**



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

3.27 The best performing 25 per cent of the SCS are eligible for non-consolidated performance awards. In 2017, 25 per cent were designated as 'top performers,' unchanged from 2016. Such awards are limited to 3.3 per cent of the organisation's SCS paybill. Where departments made awards in 2017, they were between £5,000 (The Department for International Development for pay band 1) and £17,000 (for HMRC and the Department for Transport, both for pay band 3).

3.28 Last year, we highlighted that the percentage of staff receiving awards increased significantly with seniority and expressed the view that this represented a poor leadership example. This remained the case, for at least the fourth successive year, in 2017:

- 24 per cent of pay band 1 staff received awards;
- 28 per cent of pay band 2 staff received awards;
- 35 per cent of pay band 3 staff received awards; and
- we received no data for Permanent Secretaries, even though we asked for this to be made available in our report last year.

3.29 In addition to end-of-year performance awards, in 2016 the government gave departments the flexibility to introduce in-year, non-consolidated awards to recognise outstanding contribution for up to 10 per cent of SCS staff. In 2016-17, 16 departments issued in-year awards, with all but three of them using the full 10 per cent allocation. Two departments (the Ministry of Defence and Foreign and Commonwealth Office) did not issue any in-year awards. The level of in-year awards varied greatly across departments with the guideline capping individual awards at £5,000 not being adhered to in every case. Examples of awards include:

- The Ministry of Justice made 23 awards ranging between £450 and £3,200.
- The Home Office made 21 awards ranging between £3,000 and £5,000.
- The Department for International Development made awards ranging from £2,000 to £9,000. In this case, the government was unable to confirm the number of awards made.

Pension schemes

3.30 A new civil service pension scheme, Alpha, was introduced with effect from 1 April 2015. This is a Defined Benefit scheme, with benefits based on average earnings over a whole career, rather than on salary at the time of retirement as in previous schemes. Those within 10 years of their normal retirement age at 1 April 2012, which was 60 or 65 in previous schemes, have remained in legacy final salary schemes. Others have transitioned to Alpha since April 2015, or will do so in future. Data from the civil service pension scheme indicates that 69 per cent of all civil servants were in the Alpha pension scheme at 31 March 2017, up from 63 per cent a year earlier.[25]

Government response to our 2017 recommendations

3.31 The government accepted our recommendations, making the following commitments:

- To use the 1 per cent base pay award in full unless there was a strong rationale to do otherwise.
- To keep under review the evidence for making pension packages more flexible, alongside the fiscal implications.
- To develop innovative pay and workforce proposals.
- To conduct a review of the SCS pay framework, which was commenced during 2017.

3.32 The government raised the minima of pay bands 1, 2 and 3 each by £1,000. However, in practice, both band minima and pay awards varied across departments. For example:

- the Department for Digital, Culture, Media and Sport increased base pay by 1 per cent of the median for each grade, resulting in employees near the bottom of the pay range receiving a proportionately higher award;
- the Department for Exiting the European Union made consolidated increases evenly across all SCS staff regardless of grade, position in pay range or performance; and
- the Department for International Development increased salaries for pay band 1 to a minimum of £73,900.

[25] https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

3.33 In response to our recommendation to give consideration to making pension packages more flexible, the government extended the eligibility of the Partnership Pension Scheme to all members of the Civil Service Pension Scheme from 1 April 2018.[26]

3.34 Table 3.2 below sets out some observations that we made in our 2017 report and our interpretation of the response to them.

Table 3.2: **The SSRB's observations in the 2017 report**

SSRB observation	Government response
The rules around the application of the 25 per cent quota should be fully transparent and the distribution of performance appraisal markings across all performance categories, for each SCS grade up to and including Permanent Secretary, should be published annually.	No evidence received to show that the rules have been published. No evidence of the publication of appraisal markings. No data received in relation to Permanent Secretary markings.
In-year rewards should continue to be used but the issue of how outstanding in-year contributions are rewarded should be considered as part of the review of the SCS pay system.	The use of in-year rewards has continued and have been reviewed as part of the SCS pay framework review.
A remit letter from the Cabinet Office should be sent specifying the issues to be addressed by the SSRB.	A remit letter from the Cabinet Office was provided, although neither it nor the Cabinet Office written evidence stated whether a recommendation on basic pay was being sought from the SSRB this year. In oral evidence, the Cabinet Secretary confirmed that the government was asking for a recommendation from the SSRB on a base pay award.
Evidence should be presented in the future on individuals who have excessive workloads due to under-staffing, as this presents a risk to recruitment, retention and motivation.	No evidence was received.
There should be engagement between the government and unions on workforce matters, which should be transparent and constructive.	The FDA and Prospect were not engaged in the pay framework review.

Policy context

3.35 In the last two years, we have emphasised that departments need to be clear about their long-term objectives and have a pay and workforce strategy to support them, with annual awards linked to the longer term-strategy. The government accepted the need for a more strategic approach and the need to conduct a review of the SCS pay framework. It said it would invite the SSRB to contribute towards the review of the SCS pay framework that the Cabinet Office was undertaking and would welcome any expertise that we could provide. In practice, proposals were shared with the SSRB only shortly before being finalised and the late timing of this engagement left us with only a narrow window of opportunity to make a contribution to their development. The SSRB believes

[26] The Partnership Pension Scheme is a stakeholder pension with employer contributions. Employer contributions are between 8 per cent and 14.75 per cent of salary, depending on age, with up to an additional 3 per cent to match member contributions. Members do not have to make any contributions. Further details can be found at https://www.civilservicepensionscheme.org.uk/members/partnership-csavc-stakeholder/

we could have made a more meaningful contribution had we been engaged earlier in the process.

3.36 In its review of the SCS pay framework, the Cabinet Office sought views from HR Directors and Heads of Profession on the impact of current pay arrangements. There was no evidence of any employee engagement, either with the remit group or the feeder grades.

3.37 The review identified a number of issues, many of which we have previously highlighted. The issues highlighted in the government's evidence are set out in box 3.1 below.

Box 3.1: **Core issues with the SCS pay framework identified by Cabinet Office**[27]

- Promotion (or level transfer) is seen as the only way to obtain a pay increase.
- Departments are bidding for talent in an 'internal market' within the civil service, exacerbating unnecessary or premature movement of SCS members.
- Controls are not in the right place, resulting in perverse outcomes, including reduced efficiency and lower productivity, e.g. some SCS members may move too early in pursuit of pay increases.
- There are inconsistent approaches to the use of SCS pay policies (on promotion, transfer and rules for internal appointments).
- The link between pay and performance is inconsistent.
- In some professions, the civil service is unable to compete for scarce, specialist skills and remains significantly behind the external market.
- The current system is inefficient, with limited flexibilities to target funding effectively and continuing increases in paybill.
- The system does not follow a rational structure (i.e. there are frequent cases where the SCS are paid less than the staff they manage) which is reported to be damaging confidence and impacting staff morale.

3.38 In oral evidence, the Cabinet Secretary highlighted that this is a busy and uncertain time for the SCS. He said that Brexit had led to a need to increase the number of SCS members and to a change in the level of complexity of issues they were dealing with. There had been an increase in the number of cyber and security threats. The uncertainty and the rapidly changing environment had increased the challenge of planning for the civil service.

[27] Source: Cabinet Office evidence, published.

Proposals

Government proposals

3.39 The government has said that its vision for a future SCS workforce is one that:

- is more diverse;
- has stronger professional anchors;
- has more specialist skills; and
- is more experienced.

3.40 In oral evidence, broad timescales for the implementation of the SCS vision were presented. It was stated that the new framework would be in place by 2020 with changes fully embedded by the late 2020s.

3.41 In its written evidence the government made the following proposals:

- Identifying three principles around which the SCS pay framework would be reformed:
  - To move to a set of consistent pay ranges by professional grouping over time.
  - To provide greater reward for high performers and those who develop capability by remaining in role.
  - To provide clearer rules and control on how people move through and around the SCS pay system.
- Developing new minima for 2018-19, which give priority to high performers, with further pay increases which moves them towards the proposed 2020-21 pay ranges.
- Introducing new pay ranges from 2020-21, based on professional groupings.
- Continuing the eligibility of end-of-year non-consolidated performance awards to the top 25 per cent of performers.
- Increasing the eligibility for in-year non-consolidated performance awards from 10 to 20 per cent of the SCS to recognise outstanding contribution.
- Introducing a corporate recognition scheme with awards of around £1,000, nominated to and approved by the Cabinet Secretary via Permanent Secretaries.
- Restricting pay increases for moves on level transfer.
- Restricting pay increases on promotion to no more than 10 per cent increase of current base pay or the minimum of the new grade.

3.42 In oral evidence, the government said that 1 per cent was budgeted for consolidated pay rises and that a further 0.5 per cent had been identified from savings arising from controlling movement around the system.

3.43 The government's remit letter to the SSRB stated that the pay of staff in the Government Commercial Organisation (GCO) would be reviewed by an independent remuneration committee. However, the government said it would welcome the SSRB's views on whether the overall remuneration package was set appropriately.

Other proposals

3.44 In their evidence, the FDA and Prospect proposed that:

- the transition to new pay ranges should not take place until the performance management framework is replaced; and
- the proposals for restricting pay increases resulting from internal movement should be rejected.

Evidence

3.45 We received both written and oral evidence from the Cabinet Office, the FDA and Prospect, and the Civil Service Commission (CSC). We also heard directly from a number of members of SCS pay bands 1, 2 and 3, and members of the Future Leaders Scheme (FLS) who have been identified as having the potential to become members of the SCS. Those already in the SCS talked about their experiences and gave their views on pay and conditions. The FLS participants talked about their SCS aspirations and the factors influencing them.

Pay and pay ranges

3.46 In its evidence, the government said that in the long term it wants to have a new SCS pay structure with more consistent pay ranges. It set out the proposed pay ranges for 2020-21 which would be based around three professional groupings. Proposed pay ranges for Group A are set out in table 3.3 below. Pay ranges have not yet been developed for Groups B and C. Group B will be professions identified as market facing roles and will be confirmed in 2019-20. Group C will be niche or department specific roles.

Table 3.3: **Proposed pay ranges for 2020-21**

Pay band		Group A: civil service wide professions, £
1 (Deputy Director)		70,000-95,000
2 (Director)		92,000-130,000
3 (Director General)	**Tier 1**	115,000-135,000
	Tier 2	135,000-150,000
	Tier 3	150,000+

Source: Cabinet Office evidence, published.

3.47 The government said that its intention was to start the transition to these new pay ranges in 2018-19. It said that further work was needed to define future pay ranges and it would not reduce the maxima this year. The proposed minima for 2018-19 are set out in table 3.4 below.

Table 3.4: **Proposed minima for SCS for 2018-19**

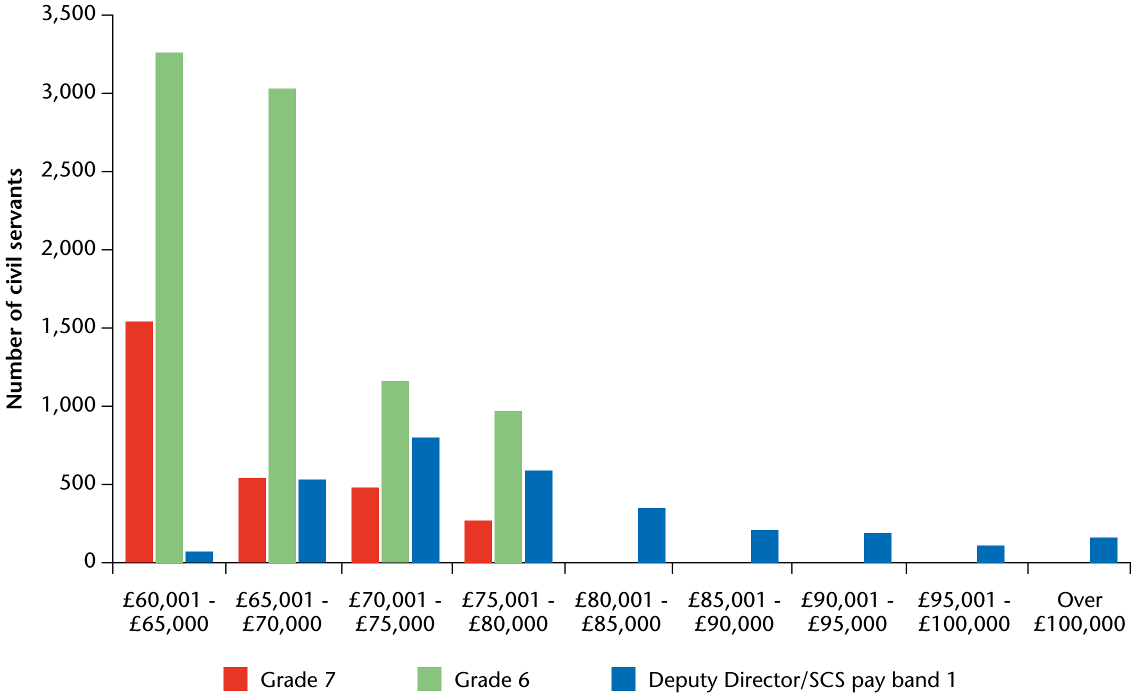
Pay band	Current pay band minimum £	New overall band minimum £	Low performer[28] £	Achievers £	Top performers £
1	65,000	66,000	66,000	68,000	70,000
2	88,000	89,000	89,000	90,500	92,000
3	107,000	108,000	108,000	111,500	115,000

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

[28] 'Low performers' are those who receive the lowest box marking and account for 10 per cent of the SCS. This is not necessarily indicative of poor performance.

3.48 The government said this systematic approach to raising the minima would reduce the number of SCS paid less than civil servants in grades below them. In the latest data from the Cabinet Office, for 31 March 2017, there were 6,460 non-SCS civil servants who were paid more than the SCS pay band 1 minimum of £65,000. Raising the minimum to £70,000 by 2020 would reduce this number to 2,880. However, this calculation makes no allowance for any pay rises for the lower grades in 2017, 2018, 2019 and 2020. Figure 3.10 shows the distribution of SCS pay band 1 salaries, and the number of civil servants in the bands immediately below the SCS earning above the pay band 1 minimum.

Figure 3.10: **Distribution of SCS pay band 1 grade 6 and 7 salaries at 31 March 2017**



Source: Cabinet Office supporting data to the SSRB, unpublished; ONS Annual civil service employment survey.

3.49 Overall, 16 per cent of grade 6 and 7 civil servants were earning above £65,000 at March 2017. The proportion varies considerably by department, from 33 per cent of all grade 6 and 7 staff at the Ministry of Justice, to just 4 per cent at the Foreign and Commonwealth Office. Some of the higher-paid non-SCS civil servants are likely to have specialist roles, such as legal and medical. Notwithstanding this, it means that in many instances there are senior civil servants working alongside, or even managing, non-SCS employees who are paid more than them. Table 3.5 shows the median pay increases received by the non-SCS civil service in comparison to the SCS since 2010. The table indicates that the SCS have generally had lower average pay awards than other civil servants over recent years. This, all other things being equal, will have reduced the salary lead of SCS members over lower grades.

Table 3.5: **Pay reviews in central government, 2010 to 2017**

Year (number of central government pay reviews)	**Non-SCS civil service median pay increase %**	**Non-SCS civil service interquartile range %**	**SCS pay increase %**
2010 (33)	0.0	0.0-1.4	0.0
2011 (31)	0.0	0.0-0.0	0.0
2012 (29)	1.0	0.0-1.0	0.0
2013 (27)	1.0	1.0-1.0	1.0
2014 (34)	1.5	1.0-2.3	1.0
2015 (21)	1.2	1.0-2.0	1.0
2016 (16)	1.3	1.0-2.2	1.0
2017 (16)	1.4	1.0-2.0	1.0

Note: SSRB groups and MPs are excluded from the analysis of central government pay reviews. Medians are by organisation, not weighted for employee numbers. The pay increase usually represents the average increase within an organisation.
The interquartile range shows the lower and upper quartiles of the data.
Source: 2010 to 2013, IDS; 2014 to 2017, XpertHR.

3.50 Since 2010, the Cabinet Office has had guidance in place, which states that for individuals promoted to a job in a higher pay band, their base pay will usually increase by the better of:

- moving to the minimum of the higher band; or
- a promotion award of up to 10 per cent (or up to 5 per cent on promotion from pay band 1 to pay band 1A or pay band 1A to pay band 2).
- However, the guidance also states that where a post is advertised externally and an existing civil servant is successfully recruited to the post, appointment should be within 10 per cent of the advertised circa salary level or salary range (even if this is not on promotion). Where existing civil servants are already paid more than the maximum advertised, this may mean that the individual does not receive a pay rise.

3.51 The government said that this policy is applied differently by departments resulting in inconsistent treatment of internal staff moving around the system. Since this policy was set, it is now the practice to advertise all appointments externally which has resulted in advertised rates being pitched higher than in the past. In 2015-16, 22 per cent of the SCS moving on level transfer received a pay increase. Furthermore, 28 per cent of promotions within the SCS (to Director or Director General) received an increase in excess of 10 per cent of their current salary or a salary higher than their new pay band minima.

3.52 The government believes that pay policies on movement should be more consistent and has proposed that from April 2018, for SCS pay bands 1 and 2, but not pay band 3, there should be no pay increases for moves on level transfer. It also proposed that on promotion, individuals should receive no more than a 10 per cent increase in base pay, or the minimum of the new grade on promotion if higher.

3.53 The FDA and Prospect 'fundamentally oppose' the proposal to restrict pay increases on promotion and level transfer. They state that it will exacerbate the pay gap between internal and external applicants, and that not having a level playing field across the two will further affect internal recruitment and motivation.

3.54 In discussions with the remit group, the large pay gap between internal and external recruits was clearly a source of dissatisfaction to those who had been internally promoted. The Cabinet Office has not sought to address the differentials in pay received between internal promotees and external hires in the SCS this year. The evidence states that these disparities would only remain during the transition to a new pay framework but, by the Cabinet Office's own admission, this transition will take many years.

Performance management

3.55 It was clear from the remit group discussions that there continues to be a widespread lack of confidence in the performance management system. The FDA and Prospect said there was continued anger that the current system remained in place and that it should be withdrawn immediately. This has been exacerbated this year by the introduction of new performance management frameworks for non-SCS grades, the implementation of which has been overseen by SCS members.

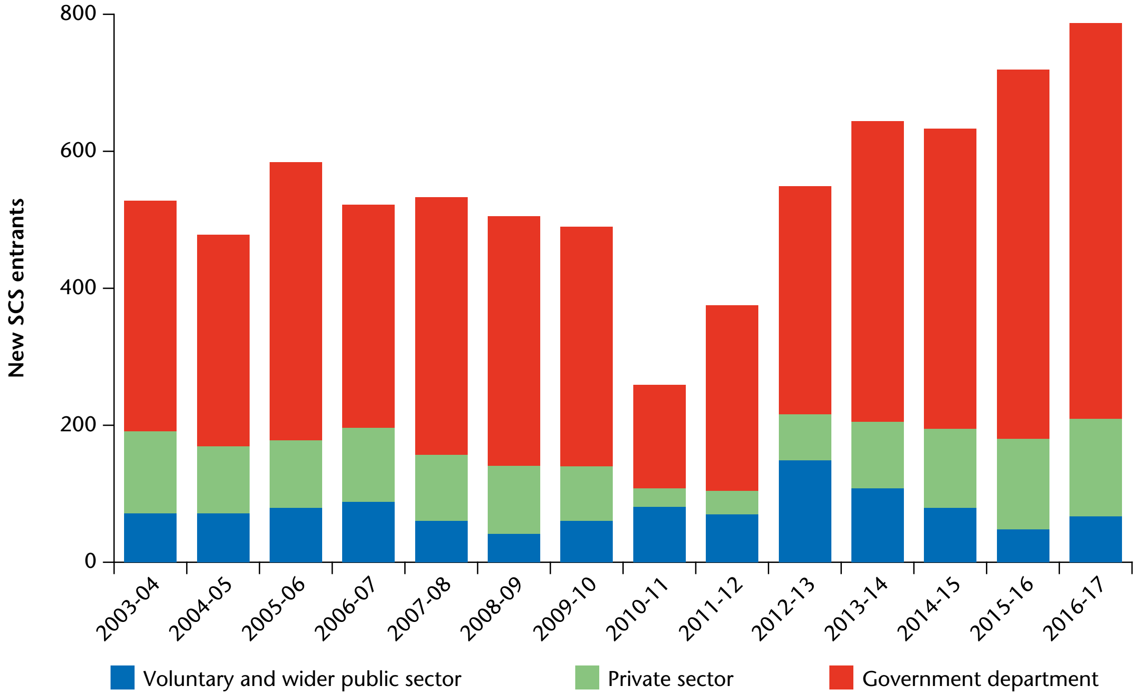
3.56 The Cabinet Office has said that it will continue to restrict end-of-year non-consolidated pay performance awards to the top 25 per cent of performers this year. However, as shown earlier, the distribution of 'top' performers receiving performance bonuses is skewed towards the most senior SCS grades.

3.57 In recent years, we have commented that the existing performance management system has been in place since 2011 and needs to be reviewed. The Cabinet Office said last year that it would keep the need for a fundamental examination of the system under review and it confirmed this year that the performance management system, including the use of forced rankings, will be reviewed in 2018. It accepts that the system needs to be more transparent to improve its integrity and confidence in it. In oral evidence, the Cabinet Secretary said the performance management system had not been reviewed in 2017 as it was important to test the new approach on the non-SCS grades first before extending the system to the SCS.

Recruitment

3.58 The number of new entrants to the SCS in 2016-17 was at its highest since at least 2003-04. The majority of the SCS are in pay band 1, which is drawn primarily from within the civil service. Recruitment trends over time are shown in figure 3.11. Of those joining the SCS in 2016-17, 73 per cent were already civil servants (down from 75 per cent in 2015-16), with 18 per cent recruited from the private sector (unchanged since 2015-16) and the remaining 9 per cent from the voluntary and wider public sectors (up from 7 per cent in 2015-16).

Figure 3.11: **New SCS entrants, by previous employment sector, 2003-4 to 2016-17**



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

3.59 The proportion recruited externally varies greatly by profession. Fewer than 10 per cent of those working in the areas of tax inspection, statistics, policy, legal, and education and training inspection were recruited externally. However, over a third of those in commercial, knowledge and information management, internal audit, digital, data and technology, and property roles were new entrants to the civil service.

3.60 We received evidence from the CSC on competitions at SCS pay band 2 and above in 2016-17. The position across all relevant SCS grades was as follows:

- There were competitions for 162 posts, up from 158 in 2015-16 and 79 in 2014-15.
- All but four of the 2016-17 competitions were open to candidates from both inside and outside the civil service.
- The 162 posts resulted in 153 appointments.

3.61 The quality of appointees remains high. Candidates assessed as appointable are classed as 'outstanding', 'very good', 'clearly above the minimum appointable level', or 'acceptable'. Seventy per cent of those appointed were graded as 'outstanding' or 'very good'. This was, however, lower than in 2015-16 when the corresponding figure was 82 per cent.[29]

3.62 Of the 153 posts filled in 2016-17, 42 per cent only had one appointable candidate identified, an increase from 38 per cent in 2015-16. In oral evidence, the First Civil Service Commissioner said that the pool from which to promote internally in the SCS was shrinking and having only one appointable candidate being identified for a post could be increasingly likely in the future.

[29] http://civilservicecommission.independent.gov.uk/publications/annual-reports/

3.63 The CSC said that although pay was mentioned by applicants as a constraining factor, there was little evidence that it was preventing candidates from accepting posts. However, it acknowledged that it only had exposure to those who had applied for posts and therefore was unable to assess how many people were deterred prior to application.

Government Commercial Organisation

3.64 In its evidence last year, the government had said it had created the GCO to raise the capability of senior commercial specialists across the civil service. It said that staff who transferred to the new GCO terms would be reviewed by an independent remuneration committee that would report to HMT. This new pay structure was introduced by the government without our independent advice being sought.

3.65 The government's evidence this year said that as at 30 September 2017, there were 220 people employed by the GCO, of which only 15 per cent (34) were recruited externally.

3.66 Those recruited externally are placed on GCO terms and conditions. The government said that these are designed to be more aligned to private sector arrangements, with a greater focus on higher base pay and performance-related pay than pension benefits. Internal recruits to the GCO are assessed pre-appointment, with those scoring an A having a choice of transferring to GCO terms and conditions and those scoring a B remaining on existing civil service terms. Of those eligible to choose new GCO terms, only 28 per cent have chosen to do so.

3.67 The FDA and Prospect said that the SSRB should make explicit recommendations for a pay award for staff in the GCO and that an alternative performance management system should be developed for them.

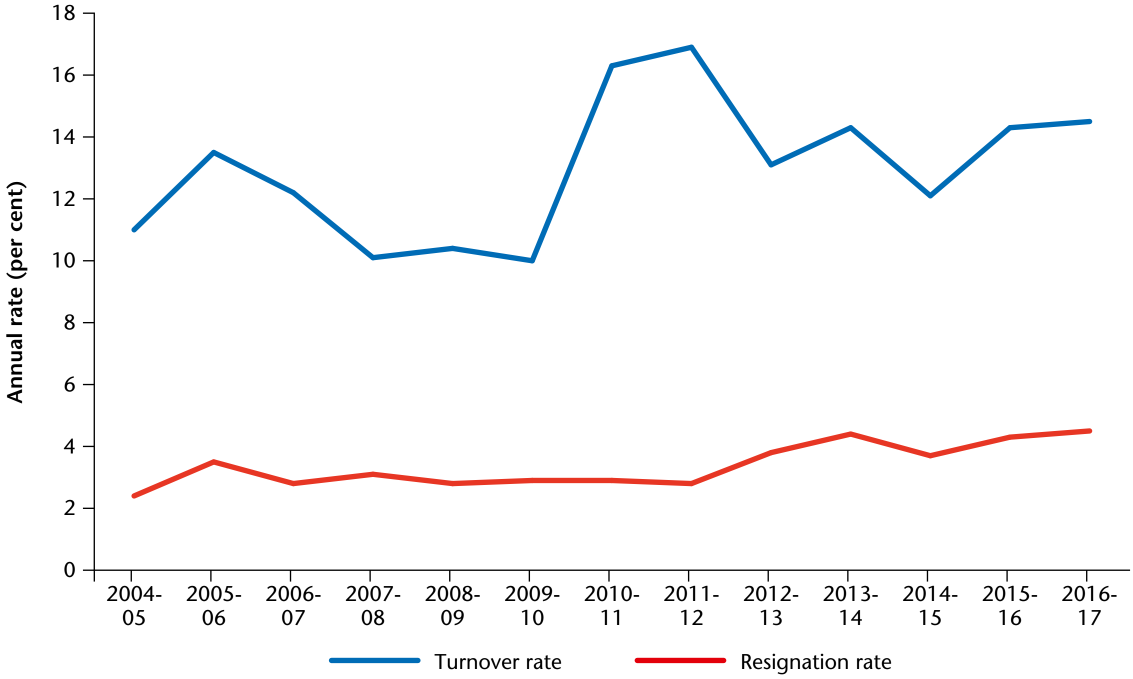
Retention

3.68 Overall, we saw no evidence of major problems with staff retention, save for in a few specialist areas. In 2016-17, the turnover rate for the SCS was 14.5 per cent, compared to 14.3 per cent in 2015-16 and broadly in line with the longer-term historical trend, as shown in figure 3.12.[30]

3.69 In 2016-17, the resignation rate for the SCS was 4.5 per cent, compared to 4.3 per cent in 2015-16. There was a higher resignation in some professions, including digital at 8.4 per cent and commercial at 7.4 per cent, where there are likely to be a higher number of external opportunities.

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

Figure 3.12: **SCS annual turnover rate, 2004-5 to 2016-17**



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

3.70 The Pivotal Role Allowance (PRA) was introduced in 2013 and was designed to retain SCS members in highly specialised roles and those delivering the riskiest projects across government. The evidence from the Cabinet Office reported that the Allowance had been used 65 times since April 2013. This equates to only about once a month, across an SCS workforce of now over 4,000. The Cabinet Office said that the PRA was being underutilised and recognised that the bureaucracy of the process was deterring some departments from using it. This accords with what we have heard anecdotally. The Cabinet Office said that it will continue to review the process as it moves towards a new long-term pay framework and will identify opportunities to streamline existing controls.

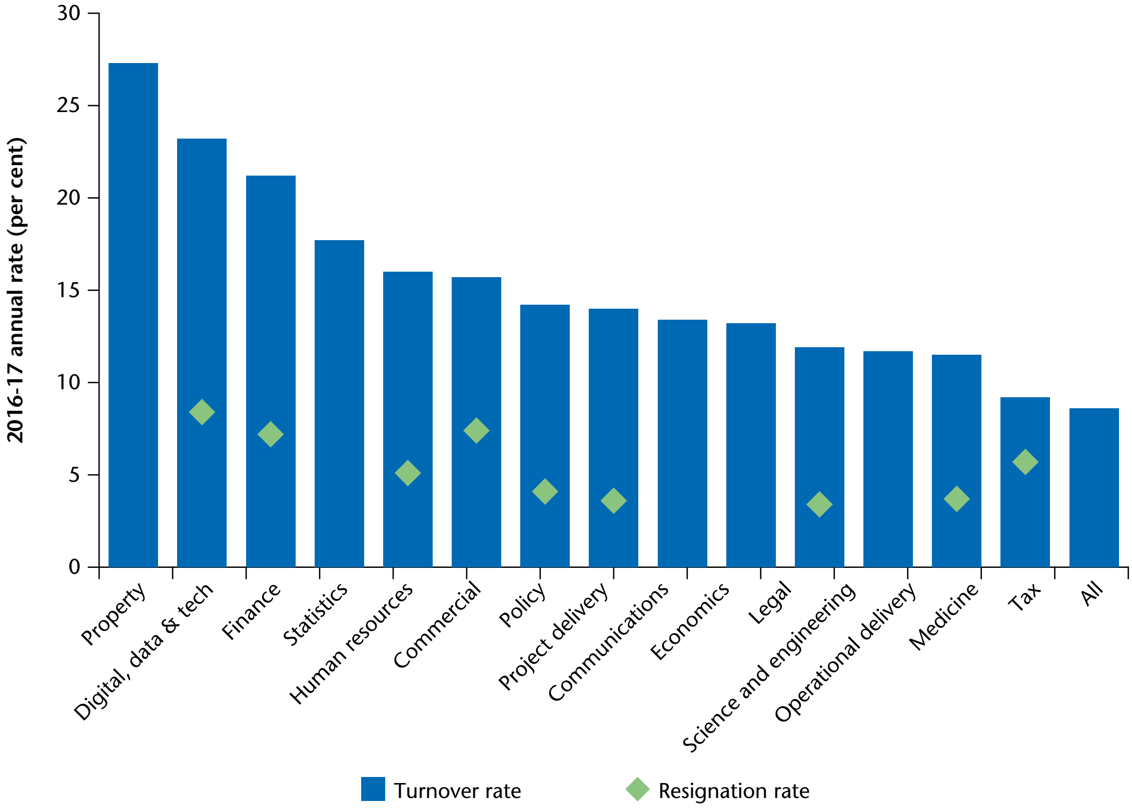
Leavers

3.71 Obtaining better data on leavers has been a key focus for the SSRB this year, as discussed in Chapter 1. We have used some new data this year: for example, on the proportion of staff leaving classed as 'regrettable losses' and on what organisations people who leave the SCS for other jobs are joining.

