



Review Body on Senior Salaries

REPORT No. 59

Twenty-Seventh Report on Senior Salaries

Chairman: John Baker, CBE

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

February 2005

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Foreword

Review Body on Senior Salaries

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

The terms of reference are:

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

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

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

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

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

Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;

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

the Government's inflation target.

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

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

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

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

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

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

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

to relate reward to performance where appropriate;

to maintain the confidence of those covered by the Review Body's remit that its recommendations have been properly and fairly determined; and

to ensure that the remuneration of those covered by the remit is consistent with the Government's equal opportunities policy.

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

Members of the Review Body are:

John Baker, CBE *Chairman*
Mark Baker, CBE
David Clayman¹
Mary Galbraith
Professor David Greenaway
Mei Sim Lai, OBE
James McKenna¹
Sir Peter North, CBE, QC¹
Richard Pearson¹
Janet Rubin

The Secretariat is provided by the Office of Manpower Economics.

3 February 2005

¹ Members of the Judicial Sub-committee, chaired by David Clayman

Summary of recommendations

The Senior Civil Service

Recommendation 1: We recommend that the Government should introduce new pay bands for the SCS from 1 April 2005 as set out in Table 2.12. The pay bands incorporate revalorisation of pay band minima and Progression Target Rates at the rate of 2.5 per cent, and revalorisation of Recruitment and Performance Ceilings at the rate of 3 per cent.

Recommendation 2: We recommend that Departments should award individual pay increases to senior civil servants in 2005 ranging from 0 per cent to 9 per cent, according to relative performance; and that the average base pay award should be 4.2 per cent.

We estimate that the effect of these recommendations will be to increase the SCS pay bill (excluding the bonus pot) **by about 2.7 per cent**, taking into account recycling effects.

Recommendation 3: We recommend that the bonus pot should be 5 per cent in 2005, and that the minimum bonus payment should be £2,500.

Recommendation 4: We recommend that information is collected and collated on the reasons why senior civil servants leave the service.

Recommendation 5: We recommend that the range for the Permanent Secretaries Pay System should be £130,350 to £264,250 from 1 April 2005.

The armed forces

Recommendation 6: We recommend that the MOD should introduce new performance-related pay scales for 2-star officers and above from 1 April 2005 as set out in Tables 3.6 to 3.9. These scales incorporate revalorisation at the rate of 2.5 per cent on 1 April 2005.

Recommendation 7: We recommend that the pay of medical and dental officers of 2-star rank continue to be 5 per cent above their comparators at 1-star, and that those of 3-star rank continue to receive 5 per cent more than their 2-star comparators.

The judiciary

Recommendation 8: We recommend that judicial salaries should be increased by 3 per cent from 1 April 2005.

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Chapter 1

Introduction and sources of evidence

Introduction

- 1.1 This report, our twenty-seventh on senior salaries, considers and makes recommendations on the pay of senior civil servants (SCS), senior officers in the armed forces, and the judiciary.
- 1.2 The Government accepted all but one of the recommendations in our twenty-sixth report¹, and they were implemented from 1 April 2004.
- 1.3 The one exception was our recommendation that broad salary linkage between the SSRB remit groups should be achieved from now on by maintaining general salary equivalence at the top of the structures only. The Government said that it wanted to consult the judiciary first. It is clear from subsequent correspondence that there is no disagreement on the principle we have recommended, but that the precise formula that should be applied for linking the salary of the Lord Chief Justice to that of the Cabinet Secretary may need further consideration. This is not an issue for the present round, but we will revisit it in the course of our major review of the judicial salary structure on which we expect to report in twelve months time.
- 1.4 For this review we have as usual received helpful evidence from a range of individuals and organisations. A full list of those submitting evidence is given in Appendix A. We have repeated the practice of holding meetings with post-holders from the SCS, SCS Directors of Human Resources, and senior officers in the armed forces with a view to hearing how the system is operating for those working within it. We found the discussions informative and helpful. In the case of the judiciary, a number of us visited court and tribunal centres around the UK. This allowed us the opportunity to witness court procedures and hear from judicial post-holders about issues of concern. We are, as ever, grateful to all those who took the trouble to write or speak to us.

The senior civil service

- 1.5 In Chapter 2 we outline the evidence we have received from the Government, the Cabinet Secretary, the First Division Association and Prospect, and the Civil Service Commissioners. We are concerned that there is an inconsistency between the Government's re-stated longer-term objectives for SCS pay, in particular its commitment to a strategic and sustainable market-facing approach, and the funding that it is prepared to make available in the short term. This inconsistency of approach puts at risk the credibility of the SCS pay system as a means to improve the performance and motivation of senior civil servants, and damages their perception of the fairness of the pay system. We make recommendations designed to address the issues raised.

The armed forces

- 1.6 Chapter 3 reviews the pay of 2-star officers and above. In reaching our conclusions we have been assisted by written evidence from the Ministry of Defence, and oral evidence from the Chief of Defence Staff and the Service Chiefs of Staff. We endorse proposals for establishing new performance-related pay scales in line with our recommendations last year.