3.72 The turnover rate was higher for men (15.3 per cent) than for women (13.4 per cent). Similarly, the resignation rate was higher for men (4.8 per cent) than for women (4.1 per cent). SCS members from a BAME background had a higher turnover and resignation rate, at 15.0 and 6.9 per cent respectively, compared to the average of 14.5 per cent and 4.5 per cent. Members of the SCS with a disability also had a higher turnover rate (21.3 per cent) and resignation rate (7.7 per cent). We would welcome evidence on why SCS members from BAME backgrounds and members with disabilities are more likely to resign than the average for the SCS as a whole.

3.73 Leaving rates varied by profession (see figure 3.13). Property, digital, data and technology, and finance professionals saw notably higher-than-average turnover rates. Commercial professionals also saw an above-average resignation rate.

Figure 3.13: **SCS annual turnover rate by profession, 2016-17**

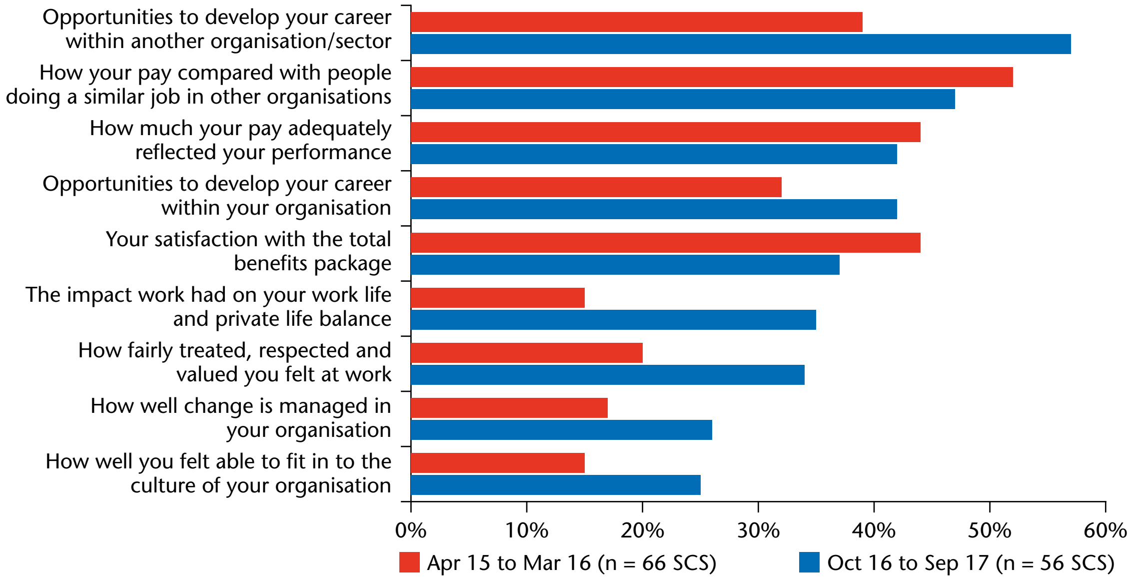


Source: Cabinet Office supporting data to the SSRB, unpublished.
Note: Some professions had very few leavers in the year so do not feature in the chart. Rates have been supressed for professions where resignations are fewer than five.

3.74 The Cabinet Office collated data from 83 SCS exit interviews between October 2016 and September 2017 (53.9 per cent of total resignations for this period). We note the significant improvement in the exit interview rate from 2015-16 (66 interviews, 37.7 per cent of resignations) and hope that the Cabinet Office and departments continue to prioritise this important area. We also welcome the opportunity we were given to contribute to the improved exit interview process, where we provided views via our secretariat on what types of information should be collected.

3.75 Figure 3.14 shows the reasons for people leaving as identified by the exit surveys. The top three reasons for leaving in the period April 2015 to March 2016 were related to pay; however, for the period October 2016 to September 2017, the top reason related to career development.

Figure 3.14: **Most common reasons for resigning, 2015 to 2017**



Source: Cabinet Office supporting data to the SSRB, unpublished. Proportion of SCS rating reason as an important factor (4 or 5 out of five where 1 = not a factor and 5 = a major factor). Caution should be applied to direct comparisons between years because some SCS answered a subset of reasons in 2016-17.

3.76 At Director and Director General level, 46 per cent of those completing exit returns in 2016-17 were defined as 'regrettable losses', down from 56 per cent in 2015-16. These individuals were more likely than other leavers to cite pay as a factor for leaving.[31]

3.77 In the discussion groups, members said that colleagues were leaving the SCS to take up higher paid jobs in either the wider public sector or private sector, sometimes with the intention to return in the future to the SCS and obtain salaries significantly higher than what they previously earned.

3.78 Top performers were less likely to leave the civil service than other groups, while low performers were more likely to. Of those ranked as top performers in 2014-15, 7 per cent had resigned by June 2017, and in total 14 per cent had left the civil service, including retirements etc. This compared to 9 per cent and 24 per cent for 'achieving' performers. Of those ranked as a 'low' performers in 2014-15, 10 per cent had resigned by June 2017, and 48 per cent overall had left the civil service. However, this data must be treated with caution because, as we described in our report last year, we have heard anecdotally that some SCS members are classified as low performers by default after they have departed.

[31] This is defined by an individual's position in the 'talent grid' i.e. if they are considered to have high potential for promotion. Thirty nine per cent of all Directors and Directors General fall into this category on the talent grid, compared to 46 per cent of leavers in 2016-17. Data is not held for Deputy Directors. Assessment of the position in the talent grid is a separate process to performance management marking and the two are not necessarily linked.

Pensions and pension taxation

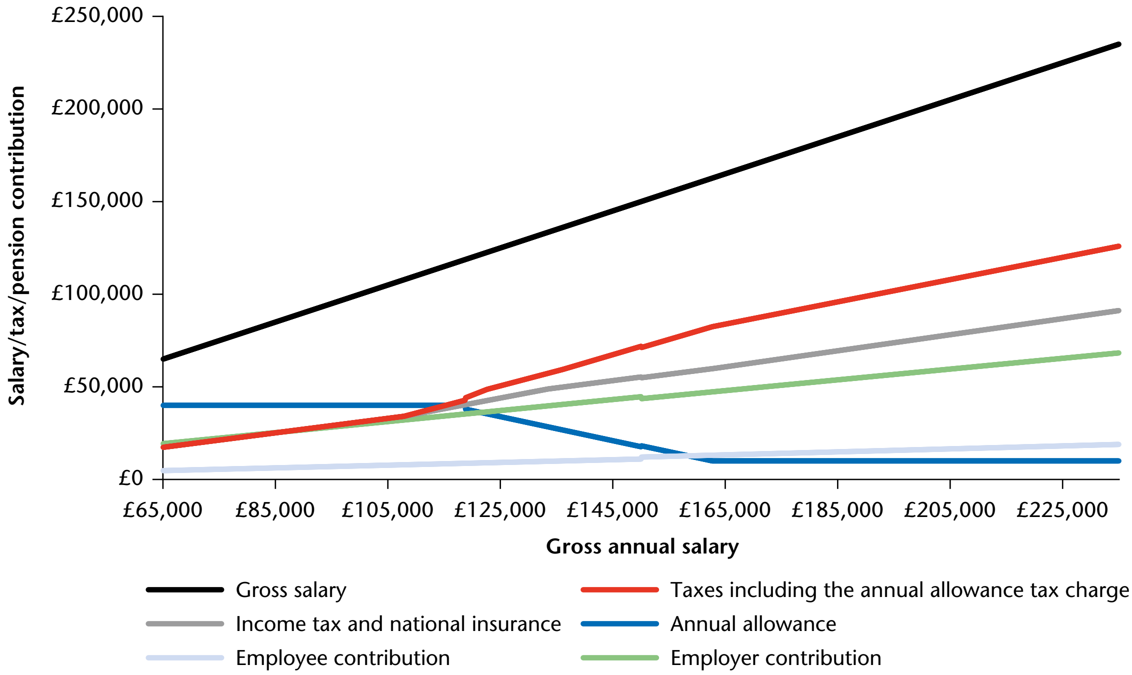
3.79 In last year's report, we illustrated how a breach of the pensions annual allowance was more likely under the Classic (final salary) pension scheme than the Alpha (average salary) pension scheme, as the career average scheme smooths accrual over the lifetime.

3.80 Pension tax allowances will affect members of the SCS in pay band 2 and above but appear to be having less of an impact on morale than in some other SSRB remit groups. This is in part because most of the SCS remit group do not have high enough salaries to breach the current annual allowance. Furthermore, some of the staff who are affected may be carrying over their under-used allowances from previous years. It is possible, however, that pension taxation could provide a significant disincentive to seek promotion to the most senior levels in future.

3.81 The annual allowance is the total amount of benefits that can be added to a pension scheme in a tax year without incurring a tax charge. The allowance was reduced from £255,000 to £50,000 from April 2011, and further reduced to £40,000 with effect from 2014-15. In the summer budget 2015, the Chancellor announced that, from April 2016, the allowance would be tapered at a rate of £1 for every £2 of taxable income (including pension benefits and not subtracting employee pension contributions) received over £150,000, down to £10,000 for those with income over £210,000. This final change affects those in our remit groups if their pay is more than £110,000 a year (excluding pension benefits and employee pension contributions) and see an increase in their pension benefits of more than £40,000 in a given year.

3.82 Figure 3.15 illustrates the tax liabilities from the Alpha pension scheme. This graph is calculated for all possible annual salaries a senior civil servant could earn. The annual allowance tax charge begins to affect civil servants earning £107,800 or more, where the annual addition to the value of the pension exceeds £40,000. This is around the minimum salary for a Director General (pay band 3). At this point on the graph, the red line, representing income tax, national insurance and the annual allowance tax charge diverges from the grey line, representing just income tax and national insurance.

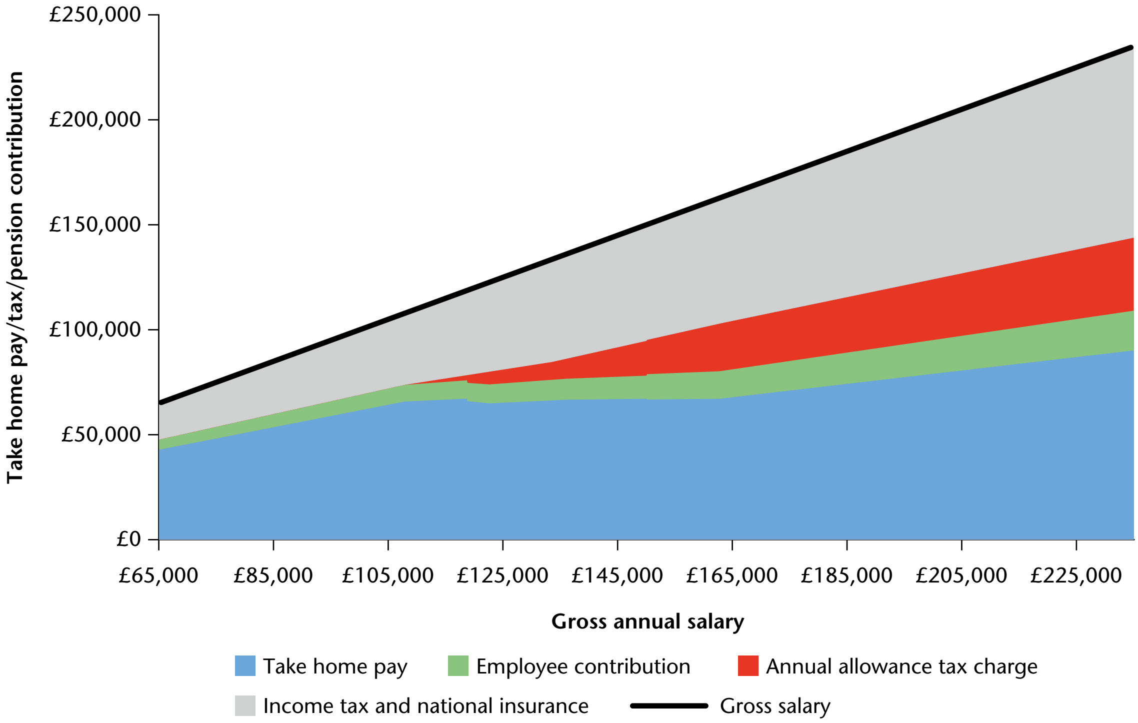
Figure 3.15: **Tax and pension contributions of senior civil servants**



Source: OME analysis.
Note: The annual allowance shown on this graph is the annual allowance, used or unused. This is shown to illustrate the taper. Taxes are graphed having taken the annual and any other allowances into account.

3.83 Civil servants earning over £118,700 start to lose the annual allowance tax relief. This is the point at which their income less their employee pension contribution exceeds the £110,000 threshold. This causes a spike in tax liability, where earning £100 more raises the annual allowance charge by over £1,200.

Figure 3.16: **Effect of annual allowance tax charge on senior civil servants pay**



Source: OME analysis.

3.84 Figure 3.16 shows the take home pay of senior civil servants, as represented by the light blue area. For gross salaries between £118,000 and £170,000, take home pay increases by less than £3,000. Marginal tax rates above 100 per cent are experienced between £118,800 and £122,600, although this calculation does not factor in increases to the value of the pension.

3.85 Such high marginal tax rates mean it could be rational for an individual to seek to work part-time rather than work full-time. This may result in a need to recruit more post-holders or to deny requests to work reduced hours, impacting negatively on motivation. We have not seen evidence that any plan is in place to manage this workforce risk.

3.86 **The analysis above will represent the perceived reality for at least some members of the remit group, but it is nevertheless important to note that the high marginal tax rates discussed above do not take account of the increased pension benefits that will come with higher pay. Once this is factored in, the total value of the compensation package generally increases as pay rises. Analysis that takes into account the increased value of the pension benefit is set out in Appendix G.**

3.87 It is important to note that there exists a 'Scheme Pays' method for deferring pension tax charges until retirement. However, this itself may lead to counter-intuitive outcomes. In our report last year, we presented an example where senior judges may retire with a smaller pension than less senior colleagues. Similar logic applies to the SCS and may adversely affect individuals' views about the desirability of applying for senior posts.

3.88 It is likely that members of the SCS with long service and/or those who reach a senior position early on in their career will also breach the pensions lifetime allowance. For example, a career of 37 years with an average salary of £60,000 will breach the £1,030,000 lifetime allowance under the Alpha pension scheme and subject an individual to an even higher marginal tax rate than modelled above.

3.89 Considering the above risks, last year we again encouraged the government to consider the issue of pension flexibility for public sector workers. We set out three broad options that we believe merit consideration. The first was trading off pension benefits for lower contributions, thus lowering tax liabilities. The second was changing the focus of reward packages for senior people away from pensions and more towards pay, as can happen in the private sector. The third option was to offer voluntary enrolment into defined contribution schemes.

3.90 We remain of the view that all three options are worthy of serious consideration, but we are yet to see evidence that the government is taking a strategic grip of this issue. Nevertheless, for the SCS, there has been some welcome action in terms of the third of our proposed options. As discussed above, eligibility for the Partnership Pension Scheme, a defined contribution scheme, has been extended to all civil service pension scheme members. This scheme offers a relatively generous package compared to defined contribution schemes generally available in the private sector.

3.91 The FDA and Prospect said they would still welcome the introduction of a '50-50' section within the Alpha pension scheme whereby members reduce their pension contributions in return for a reduction in pension benefits. This is currently a feature in the Local Government Pension Scheme. The government said that there are no further plans for flexibility on pensions at present.

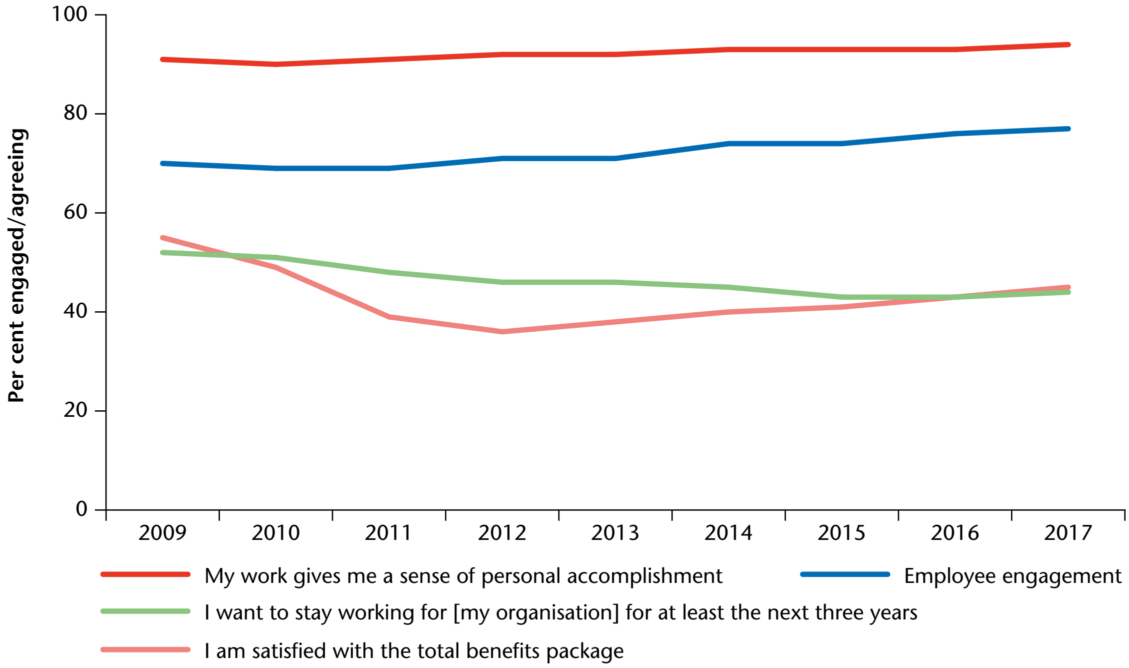
Morale and motivation

3.92 There were two different surveys of the SCS in 2016. One was the Civil Service People Survey for the whole civil service, run by Cabinet Office. The other was the FDA and Prospect membership survey for the SCS. Whilst neither of these surveys are a perfect measure of morale and motivation, the data remain relatively useful and worthy of comment.

3.93 The People Survey has a response rate of over 90 per cent and therefore, in principle, the results should be highly representative of those of the SCS group. However, we were told by members of the remit group that there is an incentive to answer the People Survey positively, as the results from a manager's work unit are used to assess their own effectiveness. The engagement score for the management area overseen by a member of the SCS is put on the front page of their annual appraisal form. Therefore, it may have an impact on a manager's prospects of receiving a non-consolidated performance pay award.

3.94 The 2017 People Survey suggests that engagement among the senior civil service continues to gradually increase, reaching 77 per cent, the highest since at least 2009 (see figure 3.17). The proportion agreeing with the statement, "My work gives me a sense of personal accomplishment," also remains high and improving. The percentage who agree that they want to stay working in their organisation for at least the next three years rose slightly to 44 per cent, although this followed a period of slow but steady decline since 2010. The proportion who were satisfied with the total benefits package increased slightly, to 45 per cent in 2017, up from 43 per cent in 2016, but well down on the 55 per cent seen in 2009.

Figure 3.17: **SCS engagement scores, 2009 to 2017**



Source: Civil Service People Survey.
Note: The employee engagement index is calculated as a weighted average of the responses to the five employee engagement questions (I am proud when I tell others I am part of [my organisation]; I would recommend [my organisation] as a great place to work; I feel a strong personal attachment to [my organisation]; [my organisation] inspires me to do the best in my job; [my organisation] motivates me to help it achieve its objectives) and ranges from 0 to 100 per cent. A score of 0 per cent represents all respondents giving a rating of "strongly disagree" to all five questions. A score of 100 per cent represents all respondents giving a rating of "strongly agree" to all five questions.

3.95 Results from Civil Service People Survey and the FDA survey suggest differing views, with the latter being more negative. The members of the SCS discussion groups also took a more negative tone than the People Survey results.

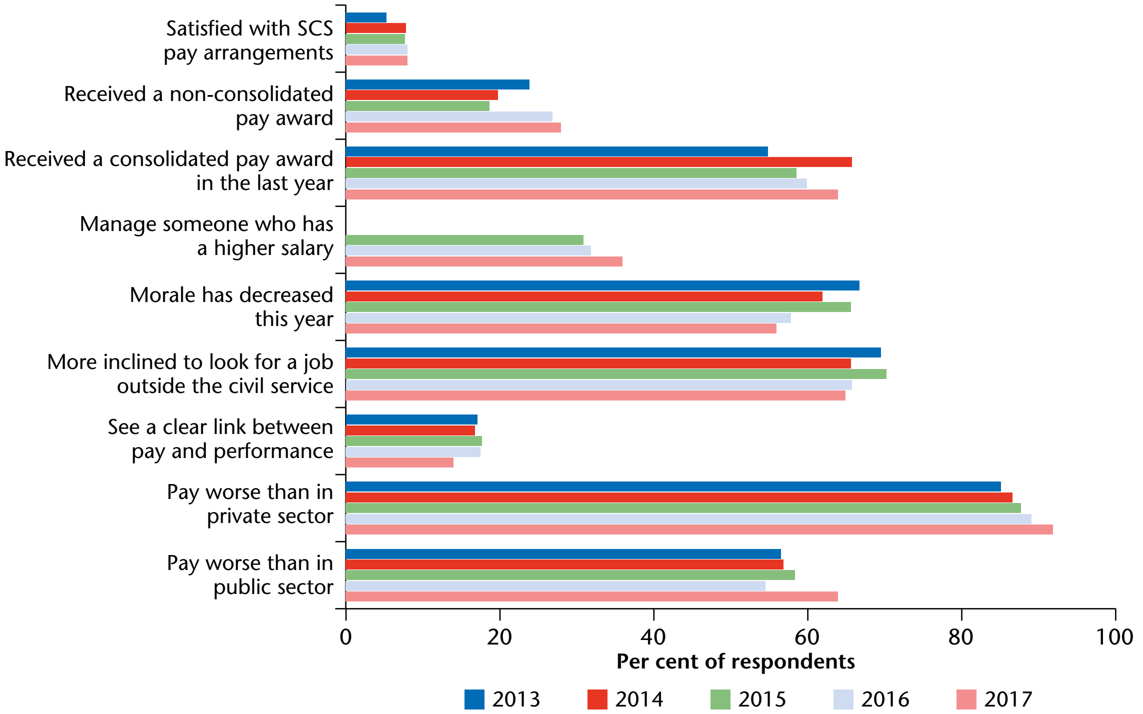
3.96 The FDA and Prospect survey is based on a relatively small sample, covering about 10 per cent of the SCS population. A summary of the findings from the survey is as follows:

- 92 per cent of respondents said they were dissatisfied with the pay arrangements, the same as in 2016.
- 64 per cent of respondents received a consolidated pay increase this year, but 10 per cent said they had not received a consolidated award in over five years.
- 28 per cent of respondents received a non-consolidated award this year, an increase from 27 per cent in 2016.
- 36 per cent of respondents said they managed someone on a lower grade who had a higher salary than them, up from 32 per cent in 2016.
- 56 per cent said their morale had decreased in the last year, compared with 58 per cent in 2016. The single factor that had the most negative impact on morale was pay (cited by 43 per cent).
- 65 per cent of respondents said they were more inclined to look for a job outside the civil service than 12 months ago, roughly the same as 66 per cent in 2016.

3.97 Overall, the findings are broadly consistent over time and do not show either an improvement or a deterioration of sentiment across surveys. The exception is in those who think that pay in the civil service is worse than elsewhere, which increased from 89.2 per cent in 2016 to 92 per cent in 2017.

3.98 Figure 3.18 shows the responses to the FDA and Prospect survey between 2013 and 2017.

Figure 3.18: **The FDA and Prospect SCS pay survey results, 2013 to 2017**



Source: The FDA and Prospect, evidence, published.

3.99 Some of the figures provided, including 92 per cent of respondents being dissatisfied with current pay arrangements, are striking. It should, however, be noted that this is based on a relatively small sample of the SCS.

Feeder group

3.100 Although the SCS does recruit from the private sector and the wider public sector (see figure 3.11 for recruitment figures), most current members of the SCS were promoted from within the civil service. In October 2017, we met a number of civil servants on the Future Leaders Scheme (FLS), who are staff at grade 6 and grade 7 with the potential to reach the SCS.

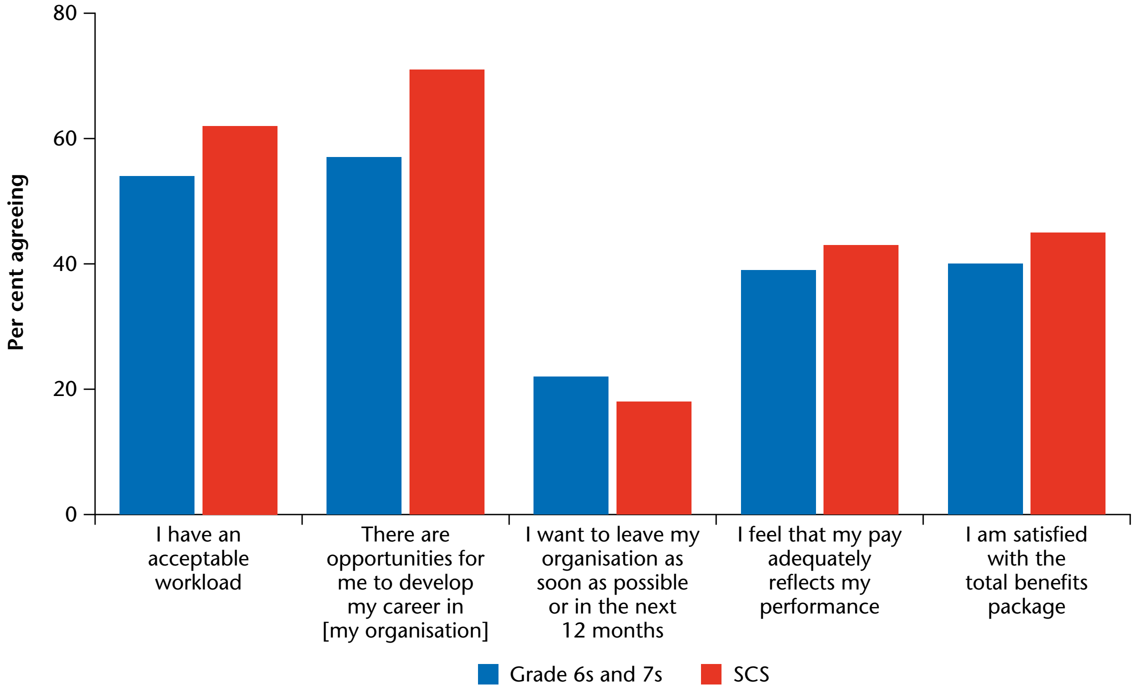
3.101 Many of the FLS participants said that the modest rise in pay on promotion to the SCS was not sufficient to compensate for the substantial increase in workload.

3.102 Evidence from the Civil Service People Survey suggests that engagement and satisfaction are lower among the grade 6 and 7 cohort than in the SCS (see figure 3.19). We will monitor this data to assess changes over time.

3.103 Staff turnover is low at grades 6 and 7, with an overall rate of 7.5 per cent in 2016-17 (compared to 14.5 per cent for the SCS) and a resignation rate of 2.7 per cent (compared to 4.5 per cent for the SCS).[32]

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

Figure 3.19: **Engagement and satisfaction, grades 6 and 7 and SCS, 2017**



Source: Civil Service People Survey, 2017.

Recommendations

Principles

3.104 For a number of years, we have highlighted what we consider to be serious weaknesses in the current SCS system and urged robust reform to address them. In 2017, the Cabinet Office initiated a review of the pay framework, developed a vision for a future SCS workforce and established three core principles upon which the SCS pay framework would be reformed.

3.105 We welcome both the government's intent to undertake reform of the SCS pay structure and the development of an overall long-term vision for this cohort. We acknowledge that this work is taking place in a challenging political and economic climate where the whole civil service faces high levels of workload and pressure, in particular due to the decision for the UK to leave the European Union. However, although we consider the development of a vision and supporting principles to be a step in the right direction, we do not consider that the review has so far been sufficiently strategic in its reach. Whilst some of the proposals provide a good foundation for a reformed SCS pay structure, others do not go far enough and further consideration of some aspects is needed to avoid the creation of unintended anomalies.

3.106 We note that the size of the SCS continues to grow and there appears to be no strategic control over this growth. The government needs to develop a plan for what a post-Brexit SCS should look like and be clear about the steps required to achieve it. Whilst we recognise that changes will take time to be implemented, we believe that the pace of reform to date has been too slow. For changes to be effective and durable, we believe that the government's vision for the SCS should be fully embedded long before the currently proposed schedule of the late 2020s.