¹ The Twenty-Sixth Report on Senior Salaries, Cm 6099. London. The Stationery Office. 2004.

The judiciary

- 1.7 We consider judicial salaries in Chapter 4. Our conclusions are informed by evidence received from the Lord Chancellor, from the Department for Constitutional Affairs and the relevant Departments in Scotland and Northern Ireland, from senior members of the judiciary, and from individual post-holders and their representatives. We recommend a general uplift of judicial salaries, but do not propose any detailed changes to judicial salary arrangements in advance of our major review, which will be completed in time for our next annual report.

Economic evidence

- 1.8 The economic evidence provided by the Government in support of departmental submissions to the Pay Review Bodies in this pay round asked the Review Bodies to take a firm and fair approach to public sector pay, so as to facilitate the recruitment and retention of suitable staff, increase their motivation, and support diversity and equal pay within the boundaries of affordability determined by the recently concluded Spending Review. It stressed the importance of pay rises in the public sector being set at sustainable rates, and being justified by productivity.
- 1.9 In terms of inflation, the Government drew attention to its 2 per cent target for the Consumer Prices Index (CPI). It said that the new CPI measure of inflation had certain clear strengths for pay purposes over the old RPIX measure (Retail Prices Index excluding mortgage interest payments). In particular, its method of calculation took account of consumer behaviour in terms of substitution away from more expensive goods and brands. Notwithstanding that, the RPIX series would remain available and could be taken into account in pay negotiations in the private sector and elsewhere. Pay Review Bodies were asked to consider the new target along with RPIX, regional price indices, and all other relevant factors such as developments in the local labour market, recruitment, retention, motivation, and reform.
- 1.10 Looking forward, in the Pre-Budget Report on 2 December 2004 CPI inflation was forecast to rise through 2005 and to hit its 2 per cent target by mid-2006. Table 1.1 shows inflation forecasts from the Treasury's average of recent projections from independent forecasters.

Table 1.1: Inflation forecasts

	2004 (Quarter 4)	2005 (Quarter 4)
CPI	1.4%	1.8%
RPIX	2.2%	2.2%
RPI	3.2%	2.4%

Source: Forecasts for the UK Economy. A comparison of independent forecasts. HM Treasury January 2005.

- 1.11 All three measures of price inflation have risen in recent months. In the twelve months to December 2004, the CPI (the Government's preferred measure) stood at 1.6 per cent, RPIX at 2.5 per cent, and RPI (which we note remains commonly used as a reference point in pay negotiations across the economy) at 3.5 per cent. However, experience underlines the importance of focusing on longer-term data, for example quarterly averages, rather than the more volatile monthly figures. Looking ahead, forecasts suggest that RPI has peaked and will start to fall back towards 3 per cent during the first quarter of 2005.

- 1.12 So far as average earnings growth is concerned, average earnings (excluding bonuses) rose by 4.4 per cent in the three months to November 2004 (4.8 per cent in the public sector and 4.3 per cent in the private sector). The increase for the whole economy excluding bonuses (the MPC's preferred measure of 'core' earnings growth) thus remains below 4.5 per cent – the maximum level that the Bank of England believes compatible with the inflation target.
- 1.13 All the main pay commentators put the median level of settlements across the whole economy at three per cent. Indeed Income Data Services and Industrial Relations Services, which have the two largest pay settlement databases, show that the three per cent median has held for many months. However, so far as our remit groups are concerned, it is noteworthy that their market comparators have consistently moved ahead faster than this average figure. In the twelve months to July 2004 Monks² reported that the base salaries of parent company senior managers increased by 5.0 per cent at the median, while for directors the corresponding rise was 6.0 per cent. Hay Group³ reported that the base pay for subsidiary directors and heads of major functions rose by 4.5 per cent in the twelve months to May 2004. The Government's evidence noted that commentators such as IDS, Hay Group, ORC and Watson Wyatt agreed that in 2004 there was a relatively narrow range of salary increases in the private sector averaging around 4 per cent to 6 per cent.

² Monks Management Pay, United Kingdom, July 2004.

³ Hay Group: Survey of Directors' Remuneration, July 2004.

Chapter 2

The senior civil service

Introduction

2.1 Our remit includes all members of the senior civil service (SCS), which is now some 3,850 strong. Our work is informed by evidence from the Government, which includes data drawn from the senior civil service database; the Cabinet Secretary; the First Division Association and Prospect, who submitted joint evidence on behalf of the unions; and the Civil Service Commissioners. We have also continued the practice of holding discussions with small groups of individual senior civil servants, and SCS HR directors. These have provided helpful insights into how the pay system is perceived to be working.

The SCS pay system

2.2 The SCS pay system was introduced from 1 April 2002, with the objectives of:

- Overcoming perceived shortcomings in the previous system, brought about by under-funding and lack of transparency;
- Aligning SCS pay with the market, to enable the SCS to recruit and retain high calibre people; and
- Reinforcing policies to raise the performance of individual senior civil servants by relating pay to performance within a formal performance management system.

In our annual reviews of SCS pay we have continued to have regard to these objectives.