3.107 We endorse the principles for change and vision outlined by the government for the SCS workforce. We agree that pay ranges should be shorter with higher minima. It is also our firm view that pay should reward those who are sustaining high performance, deepening expertise and increasing effectiveness whilst remaining in post.

Pay award

3.108 Data for the remit and feeder groups does not suggest there are any immediate recruitment and retention issues, either among the remit group or the feeder grades, except in some specialist areas. However, there has been a notable decline over time in depth of experience among the remit group. We also note the generally improved picture for pay growth in the private sector, as detailed in Chapter 2. This may make external roles more attractive to SCS members and create recruitment and retention pressures, particularly amongst those staff whose skills are most transferable to outside the civil service.

3.109 The SCS remit group, in common with other public sector workers, has experienced an extended period of pay restraint. The result is that many members, including some high performers, have not received a significant consolidated pay rise for a number of years. We therefore believe that there should be a general pay award across the SCS this year.

Recommendation 1: We recommend that all SCS members should receive a 1 per cent consolidated basic pay increase.[33]

Pay ranges

3.110 In both 2015 and 2016, we recommended that the minimum for pay band 1 should be increased by £2,000 to reduce the significant overlap between pay band 1 and the grades immediately below. In both years, the government rejected these recommendations.

3.111 This year, the government set out its intention to move all SCS to the new minima for their pay band by 2020-21. We welcome this to the extent that it acknowledges our previous concerns about grade overlap. However, although the government has set out proposed minima for 2018-19, it is unclear how the gap to the new minima over the next three years would be bridged. It is also questionable whether this will substantially alter the grade overlap issue, because this will depend on future pay awards at grade 6 and 7 level.

3.112 The current Cabinet Office proposals involve three pay band minima for each grade, which is unnecessarily confusing and could lead to some counter-intuitive outcomes, such as lower performers receiving larger pay rises in future years. Therefore, we recommend a simpler approach, costed using paybill modelling that we requested from the Cabinet Office.

Recommendation 2: We recommend that an additional 0.25 per cent of the paybill should be used to increase the pay band minima for all pay bands to the following levels:

- **Pay band 1: £68,000** (currently £65,000)
- **Pay band 2: £90,500** (currently £88,000)
- **Pay band 3: £111,500** (currently £107,000)

The 1 per cent consolidated basic pay increase set out in Recommendation 1 should be applied <u>after</u> the increase to the minima.

[33] As noted in paragraph 3.121, those SCS members who are subject to current performance improvement measures should not receive any increases in pay.

3.113 The Cabinet Office proposed that top performers should receive increases to their base salaries this year to move them in line with the pay band minima proposed for 2020-21. We believe that sustained high performance is more appropriately rewarded through pay progression and performance increases under the performance management system. We therefore do not support this proposal.

3.114 The Cabinet Office has said that it ruled out lowering the maxima this year, as it did not wish to reduce the flexibility for pay ranges for certain professions when it carries out detailed work on the professional groups next year. Whilst we appreciate that this work needs to be done, our view is that new pay maxima, calculated as 150 per cent of the minima, can be implemented for 2018-19 for new recruits and people currently paid below that level.

Recommendation 3: We recommend that the pay range maxima for new recruits and those people currently paid below the new maxima are reduced for 2018-19, to the following levels:

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

3.115 Exceptions for new recruits can continue to be dealt with through existing mechanisms (i.e. high level sign off). The Cabinet Office should continue to review these pay ranges every year to ensure they are set appropriately.

3.116 The government has proposed that from 2020-21, Directors General move to a different pay structure which is similar to the one currently in use for Permanent Secretaries. The government has asked that we comment on and endorse this proposed structure. We do not consider that we have been given sufficient information to do either, but we remain willing to comment in the forthcoming year, on the receipt of more information.

3.117 The government has said that, in the long term, it wants to move to a pay system for the SCS that encourages and enables reward for sustained high performers and those who deepen their expertise and develop capability whilst remaining in post. We note that there are no proposals yet for movement though pay ranges, despite this being one of the principles. The government must create a salary progression process within new pay ranges which rewards sustained high performance, deepening expertise and increasing effectiveness. This needs to be a priority for 2019. In the absence of such a framework, our proposals this year can only represent a short-term interim measure. Introducing a new pay system in a piecemeal manner risks perverse incentives and unintended behavioural consequences.

3.118 Although the government has said that pay band 1A is effectively a closed grade, the number of members at this grade continues to increase each year. Whilst the evidence states that pay band 1A will not be part of the new pay framework, there does not appear to be a clear strategy for dealing with this grade. We believe that existing pay band 1A staff, or those recruited into it, should not be penalised by not benefitting from an increase in the pay band minimum. **We therefore propose that the new minimum for pay band 1 is applied to pay band 1A. We also request that the government considers its approach to pay band 1A and provides a clear proposal on the future of this grade in the next pay round.**

Addressing anomalies

3.119 Significant anomalies in SCS pay remain, including an insufficient link between pay and performance, capability and expertise. In this context, alongside higher levels of inflation than in recent years, we believe an additional 1.25 per cent of the pay budget should be allocated to address anomalies including addressing position in range and merit-based progression, over and above the 1 per cent base pay increase for all SCS members. There should be a particular emphasis in the allocation of this further 1.25 per cent to reward those with sustained high performance and who have increased their effectiveness and deepened their expertise. This should apply in particular where staff are relatively low in their pay range and have not seen significant pay rises in recent years.

Recommendation 4: We recommend that an additional consolidated 1.25 per cent should be allocated and should be distributed to SCS members dependent on:

- **Demonstration of sustained high performance, increased effectiveness and deepened expertise.**
- **Their position in the pay range.**
- **The extent to which they benefited from the increase to the minima.**

3.120 **Collectively, with the increase in pay band minima, these recommendations will result in an overall increase to the paybill of 2.5 per cent, which the government believes could be offset by 0.5 per cent.**

3.121 **However, those SCS members who are subject to current performance improvement measures should not receive any increase in pay. Therefore, the above pay recommendations should not be applied to these staff until they have exited such measures.**[34]

3.122 We believe that it is crucial that the Cabinet Office should put in place a monitoring system to ensure that the pay awards have been fairly and appropriately distributed by departments. The current position, whereby there is a range of inconsistent applications of awards across differing departments (including: in year bonuses ranging from £450 to £9,000, the latter figure being £4,000 above the prescribed level; SCS pay band 1 minima varying between £65,000 and £73,900; and end-year non-consolidated awards ranging from £5,000 to £17,000), should not be replicated without clear and explicit justification and prior approval.

3.123 The SSRB would therefore like to receive evidence of how these recommendations have been applied.

Recommendation 5: The Cabinet Office should provide evidence to demonstrate, in particular in relation to Recommendation 4, that the application of the award has resulted in higher awards to those:

- **who demonstrated evidence of sustained high performance, increased effectiveness and deepened expertise;**
- **who were relatively low in the pay range; and/or**
- **who have benefited less or not at all from the rise in the minima.**

[34] SCS members who have received a 'low' performance box marking, but who are not subject to performance improvement measures are not excluded from these recommendations, meaning that Recommendations 1, 2 and 3 would apply to them. It is not expected that Recommendation 4 would apply to them.

Performance awards

3.124 There continues to be a widespread lack of confidence in the performance management system. The Cabinet Office has indicated that a review of the system will take place in 2018. We recommend that a comprehensive review of the performance management system is conducted without further delay.

3.125 We would like to see a performance management system which rewards those who are contributing most, according to the principles of performance, capability and expertise outlined above. However, the current system does not provide a practical way of distinguishing levels of performance within the 'achieving' box marking, which accounts for 65 per cent of the SCS under the guided distribution system currently in place. This should be addressed by Cabinet Office as part of its review.

3.126 The distribution of 'top' performers, receiving performance bonuses, is skewed towards the most senior SCS grades. This bias also needs to be considered as part of the performance management review.

3.127 We are pleased to see that most departments are using their eligibility to make in-year contribution awards fully and that there has been a positive response to their introduction. However, the circumventing of guidelines to issue awards in excess of the £5,000 limit is emblematic of the centre's inability to exercise control over departments. Whilst we support the principle of recognising performance in-year, consistent application of centrally agreed guidelines across departments is needed to ensure maximum benefit and fairness. Alternatively, a decentralised system needs to be agreed.

3.128 The government has proposed that the eligibility of those receiving these awards should increase from 10 to 20 per cent of staff. If no new funding is being made available to support this, extending eligibility will reduce the average level of awards and we consider that this will diminish the positive impact that they have made. However, we agree with the principle of recognising and rewarding performance in-year. **We therefore endorse the proposal to extend eligibility of in-year awards on the proviso that the value of individual awards remains at a meaningful level and their use is applied consistently across departments.**

3.129 We endorse the introduction of a corporate recognition scheme. However, the necessity to obtain sign off by the Cabinet Secretary appears overly bureaucratic and could lead to underutilisation of the scheme, as the process itself will prove a disincentive to use. We recommend, therefore, that sign off by the relevant departmental Permanent Secretary is sufficient. **A central audit process should be implemented to ensure fair and consistent application of the in-year and corporate recognition awards. We would also like to see evidence on the use of in-year awards and the corporate recognition scheme in future years and for these awards to be reviewed as part of the review of the performance management system.**

Recommendation 6: We endorse the proposals to:

- **Extend the eligibility of in-year awards from 10 to 20 per cent of the remit group.**
- **Introduce a corporate recognition scheme with awards of around £1,000, authorised at Permanent Secretary level.**

This is on the proviso that these schemes are applied consistently across departments with a central audit process put in place to confirm this. We should like to be updated on the result of this audit in future years.

Professional groupings

3.130 The government has sought to address recruitment and retention issues in certain specialist areas with proposals for pay ranges based on different professional groupings. We agree with the principle that some professions may warrant different pay ranges. However, there needs to be clear guidance on the criteria and process for assessing how professions will be assigned. We would be happy to work with the government in developing more detailed proposals.

3.131 The Cabinet Office must also set clear rules on how staff can move between professional groupings and what the impact on their pay would be. It needs to consider carefully how to define the boundary between generalist and specialist roles. For example, the policy profession is likely to disguise a variety of specialisms.

Movement around the system

3.132 The Cabinet Office's review of the SCS pay framework identified that promotion, or level transfer, are seen as the only ways to obtain pay increases. There is a risk that this may have led to premature promotions, often before members are ready, and to a higher-than-desired turnover of staff between SCS roles, with the median time in current post for SCS being under two years. We also note that the percentage of SCS with less than four years in the SCS continues to increase. This is likely to be due, in large part, to the growth in the size of the SCS, but the impacts should nevertheless be closely monitored.

3.133 We agree that a move to a similar job at the same grade should not necessarily lead to a pay rise. We also endorse the principles of wanting to reduce the turnover rate and increase the length of time spent in role. However, for many SCS members, moving around is the only practical means of securing a meaningful pay rise as their effectiveness and expertise in role increases. Therefore, we are concerned about the retention risks of applying a disincentive to move roles internally before applying incentives to stay in post, and believe that consideration should be given to the latter this year. We are also sceptical as to whether the identified 0.5 per cent savings from controlling movement around the system are viable or achievable. Restricting pay increases on internal movement could result in a fall in internal applicants and a rise in numbers of external, more expensive appointments.

3.134 **We do not recommend, therefore, that additional centralised pay controls are put in place at this point. However, it is important that current controls are enforced to ensure equitable treatment.**

3.135 Furthermore, is not clear why the proposals to restrict pay rises for internal movement are only in respect to pay bands 1 and 2. This, alongside the lack of proposals to address the differential between external and internal pay and the current bias in high-performance marks towards more senior SCS grades, could be perceived as setting a poor leadership example and lead to further demoralisation of the workforce.

3.136 The Cabinet Secretary was clear in his oral evidence that he wants SCS members to stay in post longer and to ensure that they are not penalised for doing so. This signifies a shift from the traditional culture in which, to develop broad capabilities, SCS members have often been encouraged to move post after two or three years. The Cabinet Office needs to communicate clearly this change in direction to ensure that the message is embedded. Furthermore, it needs to ensure it has the right measures in place to create incentives that are consistent with its vision.

Government Commercial Organisation

3.137 Although there were no proposals put forward by the government in relation to the GCO, the remit letter from the government asked us to comment on its pay framework. However, we do not consider that the limited information we have received is sufficiently detailed to enable us to comment on the overall remuneration package.

3.138 The Cabinet Office asks us to make recommendations on pay for the SCS as a whole. Until we are advised otherwise, we consider that staff above grade 6 in the GCO are members of the SCS. They therefore form part of the remit group for which we should be making recommendations. **We look forward to receiving more detailed data in future evidence to enable us to comment on, and make recommendations for, the GCO.**

Looking ahead

3.139 We welcome the intention shown by the Cabinet Office to begin reform of the SCS pay framework. However, there is a long way to go. We encourage the government not to lose momentum or focus and we look forward to receiving, and discussing with the Cabinet Office, more developed proposals in the forthcoming year on the development of a new pay and workforce strategy.

3.140 The Cabinet Office should focus, as a priority, on developing a salary progression process within the new pay ranges, developing the pay bands for the specialist areas and reviewing the performance management system.

3.141 A clear plan is needed for centralisation, or otherwise, of the management of the SCS workforce. **The government needs to determine, and clearly articulate, the system that it wants, whether that be a centralised management of the workforce, delegation to departments or a specified balance between the two. It then needs to ensure that mechanisms are in place to manage it, that the rules are communicated and understood, and that there is accountability for them. If a significantly decentralised route is taken, it will need to carefully consider how the SSRB can best play an effective role in advising on SCS pay.**

3.142 We believe that the review will benefit from greater involvement of staff and stakeholders, such as ourselves, the FDA and Prospect. For the SSRB's input to be meaningful, we ask that the Cabinet Office engage us in discussions sooner rather than later. We have set out in Chapter 1 the value that we want the SSRB to bring and we consider that the SCS is a prime example of where the government can make better use of the SSRB.

3.143 The quality of data provided for the SCS compares well with that for other remit groups and the Cabinet Office has been responsive to some of our suggestions for data improvement, for which we are grateful. However, there are still areas where improved and more detailed data could be provided. These include:

- information on the feeder group along the lines of that provided for the SCS, which will require new mechanisms to collect information from individual departments;
- the workloads and working hours of SCS members;
- performance awards made to Permanent Secretaries;
- pay for specialists, both in the remit and feeder groups and including those in the GCO; and
- evidence on why SCS members from BAME backgrounds and members with disabilities are more likely to resign than the average for the SCS as a whole.

3.144 Having this year provided feedback on the exit interviews process and template, we also look forward to receiving more detailed information on those leaving the SCS in future years.

3.145 We find it beneficial to hear directly from members of our remit groups about their views on their remuneration packages and their experiences of the pay and performance management system. Our secretariat will discuss with Cabinet Office how to ensure a balanced representative sample of SCS participants can be secured for remit group discussions next year.

3.146 In Chapter 1 of this report, we highlighted progress against the SSRB's strategic priorities as set out in our 2017 report. Our assessment of the position for the SCS is summarised in table 3.6.

Table 3.6: **Assessment of position of SCS against the SSRB's strategic priorities**

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

SSRB priority in 2017 report	Assessment of SCS position in 2018
Pay and workforce strategy: Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	Cabinet Office has conducted an initial review of the pay framework and linked its proposals for 2018 to its future vision. However, considerable further progress is required. ↑
Focus on outcomes: There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	Some proposals to make savings from operating more consistent pay policies. However, detailed costings were not provided and there is concern about the ability to generate savings. ↑
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	The proposals put more emphasis on rewarding high performers but there is little evidence on how poor performance is being identified or addressed. ↔
Performance management and pay: There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	Established performance management system, but not trusted by staff. Increase in use of in-year awards. Commitment to review in 2018. ↔
Better data: Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good and improved workforce data. Better exit interview data is required. ↔
Feeder groups: The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Some data on motivation and pay of feeder group provided. Further work required. No evidence of major concerns. ↔
Targeting: Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	The new framework seeks to provide consistency across departments whilst retaining departmental flexibility to target. However, the current system limits scope for strategic targeting of awards. ↑
Central versus devolved tensions: Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	Tension between central and departmental control not resolved by new proposals. ↔
Diversity: The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Relatively improved performance on gender but still not satisfactory. ↔
	Despite increases in numbers, still poor on ethnicity, in particular in relation to Permanent Secretaries. ↓

Chapter 4

Senior Officers in the Armed Forces

Summary

4.1 At present, recruitment to and retention of the senior military remains at satisfactory levels. The senior military continues to attract sufficient numbers of personnel from the feeder group and there is no evidence to suggest a decline in the quality of these individuals.

4.2 However, we stress again this year that the situation in the feeder group needs to be kept under careful review. Although voluntary outflow rates in the OF4 and OF5 ranks have fallen over the last year, the numbers in the OF6 rank choosing to leave the Armed Forces has increased. There is anecdotal evidence to suggest that increasing workloads, reducing promotion opportunities and changes to pension taxation are causing more individuals in the feeder group to consider whether or not they want to serve for a full career. The MoD reported that senior management is now spending significantly more time on career counselling people in this group.

4.3 We share the MoD's concern that members of the remit group and the feeder group perceive that the military offer is becoming less attractive in comparison to equivalent roles in the civilian sector. This presents an ongoing risk to the Services being able to attract and retain sufficient numbers of high quality individuals required to fill the most senior ranks in the military.

4.4 We understand the argument for broad comparability with the pay award recommended by the Armed Forces Pay Review Body (AFPRB) this year. We acknowledge the importance of an across the board award in maintaining morale and ensuring that all members of the senior military are seen as being valued. We note that there are signs of increasing discontent within the group, driven in part by the pension taxation changes. Some concern also remains about the adequacy of incentives for the best members of the feeder group to continue to seek progression in the future. All that said, the fact remains that the senior military, unlike some other cadres within the Armed Forces, is not currently experiencing problems with recruitment or retention and overall morale is high.

4.5 The above considerations lead us to recommend an across the board consolidated pay award of 2.5 per cent for all members of the senior military.

Introduction

The remit group

4.6 There were 122 senior officers at 2-star rank and above on 1 July 2017, a decrease of three over the year. A breakdown of the numbers by rank since 2012 is given in table 4.1 and a list of officer ranks in the UK military is set out in Appendix I. There were just four female officers, all at 2-star, in the remit group on 1 July 2017, an increase of one from a year earlier. No members of the senior military reported as being from a Black Asian and Minority Ethnic (BAME) background.

Table 4.1: **Number of senior officers across all services at 1 July, 2011 to 2017**

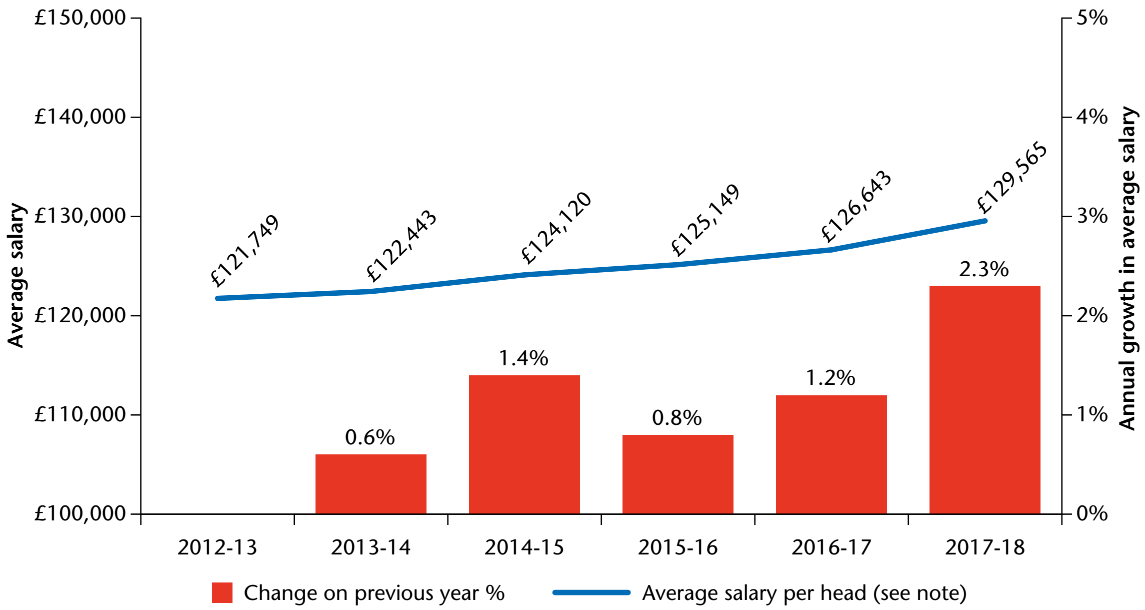
	2011	2012	2013	2014	2015	2016	2017	Net change 2016-2017
2-star (OF7)	95	94	92	95	91	86	89	3
3-star (OF8)	23	22	27	27	30	31	25	-6
4-star (OF9)	10	9	9	8	7	8	8	0
Total	128	125	128	130	128	125	122	-3

Source: Ministry of Defence evidence, unpublished.

4.7 In 2017-18 those in our remit group were paid between £113,810 and £265,588, with an associated paybill of £26.3 million. This included Employer's Earnings Related National Insurance Contributions (ERNIC) and Superannuation Contribution Adjusted for Past Experience (SCAPE).

4.8 Figures supplied by the MoD show that salary growth per head averaged 2.3 per cent last year, as shown in figure 4.1. This includes factors other than the annual pay award, including pay progression, promotion and fluctuations in the number of Service personnel at each rank.

Figure 4.1: **Salary per head and annual growth, 2012-13 to 2017-18**



Source: OME calculations using Ministry of Defence unpublished data.
Note: Excludes employer national insurance and pension contributions. 2016-17 figure revised from last year.

Pay and the pay system

4.9 Unlike our other remit groups, the pay system for the senior military includes incremental progression and a non-contributory pension scheme. All 2-star and 3-star officers also receive X-Factor, albeit at a tapered rate.[35] However, the senior military do not receive performance-related pay and there is limited security of employment at their rank.

4.10 The senior military receive annual pay increases, subject to satisfactory performance, through a system of incremental progression. Written evidence from the MoD stated that for 2017-18 each increment equated to an average increase of 2.6 per cent. These increases therefore have greater value to an individual than any general award that has been recommended by the SSRB in recent years. The MoD told us that of those officers in the remit group at 1 April 2017, four who were at the top of their pay scale, and 14 who had insufficient seniority, did not receive an increment on this date (15 per cent of the total remit).[36] No officers were held back on receiving an increment because of poor performance.

4.11 There is currently a 10 per cent minimum base pay increase (excluding X-Factor) on promotion from 1-star to 2-star.[37] In its written evidence, the MoD points out the importance of maintaining this differential to ensure 2-star pay is sufficient to attract officers of the right quality into the senior military. It highlights the fact that 28 per cent of those promoted to 2-star in the last four years were from the top of the 1-star pay range.

Pension schemes

4.12 Following our request last year, the MoD has supplied more robust data on the numbers of senior military that belong to each of the three existing Armed Forces pension schemes. Table 4.2 shows that 64 per cent of the remit group belong to the 1975 Armed Forces Pension Scheme (AFPS75), 25 per cent to the 2005 scheme (AFPS05) and 11 per cent to the newest scheme introduced on 1 April 2015 (AFPS15).

Table 4.2: **Number of senior military that belong to each Armed Forces pension scheme at 1 July 2017**

	AFPS75		AFPS05		AFPS15	
Rank	**Number of members**	**%**	**Number of members**	**%**	**Number of members**	**%**
2-star	57	64	18	20	14	16
3-star	16	64	9	36	0	0
4-star	5	63	3	38	0	0
Total members	78	64	30	25	14	11

Source: Ministry of Defence evidence, unpublished.

[35] X-Factor is a pensionable addition to pay which recognises the special conditions of service experienced by members of the Armed Forces compared with civilians over a full career. It is recommended by the Armed Forces Pay Review Body, and in 2017-18 was £10,376 at the top of the OF4 pay scale. For senior officers, the payment is tapered. 1-star officers (the rank directly below the SSRB's remit) receive 50 per cent of the cash value of X-Factor at the top of the OF4 scale. 2-star and 3-star officers receive an amount equivalent to 25 per cent of the cash value of the X-Factor at the top of the OF4 scale. 4-star officers and above do not receive it.

[36] Officers are not eligible for incremental progression if they have served in the rank for less than six months of the reporting period. Therefore, officers who assume promotion after 31 July are not eligible for incremental progression in the following April.

[37] This was introduced following a recommendation made by the SSRB in its 2007 report.

Medical Officers and Dental Officers (MODOs)

4.13 There were two 2-star and one 3-star Medical Officers and Dental Officers (MODOs) at June 2017, with an associated paybill cost, including ERNIC and SCAPE, of £0.775 million. The 2-star MODO rate of pay is 10 per cent above the base pay at the top of the MODO 1-star scale plus X-Factor. The 3-star MODO rate of pay is 5 per cent above the base pay at the top of the MODO 2-star pay scale plus X-Factor.

Government response to our 2017 recommendations

4.14 The government accepted our recommendation to increase the base pay of the senior military by 1 per cent, with effect from 1 April 2017. It also stated that eligible senior officers, like other members of the Armed Forces, would continue to receive an increment for their pay scale, subject to satisfactory performance. In addition, the government accepted our recommendations that there be no change to the current pay differentials for senior MODOs and that all officers should receive a minimum 10 per cent increase in base pay (excluding X-Factor) on promotion from 1-star to 2-star.

Policy context

4.15 The MoD explained that under the 'Star Count' initiative the total number of 1-star and above military personnel continues to be monitored to assess whether the target of a reduction in these posts, from 500 in 2010 to 405 in 2020, will be reached. With 431 personnel at 1-star and above on 1 April 2017, the MoD judged that the 2020 target was achievable.

4.16 In its written evidence to us, the MoD acknowledged that the government had confirmed that the 1 per cent public sector pay policy would not apply to awards for 2018-19. It went on to emphasise, however, that budgets had already been set for 2018-19 and that any award above 1 per cent would need to be funded by savings identified by Top Level Budget Holders and Commands from elsewhere in their programmes. The MoD confirmed at oral evidence that each additional 1 per cent award for this remit group would cost £261,000.

Proposals

4.17 The MoD did not propose a specific figure for the pay award in its written evidence but asked the SSRB to recommend an award that would "retain suitably skilled and motivated personnel" and "maintain morale in the Armed Forces with a competitive remuneration package." It also asked for the minimum guaranteed increase to base pay (i.e. excluding X-Factor) of 10 per cent on promotion from 1-star to 2-star to be maintained, and that the existing pay arrangements for 2 and 3-star MODOs should continue.

4.18 The MoD pointed out that any difference between the AFPRB award for the main remit group and that of the SSRB award for the senior military would have an impact on the pay differential between 1-star and 2-star officers. The Chief of the Defence Staff (CDS) and the Chief of Defence People (CDP) told us at oral evidence that maintaining a broad link between the pay awards for the senior military and the rest of the Armed Forces was important in maintaining morale and sending a message that all parts of the Armed Forces were equally valued.

Evidence

4.19 We took written and oral evidence from the MoD. The oral evidence session was attended by the Minister for Defence People and Veterans, CDS and CDP. We also held a discussion group with 10 senior officers, around 8 per cent of the remit group.

Recruitment

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

4.21 The MoD informed us that the Senior Appointments Committee continues to carry out an annual review of the top talent across all three Services at 2 and 3-star level. It looks six to eight years ahead to try to ensure that the most appropriate people are available to fill the senior roles when required.

4.22 Overall, there appears to be no significant recruitment issues. During the 12 months to 30 June 2017, 15 officers were promoted into the remit group to replace the 15 who left.

4.23 During oral evidence, the Minister for Defence People and Veterans emphasised the importance of the Armed Forces being reflective of today's society. He explained that the setting of recruitment targets for female and BAME service personnel, and the initiatives around meeting these targets, should eventually lead to greater representation of these groups in the more senior ranks. The Minister stressed the importance of Service personnel from under-represented groups being able to act as role models.

4.24 CDP also highlighted the positive signal on inclusivity sent by the fact that all roles, including the Royal Marines, were now open to female Service personnel. The Minister explained that the work towards the introduction of the Flexible Engagements System through the Flexible Engagements Bill would also prevent the reduction of commitments and career breaks from inhibiting individuals' careers. He concluded that, while the Armed Forces was making good progress on increasing diversity and inclusivity, there was still a long way to go.

Retention

4.25 The MoD reported that the voluntary outflow rate for the senior military, excluding normal retirements, for the 12 months to 30 June 2017 was 4 per cent for 2-star officers and zero for 3-star and 4-star officers. Table 4.3 shows early retirements from the remit group over the last five years.

Table 4.3: **Officers in the senior military remit group leaving the services voluntarily, 2012-13 to 2016-17**

Rank	2012-13	2013-14	2014-15	2015-16	2016-17
2-star	3 (3%)	6 (6%)	5 (5%)	5 (6%)	4 (4%)
3-star	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
4-star	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)

Source: Ministry of Defence evidence, unpublished.

Notes: This covers the period from 1 July to 30 June each year.

The table shows early departures and not those at normal retirement age.

Leavers

4.26 This year, we requested data from the MoD on where senior officers go when they leave the military and what salaries they attract. The MoD told us that, while exit interviews were generally carried out for senior officers, questions relating to their new employment and salary were either not asked or not recorded. This information was therefore not available for this year. However, officers were asked about their reasons for leaving.

4.27 We note that, of the four officers who stated reasons for retiring early during the 12 months to 30 June 2017, none cited the offer of civilian employment as the reason, compared to two out of five officers retiring early during the previous year.

4.28 In oral evidence, CDS identified the need for the MoD to improve its data collection processes for leavers through exit interviews, the questions that were being asked in the Armed Forces Continuous Attitude Survey (AFCAS) and by other means.

Morale and motivation

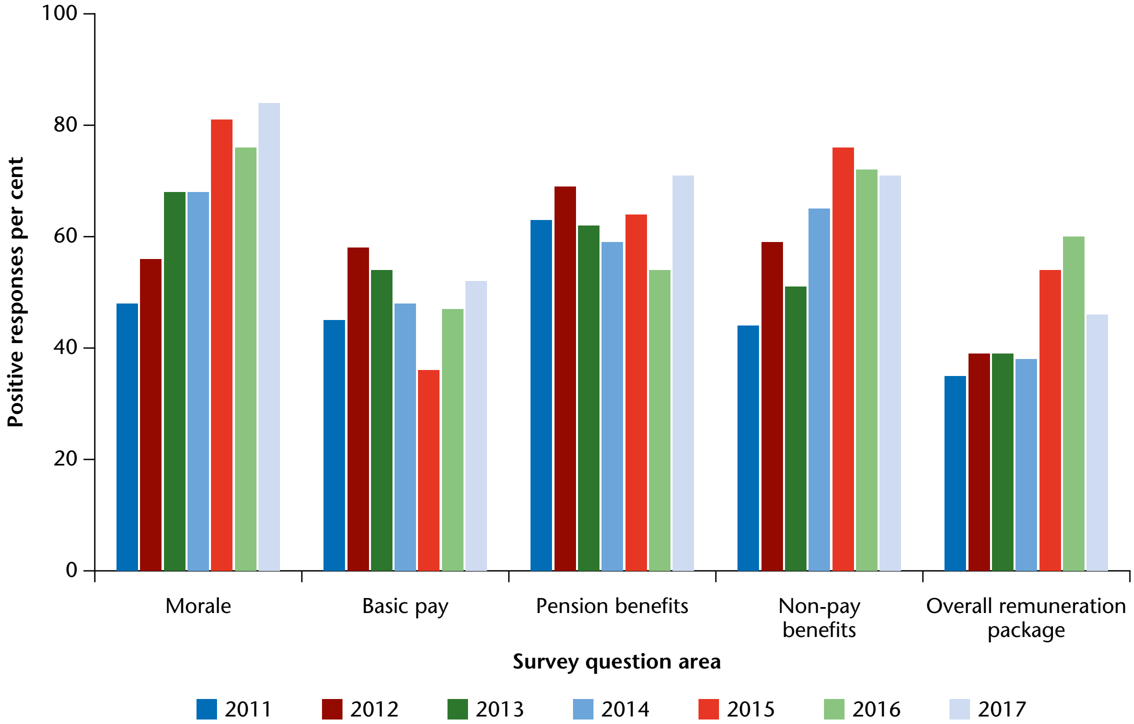
4.29 The MoD told us that, for the senior military, the results of the 2017 AFCAS showed increased levels of satisfaction in 12 out of the 18 factors where comparisons to the previous year could be made, two factors showed decreases and four showed no change. There were increases in satisfaction levels with base pay (including X-Factor) from 47 to 52 per cent, pension benefits from 54 to 71 per cent and those rating their own morale as high from 76 to 84 per cent. However, results showed a fall in the percentage rating the level of Service morale across the whole of the Armed Forces as high, from 35 to 24 per cent, and increases in the percentage of those rating their workload as too high, from 61 to 79 per cent, and in those dissatisfied with promotion opportunities, from 4 to 13 per cent.

4.30 We note that the results of the AFCAS are liable to considerable fluctuations year on year as the remit group is fairly small and, of the 77 per cent of the group asked to complete the survey this year, just 54 per cent responded. The MoD in its written evidence and CDS at oral evidence suggested that the results of the AFCAS should therefore be treated with a certain degree of caution.

4.31 Our secretariat also ran an online survey for the whole of the senior military remit group again this year. It contained questions that complemented the AFCAS survey and elicited 47 responses, representing 39 per cent of the remit group. The results of the survey ran by the Office of Manpower Economics (OME) showed similar results to the AFCAS with 46 per cent of respondents either satisfied or very satisfied with the overall remuneration package (a decrease from 60 per cent the previous year). Results showed an increase, compared to the previous year, in the percentage of personnel working over 55 hours a week (from 71 per cent to 83 per cent) and an increase in dissatisfaction with the number of hours worked (from 31 to 51 per cent). However, nearly all respondents said they were motivated to do a good job, with the vast majority rating themselves as motivated or highly motivated.

4.32 Figure 4.2 shows changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale for officers at 2-star rank and above between 2012 and 2017.

Figure 4.2: **Changes in satisfaction with pay, pension, non-pay benefits, overall remuneration and morale for officers at 2-star and above, 2011 to 2017**



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

4.33 The senior discussion group suggested there was more dissatisfaction in the remit group than was reflected in the survey results. Some summarised the situation as a choice between remaining in the military and managing decline, with shrinking budgets, increasing bureaucracy, longer working hours and a worse 'lived experience', or leaving and contributing to developing businesses, living with their families in their own accommodation, being able to take holidays and enjoying an improved lifestyle with a higher income.

4.34 We were told that there were more opportunities in the civilian sector (for example, in local government and as senior executives in the defence industries) for the senior military now, due to the increased business skills they were encouraged to develop. 2-star officers stated that they were working longer hours than they had done five years ago due to the decline in the number of senior officer posts without a corresponding reduction in the span of command, an increase in representational duties and a reduction in the number of support staff. Some concluded that the total value of the employment package was no longer sufficient to compensate for the amount of separation from their families. The value of the pension in respect of recent changes to pension taxation was also raised.

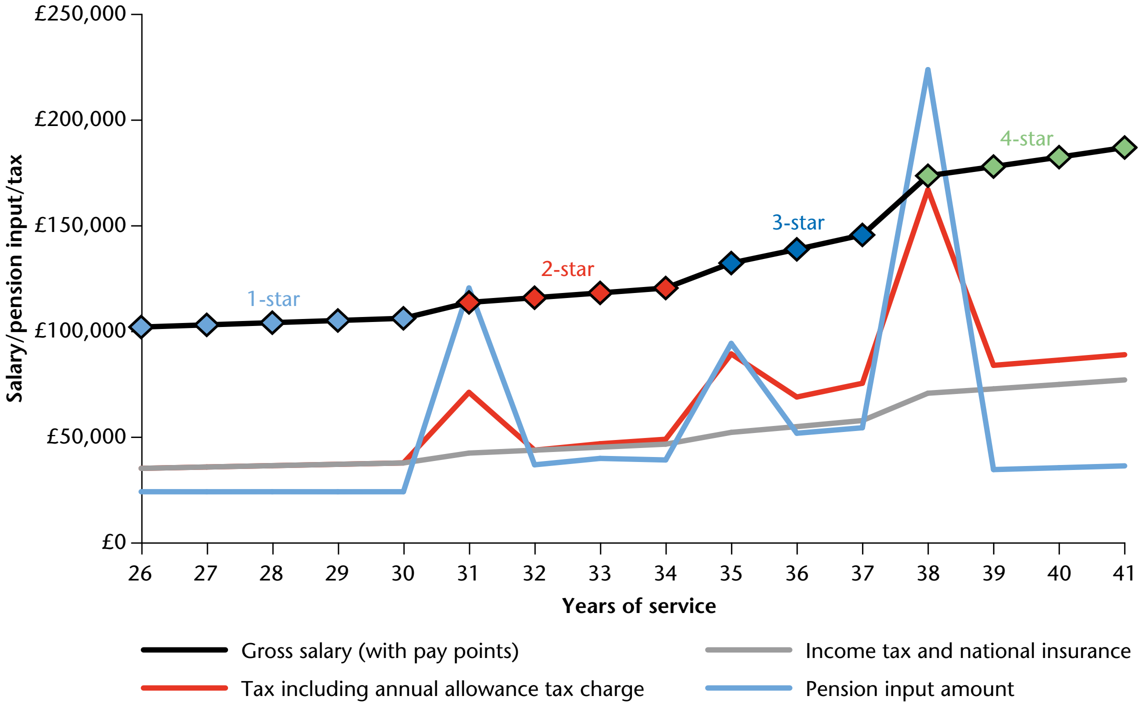
Impact of pension changes and pension taxation changes

4.35 Written evidence from the MoD stated that in the tax year 2015-16, 16 members of the senior Armed Forces incurred a pensions tax charge for exceeding the annual allowance, compared to 22 for 2014-15. The MoD confirmed that the tax charges ranged from around £1,400 to around £128,000. Further evidence from the MoD showed that, for the tax year 2016-17, the number of remit group members incurring a tax charge for exceeding the annual allowance had increased to 62.[38]

4.36 In last year's report, we showed how a breach of the annual allowance was more likely under a final salary pension scheme than an average salary pension scheme, as the career average scheme smooths the accrual over the lifetime.

4.37 Figure 4.3 illustrates the levels of tax liability a member of the AFPS75 (a final salary scheme) could expect when progressing through the ranks of the senior military. The individual faces spikes in their taxation around the acceptance of a promotion. On promotion from 1-star to 2-star, and 2-star to 3-star, these mean that a significant proportion of gross salary is paid in tax, at 63 and 68 per cent respectively. At 4-star, the individual is liable to pay almost all their annual earnings in tax, at 96 per cent of the salary.

Figure 4.3: **Illustrative tax liability from progression for members of the senior military in the AFPS75 pension scheme**

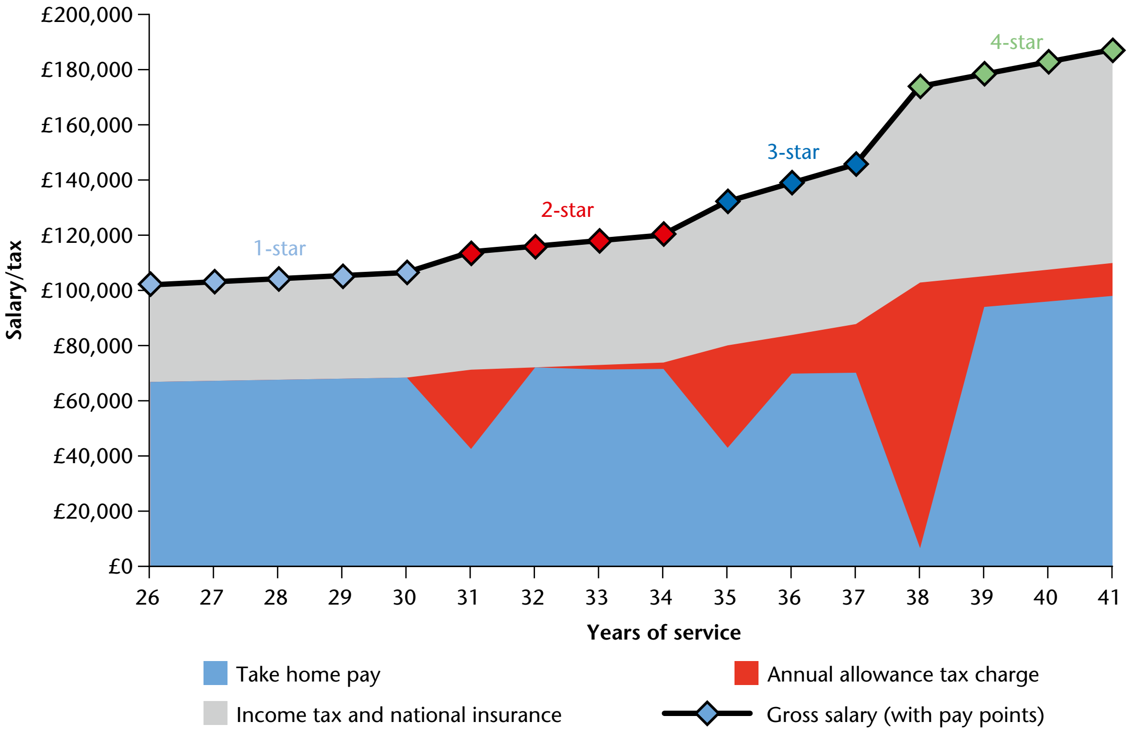


Source: OME analysis.
Notes: This individual becomes a 1-star officer after 25 years of service. The individual is then promoted again after a further six years to 2-star, after four years to 3-star, and after three years to 4-star. The individual reaches 34 years' service just before becoming a 3-star officer.

[38] For the tax year 2016-17, 111 remit group members breached their annual allowance. Of these, 49 had sufficient carry forward from the previous tax year, while 62 did not and incurred a tax charge.

4.38 Figure 4.4 shows the effect of promotions and the annual allowance on take home pay and again illustrates take home pay is greatly reduced in the year of promotion. It is important to recognise that the chart does not factor in the significant increase in the value of the individual's pension that will result from the promotion. Once this is factored in, the total value of the remuneration package generally increases as pay rises. **Analysis that takes into account the increased value of the pension benefit is set out in Appendix G**.

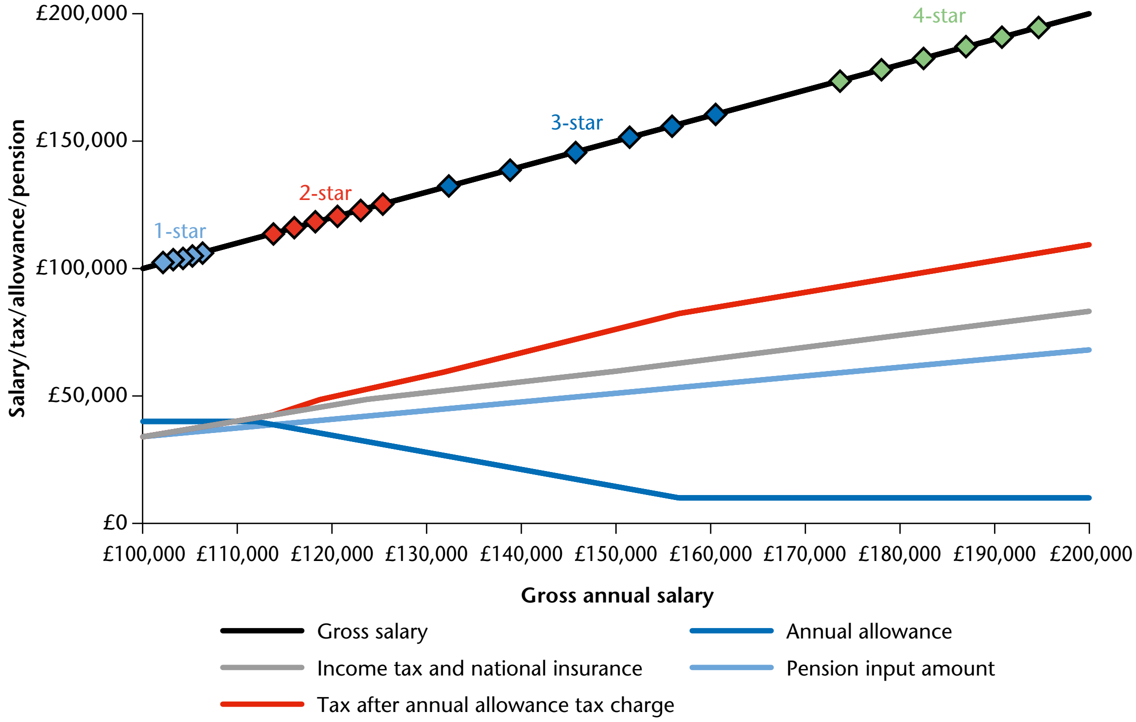
Figure 4.4: **Take home pay for members of the senior military in the AFPS75 pension scheme**



Source: OME analysis.

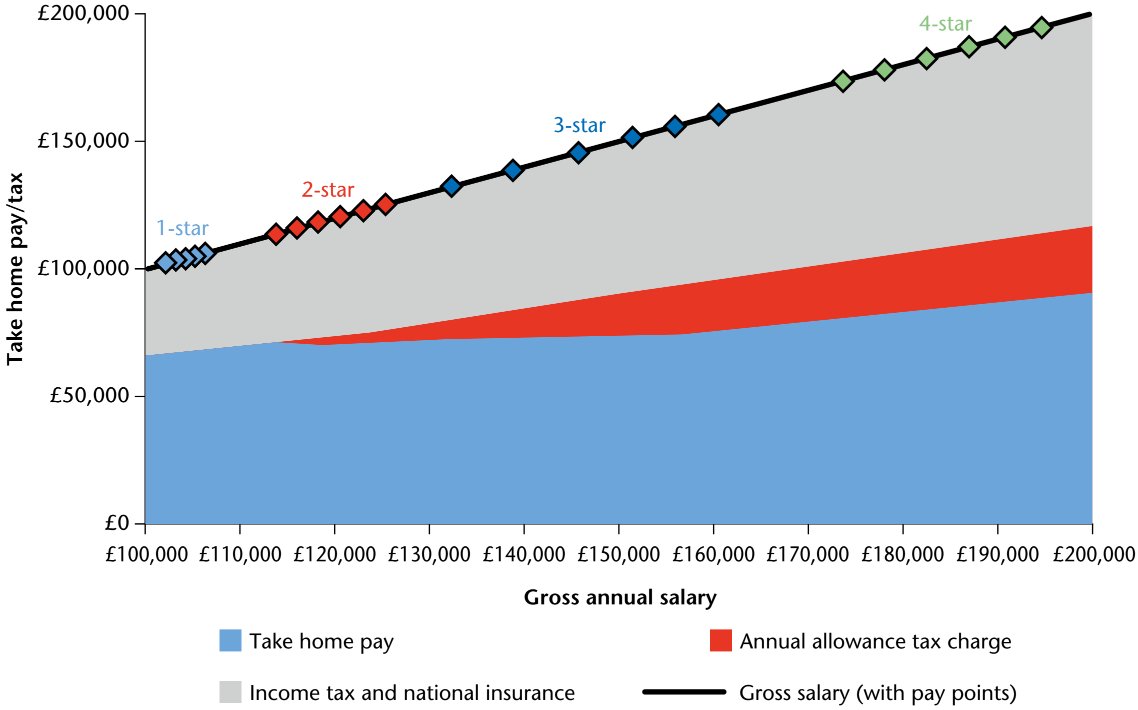
4.39 Figures 4.5 and 4.6 show the level of taxation for members of the AFPS15 (an average salary scheme) on salaries between £100,000 and £200,000. The annual allowance tax charge means taxation takes up a large proportion of income for this group, which grows as pay increases. Take home pay stagnates for ranks between 2-star and 3-star and does not exceed £80,000 until an individual reaches 4-star. Again, take home pay does not include the value of the pension.

Figure 4.5: **Illustrative tax liability from progression for members of the senior military in the AFPS15 pension scheme**



Source: OME analysis.

Figure 4.6: **Take home pay for members of the senior military in the AFPS15 pension scheme**



Source: OME analysis.

4.40 Such high marginal tax rates mean it could be rational for an individual to seek to work part time rather than work full time. Whilst this is unlikely to be a practical option for the senior military, the resultant requirement to work extra hours for little or no additional pay is likely to impact negatively on motivation.

4.41 It is highly likely that members of the senior military, who are likely to have long service, will also breach the pensions lifetime allowance, currently at £1,030,000. The OME survey of the senior military asked respondents about the lifetime allowance for the first time this year. Although our sample was small, 32 out of 37 respondents (86 per cent) reported that they were likely to breach the lifetime allowance. Just three (8 per cent) said that they did not think they would breach it, and two (5 per cent) did not know.

4.42 In evidence, the MoD said that it expects all officers at OF7 and above to breach the lifetime allowance. While the tax charge would vary depending on retirement age, it could be as much as £200,000 on retirement at age 55. However, this would be less than the value of the increase in pension benefits. This means that individuals are subject to even higher marginal tax rates than set out in the above analysis of the annual allowance.

4.43 It is important to note that there exists a 'Scheme Pays' method for deferring pension tax charges until retirement. However, this itself may lead to counter-intuitive outcomes. In last year's report, we presented an example where senior judges may retire with a smaller pension than less senior colleagues. Similar logic applies to the senior military and may rationally affect individuals' views about the desirability of applying for senior posts.

4.44 Considering the above risks, last year we again encouraged the government to consider the issue of pension flexibility for public sector workers. We set out three broad options that we believe merit consideration. The first was trading off pension benefits for lower contributions, thus lowering tax liabilities. The second was changing the focus of reward packages for senior people away from pensions and more towards pay, as can happen in the private sector. The third option was to offer voluntary enrolment into defined contribution schemes. For the senior military, we have not seen any progress on this issue.

4.45 Given the above, it is unsurprising that most of the free text comments about pensions submitted by members of the senior military to the OME's survey were critical of the government's changes to the pension taxation charges. They were not generally critical of the Armed Forces pension schemes themselves.

4.46 The MoD acknowledged that pensions are a key part of the offer, particularly as members of the senior military tend to retire at an earlier age than individuals in other parts of the public sector. It said that, despite being an excellent scheme, the introduction of the AFPS15 and the recent changes to pension taxation charges had added to uncertainty around the value of the employment offer. CDS told us at oral evidence that there was concern that these changes would impact increasingly on the decisions of the senior military, and also the feeder group, as to whether or not they remain in Service or leave at an earlier stage in their careers.

4.47 We agree that this is a matter for concern and have set out above and in last year's report a number of potential actions that merit rapid and serious consideration.

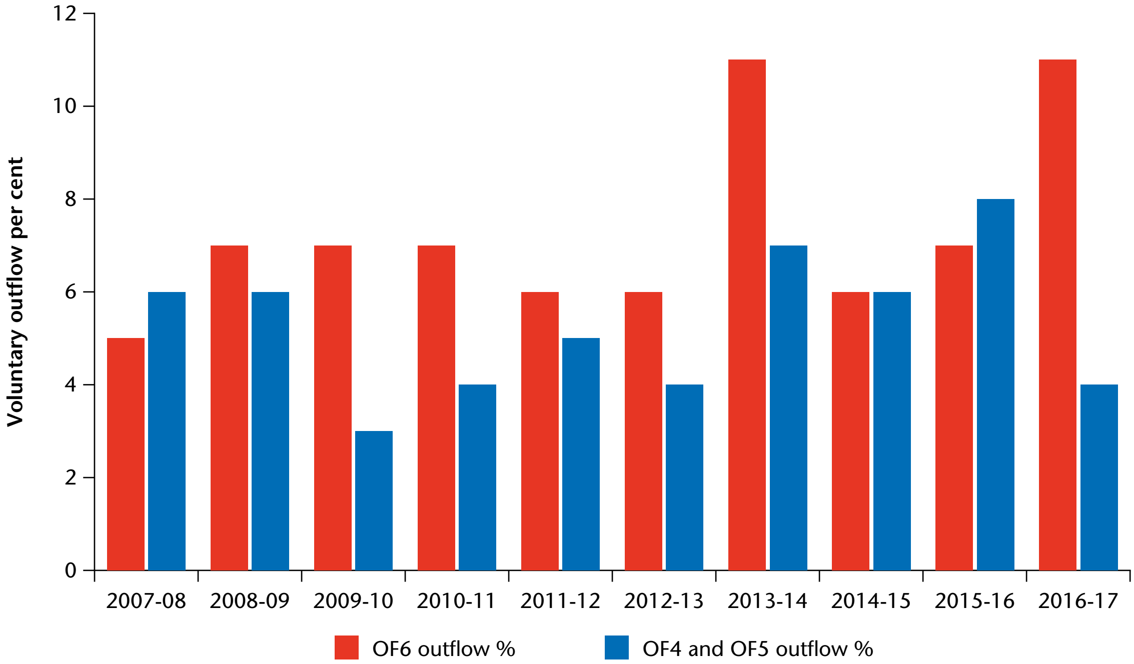
The feeder group

4.48 The feeder group for the senior military comprises the three ranks from which officers are promoted into our remit group. These are the OF4, OF5 and OF6 ranks. On 1 July 2017 there were 4,992 officers in the feeder group,[39] of which 405 were female (8.1 per cent) and 187 were from BAME backgrounds (3.7 per cent). Further information on each of these ranks in the three Services is set out in Appendix I.

4.49 Data provided by the MoD this year showed that voluntary outflow rates at the rank of OF6 had increased from 7 per cent (21 individuals) in 2016 to 11 per cent (30 individuals) in 2017. Of those 30, six cited 'offer of civilian employment', five cited 'take advantage of opportunities outside' and five cited 'seeking fresh challenges' as reasons for leaving.

4.50 There was, however, a decrease in the voluntary outflow rates for OF4s and OF5s from a worrying spike of 8 per cent (311 individuals) in 2016 to 4 per cent (187 individuals) in 2017. Figure 4.7 shows the percentage of officers in the feeder group leaving the Services voluntarily in the last nine years. Figure 4.8 shows the respective numbers leaving.

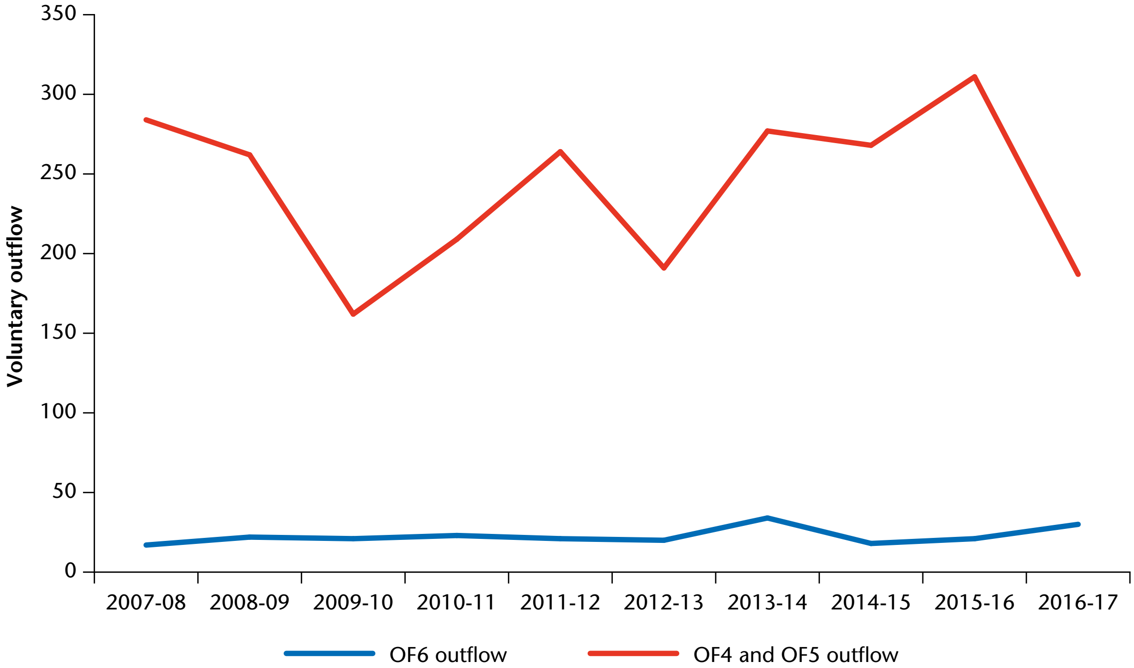
Figure 4.7: **Percentage of officers in the feeder group (OF4 to OF6) leaving the Services voluntarily, 2007-08 to 2016-17**



Source: Ministry of Defence evidence, unpublished.

[39] This was made up of 293 OF6s, 1,073 OF5s and 3,626 OF4s.

Figure 4.8: **Number of officers in the feeder group (OF4 to OF6) leaving the Services voluntarily, 2007-08 to 2016-17**



Source: Ministry of Defence evidence, unpublished.

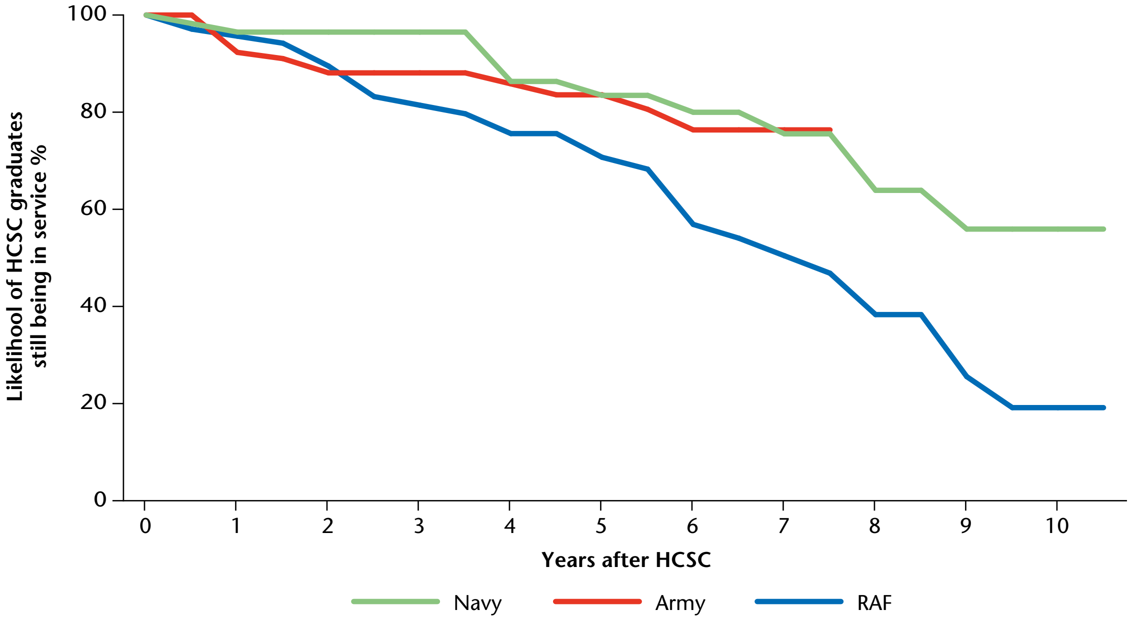
4.51 Each year the MoD runs a Higher Command and Staff Course (HCSC) for those officers in the feeder group it has identified as the most talented and who are expected to reach senior rank. The MoD told us that most attendees are OF5 and a few are OF6.

4.52 For the second year running, the MoD provided us with data on promotion and retention rates of graduates from the HCSC for the last ten years. This showed that of the 2007-11 graduates 25 per cent had left the Armed Forces, whereas for the 2012-16 graduates, the figure was 14 per cent.[40] The MoD concluded that this suggested retention rates had improved for those it had identified as the most talented. However, we would expect retention rates in the earlier cohort to be lower than for the later one as individuals in the earlier cohort are likely to be more advanced in their careers and will have had longer to consider leaving the Armed Forces.