2.3 SCS staff below Permanent Secretary are divided into three pay bands. (Departments have discretion to introduce a fourth pay band overlapping parts of the two lowest bands.) The rates applicable at each key point in the structure are given in Table 2.1.

Table 2.1: SCS pay ranges with effect from 1 April 2004

Pay Band	Minimum	Progression Target Rate (PTR)	Higher Performance Target Rate (HPTR) ¹	Recruitment & Performance Ceiling (RPC)
3	£90,867	£129,352	£151,802	£192,424
2	£73,762	£99,419	£118,662	£155,008
1A	£62,004	£83,384	£93,005	£122,938
1	£53,451	£74,298	£83,384	£112,248

Permanent Secretaries' pay range: £121,100 to £256,550.

¹ When the new pay system was introduced, the HPTR equated to median base pay across the private and wider public sectors for broadly comparable roles, and it was intended that the top 25 per cent of SCS performers should be able to progress towards it. However no use has been made of the HPTR as the pay system has developed, and we make no further reference to it.

2.4 SCS members are expected to progress annually towards the Progression Target Rate for their pay band at a speed which is determined by their assessed performance each year. Individual pay increases are awarded within a range recommended annually by us (in 2004, zero to nine per cent of salary). Individuals are allocated to one of three performance tranches, with a quarter in the top tranche, between five and ten per cent in the bottom tranche, and the remainder in the middle tranche.

- 2.5 The allocation of individual SCS members to a tranche depends on the assessment of their performance relative to others operating at broadly the same level. According to the Cabinet Office's guidance to Departments, the assessment should reflect *how* the job has been performed, overall track record and growth in competence, as well as *what* has been achieved against the individual's performance agreement¹.
- 2.6 In years prior to 2004, the Cabinet Office drew up a matrix that laid down specific base pay awards according to an individual's performance marking and position on the pay range. These awards were uniform across the SCS. In 2004, the Cabinet Office responded to Departments' concern that the fixed matrix produced 'cliff edges', i.e. small differences in performance resulted in significant differences in the size of awards. Their revised approach was to set the overall cost envelope (in 2004, 3.5 per cent) for each Department, but to allow Departments the flexibility to design their own pay matrix. They did however circulate an illustrative pay matrix giving Departments an example of the range of awards that might lie within their cost envelope (Table 2.2).

Table 2.2: Illustrative pay matrix with effect from 1 April 2004

Performance tranche	Position in pay range	
	Below PTR	Above PTR
Top tranche	5% to 9%	3% to 4.5%
Middle tranche	2.5% to 4.5%	3%
Bottom tranche	0% to 2%	0% to 2%

Source: Cabinet Office

- 2.7 Starting salaries above the Progression Target Rate (PTR) may be offered when, in seeking to recruit externally, Departments consider that the PTR does not allow them to attract candidates with the necessary skills. In these cases, Shadow Target Rates, between the PTR and the Recruitment and Performance Ceiling (RPC), may be agreed with the Cabinet Office in the light of market evidence.
- 2.8 In addition to base pay increases, senior civil servants are eligible for non-consolidated bonus awards. Bonuses are intended to reward delivery of personal business objectives or other short-term personal contributions to wider organisational objectives. In considering SCS staff for bonuses, line managers are asked² to take into account:
- Performance against agreed priority business objectives or targets;
 - Total delivery record over the year;
 - Relative stretch (i.e. the challenge of the job compared to that of others); and
 - Response to unforeseen events which affected the performance agreement.

The Government's objective is to build the bonus pot annually so that it reaches 10 per cent of the SCS pay bill by 2008. In 2004 it stood at 4 per cent.

¹ The Cabinet Office's Guide to Performance Management and Reward in the SCS (March 2004), paragraph 25. The website reference is http://www.civilservice.gov.uk/management_information/senior_civil_service/scs_performance_and_reward/publications/pdf/scs_perf_manag_guide.pdf.

² Ibid paragraph 21.

Operation of the system in 2004

Base pay

2.9 The average base pay increase for SCS members in pay bands 1 to 3 following the award on 1 April 2004 was 3.5 per cent. The average base pay increase by tranche is shown in Table 2.3. Median base salaries after the award are set out in Table 2.4. The award increased SCS base pay costs by 2.0 per cent per head (after recycling effects³), and the overall median base salary rose from £69,533 to £70,986, an increase of 2.1 per cent.

Table 2.3: Average base pay award by performance tranche, 1 April 2004

Performance tranche	SCS members		Average base pay award
	Number	%	
Top	826	24.6%	5.1%
Middle	2,292	68.4%	3.1%
Bottom	234	7.0%	1.8%
Overall	3,352 ¹	100.0%	3.5%

Table 2.4: Median base salary by pay band, following award on 1 April 2004

Pay band	SCS members		Median base salary ²
	Number	%	
3	121	3.4%	£117,946
2	617	17.3%	£91,509
1A	177	5.0%	£79,050
1	2,653	74.4%	£67,254
Overall	3,568 ¹	100.0%	£70,986

Source: Cabinet Office's SCS database, dated 22 September 2004.