4.53 Following a request from the SSRB, further data and analysis provided by the MoD to take account of this natural bias showed that a substantial proportion of both Navy and Army officers identified as the most talented, go on to serve close to a full career. For the RAF, however, the data showed that substantially fewer HCSC graduates go on to serve a full career, as shown in figure 4.9. The MoD explained that a full investigation would be needed by each Service to determine whether retention rates for HCSC graduates match its requirements.

[40] These figures represent voluntary outflow rather than individuals leaving at the end of their careers.

Figure 4.9: **Likelihood of still being in service each year after attending the Higher Command and Staff Course (HCSC)**



Source: Ministry of Defence evidence, unpublished.

4.54 The full impact of changes to the pension and pension taxation charges on the feeder group are not yet clear but we were told by the MoD at oral evidence that there was anecdotal evidence emerging of those finishing the HCSC giving very careful consideration to whether or not they wanted to serve for a full career.

4.55 Members of the senior military discussion group told us they were having to spend more time and energy than previously persuading those in the feeder group with potential for promotion that it was worth pursuing senior career opportunities in the military. They said that the combination of increased pension taxation, heavier workloads, reducing opportunities for promotion and perceived greater opportunities in the civilian sector had led many of the feeder group to seek second careers outside the military at an earlier stage.

4.56 We were provided with responses to the 2017 AFCAS survey from OF5 and OF6 officers. Responses showed significant increases in levels of satisfaction with allowances, pensions benefits, Service life in general and levels of morale compared to the previous year. There was a small increase in the percentage of respondents who were satisfied with the rate of basic pay (including X-Factor), from 49 per cent to 51 per cent, although this remains below the 55 per cent recorded in 2015.

4.57 We note the point made by the MoD at oral evidence, and by some attendees at the senior military discussion group, that a degree of caution should be applied to these results. The MoD confirmed that only 25 per cent of the total 1,366 OF5s and OF6s were asked to complete the survey for 2017 and the response rate from these was 66 per cent.

4.58 Results from the MoD's annual Continuous Working Patterns (CWP) Survey for 2016-17 indicated slight increases in the average number of hours worked, average number of unsociable hours worked and the average number of hours spent on duty each week for OF5 and OF6 respondents compared to 2015-16. These figures for the OF5 and OF6 groups were higher than those for all respondents to the CWP survey. We note that heavier workloads for OF6s, caused by them increasingly taking on the responsibilities of the rank above, was an issue highlighted during discussions with members of the senior military.

Recommendations

4.59 The evidence indicates that there are currently no recruitment and retention problems within the senior military and overall morale is high. The remit group continues to attract sufficient numbers from the feeder group and there is no evidence of a decline in the quality of recruits.

4.60 However, we share the MoD's concern that members of the remit group perceive that the military offer is becoming less attractive in comparison to equivalent roles in the civilian sector. There is also anecdotal evidence that recent changes to pension taxation could have a negative impact on morale and cause members of the senior military to leave before serving for a full career.

4.61 In deciding our recommendations for basic pay, we took all the above factors into account and noted the arguments for maintaining the minimum 10 per cent increase in basic pay on promotion from 1-star to 2-star.

4.62 We also note the argument for broad comparability with the pay award recommended by the AFPRB and acknowledge the importance of an across the board award in maintaining morale and ensuring that all members of the senior military are seen as being valued. We have not seen any evidence to support a differentiated award amongst the senior remit group at this time.

Recommendation 7: We recommend that all members of the senior military receive a 2.5 per cent consolidated increase to base pay.

4.63 This recommended award will add an estimated £658,000 to the paybill, including employer costs. The pay scales for a 2.5 per cent award are set out in table 4.4 below.

Table 4.4: **Recommended 2-star, 3-star, 4-star and Chief of Defence Staff pay scales with effect from 1 April 2018**[41, 42]

	Increment level					
	1 £	**2 £**	**3 £**	**4 £**	**5 £**	**6 £**
2-star	116,665	118,945	121,271	123,643	126,063	128,530
3-star	135,741	142,394	149,380	155,248	159,825	164,541
4-star	178,058	182,509	187,073	191,749	195,584	199,496
CDS	256,527	261,657	266,890	272,228		

Recommendation 8: We recommend that the minimum guaranteed increase to base pay (excluding X-Factor) on promotion from 1-star to 2-star does not fall below 10 per cent.

[41] Figures are rounded to the nearest pound.

[42] For 2-star and 3-star officers, the values include X-Factor applied at the rate of £2,669. This is equivalent to 25 per cent of the cash value of X-Factor at the top of the OF4 pay scale, and is contingent on the government's acceptance of the recommendations of the forty-seventh report of the AFPRB.

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

Recommendation 9: We recommend no change to the current pay arrangements for Medical Officers and Dental Officers (MODOs):

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

Looking ahead

4.65 The MoD is cognisant of the fact that the military needs to be broadly reflective of the society it defends and we acknowledge that positive steps are being taken to increase the diversity and inclusivity of the Armed Forces. We recognise, however, that any changes in representation of both female and individuals from BAME backgrounds, in an organisation like the Armed Forces which promotes individuals from within, will take a number of years to feed through into the senior military remit group. This requires sustained focus and leadership from the most senior military. We request that the MoD continues to provide us with diversity data and keeps us updated on progress on increasing diversity and inclusivity in the Armed Forces.

4.66 Annual increments have traditionally provided the basis for the military pay structure and are a fundamental part of the new pay system introduced in April 2016 (Pay16). We note that pay progression is perceived as an important part of the military offer that supports recruitment, retention, motivation and morale and recognise that an individual's value to the Armed Forces will increase with experience over their initial years in a given rank. **We would, however, like the MoD to clearly set out the justification for annual increments in its evidence to us for the next pay round.**

4.67 It will be particularly important to monitor closely the impact that the recent changes to pension taxation have on decisions of those in the remit group, and also the feeder group, to remain in the military. We have asked the MoD to provide data on this in future years. This will be especially important in relation to the impact of AFPS15 as increasing numbers of the feeder group will be members of this scheme in the future.

4.68 While the data we receive from the MoD are generally of good quality, further improvements could be made for both the remit group and the feeder group, particularly in relation to reasons for leaving. It would be beneficial to have a clearer understanding of why people are leaving; for example, some of the current response categories in the exit data are open to multiple interpretations. There is also a need to understand better what roles individuals go to when they leave the remit and feeder groups. We welcome the acknowledgement from CDS of the need to improve this data, to look carefully at the questions being asked in the AFCAS survey, and the need to improve response rates.

4.69 **We strongly suggest that in future the MoD asks all members of the senior military to complete the AFCAS, and vigorously encourages members to submit responses.** Currently, low response rates in combination with the small size of the remit group significantly diminishes the usefulness of the AFCAS for workforce planning. The SSRB would be very willing to work closely with the MoD on developing a strategy for improving the quality of data available going forward, coordinating with the AFPRB as appropriate in terms of improving the data on the feeder group.

4.70 The MoD should continue to provide us with data on the promotion and retention rates of the HCSC graduates, as the most talented members of the feeder group. It will be important to carefully monitor future outflow from the OF6 ranks as the outflow rate has continued to increase over the last three years. Anecdotal evidence suggests that pension taxation will impact increasingly on decisions for this group on whether to serve for a full term or to leave the military at an earlier stage to start a second career.

4.71 The SSRB will, in future, hold discussion groups with OF5 and OF6 members of the remit group on an annual, rather than biannual basis in order to monitor more closely the issues affecting their morale and intentions to remain in Service.

4.72 In Chapter 1, we highlighted progress against the SSRB's strategic priorities as set out in our 2017 report. Our assessment of the position for the senior military is summarised below in table 4.5.

Table 4.5: **Assessment of position of senior military against the SSRB's strategic priorities**

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

SSRB priority in 2017 report	Assessment of senior military position in 2018
Pay and workforce strategy: Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	A plan exists for the future size and structure of the workforce, which is linked to strategic priorities. However, the SSRB's strategic priorities were not addressed in the evidence provided. ↓
Focus on outcomes: There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	No proposals were made in respect to taking new action over pay. However, we recognise that this is a small group with limited scope to produce flexible pay proposals. ↔
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	May not be an issue but no evidence presented. ↔
Performance management and pay: There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	May not be an issue but no evidence presented. ↔
Better data: Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Good basic workforce data, but needs to respond to emerging data needs. Better exit interview data and more detailed analysis of whether the feeder group is sufficient to meet future needs is required. ↔
Feeder groups: The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	Further analysis of data on the feeder group presented this year. However, there is growing concern around future retention, in particular as a result of pension taxation. The situation needs to be kept under review. ↔
Targeting: Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	Targeting consistently argued to be inappropriate for this group. Whilst there is an argument for this, it leads to a highly rigid pay system over the long term. ↔
Central versus devolved tensions: Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	No evidence that such tensions exist. ↔
Diversity: The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	Positive steps and considerable efforts are being made to improve the diversity profile of the Armed Forces as a whole. However, in an organisation like the Armed Forces that promotes from within, it will take some time before significant improvements in the diversity profile feed through. ↔

Chapter 5

Police and Crime Commissioners

Summary

5.1 The role of a police and crime commissioner (PCC) appears both larger and more complex than many anticipated when the first PCCs were elected in 2012. It has evolved and continues to do so. New statutory functions, for example the commissioning of local victims' services, have impacted on the role and workload. The effect of other legislative changes, in particular in relation to the governance of fire and rescue services, cannot be fully assessed at this stage but could also be significant.

5.2 There is no lack of candidates for these roles, for which elections are held every four years. However, a high number of willing applicants for the role does not necessarily mean there is a secure or diverse supply of quality candidates. This risk is heightened in the current context where the purpose and function of the PCC role is still maturing. Individual PCCs are granted significant powers and largely left to work out for themselves how to exercise them. We believe that pay levels should reflect the quality of candidates that need to be attracted to an important role of this nature.

5.3 Although there are some common core responsibilities within the PCC role, other aspects differ in scale depending on the size of the police force area. There therefore remains a strong rationale to retain pay differentiation across different police force areas. However, for such a small and non-hierarchical workforce, the current structure of five pay levels is unnecessarily complex. We believe that a more streamlined structure, with no more than three pay levels, would be more suitable. However, we have received neither propositions nor evidence that would allow us to recommend precisely what shape the new structure should take. We urge the Home Office to consider a reduction in the number of levels as part of the next PCC pay review.

5.4 PCC salaries have been unchanged since the role was created. We consider that, after six years, an increase in pay is justified. This is primarily to properly recognise the weight of the PCC role and to help ensure that high quality candidates are attracted to it in the future. It will also help to realign PCC pay with that of other senior public sector workers and partly compensate PCCs for increases in the cost of living.

5.5 In addition, whilst we retain the view that being a PCC in a larger and more complex police area does justify a higher level of reward, the core responsibilities which are part of every PCC role suggest the current levels of pay differentiation are too wide. We therefore recommend that each of the bottom four pay levels should be uplifted by an identical cash amount of £5,000. We do not recommend change in pay for the top band, which will remain significantly higher.

5.6 Although it is too early to assess the impact of bringing fire and rescue governance into the PCC role, we believe that this will be a significant duty to undertake. Whilst we would not wish to see PCCs seeking these responsibilities simply in order to secure more pay, the added responsibility should be given some recognition in the pay structure. We therefore recommend an additional consolidated pay uplift of £3,000 for those PCCs that take on responsibility for fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.

5.7 This is a small remit group, with a limited evidence base on which to make annual uplifts in the pay award. We do not think it necessary or proportionate to conduct a full review of the pay of this remit group every year and recommend a review in 2020-21 to fully assess the impact of fire and rescue governance. This should be preceded by an automatic uprating of pay in 2019-20. Because of the nature of the role, we believe pay increases should be aligned with those in local government. Pending the next formal review, we therefore recommend that PCC salaries are increased in line with pay awards for local authority staff. Given the current two-year local authority pay settlement, this implies a pay increase of 2 per cent from 1 May 2019. This link should continue to be applied annually to PCC pay increases until the next formal review of PCC pay. Subsequent reviews should then be conducted every four years.

5.8 Whilst we understand the role of a PCC is unique, a number of our strategic priorities for senior workforces still apply. It is evident that the Home Office has no clear workforce strategy for PCCs and that it has limited engagement with them. We would encourage the Home Office and the Association of Police and Crime Commissioners (APCC) to have a more active and constructive dialogue in order to address areas of concern. During our current review, PCCs have expressed, for example, concern about the reimbursement of expenses they incur and a request to have a loss of office payment introduced. Both of these issues could have been raised and potentially resolved without recourse to the SSRB. We therefore propose that, following liaison with the APCC, the Home Office conducts a review of the rules and guidance relating to expenses incurred by PCCs while undertaking their duties. We also recommend the introduction of a loss of office payment for PCCs, using the arrangements for MPs as guidance.

Introduction

The role of a PCC

5.9 PCCs are elected representatives who work to ensure police forces in England and Wales are running effectively. They were created under the Police Reform and Social Responsibility (PRSR) Act 2011, which states that PCCs must:[43]

- Secure an efficient and effective police force for their area.
- Appoint the Chief Constable, hold them to account for running the force, and if necessary dismiss them.
- Set the police and crime objectives for their area through a police and crime plan.
- Set the force budget and determine the precept.
- Contribute to the national and international policing capabilities set out by the Home Secretary.
- Bring together community safety and criminal justice partners, to make sure local priorities are joined up.

5.10 Each police force area in England and Wales, with the exception of London and Greater Manchester,[44] has an elected PCC. Neither Scotland nor Northern Ireland have PCCs, as policing and justice powers are devolved to the Scottish Parliament and Northern Ireland Assembly respectively.

5.11 Since the last review of PCC pay in 2011, the role of PCCs has evolved and expanded. In October 2014, the government transferred responsibility for the commissioning and referral of local victim services to PCCs to ensure support was tailored to local need. This replaced a system where the majority of services for victims were provided at a national level by government.

[43] The Police Reform and Social Responsibility (PRSR) Act 2011 can be found at http://www.legislation.gov.uk/ukpga/2011/13/contents/enacted

[44] In London, these responsibilities belong to the Mayor's Office for Policing and Crime (MOPAC). In 2017, the role of the PCC for Greater Manchester was abolished and the Mayor of Greater Manchester took on responsibility for policing and crime.

5.12 Two further changes to PCC responsibilities were brought in by the Policing and Crime Act 2017.[45] These enabled PCCs to:

- take on responsibility for key parts of the police complaints system in order to bring greater accountability and independence to the complaints process; and
- hold their local fire and rescue services to account, meaning they can potentially create a single employer for both police and fire personnel, if they are able to demonstrate a clear business case for doing so.[46]

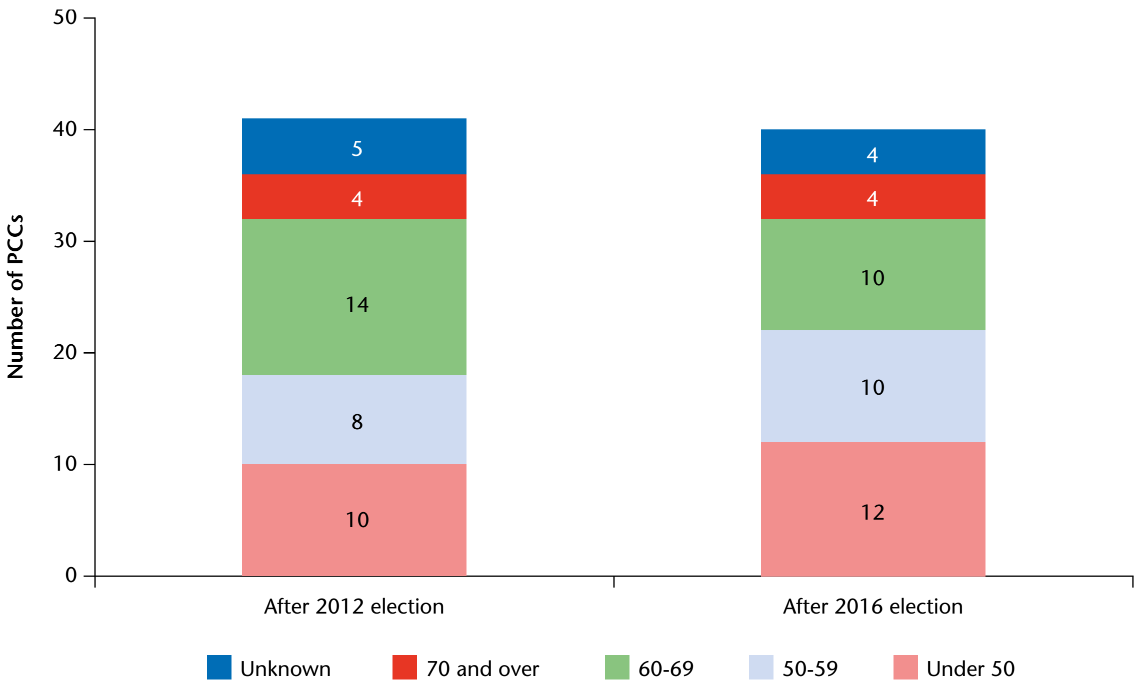
The remit group

5.13 There are currently 40 directly elected PCCs in England and Wales. PCCs are elected for a four-year term and the first elections were held on 15 November 2012, with the new commissioners taking office on 22 November 2012. Further elections were held on 5 May 2016.

5.14 The proportion of female PCCs elected was 15 per cent (six out of 41) in 2012, compared to 18 per cent of the 192 candidates. In 2016, 18 per cent (seven out of 40) of elected PCCs were female, compared to 15 per cent of the 188 candidates. In 2012, there were no PCCs elected from a Black, Asian and Minority Ethnic (BAME) background. In 2016, one PCC from a BAME background was elected.

5.15 After the November 2012 election, there were 18 PCCs aged below 60 and 18 aged 60 or above (with a further five whose age is not published). After the May 2016 election, there were 22 PCCs aged below 60 and 14 aged 60 or above. The average age fell from 57 in 2012 to 55 in 2016.

Figure 5.1: **Numbers of PCCs in age bands**



Source: Office of Manpower Economics (OME) analysis of various public internet sources.

[45] The Policing and Crime Act 2017 can be found at: http://www.legislation.gov.uk/ukpga/2017/3/part/1/chapter/2/enacted

[46] The Act allows for PCCs in Wales to take on responsibility for fire and rescue services. However, this responsibility is devolved to the Welsh government and there are no plans for PCCs in Wales to take on this responsibility.

Pay

5.16 In 2011, the SSRB made recommendations, accepted by government, that the pay of PCCs should be between £65,000 and £100,000 and be broadly linked to the size and complexity of respective police forces. Those pay levels are set out in table 5.1 and have been in place since PCCs were first elected in November 2012.

Table 5.1: **Current pay of police and crime commissioners**

Force	PCC salary
West Midlands, West Yorkshire	£100,000
Avon & Somerset, Devon & Cornwall, Essex, Hampshire, Kent, Lancashire, Merseyside, Northumbria, South Wales, South Yorkshire, Sussex, Thames Valley	£85,000
Cheshire, Derbyshire, Hertfordshire, Humberside, Leicestershire, Nottinghamshire, Staffordshire, West Mercia	£75,000
Bedfordshire, Cambridgeshire, Cleveland, Dorset, Durham, Gwent, Norfolk, Northamptonshire, North Wales, North Yorkshire, Suffolk, Surrey, Wiltshire	£70,000
Cumbria, Dyfed-Powys, Gloucestershire, Lincolnshire, Warwickshire	£65,000

Source: SSRB 2017 report.

Pension schemes

5.17 PCCs are members of the Local Government Pension Scheme (LGPS). Member contributions are tiered, based on earnings, with members currently contributing 9.9 per cent (for those with a salary under £89,401) or 10.5 per cent (for those with a salary of £89,401 and above).

Previous SSRB reviews and recommendations

5.18 In both 2014 and 2015, the SSRB considered the pay of PCCs as part of their annual remit. In both years, neither the Home Office nor the APCC proposed an increase in pay and the SSRB therefore made the recommendation, accepted by government, that the pay of PCCs should remain unchanged.

5.19 In 2016 and 2017, the then Home Secretary wrote to the SSRB to say that the government was considering proposals to extend the remit of PCCs and, until the nature of the role was clearer, it would not be in a position to accept a recommendation to increase PCC pay. The SSRB did not therefore make a recommendation on PCC pay in either of these years. In 2017, we suggested that the exact timing and focus of any review should be carried out with regards to the need for a review of Chief Constables' pay.

Policy context

5.20 In 2017, policing responsibilities for Greater Manchester were devolved to the Mayor, with a similar arrangement scheduled to take place for the West Midlands by 2020. The government has said it will consider further proposals to transfer PCC functions to combined authority mayors on a case-by-case basis. It says it remains firmly committed to the PCC model.

5.21 The College of Policing's 2015 Leadership Review recommended a review of ranks, roles and standards across policing, and on linking skills and competence more strongly to pay. This included looking at the pay structure for chief police officers to which PCC pay is broadly linked. The National Police Chief's Council (NPCC) is leading on these reforms. We understand that this review has not yet commenced and that there is little prospect of it delivering change in the near future.

Proposals

Home Office proposals

5.22 In its written evidence, the government did not make a proposal for a pay award for PCCs. However, it asked the SSRB, when considering the appropriate level of remuneration, to consider the following factors:

- Confirmation by the government that the 1 per cent public sector pay policy does not apply to pay awards for 2018-19.
- The last Spending Review budgeted for a 1 per cent average increase in basic pay and progression pay awards. The Home Office subsequently confirmed that no budgetary assumptions for a pay award for PCCs had been made and that given the size of the workforce, affordability was not a primary factor.
- The context of wider public sector pay policy since PCCs were first elected.

5.23 The government's written evidence also expressed the following views:

- The current system of force weightings used to govern chief police officer pay continues to provide a suitable basis for determining PCC pay and should not be reviewed until a review of chief police officer pay structures has taken place. In correspondence following the oral evidence session, it was confirmed that there was no defined timetable for this review.
- No further local differentiation in pay is needed at this stage and it is too early to assess the impact of the additional fire and rescue governance responsibilities.

5.24 The Home Office also proposed that reviews should be set on a four-year cycle ahead of elections, with pay fixed for the term of office. It proposed that the next full review should take place in 2023, ahead of the 2024 elections. It also said that a light-touch review to assess the development of the PCC role, particularly in respect to the fire aspect of the role, should take place before that, possibly in 2019-20 or 2020-21.

APCC proposals

5.25 The APCC is the national body supporting PCCs. It did not make any proposals on an increase in pay or on the pay structure for PCCs. It put forward the following proposals:

- The process for reviewing the remuneration of PCCs should be reviewed in line with the mechanisms adopted for other elected politicians.
- PCC pay should be reviewed on an annual basis.
- The rules and guidance relating to expenses that PCCs can claim should be reviewed.
- A loss of office payment for PCCs who are defeated at election, in line with the payment made to MPs, should be introduced.

Evidence

5.26 We received written evidence, and heard oral evidence, from the Home Office and the APCC. We also held a discussion group with a number of PCCs who talked about their role and experiences in it.

5.27 An open call for evidence was conducted to provide the opportunity for stakeholders and the general public to provide views on PCC pay. Despite the Office of Manpower Economics publicising this and circulating details to a wide range of stakeholders, only two responses were received.

5.28 The APCC conducted a survey amongst its members, to which 20 responses were received.

5.29 The SSRB commissioned a job evaluation of the PCC role to provide an update on the evaluation previously carried out in 2011.

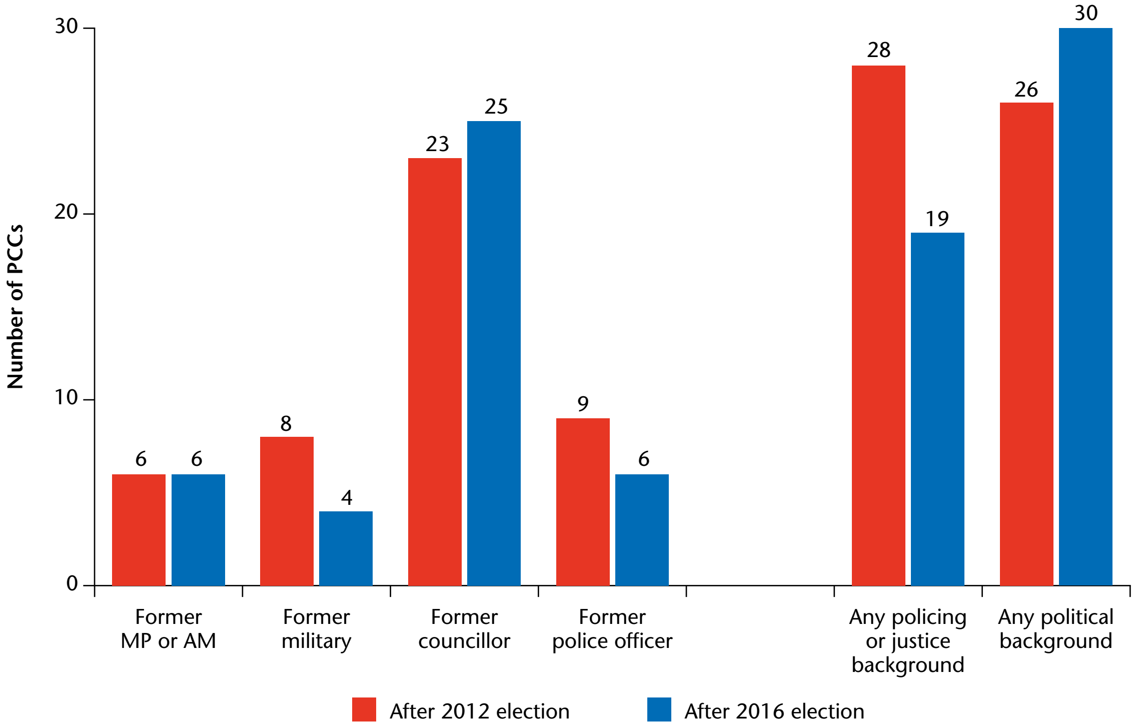
Recruitment

5.30 There does not appear to be a lack of candidates standing for PCC posts. In the 2016 election, 188 candidates stood for 40 PCC posts, in comparison to 192 for 41 posts in 2012. However, it should be noted that PCCs are elected officials who, in most cases, have been selected by a political party to stand and we have no further information about their suitability to take on the role.

5.31 Since 2012, there have been 63 post holders as police and crime commissioners. All elected PCCs have had some prior public sector experience including as Ministers, MPs or local councillors.

5.32 Former councillors were the most frequent post holders after both elections as shown in figure 5.2. There was a decline in those elected to the role from outside of politics in the 2016 elections. Seventy five per cent of the PCCs elected in 2016 had political experience (MP or local councillor) compared with 63 per cent in the 2012 election.

Figure 5.2: **Previously held offices of police and crime commissioners**



Notes: Categories are not mutually exclusive. Each includes all those who could be identified as having done such a role at some point. This information is biographical and can miss former experiences if these have not been highlighted in available sources. Former military includes army reservists. Policing or justice experience includes former magistrates, former police authority, former police and former Home or Justice ministers. Political experience includes former councillors, former MPs, former Assembly Members and Life Peers.
Source: OME analysis of various public internet sources.

5.33 Twenty seven existing PCCs chose to stand for re-election in 2016. Thirteen PCCs decided to stand down before the 2016 election, the majority of whom were above pensionable age and, to the extent that we are aware, did not go on to other jobs.[47]

Morale and motivation

5.34 During our discussions with PCCs, it was clear that carrying out a public service is a clear motivation to do the job. There was a belief that PCCs could make a difference in the local area and improve community safety. Some PCCs also stated that it was an enjoyable job and was a privilege to do.

5.35 PCCs told us that their role involved long working hours and a lot of travelling around their areas. There were many public engagements to deal with, and being visible and accessible to the public were elements of the role which could not be delegated. From the 20 respondents to the APCC survey:

- 70 per cent (14) said they worked 55 hours or more a week.
- 60 per cent (12) said that they worked five hours or more on a typical weekend.
- 50 per cent (10) said that they spent 15 hours or more a week travelling to work-related commitments.

Evaluation of the PCC role

5.36 The SSRB commissioned a job evaluation of the PCC role to inform its 2011 report. At that stage, there were no post holders, and the evaluation was based on a review of the limited evidence available. For this report, we commissioned an updated evaluation of the role.[48] The objectives of this work were to establish:

- if the work of PCCs is similar to that expected before the first post holders were elected;
- whether the office of PCC has changed significantly in scope and responsibility since the first post holders were elected and to identify what those changes have been;
- if the current differentials between PCCs in different areas are justified by differences in job size and responsibilities; and
- the extent to which taking on responsibilities for fire and rescue services affects the job size of the PCC office.

5.37 The research also examined what other public (or other) sector roles were of a similar job size and responsibility level. The main findings of the research, as identified by the independent contractor, can be found in box 5.1 below.

[47] Source: OME analysis of various public internet sources.

[48] https://www.gov.uk/government/organisations/review-body-on-senior-salaries

Box 5.1: Main findings from the commissioned evaluation of the PCC role

- The role of PCC is somewhat larger than was anticipated in 2011.

- The work of PCCs has expanded in scope due to the influence that PCCs are able to exercise across a range of public services in their area, for example in relation to Criminal Justice Boards, and the co-ordination of emergency services.

- There are significant differences in the size of PCC roles in different areas due to population, the number of local authorities, diversity, budget and physical size which should be recognised in levels of pay. Although the current differentials are broadly correct, the difference between the top and bottom pay levels is too wide.

- Some PCCs will formally take over governance of fire and rescue services while others will have influence though participation in local decision making. This does not represent a distinct difference in job size. It should be considered as part of the general expansion of the role.

- Other elected office holders are the most appropriate comparator for PCCs. The job evaluation exercise stated that the office of PCC is most comparable in size to that of a Minister of State.

5.38 From the 20 respondents to the APCC survey:

- 90 per cent (18) felt that their responsibilities as a PCC had changed compared with those of their predecessor or in their previous term in office. Many were able to give specific examples of additional responsibilities, such as chair of the Local Criminal Justice Board.
- 75 per cent (15) felt that the role had become more demanding.
- 85 per cent (17) said that their engagement and correspondence with the public had increased.