1 Tables 2.3 and 2.4 have differing numbers of SCS members in the cells and total columns due to missing data in parts of the SCS database.

2 The median is the value in a set of data, ranked in ascending order, that divides the data into two parts of equal size.

Bonuses

2.10 In 2004, Departments were able to spend 4 per cent of their SCS pay bill on non-consolidated bonuses. Individual Departments were given the discretion to remove the automatic link whereby all top tranche performers received a bonus, around half of the middle tranche received one, and bottom tranche performers only in exceptional circumstances. The average bonus by pay band and tranche in 2004 is shown in Table 2.5. Overall, 58.6 per cent of the SCS received a bonus and the average bonus was £4,960.

³ The impact of more expensive leavers being replaced by cheaper entrants.

Table 2.5: Average bonus awards, following award on 1 April 2004

Pay band	Top tranche		Middle tranche		Bottom tranche		Overall		
	Nos.	Average bonus	Nos.	Average bonus	Nos.	Average bonus	Nos.	Average bonus	% of median salary
3	33	£8,606	45	£6,649	2	£3,562	80	£7,379	6.3%
2	147	£6,884	233	£5,409	0	–	380	£5,980	6.5%
1A	38	£6,776	56	£4,640	2	£5,428	96	£5,502	7.0%
1	527	£5,480	870	£3,948	11	£2,461	1,408	£4,510	6.7%
Overall	745	£5,962	1,204	£4,364	15	£3,003	1,964	£4,960	7.0%

Source: Cabinet Office's SCS database, dated 22 September 2004.

Recruitment and retention

2.11 In 2003-04, the SCS increased from some 3,700 members to some 3,850. There were 465 moves into the SCS and 321 moves out.

2.12 The 465 moves into the SCS in 2003-04 comprised 329 promotions to the SCS from within Government (70.8 per cent) and 136 external appointments (29.2 per cent). The external appointments comprised 87 from the private sector (18.7 per cent of total appointments) and 49 from the wider public sector (10.5 per cent of total appointments).

2.13 The Civil Service Commissioners reported on recruitment through open competition to posts in the SCS. The Commissioners are responsible for overseeing the selection process following open competition to fill vacancies within the top two senior civil service pay bands⁴ (around 600 posts in total).

2.14 The Commissioners approved 89 appointments in 2003-04, including 21 appointments made by the Senior Leadership Committee (SLC)⁵. Of those appointed, 43 were civil servants, 19 from other parts of the public sector, 24 from the private sector, and 3 from elsewhere (Peabody Trust, International Institute for Environment and Development, and Accounting Standards Board). This is shown in Table 2.6.

Table 2.6: Open competitions for appointments to senior civil service posts (pay band 2 and above)

Source	Number	Percentage
Civil Service	43	48.3%
Wider Public Sector	19	21.3%
Private Sector	24	27.0%
Other	3	3.4%
Total	89	100.0%

Source: Civil Service Commissioners

⁴ The Commissioners ceased to be responsible for most appointments to Pay Bands 1 and 1A on 16 July 2002.

⁵ The SLC considers applications and appointments to the most senior posts – normally those at Pay Band 3 and Permanent Secretary level. The Committee is chaired by the Head of the Home Civil Service and attended by the First Commissioner.

- 2.15 The Commissioners commented on the quality of the applicant fields. For appointments at SLC level, the Commissioners were encouraged that of the 21 appointees, 8 were marked as “an outstanding candidate”, 12 as either “a very good candidate” or “clearly above the minimum acceptable level”, and 1 (a reserve candidate) as “acceptable”. For appointments below SLC level, the Commissioners commented that whilst the quality of fields was occasionally disappointing, in general they were of good quality, with the majority of candidates being marked as “an outstanding candidate” (16 per cent) or “a very good candidate” (69 per cent).
- 2.16 As noted in paragraph 2.7 above, Departments have the flexibility when recruiting through an open competition to set starting pay above the Progression Target Rate if they consider that the PTR does not allow them to attract candidates with the necessary skills. In these cases, Shadow Target Rates may be agreed with the Cabinet Office in the light of market evidence. 51 STRs were agreed by the Cabinet Office in 2003-04, as shown in Table 2.7.

Table 2.7: Shadow Target Rates agreed during 2003-04

Pay band	Number of cases	Average Shadow Target Rate	% of Progression Target Rate (2003-04 rates)	% of Recruitment & Performance Ceiling (2003-04 rates)
3	7	£163,000	129%	86%
2	19	£114,000	117%	75%
1	25	£85,000	117%	77%

Source: Cabinet Office

Two-tier salary structure

- 2.17 There is now a body of evidence which indicates that the median salary on appointment of non-civil servants to the SCS is at least 19 per cent higher than the median salary on appointment of existing civil servants. Table 2.8 shows that the median salary of all new joiners from the private sector in 2003-04 was £13,577 (22.4 per cent) higher than joiners from a Government Department. Table 2.9 indicates that at SLC level, the difference between the median salaries of civil service and non-civil service appointees at SLC level was £24,162 (19 per cent), and at pay band 2 level £25,000 (29 per cent).