5.39 In discussions with PCCs, we were told there were some aspects of the role which were common across all areas. All PCCs had one chief constable to hold to account and one budget to set. Other aspects of the role varied in accordance with the size of the area, which resulted in larger workloads, for example the need to attend more committees and deal with more local authorities. We were also told that the commissioning of victims' services was bespoke to each area and therefore affected individual PCC roles differently.

5.40 The Home Office said that neither the additional responsibility for commissioning victims' services nor taking on responsibility for parts of the police complaints system have had a significant impact on PCC workload.

Pay levels

5.41 The APCC survey asked PCCs which factors should be taken into account when recommending pay for PCCs. Just over half the respondents (12 out of 20 in each case) agreed that the pay of MPs and the pay of senior police officers in the area were relevant factors. Half the respondents (10 out of 20) agreed that the pay of local government officials was relevant. Eight out of 20 respondents agreed that whether the PCC has direct responsibility for fire and rescue services was a relevant factor. In an open question on which public sector roles were the most relevant comparators, several respondents felt that junior ministers and elected mayors were comparable roles.

5.42 There was no consensus among PCCs about whether pay levels should vary by area. Ten of the 20 respondents agreed with the proposition that PCCs should be paid equally, regardless of locality, while six disagreed, and four did not comment.

Pay levels for comparator roles

5.43 The PCC remit group has not received a pay increase since the role was introduced in 2012. Table 5.2 sets out pay rates for other elected roles, along with the pay increases that they have received since 2012. When the rates were first set, the lowest PCC salary was similar to that of an MP. By 2017, the MP salary was 16 per cent higher than the lowest PCC pay level. Table 5.3 sets out pay for other non-elected public officials and the pay increases they have received since 2012.

Table 5.2: **Pay for elected officials in 2017**

	Annual salary or other remuneration	Effective date of 2017 salary	Increase since 2012
Mayor of Tees Valley	£35,800	4.5.17	*
Northern Ireland Assembly Member	£49,500	1.4.17	14.8%
Greater London Authority member	£56,270	1.4.17	5.3%
Member of the Scottish Parliament	£61,778	1.4.17	7.4%
West of England mayor	£62,000	4.5.17	*
Welsh Assembly Member	£65,344	1.4.17	21.3%
Cambridgeshire and Peterborough mayor	£75,000	4.5.17	*
Member of Parliament	£76,011	1.4.17	15.6%
Mayor of Lewisham	£77,722	1.4.16	0%
West Midlands mayor	£79,000[1]	1.4.17	*
Mayor of Newham	£81,839	1.4.16	1.0%
London statutory deputy mayor	£101,082	1.4.17	10.0%
Minister of State	£109,501[2]	1.4.17	1.5%
Mayor of Greater Manchester	£110,000	4.5.17	*
London mayor	£146,804	1.4.17	2.0%
Cabinet Minister	£145,855[3]	1.4.17	1.5%
Inflation (CPI) January 2012 to January 2018			10.4%
Average earnings (KAB9) January 2012 to January 2018			12.7%

Notes:

* role did not exist in 2012.

[1] recommended by an independent review.

[2] £33,490 (entitlement), £31,680 (claimed) in addition to MP's salary of £76,011.

[3] £69,844 (entitlement), £67,505 (claimed) in addition to MP's salary of £76,011.

Source: OME analysis of various public internet sources.

Table 5.3: **Pay for non-elected senior public officials in 2017**

	Annual salary	Last uprated	Increase since 2012
Senior civil service (SCS) pay band 1	£75,900 (median)	1.4.17	3.9%
SCS pay band 2	£99,900 (median)	1.4.17	3.1%
Chief constable	£136,677 to £190,710	1.9.17	5.1%
Deputy chief constable	£114,429 to £146,217	1.9.17	5.1%
Assistant chief constable	£98,538 to £111,249	1.9.17	5.1 to 8.6%[1]

Note: [1]
Increase is partially due to a revision to the pay scales. From June 2014, the Assistant Chief Constable pay scale was replaced with a three-point scale.
Source: OME analysis of various public internet sources.

Other remuneration

5.44 The APCC said that claiming expenses incurred while undertaking their duties has been an issue for PCCs since the first elections in 2012. The survey conducted by the APCC showed that around half of respondents claimed they were spending more on expenses than they were able to claim back.

5.45 The majority of PCCs (70 per cent) who responded to the APCC survey said that they would welcome the introduction of a loss of office payment similar to that available to MPs. The APCC suggested that this would only be available to PCCs whilst such a payment was in place for MPs. In the discussion group, PCCs said that having a loss of office payment would provide financial security should a PCC lose office and that the current lack of a redundancy package could act as a deterrent to attracting younger people to stand as PCCs.

5.46 The APCC written evidence highlighted mechanisms in place for other elected officials which could be considered for PCC pay. These included:

- MPs' pay being uplifted on the basis of national average public sector earnings.
- The allowances of local councillors being uplifted with reference to the pay awards of the National Joint Council for Local Government services.

Recommendations

Pay levels

5.47 The role of a PCC appears both larger and more complex than many anticipated when the first PCCs were elected in 2012. It has evolved, and continues to do so with new statutory functions impacting on the role and workload. The effect of other legislative changes, in particular in relation to the governance of fire and rescue services, cannot be fully assessed at this stage but could also be significant.

5.48 Since the current PCC pay structure was put in place in May 2012, PCCs have not received an uplift in pay. In contrast, the senior military have received a pay uplift of 5.1 per cent between April 2012 and April 2017 (five annual increases of 1 per cent). The senior civil service (SCS) has received average increases of a similar magnitude. A further increase of 2.5 per cent for both the senior military scale and SCS has been recommended for April 2018. CPI inflation over the same period (April 2012 to March 2018) was 9.4 per cent.

5.49 We do not agree with the government's view that a high number of willing applicants for the role means that pay is not a factor in ensuring a secure or diverse supply of candidates. We therefore consider that an increase in pay is justified this year. This is primarily to properly recognise the weight of the PCC role and to help ensure that high quality candidates are attracted to it in the future. It will also help to realign pay with that for other senior public sector workers compared to where it was in 2012 and partly compensate PCCs for increases in the cost of living.

5.50 In addition, whilst we retain the view that being a PCC in a larger and more complex police area does justify a higher level of reward, the core responsibilities which are part of every PCC role suggest the current levels of pay differentiation are too wide. We therefore recommend that each of the bottom four pay levels should be uplifted by an identical cash amount of £5,000. We do not recommend a change in pay for the top band, which will remain the most highly remunerated.

Recommendation 10: We recommend a consolidated pay uplift of £5,000 to each of the bottom four PCC salary bands, with effect from 1 May 2018.

5.51 It is clear that the PCC role is still maturing and that further changes, including responsibilities for fire and rescue governance, could impact workload. At the time of taking evidence, only one PCC had become a Police, fire and crime commissioner (PFCC) with a further five PCCs recently being approved to take on these responsibilities.[49] Given the infancy of these responsibilities there is limited evidence to build an understanding of the impact of them. The legislation provides a spectrum of responsibilities which PCCs can have in relation to fire and rescue governance, with all PCCs having some form of a role in relation to improving collaboration between emergency services. We note that the outcome of the job evaluation was that this extra responsibility should be considered as part of the general expansion of the PCC role, which includes some fire and rescue responsibilities in all cases. However, it is clear that those taking on full responsibility for fire and rescue governance will ultimately have greater accountability for these services. This will be a significant and substantial additional duty and taking on this function should be recognised and appropriately remunerated. Until the next formal review of PCC pay, we recommend that those taking on full governance of fire and rescue services should receive a higher salary to reflect this added significant responsibility.

Recommendation 11: We recommend a consolidated additional allowance of £3,000 for those PCCs who take on responsibility for the governance of fire and rescue services. This should be reviewed at the time of the next formal review of PCC pay.

5.52 Table 5.4 sets out the recommended new pay rates for PCCs, reflecting two rates for those with and without the full governance of fire and rescue services.

[49] In October 2017, the PCC for Essex became the first PCC to take on responsibility for fire and rescue governance. Business cases for a further five areas – Northamptonshire, West Mercia, Cambridgeshire, Staffordshire and North Yorkshire – were approved in 2018. A further business case is under consideration.

Table 5.4: **Recommended pay rates for PCCs from 1 May 2018**

Force	PCC salary	PFCC salary
West Midlands, West Yorkshire	£100,000	£103,000
Avon & Somerset, Devon & Cornwall, Essex, Hampshire, Kent, Lancashire, Merseyside, Northumbria, South Wales, South Yorkshire, Sussex, Thames Valley	£90,000	£93,000
Cheshire, Derbyshire, Hertfordshire, Humberside, Leicestershire, Nottinghamshire, Staffordshire, West Mercia	£80,000	£83,000
Bedfordshire, Cambridgeshire, Cleveland, Dorset, Durham, Gwent, Norfolk, Northamptonshire, North Wales, North Yorkshire, Suffolk, Surrey, Wiltshire	£75,000	£78,000
Cumbria, Dyfed-Powys, Gloucestershire, Lincolnshire, Warwickshire	£70,000	£73,000

Future pay review arrangements

5.53 We note that this is a small remit group, with a limited evidence base on which to make any annual uplifts in pay award. It was clear from the evidence, however, that many post holders found the lack of any mechanism to review their pay frustrating. We do not think it proportionate to conduct a full review of the pay of this remit group every year. When the pay rates were first set, the lowest PCC salary was similar to that of an MP. We also note the outcome of the job evaluation was that the PCC role was comparable to a Minister of State. However, we do not consider that the pay rates should be aligned with national roles and are more comparable to local ones. Pending the next formal review, we therefore recommend that PCC salaries are increased in line with pay awards for local authority staff. Given the current two-year local authority pay settlement, this implies a pay increase of 2 per cent from 1 May 2019. This position should be reviewed at the time of the next formal review of PCC pay.

Recommendation 12: From May 2019, PCC salaries should be increased by 2 per cent, in line with the pay award for local authority staff. Pay increases, linked to the pay award for local authority staff should continue annually until the next formal review of PCC pay.

5.54 It would be appropriate to undertake a formal review of PCC pay once there is greater evidence on the impact of taking on responsibility for fire and rescue services, and when there has been a full review of chief police officer pay, to which this remit group has a broad link.

Recommendation 13: PCC pay should be reviewed again in 2020-21 to enable a full assessment of the role, particularly in light of the additional responsibilities for fire and rescue. Thereafter, full reviews should be conducted on a four-yearly basis.

Pay structure

5.55 PCCs carry out their roles in different ways. There are some core responsibilities that are common across all roles regardless of the size of the police force area e.g. holding the chief constable to account and managing the budget. Other responsibilities, such as the number of committees that PCCs attend and chair tend to be more expansive in larger areas.

5.56 Overall, therefore, there remains a strong rationale to retain pay differentiation across different police force areas. However, for such a small and non-hierarchical workforce, the current structure of five pay levels is unnecessarily complex. We cannot agree with the Home Office's assertion that the current system of force weightings used to govern chief police officer pay continues to be a suitable basis for determining PCC pay when it has not examined this linkage. We believe that a more streamlined structure, with no more than three pay levels, would be more suitable. However, we have received neither propositions nor evidence that would allow us to recommend precisely what shape the new structure should take. We urge the Home Office to consider a reduction in the number of levels as part of the next PCC pay review. The Home Office should not use the continued absence of a review of chief police officer pay as a reason to further delay a review of the PCC structure.

Recommendation 14: We recommend that the Home Office carries out a review of the pay structure for PCCs, with a view to developing proposals to reduce the number of salary levels to a number below the current five.

Other remuneration

5.57 The survey conducted by the APCC showed that the majority of respondents said they were spending more on expenses than they were able to claim back. We previously recommended a review of expenses in 2014, a recommendation which the government rejected. However, expenses clearly remain a significant area of concern for many PCCs. We consider that it is fair for public officials to be reimbursed for reasonable expenses they incur in the course of their duties. There is an onus on the APCC to make the case, if they believe that current expenses rules mean this principle is not respected. **We suggest that, following liaison with the APCC, the Home Office conducts a review of the rules and guidance relating to expenses incurred by PCCs while undertaking their duties.**

5.58 We consider that it is fair that PCCs, as elected officials, should be entitled to compensation in lieu of salary for a limited time following defeat at an election. This would be in line with the loss of office payment currently received by MPs.[50] This would promote the PCC role to a more diverse range of candidates, particularly by making it more attractive to people earlier on in their careers, who may, for example, be subject to mortgage debts and have family responsibilities.

Recommendation 15: We recommend that PCCs who lose their seat at election are entitled to a loss of office payment equivalent to the payment received by former MPs.

Looking ahead

5.59 Whilst the SSRB understands the role of a PCC is unique, a number of our strategic priorities for senior workforces still apply. It is evident that the Home Office has no clear workforce strategy for PCCs and that it has limited engagement with them. We would encourage the Home Office and the APCC to have a more active and constructive dialogue in order to address areas of concern. As part of this review, for example, PCCs have expressed concern about the level of expenses they incur and their desire to have a loss of office payment introduced, both of which could have been raised and potentially resolved without recourse to the SSRB.

[50] Members of Parliament are eligible for a loss of office payment if they lose their seat at a general election.
The amount of the loss of office payment is equal to double the statutory redundancy entitlement. MPs are only eligible for such payments if they have held office for a continuous period of at least two years, stand for re-election but are not re-elected. MPs who choose to stand down prior to an election are not entitled to any payment.
In May 2018, IPSA launched a consultation on MP remuneration. It proposed that, in addition to the loss of office payment, a payment equal to two months' net salary, is paid to former MPs to provide financial support whilst they wind up their parliamentary affairs.

5.60 We recognise that this is not a standard workforce and it has a limited evidence base. Nevertheless, we would welcome further information in relation to the careers of PCCs, both before taking on the post and after leaving it.

5.61 In order to carry out a proper assessment of the impact of the additional responsibilities arising out of fire and rescue governance, we expect both the Home Office and the APCC to undertake a comprehensive evidence gathering exercise to ensure that a solid evidence base is provided for the next formal review of PCC pay.

5.62 In Chapter 1, we highlighted progress against the SSRB's strategic priorities as set out in our 2017 report. Our assessment of the position for PCCs, to the extent that we believe the strategic priorities are relevant to this group, is summarised in table 5.5. In contrast to our other remit groups, this is the first year that we have assessed PCCs against our strategic priorities. Therefore, no trajectory assessment has been provided.

Table 5.5: **Assessment of position of PCCs against the SSRB's strategic priorities**

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

SSRB priority in 2017 report	Assessment of position in 2018
Pay and workforce strategy: Departments need to be clear about their long-term objectives, their future operating model and the pay and workforce strategy required to support them. Annual changes to pay need to be linked to longer-term strategy.	No clear workforce strategy.
Focus on outcomes: There should be more focus on maximising outcomes for lowest cost and less fixation on limiting basic pay increases across the board.	n/a No scope for workforce reconfiguration.
Action on poor performance: Greater analysis is required of where value is being added and action taken where it is not.	n/a Directly elected role.
Performance management and pay: There needs to be demonstrable evidence that appraisal systems and performance management arrangements exist and are effective, and of a robust approach to reward structure and career development.	n/a No career structure and accountability is to the electorate rather than an employer.
Better data: Better decision-making requires better data, particularly in respect of attrition, retention and recruitment. Emerging issues and pressures need to be identified promptly and accurately so that appropriate action can be taken.	Some data was provided but it remains difficult to make robust evidence-based pay recommendations for this group.
Feeder groups: The feeder groups that will supply the next generation of senior public sector leaders must be closely monitored. The data relating to them needs careful scrutiny for early warning signs of impending problems.	n/a Elected body: not possible to identify or target the feeder group.
Targeting: Where evidence supports it, pay increases should be targeted according to factors such as the level of responsibility, job performance, skill shortages and location.	The current system differentiates pay in relation to the size of the police force. No new propositions for targeting were made.
Central versus devolved tensions: Tensions that exist in the system that hinder the development of a coherent workforce policy, such as between national and local control, need to be explicitly recognised and actively managed.	No management of PCCs by central government. Significant ambiguity regarding division of accountability between the Home Office, chief constables and PCCs.
Diversity: The senior workforces within our remit groups need to better reflect the society they serve and the broader workforce for which they are responsible.	n/a Few initiatives to improve diversity. However, limited exercisable control due to party political control of many of the candidates who are elected by the public

Chapter 6

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

Introduction

The remit group

6.1 The SSRB's remit covers Executive and Senior Managers (ESMs) in Arm's Length Bodies (ALBs) of the Department of Health (DH) and five Ambulance Trusts that do not have Foundation Trust status. Organisations employing managers outside our remit have discretion to set remuneration subject only to their own internal budgets, and free from direct government control.

6.2 There were 360 ESMs in our remit at 1 April 2016, with the organisation employing the greatest number of ESMs being NHS England, which had 167 ESMs at 1 April 2016. The ESM cohort represents 18.8 per cent of all senior managers working across the NHS.[56]

6.3 We have stated in previous reports that the composition of our remit group currently makes no sense, with the pay of other senior managers working in Trusts being set by the individual Trusts, without any input from us. Managers frequently move between organisations covered by the SSRB and those in the wider health service, currently outside our remit.

6.4 For these reasons, the distinction between the groups inside and outside the remit is an arbitrary one from a pay and reward perspective. This has made implementing a rational approach to setting pay and reward for this group very difficult, regardless of whether it was the DH or the SSRB attempting to do this.

6.5 We concluded in our 2017 report that trying to treat this remit group as a separate, coherent workforce was neither practical nor sensible. We recommended that the government develop a coherent proposition on how best to set the pay of ESMs in the Department of Health's ALBs in future. We proposed two alternatives to the previous arrangement:

- ALB remuneration committees could take on more responsibility for pay setting. This would result in no meaningful function for the SSRB in terms of the normal annual pay cycle and we would cease to offer advice for this group.
- Or, the government could expand central pay oversight and widen the SSRB's remit to advise on the pay of all health service senior managers. This would facilitate greater consistency in health service remuneration, but would represent a major change in the direction of NHS policy.

6.6 We also recommended that the 1 per cent available for basic increases was used in full for ESMs. A further recommendation was that ALBs should use the whole available budget for non-consolidated awards for the top 25 per cent performers and that any individual ALBs who decided not to use their full allocation must make a formal case to the DH Remuneration Committee explaining the rationale for their decision.

[56] At February 2018, there were 1,551 Very Senior Managers in the NHS.

Government response to our 2017 recommendations

6.7 The government accepted all of our recommendations. ESMs have been temporarily removed from our remit.

Looking ahead

6.8 We understand that a scoping exercise is being undertaken to consider whether the SSRB's remit should be extended to cover Very Senior Managers (VSMs) in the wider NHS. No decisions have yet been made. **We therefore recommend that ESMs continue to remain out of our remit until conclusions have been reached.**

6.9 Should the decision be taken to expand the SSRB's remit to cover all senior managers working across the NHS, we reiterate that the following issues would require consideration:

- There would need to be clear means by which the government could act on our recommendations, which implies that the SSRB would need to have the means to influence the pay of senior managers across the NHS.
- The SSRB would have requirements for data on the wider workforce, in addition to the general data improvement priorities that have already been identified for ESMs. There would need to be clarity as to which body would coordinate the data collection process, and assemble and present the evidence.
- Such an arrangement would take time to implement, meaning robust arrangements would need to be put in place to ensure that the pay of our current remit group is monitored and considered during the transition.

6.10 We should like to be kept informed of the progress and outcome of the review and require notification of any proposed changes to our remit in good time to carry out any further review.

Appendix A

List of those who gave evidence and information to the SSRB

The senior civil service

The Cabinet Secretary and Head of the Civil Service
The Cabinet Office
The First Civil Service Commissioner
The Civil Service Commission
The FDA and Prospect
Senior civil service discussion group
Feeder group discussions

Senior officers of the Armed Forces

The Minister for Defence People and Veterans
The Ministry of Defence
The Chief of the Defence Staff
The Chief of Defence People
Senior military discussion group

Police and crime commissioners

The Minister of State for Policing and the Fire Service
The Association of Police and Crime Commissioners
Two individual responses to the Call for Evidence

Appendix B

Website references for publications

This SSRB report can be found at:
https://www.gov.uk/government/organisations/office-of-manpower-economics

Evidence submitted to the SSRB by the Cabinet Office:
https://www.gov.uk/government/publications/government-evidence-to-the-senior-salaries-review-body-on-the-pay-of-the-senior-civil-service--2

Evidence submitted to the SSRB by the FDA and Prospect:
https://www.scribd.com/document/371841061/FDA-and-Prospect-Written-Evidence-to-the-SSRB-January-2018#from_embed

Evidence submitted to the SSRB by the Home Office:
https://www.gov.uk/government/publications/home-office-evidence-to-the-senior-salaries-review-body-police-and-crime-commissioners-2018-to-2019

Report on job evaluation: PCCs
https://www.gov.uk/government/organisations/office-of-manpower-economics

Appendix C

Letter from the Chief Secretary to the Treasury to the Chair of the SSRB of 21 September 2017

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dr Martin Read
Chair of SSRB
c/o Office of Manpower Economics
Fleetbank House
2-6 Salisbury House
EC4Y 8JX

21 September 2017

Dear Martin,

PUBLIC SECTOR PAY 2018-19

1. Thank you for your work on the 2017/18 pay round. The Pay Review Bodies continue to play an invaluable role in making independent, evidence-based recommendations on public sector pay awards. I am extremely grateful to you and your colleagues for your considered work. This letter sets out the Treasury's overarching approach for the 2018/19 pay round.

2. Our public-sector workers are among the most extraordinarily talented and hardworking people in our society. They, like everyone else, deserve to have fulfilling jobs that are fairly rewarded. The Government takes a balanced approach to public spending, dealing with our debts to keep our economy strong, while also making sure we invest in our public services.

3. The Government will continue to ensure that the overall package for public sector workers is fair to them and ensures that we can deliver world class public services while also being affordable within the public finances and fair to taxpayers as a whole.

4. The last Spending Review budgeted for a 1% average increase in basic pay and progression pay awards for specific work forces, and there will still be a need for pay discipline over the coming years, to ensure the affordability of the public services and the sustainability of public sector employment. However, the Government recognises that in some parts of the public sector, particularly in areas of skill shortage, more flexibility may be required to deliver world class public services including in return for improvements to public sector productivity.

5. As the Office for Budget Responsibility's Fiscal risks report published on 13 July reminds us, at nearly 90 per cent of GDP, our public debt is still too high. So, while continuing

to invest in and improve our public services, we must also maintain our ambition to reduce debt at a pace which is sensitive to the needs of the economy.

6. With a more flexible policy it is of even greater importance that recommendations on annual pay awards are based on independent advice and underpinned by robust evidence, submitted by departments, that takes into account the context of wider economic circumstances, private sector comparators, and overall remuneration of public sector workers (including progression pay and pension entitlements). The role of the Pay Review Bodies is therefore more important that ever.

7. The Government values hugely the role of the pay Review Bodies and appreciates the length of time it takes to complete a thorough process. As you know, the forthcoming 2018/19 annual pay round also marks the shift to a Single Fiscal Event in the autumn which will delay your receipt of departmental evidence. The process will therefore run to a later timeline this year: a letter will follow this in due course from relevant Secretaries of State and written evidence will likely be received in December rather than September as is usual for most PRB workforces.

8. I realise that the change in timing will impact on when the Government can expect to receive your report and, as a consequence, on when individuals will receive their pay award. I recognise that this is far from ideal as our hard-working public servants are entitled to receive their awards promptly. However, on balance given the importance of the process and the change in timing that has already occurred, I feel it is important we work to a later timeline rather than condensing the process. I hope that by making the timing clear at the beginning of the process workforces can be made award, with plans put in place to work to a later timeline, and for your and your PRB members to manage your own time. The Office for Manpower Economics will be able to support you in this but, do get in touch if you have concerns in this regard.

9. I appreciate that you may have further questions about this change in approach and I would be pleased to discuss this further when we meet soon. I look forward to working with you over the coming years.

Best wishes,

RT HON ELIZABETH TRUSS MP

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Appendix D

Letter from the First Secretary of State to the Chair of the SSRB of 7 December 2017

Cabinet Office

Rt Hon Damian Green MP
First Secretary of State
Minister for the Cabinet Office
70 Whitehall
London
SW1A 2AS

Web www.cabinetoffice.gov.uk

Dr. Martin Read CBE
Senior Salaries Review Body
Fleetbank House
2-6 Salisbury Square
London
EC4Y 8JX

7th December 2017

Dear Martin,

Senior Salaries Review Body 2018/19 Remit (Senior Civil Service)

I would like to confirm the SSRB's remit in relation to the SCS during the upcoming pay round for 2018/19. I would like the Review Body to conduct its usual annual review process and make recommendations to the Government on the pay of the SCS remit group from April 2018.

The Chief Secretary to the Treasury wrote to you in September setting out the Government's overall approach to pay. That letter confirmed that the Government has adopted a more flexible approach to public sector pay, to address any areas of skills shortages and in return for improvements to public sector productivity. The last Spending Review budgeted for one per cent average basic pay awards, in addition to progression pay for specific workforces, and there will still be a need for pay discipline over the coming years to ensure the affordability of the public service and the sustainability of public sector employment, review bodies should continue to consider affordability when making their recommendations.

Following SSRB's recommendation last year that the Government seek to undertake a fundamental review of SCS pay framework during 2017/18, work has taken place over the last year to consider the current impact of the SCS pay system. We want to work collaboratively with the Review Body on the issues it raises.

As you know, a new Government Commercial Organisation (GCO) was created last year. The terms and conditions of GCO staff are ring fenced and differ slightly from the standard Civil Service offer. All staff on these terms are reviewed by an independent Remuneration Committee that reports annually to HM Treasury. We would, nonetheless, also welcome your comments on the GCO pay framework, as we consider how the Civil Service responds in specific areas on recruitment and retention.

We intend to submit written evidence in December, with oral evidence to follow in the new year. I place great value on the independent advice of the SSRB and look forward to receiving your recommendations for the SCS.

Damian Green

RT HON DAMIAN GREEN

Appendix E

Letter from the Home Secretary to the Chair of the SSRB of 7 December 2017 about the PCC pay review 2018-19

Home Office

Home Secretary

2 Marsham Street
London SW1P 4DF
www.gov.uk/home-office

Dr Martin Read CBE
Chair
Senior Salaries Review Body
Office of Manpower Economics
Fleetbank House
2-6 Salisbury Square
London
EC4Y 8JX

7 December 2017

Dear Dr Read

SENIOR SALARIES REVIEW BODY (POLICE AND CRIME COMMISSIONERS) REMIT 2018/19

I am writing to ask you to conduct a review of Police and Crime Commissioner (PCC) remuneration.

The Chief Secretary to the Treasury wrote to you in September setting out the Government's overall approach to pay. That letter confirmed that the Government has adopted a more flexible approach to public sector pay, to address areas of skills shortages and in return for improvements to public sector productivity. The last Spending Review budgeted for one per cent average basic pay awards, in addition to progression pay for specific workforces, and there will still be a need for pay discipline over the coming years; review bodies should continue to consider affordability when making their recommendations.

The role and remit of PCCs is clearly set out in primary legislation and informed the Senior Salaries Review Body's (SSRB) initial recommendations on PCC pay in its 2011 report. Legislation enabling PCCs to make a case to assume additional responsibility for the governance of fire and rescue services took effect in April 2017.

In light of this, I refer to the SSRB the following matters for recommendation for 2018/19:

a) Whether the level of PCC pay remains set at an appropriate level, given how the role has evolved and the additional statutory functions taken on by PCCs;

b) If there is evidence that an uplift is required, whether that should be applied consistently across police force areas or whether it should be applied differently according to local factory;

c) The timing and frequency of future reviews.

I place great value on the independent advice of the review body and look forward to receiving your recommendations in due course.

The Rt Hon Amber Rudd MP

Appendix F

Comparison of senior staff surveys 2017

Summary

1. The Office of Manpower Economics has analysed the people surveys covering the senior military, senior civil service (SCS) and the judiciary to compare trends in pay and motivation-based measures across these groups. The results are presented in this appendix.

2. The results, where available, are also displayed for grade 6s and 7s of the civil service, and OF5 and OF6 officers, in the military. These groups are considered as feeder groups and, therefore, are of interest by way of comparison with the remit groups.

3. The comparisons between surveys use non-identical questions and relate to slightly different reference points, so inferences must be made with caution. The measures discussed here are included because they are broadly comparable, although other measures in the surveys may provide additional and contextual data. The data may also disguise large variations within the remit groups. It is important to emphasise that none of these surveys present a complete picture of the motivation and pay sentiment among any of the SSRB's remit groups and the results presented here need to be considered alongside the discussion in the relevant chapters of this report, as well as the forthcoming Major Review of the judicial salary structure report. Nevertheless, from the survey measures analysed in this annex, some broad conclusions can be drawn:

   - In the most recent years there have been moderate improvements in satisfaction with pay, although this follows earlier deteriorations.
   - The senior military's perception of the manageability of their workload has deteriorated significantly in 2017, falling by nearly 15 percentage points to 20 per cent. This is in stark contrast to the senior civil service and the judiciary, where the majority of respondents to the surveys report acceptable workloads.
   - The senior military and senior civil service continue to report a high sense of achievement. A lower proportion of judges reported a sense of achievement, which, in the context of a number of other survey responses (not covered in this appendix) demonstrates general significant discontent around their roles.
   - Judges reported lower levels of satisfaction with the challenge of the job than the SCS or the senior military.
   - The feeder group to the senior military, OF5 and OF6, had a level of satisfaction with the challenge of the job 10 percentage points beneath that of the senior military.

4. Overall, analysis of the measures chosen for this paper suggest the following in relation to the workforces for which we have data:

   - The SCS was characterised by moderate improvements on most measures since 2011, although on pay satisfaction this followed a decline before 2011.
   - The judiciary saw mostly declines or low levels of engagement on these measures in 2016. Reported pay satisfaction was low in both the 2014 and 2016 surveys, although it increased slightly between 2014 and 2016.
   - The senior military showed a general improvement, except on workload where the results showed an increasing proportion of this group felt overworked.

Introduction

5. This appendix compares annual staff survey results across groups of interest to the SSRB. The surveys used are the Armed Forces Continuous Attitude Survey (AFCAS), the Civil Service People Survey and the Judicial Attitude Survey (JAS).

6. To make comparisons, questions with similar themes have been chosen and contrasted across the groups. The wording of the questions is slightly different, as are the options for response both in words and number of options.

7. In each graph, one should observe both the absolute level of response and the trend change in sentiment. There are some workforces which are always more or less positive than others on certain aspects of their pay, workload or morale. Against this context, the trends should be observed as indicative of how perception is changing around the attractiveness of these roles.

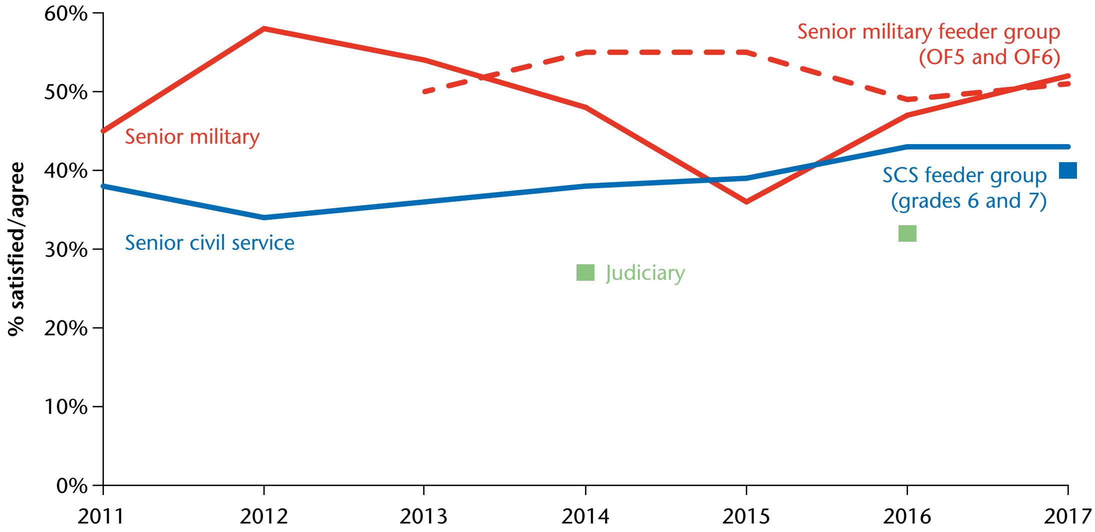
8. Findings presented here will not be evenly distributed within the remit groups. For instance, in the Judicial Attitude Survey, High Court Judges expressed different levels of sentiment around their pay than Circuit Judges or District Judges.

Pay satisfaction

9. The comparator groups experienced similar pay environments over the years in question as a result of public sector pay policy. Figure F.1 plots the positive responses for pay satisfaction. The survey questions were broadly similar. Responses show the following:

   - Pay satisfaction has improved in the SCS since 2012, to 43 per cent in 2017. This was 3 percentage points higher than the feeder group, grade 6s and 7s. Prior to 2012, pay satisfaction was higher, but fell to a low of 34 per cent in 2012.
   - Having fallen to a low of 36 per cent in 2015, senior military pay satisfaction increased to 52 per cent in 2017. Although the sample size is small, this closes what was previously quite a large gap between the remit group and the feeder group.
   - Judges were the least satisfied with their pay amongst these three remit groups, with satisfaction levels at 32 per cent in 2016, a small increase from 27 per cent in 2014.

Figure F.1: **Pay satisfaction between 2011 and 2017**



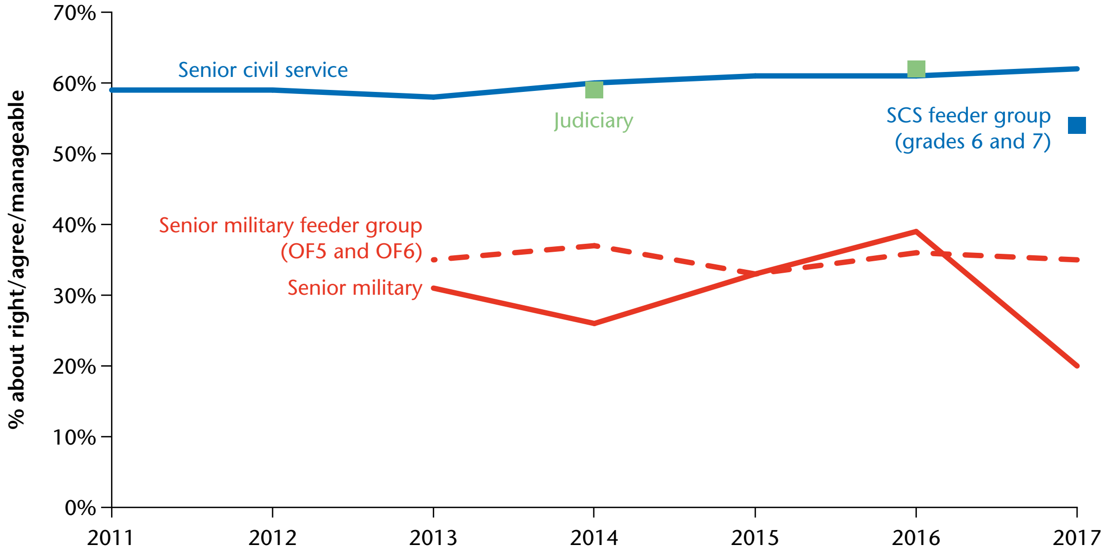
Source: OME analysis of the AFCAS, Civil Service People Survey and JAS.
Notes: Higher score indicates greater satisfaction.
Armed Forces: How satisfied are you with your rate of basic pay (includes X-Factor, but excludes allowances)?
SCS: I feel that my pay adequately reflects my performance.
Judiciary: I am paid a reasonable salary for the work I do.

Workload

10. Workload is one area where there are significant differences in perception between the groups (see figure F.2):

- Since 2011, around 60 per cent of senior civil servants have consistently agreed they have an acceptable workload. This improved slightly to 62 per cent in 2017.
- A similar proportion of judges rated their workload as being either manageable or (in a small number of cases) too low between 2014 and 2016.
- The senior military scored the lowest for manageable workloads; only 20 per cent thought their workload was either about right or too low in 2017, down from 39 per cent in 2016. This is a clear difference from the feeder group (35 per cent) which has in previous years recorded workload sentiment more closely aligned with the senior military.

Figure F.2: **Workload between 2011 and 2017**



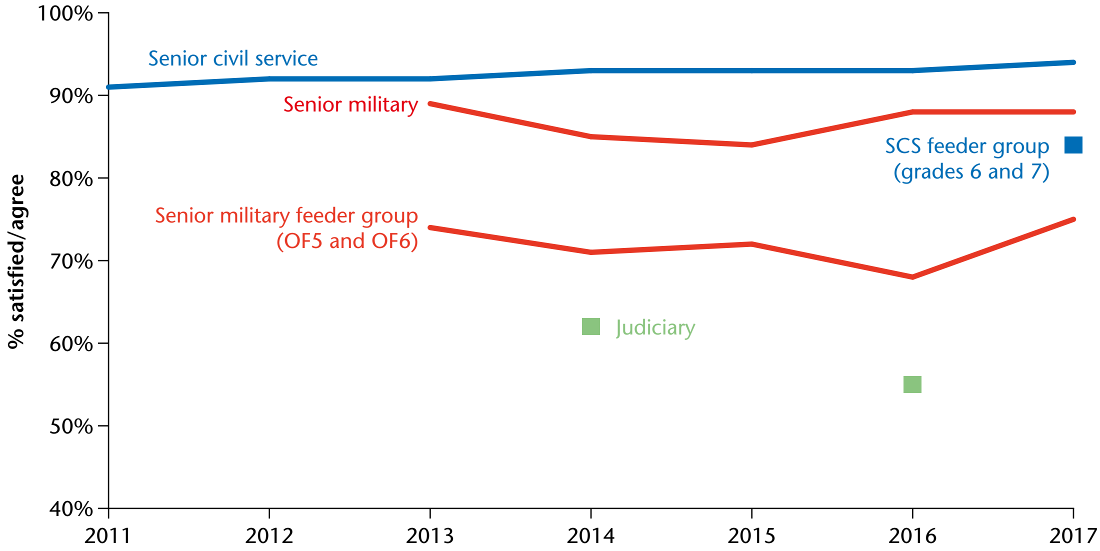
Source: OME analysis of the AFCAS, Civil Service People Survey and JAS.
Notes: Lower scores indicate a less manageable workload.
Armed Forces: How would you rate your workload over the last 12 months?
SCS: I have an acceptable workload.
Judiciary: Case workload over the last 12 months.

Engagement: achievement and challenge

11. Leadership in remit groups will often have different priorities which are reflected in the job engagement questions asked in the surveys, making them less comparable. Nevertheless, one broadly comparable area is the sense of achievement that employees derive from work (see figure F.3). Some results are as follows:

- Senior civil servants have had at least 90 per cent positive responses over the entire time period. In 2017, grade 6s and 7s had an 84 per cent positive response rate.
- The rate of satisfied responses in the senior military was at 89 per cent in 2013, but declined to 84 per cent in 2015. Since then it has recovered to 88 per cent in 2016 and 2017. Satisfaction in the senior military group has always been at least 10 percentage points higher than that for the feeder group, OF5 and OF6 ranks.
- Judges' reported sense of achievement was far below these other two groups, at 55 per cent in 2016.

Figure F.3: **Sense of achievement between 2011 and 2017**

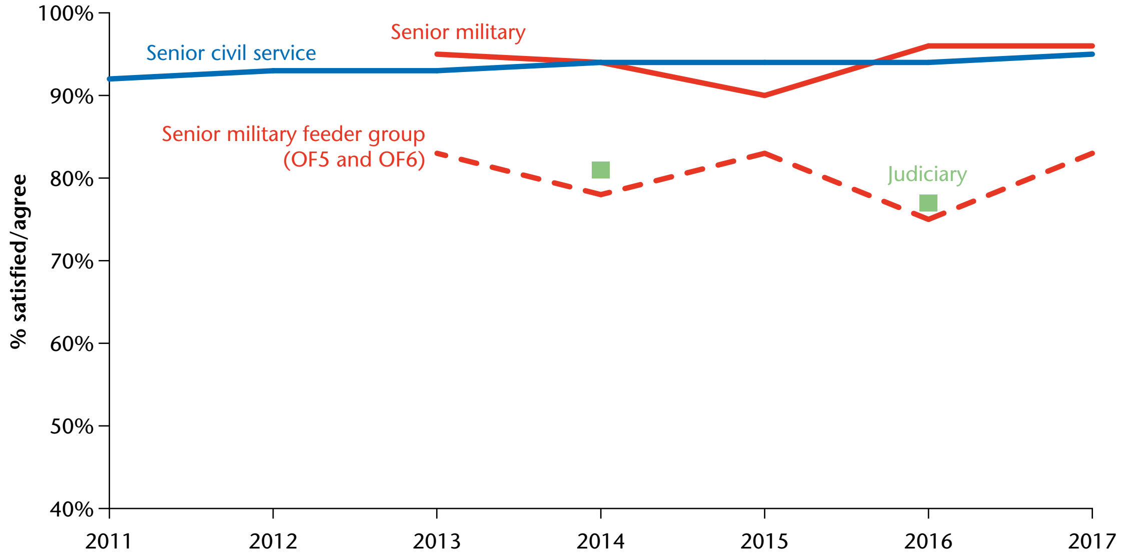


Source: OME analysis of the AFCAS, Civil Service People Survey and JAS.
Notes: Higher scores indicate greater satisfaction.
Armed Forces: How satisfied are you with the sense of achievement you get from your work?
SCS: My work gives me a sense of personal accomplishment.
Judiciary: Satisfaction with sense of achievement in the job.

12. A further comparable area of job engagement is the challenge that employees face on the job. Trends are plotted in figure F.4.

- Members of the senior military reported very high levels of satisfaction with the challenge in their job, at over 95 per cent in 2016 and 2017.
- The senior military feeder group members exhibited a lower and more variable level of satisfaction with the challenge in their jobs, rising by 8 percentage points to 83 per cent in 2017.
- Senior civil servants' scores gradually increased over the period reaching 95 per cent in 2017.
- Judges' reported levels of satisfaction with challenge were lower than the other remit groups, at 77 per cent in 2016, similar to those of the senior military feeder group. This was part of a general pattern of discontent amongst the judiciary, discussed above.

Figure F.4: **Work challenge between 2011 and 2017**



Source: OME analysis of the AFCAS, Civil Service People Survey and JAS.
Notes: Higher scores indicate more challenge from work.
Armed Forces: How satisfied are you with the challenge in your job?
SCS: I am sufficiently challenged by my work.
Judiciary: Satisfaction with sense of achievement in the job.

Further detail on making comparisons of survey groups

13. When completing a survey, participants can often be subject to influences which can affect their responses. The layout and timing of different surveys can therefore make comparisons difficult or misleading. Factors which can cause bias or variations in understanding or interpretation of questions include:

- Non-response bias occurs when eligible individuals are unwilling or unable to participate in the survey: if the characteristics of the responding and non-responding participants differ, then the results may be biased. This is more likely when there is a low response rate.
- Framing effects are an example of cognitive bias, whereby participants in a survey react to a choice in a different way depending on how it is presented. For instance, framing the same question as a loss or a gain can lead to the same participant expressing inconsistent or contrasting views.
- How an individual reacts to a question or event can be affected by other recent influences. These are called priming effects. With respect to surveys, priming effects can occur through the ordering of questions. As participants move further into a survey, their responses are more likely to be influenced by previous questions and answers. For example, if a pay question is asked before the job satisfaction question then the participant may place a larger weighting on the pay aspect of their job satisfaction and a lower weighting on other contributory factors.

14. Please see the following tables, F.1 to F.4, for the questions used in this comparison and the choice of responses. Those highlighted in bold have been used as measures. Table F.5 provides a general summary of each survey.

Table F.1: **Pay satisfaction questions**

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How satisfied are you with your rate of basic pay (includes X-Factor, but excludes allowances)?	• **Satisfied** • Neutral • Dissatisfied
Civil Service People Survey	I feel that my pay adequately reflects my performance	• **Strongly agree** • **Agree** • Neither agree nor disagree • Disagree • Strongly disagree
Judicial Attitude Survey	I am paid a reasonable salary for the work I do	• **Strongly agree** • **Agree** • Not sure • Disagree • Strongly disagree

Table F.2: **Workload questions**

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How would you rate your workload over the last 12 months?	• Too high • **About right** • **Too low**
Civil Service People Survey	I have an acceptable workload	• **Strongly agree** • **Agree** • Neither agree nor disagree • Disagree • Strongly disagree
Judicial Attitude Survey	Case workload over the last 12 months	• Too high • **Manageable** • **Too low**

Table F.3: **Sense of achievement questions**

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How satisfied are you with the sense of achievement you get from your work?	• **Satisfied** • Neutral • Dissatisfied
Civil Service People Survey	My work gives me a sense of personal accomplishment	• **Strongly agree** • **Agree** • Neither agree nor disagree • Disagree • Strongly disagree
Judicial Attitude Survey	Satisfaction with sense of achievement in the job	• **Completely satisfied** • **Satisfied** • Could be better • Not satisfied at all

Table F.4: **Work challenge questions**

Survey	Question	Answers
Armed Forces Continuous Attitude Survey	How satisfied are you with the challenge in your job?	• **Satisfied** • Neutral • Dissatisfied
Civil Service People Survey	I am sufficiently challenged by my work	• **Strongly agree** • **Agree** • Neither agree nor disagree • Disagree • Strongly disagree
Judicial Attitude Survey	Satisfaction with challenge of the job	• **Completely satisfied** • **Satisfied** • Could be better • Not satisfied at all

Note to tables F.1 to F.4: Bold indicates the responses used when discussing results in this Appendix.

Table F.5: **Summary of surveys**

Survey	Group	Years of data available	Headcount	Responses
Armed Forces Continuous Attitude Survey	Senior military (OF7 and above)	2011 to 2017 annually for pay satisfaction 2013 to 2017 annually for other responses	122 (1 July 2017)	51[57]
	Senior military feeder group (OF5 and OF6)	2013 to 2017 annually	1,366 (1 July 2017)	225[58]
Civil Service People Survey	Senior civil service	2010 to 2017 annually	5,103 (31 March 2017)	4,930
	Senior civil service feeder group (grade 6s and 7s)	2017 only	41,367 (31 March 2017)	35,908
Judicial Attitude Survey	Salaried judges, England and Wales only	2014 and 2016	1,602	1,580

[57] Only 77 per cent of OF7s and above were asked to complete the AFCAS survey.

[58] Only 25 per cent of OF5s and OF6s were asked to complete the AFCAS survey.

Appendix G

Take-home pay and pension taxation

Introduction

1. In our last report, we noted that changes to pension taxation have led to high marginal tax rates in some cases, where an apparently large increase in pensionable income leads to little real change in net income. Rational responses in some cases could be to pursue a different career, seek early retirement, reduce working hours, or to decide not to apply for promotion.

2. Furthermore, individuals with final salary pensions can face significantly different tax impacts from those with similar pay and average salary pensions. The impacts of taxation depend on factors including age, previously accrued pension benefits and career earnings profile. Therefore, calculating the personal net financial impact of promotion or career progression is a highly complex process. This complexity may itself affect decisions to not apply for, or remain in, senior posts.

3. This appendix models these issues in detail and sets out how promotion and pay increases for our remit group members can lead to significant changes in taxation.

4. It is important to stress that although pension contributions are incurring higher tax charges, pension values are also increasing. In addition, many of these tax charges can be met through a 'Scheme Pays' arrangement, offsetting them against future pension rather than current remuneration.[59]

Pension contributions and tax relief

5. Contributions to pension schemes, including employer contributions, are subject to tax relief at an individual's highest rate of income tax, provided the contributions do not exceed the lower of the individual's annual earnings or the annual allowance. In a defined contribution (DC) pension scheme, where individual and employer contributions are invested together and the fund is used to buy a pension and/or other benefits at retirement, the pension input amount is the total of the employer and employee contributions each tax year.

6. Under a defined benefit (DB) scheme, where the pension depends on a formula rather than investment returns, the pension input is the value of the benefits accrued. For tax purposes, this is calculated as 16 times the increase in annual pension (after taking inflation into account),[60] plus any lump sum. This valuation is different from the actuarial valuation, which depends on more factors such as age.

[59] See https://www.civilservicepensionscheme.org.uk/members/pension-savings-statements-2017/scheme-pays-information/

[60] See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/259732/GAD_report_on_flat_factor_version_14_October.pdf for an explanation of the factor.

The annual allowance tax charge

7. The annual allowance tax charge taxes individuals whose pension input amount is greater than their annual allowance; this is added to taxable income before the calculation of income tax. The pension input amount is the value of the increase to the total pension pot,[61] while the annual allowance is currently £40,000 a year for those earning under £110,000. Individuals can carry over unused annual allowances from the three previous tax years, so it is technically possible to avoid a tax charge in any one year with a pension input amount of up to £160,000.

8. There is an annual allowance taper that reduces the annual allowance tax relief that individuals can claim for those above a certain income. The maximum reduction is £30,000 so an adjusted income of £210,000 has an annual allowance of £10,000. The calculation of the taper is a two-step process.

   - First, the annual allowance taper only applies if the individual has a 'threshold income' over £110,000. This threshold income is calculated as income after member pension contributions are deducted. Therefore, an individual earning £120,000,[62] but making contributions of £15,000 to their pension, would not face the tapered annual allowance.
   - Second, if the first condition is met, then the annual allowance is tapered at a loss of £1 for every £2 of 'adjusted income' above £150,000.

9. In a DC scheme, the 'adjusted income' is an individual's income,[63] including other sources besides employment, after adding the employer's pension contribution.

10. In a DB scheme, the 'adjusted income' is an individual's income after adding the pension input amount for that tax year and deducting any employee contribution.

11. So, an individual in a DB scheme with an income of £130,000, a pension input amount of £60,000 and making an employee contribution of £10,000 would be £30,000 over the £150,000 reference amount. That employee's annual allowance would be reduced by £15,000 from £40,000 to £25,000.

12. Taking the above example, the pension input amount of £60,000 exceeds the annual allowance by £35,000. This is added to taxable income (£120,000), with £5,000 exceeding the additional rate tax band and so taxed at 45 per cent; £30,000 is taxed at 40 per cent, the higher rate of income tax. This works out at a £14,250 tax charge.

Senior civil servants in the Alpha pension scheme

13. Figure G.1 illustrates the tax liabilities faced by senior civil servants who are members of the Alpha pension scheme. This graph is calculated over the range of possible annual salaries a senior civil servant could earn.[64] The annual allowance tax charge begins to hit civil servants earning £107,800 or more. This is around the minimum salary for pay band 3.

[61] With defined contribution schemes this is simply the contribution. With defined benefit schemes, HMRC sets this as 16 times the increase to the annual pension payment, after taking inflation into account.

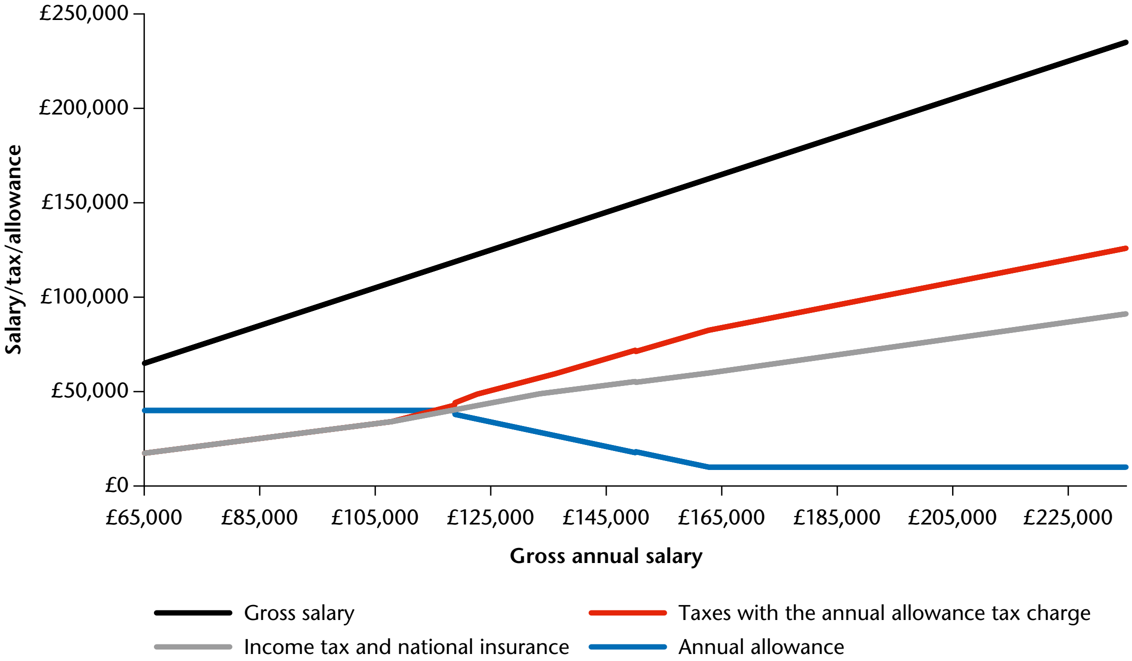
[62] Assuming no other taxable income. Income from investments or other sources could reduce the annual allowance and increase the annual allowance tax charge. This appendix assumes no other sources of income throughout.

[63] HMRC calls this net income. It is income before taxation, including other sources of income besides employment income, but deducting employee pension contributions.

[64] Calculations were made at £100 increments.

14. Civil servants earning over £118,700 start to see their annual allowance tax relief taper. This is because their income less their employee pension contributions exceeds the £110,000 threshold.[65] This causes a spike in the annual allowance tax charge. A £100 increase in gross salary at £118,700 increases tax by over £1,200 due to the sudden tapering of the annual allowance.

Figure G.1: **Tax of senior civil servants in the Alpha pension scheme**

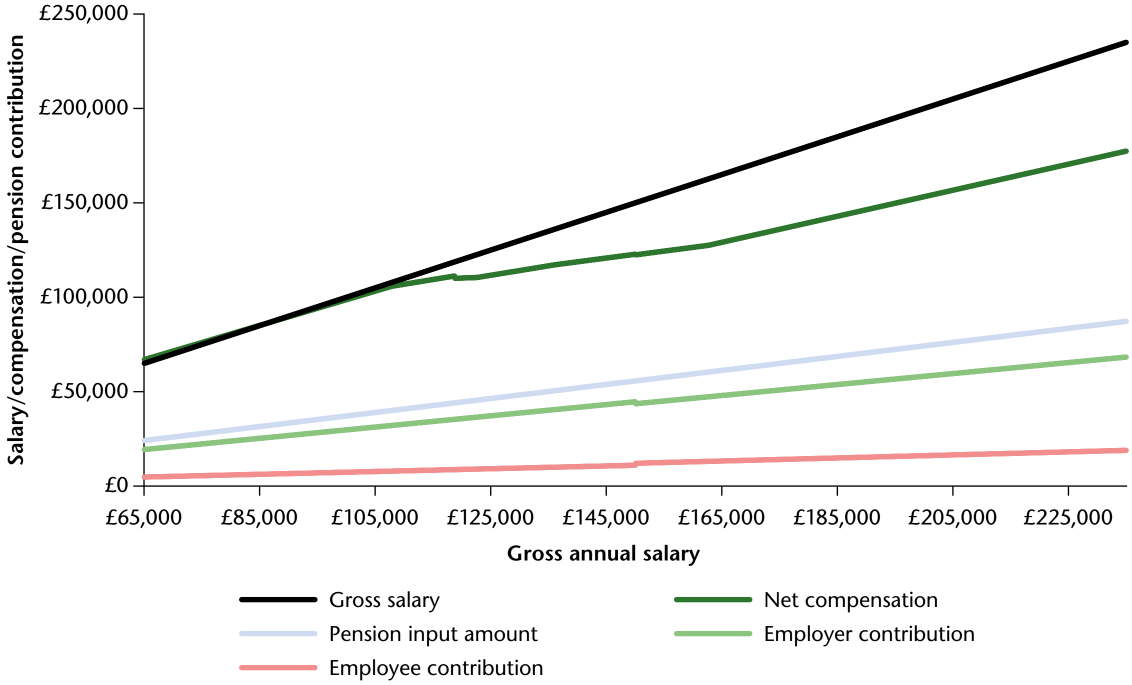


Source: OME analysis.

15. Figure G.2 shows how pension benefits vary with gross salary. It should be noted that the HMRC valuation of a pension is different from the actuarial value; this only captures the HMRC valuation. The employer contribution is the pension input amount less the employee contributions in a DB scheme. The dark green line represents net compensation. This takes pay after taxation and adds the value of the pension input amount. This line gives some reflection of how a promotion may still be beneficial due to the increase in pension value. This measure has some kinks but rises more consistently with income than take-home pay (see figure G.3).

[65] Income adjusted to include pensions input exceeded the £150,000 threshold at a gross salary of £109,300.

Figure G.2: **Senior civil servants' pension benefits and net compensation in the Alpha pension scheme**

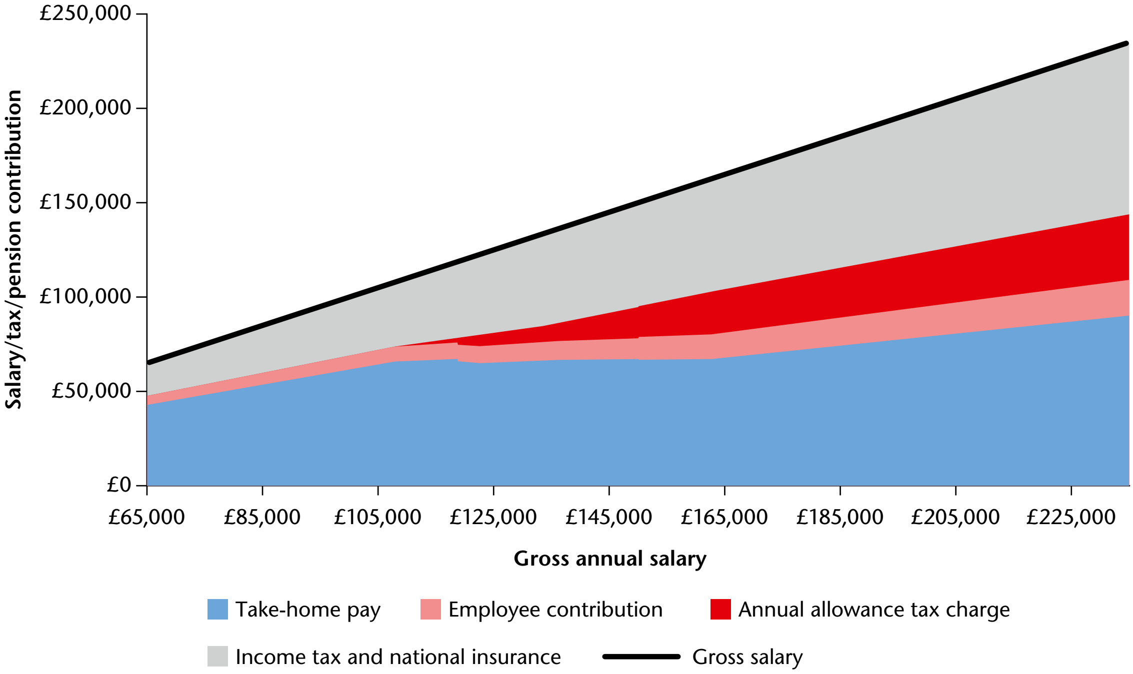


Source: OME analysis.
Note: Net compensation takes net pay (pay after taxes) and adds the pension input amount.

16. Figure G.3 shows the take-home pay of senior civil servants as represented by the blue area. For salaries between £119,000 and £170,000, take-home pay increases very little. At £118,700, take-home pay is £67,194; it reaches £67,108 again at £150,000 and it falls again before surpassing £67,220 on £163,000.

17. These troughs occur due to the interaction of the annual allowance tax charge, the loss of the personal allowance (for taxable incomes between £100,000 and £123,000) and the annual allowance taper. In many cases, the annual allowance taxation may be deferred under a Scheme Pays arrangement, but only at the loss of pension value.