Table 2.8: Median salary of new joiners to SCS (all joiners 2003-04)

Joiner grouped	Median salary
Joiner – from Government Department	£60,518
Joiner – from private sector	£74,095
Joiner – from wider public sector	£68,056
Overall	£63,057

Source: Cabinet Office

Table 2.9: Median salary on appointment (appointments approved by Civil Service Commissioners 2003-04)

Appointment level	Background	Median salary on appointment
Appointments at Pay Band 3 and above	Civil service	£126,963
	Non-civil service	£151,125
	Overall	£143,200
Appointments at Pay Band 2	Civil service	£85,000
	Non-civil service	£110,000
	Overall	£100,000

Source: Civil Service Commissioners

Fast Stream recruitment

2.18 The Fast Stream is the principal feeder group to the SCS. In 2003 there were four open Fast Stream Schemes: General Fast Stream; Economists; Statisticians; and Government Communications Headquarters (GCHQ). The number of applications to the General Fast Stream rose by 59 per cent, and again all vacancies were filled. Success rates in filling economist and statistician posts were lower. The Cabinet Office reported that the standard of entry to the Fast Stream remained high in 2003. Further details are given at Appendix E.

Leavers

2.19 The leaving rate for 2003-04 was 9.1 per cent, of which around 5.4 per cent left the service on retirement and 2.4 per cent resigned. The Government commented that although these rates varied little from previous years, there was concern that they masked a retention risk amongst specific groups or skill areas, particularly where the external market offered high salaries.

Table 2.10: Leavers from the Senior Civil Service (2003-04)

	Payband		Total number	Percentage
	1 & 1A	2 & 3		
Retired	83	30	113	35.2%
Voluntary Early Retirement	20	7	27	8.4%
Compulsory Early Retirement	32	19	51	15.9%
Resigned	53	31	84	26.2%
End of secondment/contract	13	6	19	5.9%
Other ¹	22	5	27	8.4%
Total	223	98	321	100.0%

Source: Cabinet Office

¹ Examples of categories included in 'other' are ill-health retirement, death and end of temporary promotion.

2.20 We note in passing that information as to why members leave the SCS is not systematically collected at present. It would be very helpful both to ourselves and the Government if good quality information were available as to why people leave the SCS, for any indications it might give as to how the respective incentives to continue working in the SCS, or to leave, are seen. We have included a specific recommendation on collecting such information at paragraph 2.63 below.

Evidence received

The Government's evidence

- 2.21 In its evidence the Government said that Departments were operating the performance management and pay arrangements well, learning from experience and using the flexibilities to adapt the arrangements to their business needs and organisational culture. The Government was seeking to sharpen performance management further to drive the high performance and professional culture as defined by the Civil Service Reform Agenda. The two main programmes driving this were Improving Leadership Capacity in the SCS⁶, which focussed on investment in development, active career management, and improved performance management; and Professional Skills for Government⁷, which focussed on developing the skills and professionalism of the Civil Service at all levels.
- 2.22 The Government said that it was committed to adopting a more strategic and sustainable market-facing approach to SCS pay and progression over time. It intended to:
- Use the pay system to reinforce important signals to both high and low achievers through performance management;
 - Mitigate the risk of failing to recruit and retain the best talent as the SCS became more highly skilled and permeable; and
 - Make non-consolidated bonuses the primary reward for delivery of objectives.
- 2.23 The Government stated that, although average SCS base pay had increased steadily in recent years, it remained well below the mid-market position and continued to fall behind both private and public sector comparators. Towers Perrin had been commissioned to study trends in SCS pay and comparable private sector reward packages over the last two to three years. The main conclusions drawn from the exercise as reported to us were:
- Base pay increases for private sector senior executives averaged 5 per cent per year, compared with 2 per cent increases in SCS target rates. Median actual pay levels in the SCS had increased faster than the target rates but not at the same pace as base pay increases in the private sector;
 - Bonuses were a significant part of private sector reward, and averaged about 20-30 per cent of salary for the majority of executives; and
 - SCS salaries were no longer keeping pace with many private sector roles, or with the market positioning as set out in 2001-02 (when Progression Target Rates were set at between 80 and 90 per cent of median base pay across the private and wider public sectors for broadly comparable roles).
- 2.24 The Government concluded that there was a real shortfall in SCS total reward packages compared with those outside, even taking into account high quality civil service pension arrangements and discounting long-term incentives such as stock options, health insurance and car allowances. Consequently, the Government was developing thinking on a longer-term reward strategy for the SCS which would ensure that the total reward and incentive package supported business goals, continuous improvement, and allowed the SCS to compete in the market for the best talent. In order to assist with this, the Government requested the SSRB to carry out a periodic review of pay levels before the 2006 pay round, in order to map the pay markets from which the SCS was increasingly recruited and to provide valuable benchmarking data on which to base future developments in the SCS reward strategy.