Figure G.3: **Effect of annual allowance tax charge on senior civil servants' take-home pay**



Source: OME analysis.
Note: Assumes the individual bears the tax charge each year, rather than using Scheme Pays to reduce pension.

Armed Forces Pension Scheme – AFPS15

18. The new military pension scheme, AFPS15, is in many ways similar to the civil service Alpha pension scheme. There are three key differences:

- There are no employee contributions.
- The accumulated pension pot is revalued by average earnings growth,[66] not CPI.
- The accrual rate is 1/47 or 2.13 per cent.

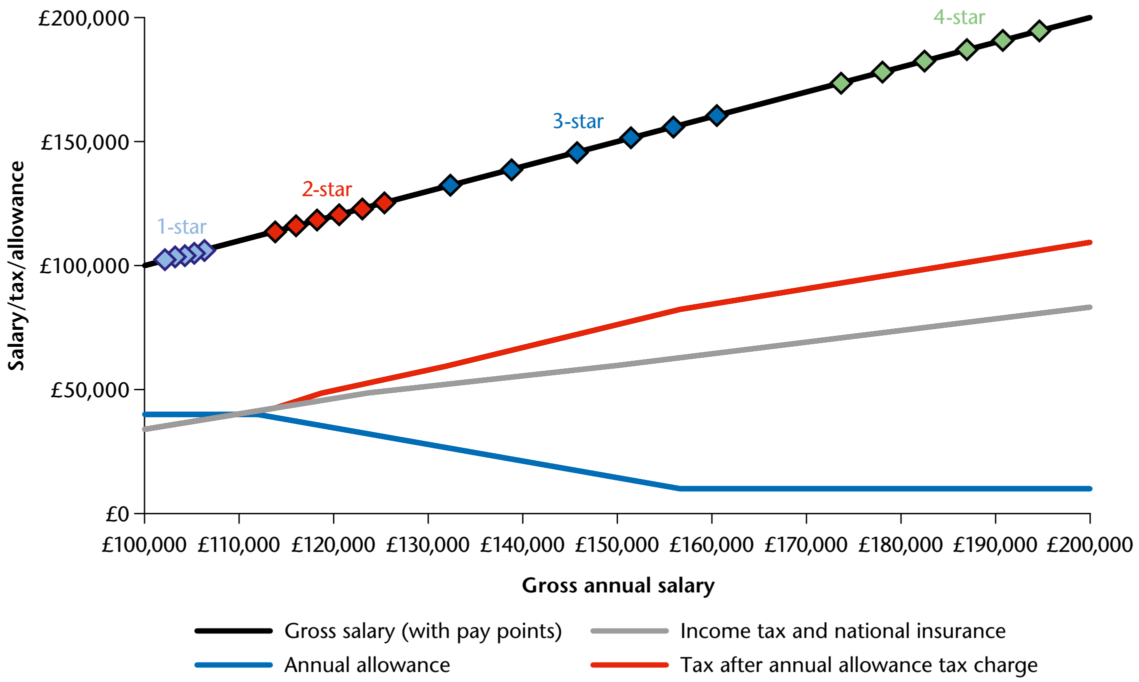
19. Figures G.4 and G.5 illustrate the tax liabilities and pension benefits of senior military officers who are members of the AFPS15 pension scheme on salaries between £100,000 and £200,000.

20. Figure G.6 shows how the annual allowance tax charge causes taxation to take a growing proportion of income for this group. Take-home pay stagnates for ranks between 2-star and 3-star ranks. Between £113,000 and £150,000, take home pay increases by less than £3,000 and does not exceed £80,000 until reaching 4-star. Take-home pay does not include the value of the pension; this is captured by the measure of net compensation shown in figure G.5.

21. This analysis excludes the effect of revaluation on taxation. The effect of revaluation on the annual allowance tax charge depends on the opening annual pension and the difference between average earnings growth and CPI inflation. For an opening annual pension of £50,000, average earnings of 3 per cent and a CPI rate of 2 per cent, there would be an increase to the pension input amount of £8,000; this would lead to an increase in annual allowance tax charge of £3,200 (in the absence of relief).

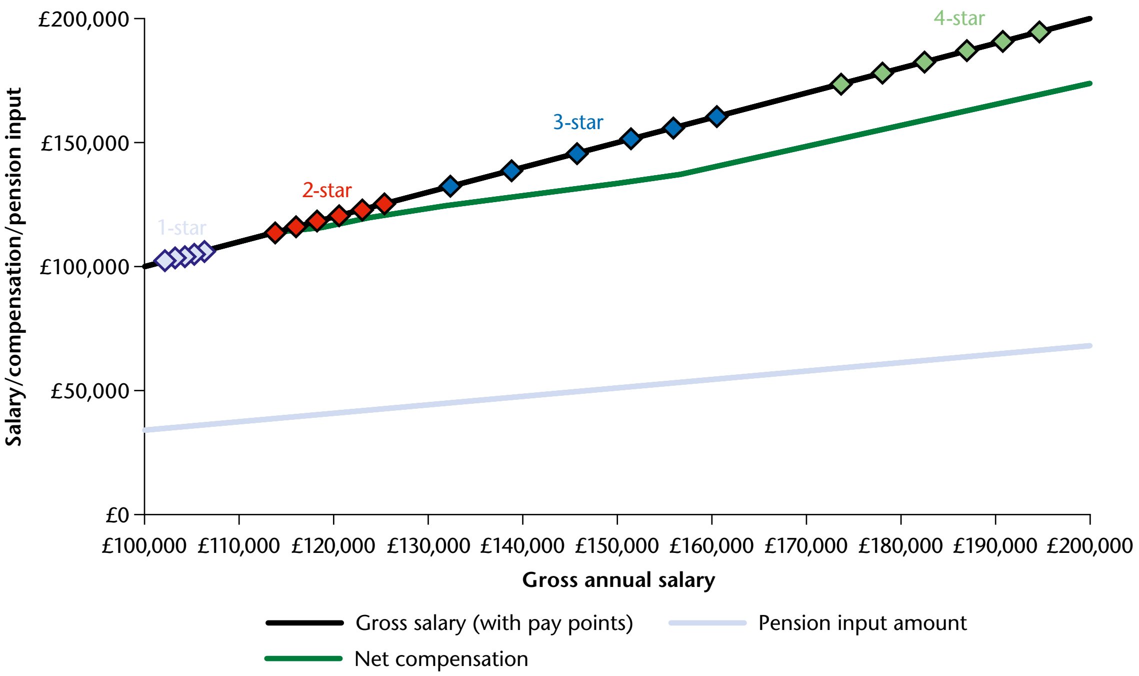
[66] The ONS data series for average weekly earnings, annualised. AFPS15 takes the single 12-month increase for September each year. This data has the code KA58 on the ONS website.

Figure G.4: **Illustrative tax liability for those in the AFPS15 pension scheme**



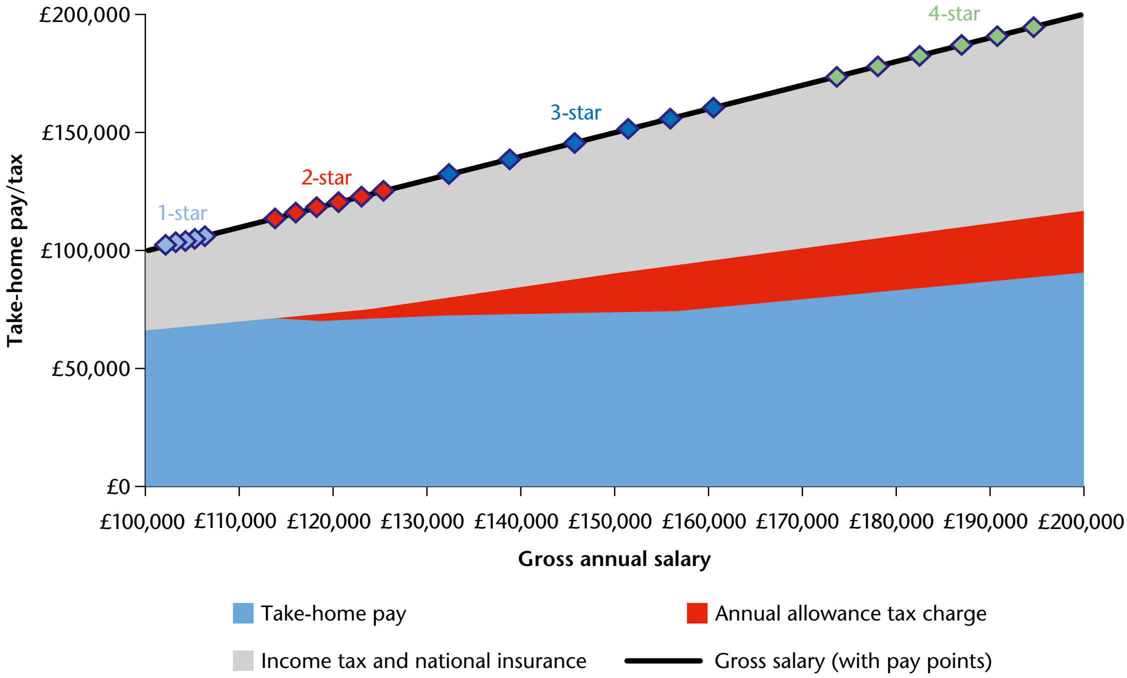
Source: OME analysis.

Figure G.5: **Pensions and net compensation for those in the AFPS15 pension scheme**



Source: OME analysis.

Figure G.6: **Take-home pay for those in the AFPS15 pension scheme**



Source: OME analysis.
Note: Assumes the individual bears the tax charge each year, rather than using Scheme Pays to reduce pension.

Armed Forces Pension Scheme – AFPS75

22. Sixty four per cent of officers at OF7 rank and above are members of the Armed Forces Pension Scheme 1975 (AFPS75). This is a final salary DB scheme with no employee contributions, which is closed to new joiners and those who were more than 10 years from their retirement age in 2013.

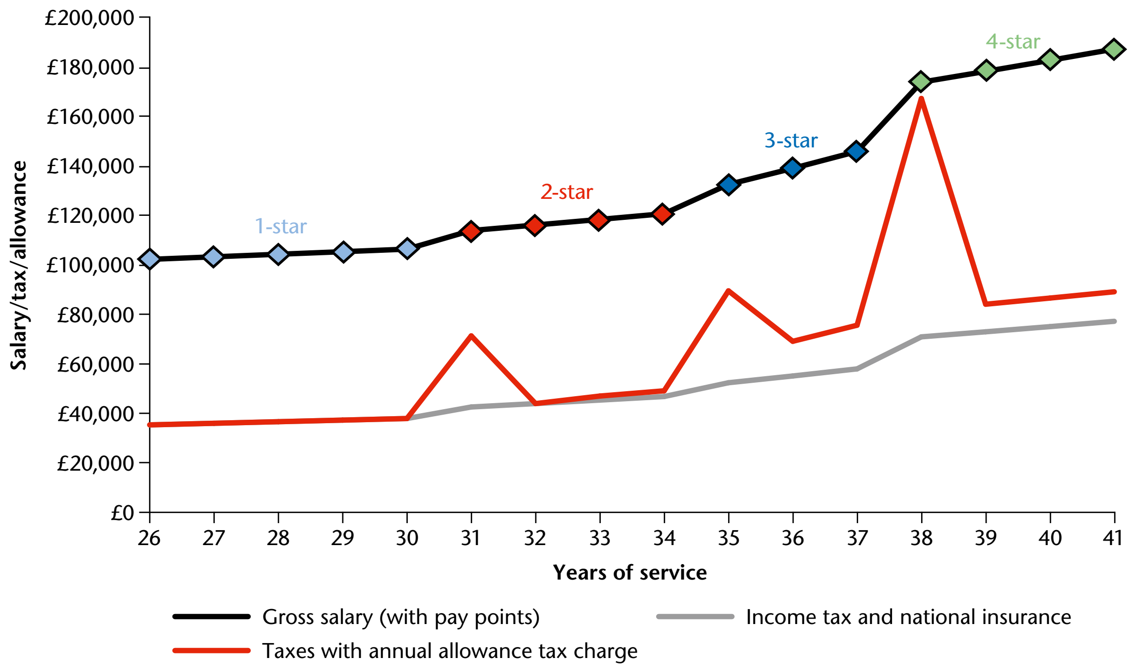
23. AFPS75 accrual rates are faster up to the immediate pension point. Officers with 16 years' reckonable service will have accrued a pension worth 28.5 per cent of representative pay. Officers who retire at age 55, with 34 years' reckonable service, will have accrued the maximum pension of 48.5 per cent of representative pay (the 48.5 per cent excludes the lump sum). The lump sum or terminal grant is worth 300 per cent of the annual pension.

24. Figure G.7 illustrates the levels of tax liability a member of AFPS75 could expect when progressing through the ranks of the senior military (with 1-star included as the feeder group). The red line represents this liability.[67] The horizontal axis shows number of years of service. This individual becomes a 1-star officer after 25 years of service.[68] This individual is then promoted again after a further six years to 2-star, after four years to 3-star, and after three years to 4-star. This individual reaches 34 years' service just before becoming a 3-star officer.

[67] If the individual entered the service at the age of 21 after university, this would make them 46 years old. The youngest 2-star is currently 47.

[68] This is an illustrative progression. The level of taxation for final salary schemes depends on the speed of progression. This contrasts with our previous analysis where the level of taxation only depends on gross salary.

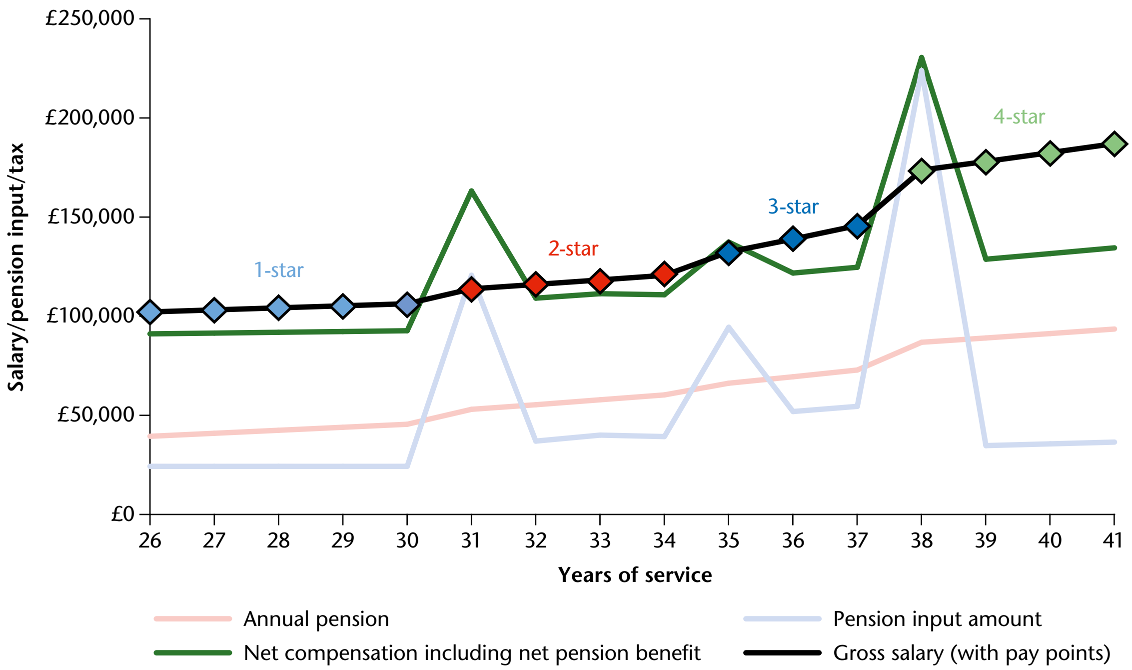
Figure G.7: **Illustrative tax liability from progression in the senior military in AFPS75**



Source: OME analysis.

25. Figure G.8 includes net compensation and shows this generally rises over the career, albeit with considerable variation. This measure of net compensation spikes with pension input amount at promotion.

Figure G.8: **Illustrative pensions and net compensation from progression in the senior military in AFPS75**

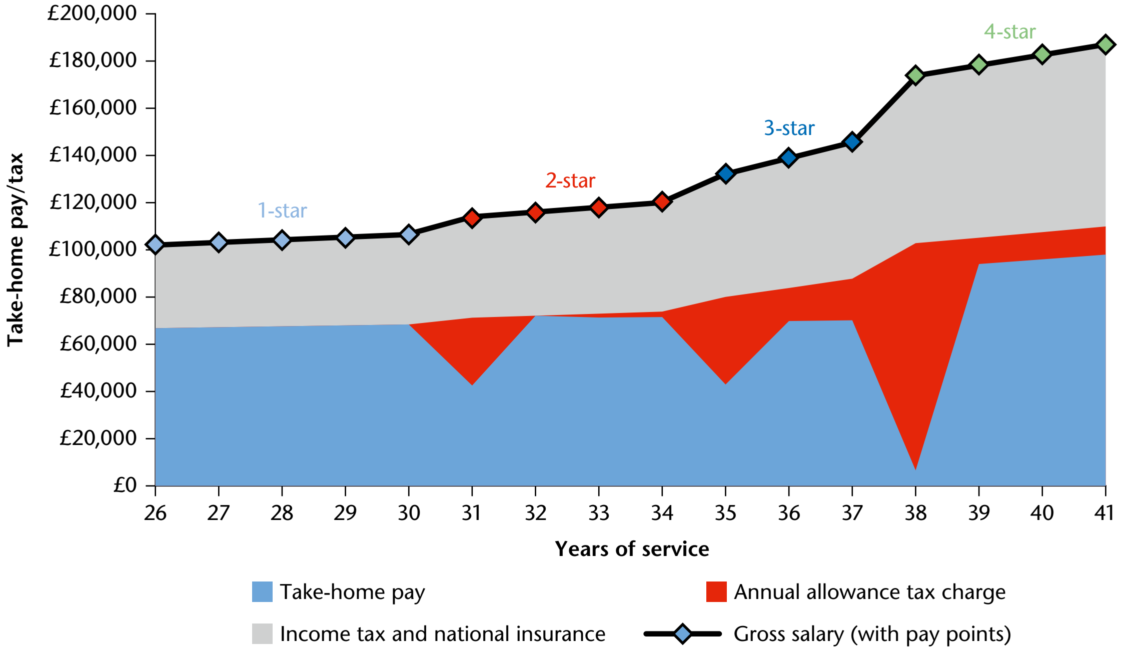


Source: OME analysis.

26. The individual faces spikes in their taxation around the acceptance of a promotion. In the promotion from 1-star to 2-star and 2-star to 3-star, these mean that a significant proportion of gross salary is paid in tax, at 63 per cent and 68 per cent respectively. Following promotion to 4-star, the individual is liable to pay almost all their employment earnings in tax: 96 per cent of the salary.

27. Figure G.9 shows the effect of the annual allowance tax charge on take-home pay. It shows how these spikes in taxation reduce take-home pay in the year of promotion. It is important to recognise that figure G.9 does not factor in the increased value of the individual's pension that will result from the promotion, as illustrated in figure G.8.

Figure G.9: **Take-home pay for members of the senior military in the AFPS75**



Source: OME analysis.

The lifetime allowance

28. The lifetime allowance is the maximum amount of pension savings an individual can build up over their life from all registered pension schemes without incurring a tax liability. Between April 2012 and April 2014, the allowance was progressively reduced from £1.8 million to £1.25 million, and then reduced further to £1.0 million from April 2016. It was increased to £1.03 million from April 2018.

29. In a defined benefit scheme, to calculate how much of the lifetime allowance has been used, the value of the pension expected in the first year of retirement is multiplied by 20 and added to any lump sum. For example, a member of the SCS in the Classic Civil Service Pension Scheme retiring with a final salary of £86,900, after 40 years' service, would qualify for an annual pension of £43,450 and a one-off lump sum of £130,350. Adding the value of the lump sum to 20 times the annual pension gives a total of £999,350, just within the current lifetime allowance of £1.03 million.

30. Pension savings above the lifetime allowance are subject to the lifetime allowance charge. This is 55 per cent if the excess is taken as a lump sum and 25 per cent if the excess is taken as a pension. Income tax at the marginal rate is also payable.

31. It is difficult to generalise about the impacts of the lifetime allowance on remit groups because they depend on the value of the pensions that an individual has accumulated over their lifetime. Nevertheless, we can draw some conclusions.

32. The most highly paid senior people will often accumulate larger pensions and are more likely to be affected, or to be affected to a greater extent.

33. Individuals who accumulated large pensions before entering a remit group are also more likely to be affected by the lifetime allowance. For instance, some judges will have been highly remunerated in previous roles working as barristers or solicitors and may have accumulated large pensions before entering the judiciary.

34. Therefore, for some members of the remit group, existing high marginal tax rates resulting from breaching the annual allowance will be further exacerbated by breaching the lifetime allowance.

Appendix H

Existing salaries for the SSRB remit groups

Salary bandings of Permanent Secretary posts in December 2017

Pay band	Pay range
Roles (£190,000 - £235,000)	Chief Executive of the Civil Service (£230,000-£235,000) Head of the Civil Service (£195,000-£200,000)
Tier 1 roles (£180,000 - £200,000)	HM Treasury (£185,000-£190,000) Department for Work and Pensions (185-190) HM Revenue and Customs Chief Executive (185-190) National Security Advisor (185-190) Home Office (180-185) Ministry of Defence (180-185) Foreign and Commonwealth Office (180-185) Ministry of Justice (180-185) HM Revenue and Customs Executive Chair (170-175)
Tier 2 roles (£160,000 - £180,000)	Business, Energy and Industrial Strategy (£175,000-£180,000) Security Service (165-170) Department of Health (165-170) Government Communications Head Quarters (165-170) Scottish Government (165-170) Department for International Development (160-165) Department for Transport (160-165) Welsh Government (160-165) Department for International Trade (160-165) Secret Intelligence Service (160-165) Department for Communities and Local Government (160-165) Department for the Environment, Food and Rural Affairs (160-165) Department for Exiting the EU (160-165) Department for Education (160-165) Department for Culture, Media and Sport (160-165) Cabinet Office Prime Minister Adviser (160-165) Treasury Solicitor (160-165)
Tier 3 roles (£142,000 - £160,000)	Northern Ireland Office (£155,000-£160,000) HM Treasury 2nd Permanent Secretary (155-160) Home Office 2nd Permanent Secretary (155-160) Office for National Statistics (150-155) Chair of Joint Intelligence Committee (150-155)
Specialist roles (may attract skills or market premium)	Chief Exec Defence Equipment & Support (£285,000-£290,000) DIT 2nd Permanent Secretary (260-265) Chief Medical Officer (210-215) Director for Public Prosecutions (200-205) Government Chief Scientific Adviser (180-185)[69] First Parliamentary Counsel (140-145)

[69] Position was vacant in December 2017. Salary at September 2016.

Senior civil servants in pay bands, median salaries and pay ranges in 2017

Pay band	Pay range	Median salary	Number in band
1	£65,000 - £117,800	£75,500	3,247
1A	£67,600 - £128,900	£78,700	100
2	£88,000 - £162,500	£98,800	843
3	£107,000 - £208,100	£135,900	139
Permanent Secretaries	£150,000 - £235,000	£167,500	40
Total			4,369

Note: This figure is lower than the total of SCS members in paragraph 3.14 because it excludes five members who are not recorded as assigned to pay bands.
Source: Cabinet Office evidence, published.

Pay of senior officers in the Armed Forces

		Value of scale points (from 1 April 2017)					
	Numbers in post	1 £	2 £	3 £	4 £	5 £	6 £
2-star	89	113,810	116,034	118,303	120,617	122,978	125,385
3-star	25	132,420	138,911	145,727	151,452	155,917	160,518
4-star	8	173,715	178,058	182,510	187,072	190,814	194,630
CDS	1	250,270	255,275	260,380	265,888		

Notes:
1 Numbers in post supplied by the MoD, and relate to numbers in post as of 1 July 2017.
2 This includes X-factor which is applied at the rate of £2,568, this sum being equivalent to 25 per cent of the cash value of X-factor at the top of the OF4 pay scale from 1 April 2017.
Source: Ministry of Defence evidence, unpublished.

Police and crime commissioners (PCCs)

Force	PCC salary
West Midlands, West Yorkshire	£100,000
Avon & Somerset, Devon & Cornwall, Essex, Hampshire, Kent, Lancashire, Merseyside, Northumbria, South Wales, South Yorkshire, Sussex, Thames Valley	£85,000
Cheshire, Derbyshire, Hertfordshire, Humberside, Leicestershire, Nottinghamshire, Staffordshire, West Mercia	£75,000
Bedfordshire, Cambridgeshire, Cleveland, Dorset, Durham, Gwent, Norfolk, Northamptonshire, North Wales, North Yorkshire, Suffolk, Surrey, Wiltshire	£70,000
Cumbria, Dyfed-Powys, Gloucestershire, Lincolnshire, Warwickshire	£65,000

Note: Police and crime commissioners for England and Wales were first elected in November 2012 and salaries are those paid from that date.
Source: Home Office.

Executive and Senior Managers 2016 pay framework[70]

Role/grade	Minimum salary, £	Operational maximum salary, £	Exception zone, £
1	90,900	113,625	131,300
2	131,301	146,450	161,600
3	161,601	176,750	191,900
4	191,901	207,050	222,200

Source: Department of Health.

[70] Rates for 2017 not provided as remit group is not being reviewed by SSRB during 2017-18.

Appendix I

NATO rank codes and UK Service ranks – officers

NATO RANK CODES AND UK SERVICE RANKS – OFFICERS					
NATO code	**UK Stars**	**Royal Navy**	**Royal Marines**	**Army**	**Royal Air Force**
OF-9[1]	**4**	**Admiral**	**General**	**General**	**Air Chief Marshal**
OF-8[1]	**3**	**Vice Admiral**	**Lieutenant General**	**Lieutenant General**	**Air Marshal**
OF-7[1]	**2**	**Rear Admiral**	**Major General**	**Major General**	**Air Vice- Marshal**
OF-6	1	Commodore	Brigadier	Brigadier	Air Commodore
OF-5		Captain	Colonel	Colonel	Group Captain
OF-4		Commander	Lieutenant Colonel	Lieutenant Colonel	Wing Commander
OF-3		Lieutenant Commander	Major	Major	Squadron Leader
OF-2		Lieutenant	Captain	Captain	Flight Lieutenant
OF-1		Sub-Lieutenant	Lieutenant	Lieutenant	Flying Officer
OF(D)		Midshipman	-	Officer Designate	Officer Designate

Source: Ministry of Defence

Note: [1] These officers belong to our remit group.

Appendix J

Glossary of terms and abbreviations

General

Accrual rate	The rate at which future benefits in a defined benefit pension scheme accumulate
BAME	Black, Asian and Minority Ethnic
Base pay	Basic salary, excluding non-consolidated bonuses, allowances, value of pensions, etc
CSR	Comprehensive Spending Review
CST	Chief Secretary to the Treasury
CIPD	Chartered Institute of Personnel and Development
CPI	Consumer Prices Index
CPIH	Consumer Prices Index including owner-occupiers' housing costs
GDP	Gross Domestic Product
IDR	Incomes Data Research
IDS	Incomes Data Services
JAS	Judicial Attitude Survey
LGBO	Lesbian Gay Bisexual Other
LGPS	Local Government Pension Scheme
LRD	Labour Research Department
OBR	Office for Budget Responsibility
OME	Office of Manpower Economics
ONS	Office for National Statistics
Pay Band	A salary range with a minimum and maximum within which posts are allocated
RPI	Retail Prices Index
RPIJ	Retail Prices Index (calculated using the Jevons formula)
SSRB	Senior Salaries Review Body
Take-home pay	Basic salary and any performance-related pay less income tax, National Insurance and, where appropriate, pension contributions

Senior Civil Service

AGD	Attorney General's Department
BEIS	Department for Business, Enterprise and Industrial Strategy
CSC	Civil Service Commission
CMA	Competition and Markets Authority
DCLG	Department for Communities and Local Government
DCMS	Department for Digital Culture, Media and Sport
DECC	Former Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DExEU	Department for Exiting the European Union
DfE	Department for Education
DfID	Department for International Development
DfT	Department for Transport
DIT	Department for International Trade
DH	Department of Health
DWP	Department for Work and Pensions
FCO	Foreign and Commonwealth Office
FLS	Future Leaders Scheme
FSA	Financial Standards Authority
GCO	Government Commercial Organisation
HMRC	Her Majesty's Revenue and Customs
HMT	Her Majesty's Treasury
MoD	Ministry of Defence
MoJ	Ministry of Justice
NCA	National Crime Agency
OFGEM	The government regulator for gas and electricity markets
OFQUAL	The Office of Qualifications and Examinations Regulation
OFSTED	Office for Standards in Education, Children's Services and Skills
ONS	Office for National Statistics
PPS	Partnership Pension Scheme
Scheme pays	Scheme pays is a process that allows an individual to pay an annual allowance charge from their pension scheme. This means the scheme pays the annual allowance charge direct to HMRC on their behalf, and the tax charge is taken out of their pension fund.
SCS	Senior civil service/servants
UKEF	UK Export Finance

Senior officers in the armed forces

AFCAS	Armed Forces Continuous Attitude Survey
AFPRB	Armed Forces' Pay Review Body
AFPS15	Armed Forces Pension Scheme 2015
CDP	Chief of Defence People
CDS	The Chief of the Defence Staff
CWP	Continuous Working Patterns
HCSC	Higher Command and Staff Course
MoD	Ministry of Defence
MODOs	Medical officers and dental officers
OF	Officer
X-Factor	The X-Factor is an addition to military pay that recognises the special conditions of service experienced by members of the Armed Forces compared with civilian employment

Police and crime commissioners

MOPAC	Mayor's Office for Policing and Crime
NPCC	National Police Chief's Council
PCCs	Police and crime commissioners
PFCCs	Police, fire and crime commissioners
APCC	Association of Police and Crime Commissioners

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

ALBs	Arm's Length Bodies
DH	Department of Health
ESMs	Executive and Senior Managers
MiP	Managers in Partnership
VSMs	Very Senior Mangers

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