⁶ http://www.civilservice.gov.uk/management_information/senior_civil_service/scs_performance_and_reward/index.asp

⁷ http://www.cabinetoffice.gov.uk/newsroom/news_releases/2004/041020_skillprogramme.asp

- 2.25 In the present round, the Government proposed an increase of about 2 per cent for pay band minima, 3 per cent for ceilings, and 4.5 per cent for progression target rates, arguing that these differential rates of change would help to keep the SCS scales competitive. It proposed no change in the range for individual awards of 0 to 9 per cent.
- 2.26 On non-consolidated bonuses, the Government expressed its wish to return to a trajectory consistent with the original plan and continue to build up the bonus pot to higher levels over time. Its aim was for the bonus pot to reach 10 per cent of the SCS paybill by 2008. The first step towards this would be to increase the bonus pot from four per cent to five per cent of the SCS paybill in 2005. We were told that, because bonuses were not pensionable, and because of the way in which pensions were accounted for, the actual cost of the increase would be an additional 0.8 per cent of the paybill.
- 2.27 The above proposals were calculated to result in a 3.5 per cent increase in the pay bill for base pay in 2005-06 (the same as in 2004-05) plus an additional 0.8 per cent as a result of the larger bonus pot. The Government said that this level would ensure that the SCS did not fall too much further behind the Government's chosen market position of 80 to 90 per cent of the median executive market.

The unions' evidence

- 2.28 The evidence from the unions was based on their annual survey of members, to which there had been 665 useable responses (about 17 per cent of the total SCS).
- 2.29 The survey indicated that 48 per cent of respondents felt less secure in the SCS than they did the previous year, and only 8 per cent more secure. This reflected the amount of change that was taking place. The unions stated their belief that rewards for the SCS should mirror the level of change, responsibility and delivery that was expected. They reported that pay levels in the wider public and private sectors remained substantially higher than SCS levels, and urged us to raise substantially the overall level of the pay bands, and to conduct a further market survey to compare pay levels with the wider public and private sectors.
- 2.30 The unions raised a number of concerns about the operation of the pay system. Their survey of members suggested that one quarter of respondents did not understand the pay and performance management arrangements; almost half of respondents considered their final pay decision last year had not been adequately explained to them; and only 15 per cent agreed that the results produced by the pay system were fair and equitable. The unions were concerned at the abandonment of the fixed percentage matrix. They felt that the more flexible matrix undermined transparency, equality and accountability, and consistency of approach across the senior civil service.
- 2.31 The unions reported a growing dissatisfaction regarding progression rates amongst their members. 56 per cent of respondents were dissatisfied with their rate of progression compared with 48 per cent in 2003. The unions urged the Review Body to implement a significantly higher paybill award in 2005 to address the problem. The unions were also concerned that when PTRs were increased by less than the average base pay award, SCS members at or above the PTR were seeing their pay decline in relative terms. The unions urged us to increase the PTRs above the rate of base pay growth.
- 2.32 The unions were concerned that there was no clear statement of what the pay system sought to reward, and what role it was expected to play in motivating staff. They urged us to recommend that the Cabinet Office should reconsider the fundamentals of its reward strategy, and set out what it was trying to achieve with the current pay system, what were the respective objectives in the use of base pay and bonuses, and how it planned to measure the success of the system or otherwise.

- 2.33 The unions said that the reporting structure was viewed as opaque by many SCS. They proposed a more structured appraisal form, which could play a more meaningful role in performance meetings. For example, the report form should require the line manager to indicate, discuss and record the performance tranche and bonus recommendations made, with reasons; and the job holder should be told at report time what they needed to concentrate on to improve their ratings, and objectives for the subsequent year should reflect this. The unions believed this would avoid the dangers of reports being overly subjective and unfair, and would be easily equality proofed.
- 2.34 The unions did not favour the introduction of Performance Improvement Plans⁸. They did not accept the logic or fairness of the system that ranked “the weakest 20 per cent” and might lead to compulsory redundancy even for satisfactory performers, using a process that had no objective criteria and was not open to appeal. It had generated suspicion and resentment. The lack of guidance was causing considerable confusion and concern, and had meant different practices emerging between departments.
- 2.35 The unions repeated their disappointment at the Review Body’s conclusions in our 2003 report on work-life balance, and in particular our comment that we did not consider that the extra hours allegedly being worked by the SCS were any more onerous than for similar professional groups in other organisations. They again urged that the SCS should receive additional payments for additional hours worked – as a first step those worked beyond the 48 hours set by the Working Time Regulations. They also urged us to ask Departments to provide rigorous and comprehensive data on hours worked by senior staff.

Discussion groups

- 2.36 As in the previous two years we met several groups of senior civil servants who volunteered to give us their views of the pay system. The tone of feedback was more positive in some respects than we heard from the unions. Most of those to whom we spoke felt that the performance management system, including the setting of objectives and measurement of performance, was beneficial. However they did not think that the link to pay was effective. They doubted whether the performance element of pay was in practice motivational and were concerned that some aspects risked being demotivational because outcomes for individuals could appear capricious. In particular, there remained a need to improve transparency, especially the feedback given to individuals on their tranche allocation, on their bonus award, and on how their pay and bonus ratings could be improved in subsequent years.
- 2.37 The award of bonuses was a particular area of concern. It was felt that there needed to be a much greater connection between the delivery of targets or specific achievements and the award of bonuses; that bonuses should be awarded quickly, rather than well after the event; and that individuals who fell within the middle tranche but did not receive a bonus risked demotivation. It was even suggested to us that there was a growing tendency to award middle-level performers a bonus in alternate years.

⁸ The Cabinet Office’s Guide to Performance Management and Reward in the SCS (March 2004) states at paragraph 14 “Those SCS members identified as needing Personal Improvement Plans will approximate to the relatively weakest 20 per cent of performers. In practice this group will include those for whom managers have made a bottom tranche pay recommendation as well as those at the lower end of the middle tranche. This group may include new promotees and others on a steep learning curve but not necessarily.”

2.38 We also met a group of SCS Directors of Human Resources and discussed a similar range of issues with them. There was a general consensus that Departments were improving their management of poor performers, and were able to reward their best performers reasonably well. However the Directors commented that affordability constraints had led to frustration in the last round, reducing the range of awards available for different levels of performance and slowing pay progression. Departments welcomed the amended arrangements that had allowed more flexibility in the award of bonuses, but the Directors recognised that the rationale for bonus awards still remained problematic given the difficulty of explaining clearly why one person in the middle tranche received a bonus and not another.

Equal pay

2.39 An equal pay audit of the SCS was undertaken by the Cabinet Office early in 2003. In its evidence, the Government updated the report's main findings to take account of the 2004 SCS pay round. It stated that:

- The gender pay gap had continued to narrow from 5 per cent in 2001-02, to 4.7 per cent in 2002-03, and 4.0 per cent in 2003-04;
- In the top and middle performance tranches, women received slightly higher average base pay awards than men. In the bottom tranche the award was the same for both men and women;
- A higher proportion of women than men were allocated to the middle tranche (70.1 per cent compared with 67.7 per cent), whereas higher proportions of men than women were allocated to the top tranche (25.0 per cent compared with 23.8 per cent) and to the bottom tranche (7.3 per cent compared with 6.1 per cent);
- The median base salary of women was lower than that of men in pay bands 1 (by £1,927), 1A (by £3,115) and 2 (by £2,316). In pay band 3 the median base salary of women was £190 higher than that of men; and
- As a proportion of the total female SCS population, 56.0 per cent of women received bonuses compared with 55.5 per cent of men. The overall average bonus was higher for men than women, as was the average bonus by pay band.

Permanent Secretaries

2.40 We are also responsible for recommending pay scales for the 33 Permanent Secretaries who head the civil service. The Permanent Secretary pay and performance management system broadly mirrors that for the SCS. Permanent Secretary posts are divided into three pay bands and pay awards are in two parts: base pay progression (using a three tranche approach similar to the SCS), and non-consolidated bonuses up to a maximum of 15 per cent of salary. Awards are made by the Permanent Secretaries' Remuneration Committee, which comprises the Chairman of the SSRB (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary for HM Treasury.

2.41 The Permanent Secretaries' Remuneration Committee met in June 2004 to determine individual pay awards based on performance in 2003-04. The Committee recommended base pay rises ranging from 2.5 per cent to 7.5 per cent, and bonus awards ranging from 4.4 per cent to 10.5 per cent of salary. The resulting salaries are given in Appendix D. (As in previous years, they are disclosed in bands of £5,000. The figures exclude non-consolidated bonus awards.)

Analysis and recommendations

2.42 As noted above, the Government has proposed increases of about 2 per cent for pay band minima, 3 per cent for recruitment and performance ceilings, and 4.5 per cent for progression target rates. It has also suggested that the range for individual awards should be 0 to 9 per cent, and states that these proposals would result in an average base pay award of 3.5 per cent. However we understand from the Government that the pay bill cost would be expected to be around 1.5 per cent lower (i.e. around 2 per cent), because of recycling effects. (Paragraph 2.9 above indicates that last year, average base pay awards were 3.5 per cent, but the median base salary rose by only 2.1 per cent.) When the pay bill cost of the increase in the bonus pot from 4 per cent to 5 per cent is added (computed by the Government at 0.8 per cent), the Government estimates the total pay bill cost of its proposals to be 2.8 per cent.

Increase in average base pay, and speed of progression

2.43 Our main concern about the Government's proposals is that they would represent a further falling behind the expectations for speed of progression that were announced when the current pay system was introduced in April 2002, particularly in the case of the middle tranche. The intention of the new system was that it should enable the service to compete in the market for high quality staff, and that it should retain and motivate senior civil servants by offering them the chance to progress to a target rate, linked to the market, in a reasonable length of time. The stated aim⁹ was that progression from the median entry point to the PTR would take three to four years for consistently top performers and around ten years for other fully effective performers.

2.44 Arithmetically, the speed of progression to the Progression Target Rate will be determined by the extent to which the average base pay award each year exceeds the revalorisation of the PTR. Conversely, middle tranche performers will never reach the PTR if their base pay award each year fails to exceed the revalorisation of the PTR. This is illustrated by Table 2.11 below.

Table 2.11: Progression time in years if average base pay award is 3.5 per cent per annum¹

	Top Tranche	Middle Tranche
PTR revalorised at 2 per cent per annum	5 years	12 years
PTR revalorised at 2.5 per cent per annum	6 years	18 years
PTR revalorised at 3 per cent per annum	8 years	More than 30 years
PTR revalorised at 4.5 per cent per annum	18 years	Never

¹ Assuming awards of 3.5% to middle tranche performers below the PTR and 5.5% to top tranche performers below the PTR.

2.45 Accordingly it is important that the average annual awards (which are not automatic increments, but depend on performance) exceed, in percentage terms, the rate of revalorisation of the PTR. This is not achieved by the Government's proposals for the current round (namely, an increase in the PTR of 4.5 per cent, and average base pay award of 3.5 per cent).

⁹ The Twenty-Fourth Report on Senior Salaries Volume 1, paragraph 2.45, Cm 5389-I. London. The Stationery Office. February 2002.

- 2.46 However it is also important that SCS pay generally keeps pace with the market. This requires both the average base pay award and revalorisation of scale minima and performance target rates to be in line with market trends. We are concerned that the Government's proposal for an average base pay award of 3.5 per cent would not maintain the current position of the SCS against the market. It would compare with average earnings growth excluding bonuses in the economy as a whole of 4.4 per cent¹⁰. At senior level, average base pay increases for private sector senior executives, as reported by Towers Perrin, are running at 5 per cent per year¹¹. We also note the Government's own comment, in support of a higher increase of 4.5 per cent for progression target rates, that this would bring pay progression over time closer to the external market. We emphasise that this objective can only be achieved by ensuring that the system is adequately funded for all members of the SCS in the middle and top tranches.
- 2.47 Given the objectives set out in 2002 for the SCS pay system, and the evidence we have received on inflation and earnings generally, we consider that the minimum required this year to restore the necessary level of coherence and confidence in the SCS pay system is to return the speed of progression to that indicated when the pay system was introduced. This would be achieved by revalorisation of the PTR by 2.5 per cent, and average base pay awards of 4.2 per cent, which would, if repeated annually, restore progression time to four years for top tranche performers and nine years for consistent middle tranche performers. An increase in Recruitment and Performance Ceilings of 3 per cent, as proposed by the Government, would provide slightly more flexibility to Departments recruiting for certain specialisms and key roles in the external market. We recommend accordingly.
- 2.48 We agree with the Government's proposal that the distribution of individual awards should be in the range 0 per cent to 9 per cent.

Recommendation 1: We recommend that the Government should introduce new pay bands for the SCS from 1 April 2005 as set out in Table 2.12 below. The pay bands incorporate revalorisation of pay band minima and Progression Target Rates at the rate of 2.5 per cent, and revalorisation of Recruitment and Performance Ceilings at the rate of 3 per cent.

2.49 The recommended pay bands are as follows.

Table 2.12: Recommended values for the pay bands from 1 April 2005

Pay Band	Minimum	Progression Target Rate (PTR)	Recruitment & Performance Ceiling (RPC)
3	£93,139	£132,586	£198,197
2	£75,607	£101,905	£159,659
1A	£63,555	£85,469	£126,627
1	£54,788	£76,156	£115,616

¹⁰ Average earnings growth excluding bonuses for the three months to November 2004 was 4.8 per cent in the public sector, 4.3 per cent in the private sector, and 4.4 per cent for the whole economy. National Statistics.

¹¹ Paragraph 2.23 above.

Recommendation 2: We recommend that Departments should award individual pay increases to senior civil servants in 2005 ranging from 0 per cent to 9 per cent, according to relative performance; and that the average base pay award should be 4.2 per cent.

- 2.50 We estimate that the effect of the above recommendations would be to increase the SCS pay bill (excluding the bonus pot) by about 2.7 per cent, taking into account recycling effects. The increase in the bonus pot (see paragraph 2.55 below) would add another 0.8 per cent to pay costs. Given that SCS numbers are expected to decline, and given the context of SCS costs as a small part of Departmental pay budgets, these recommendations seem unlikely to give rise to affordability issues.
- 2.51 Table 2.13 below shows how in principle individual awards might be distributed in order to give effect to recommendation 2. We recognise that there may be some variation between Departments in these figures, for example depending on the proportion of staff above and below the PTR.

Table 2.13: Illustrative range of awards to implement average base pay award of 4.2 per cent on 1 April 2005

	Below PTR	Above PTR
Top Tranche (25 per cent)	7 per cent	6 per cent
Middle Tranche (65-70 per cent)	4.5 per cent	3.5 per cent
Bottom Tranche (5-10 per cent)	1 per cent	0 per cent

Performance Pay

- 2.52 The case for differentiated rewards, according to individual contribution, is well understood and accepted within the SCS. Moreover performance management within the SCS, according to the evidence we heard from our discussion groups, appears to work reasonably well. However we remain concerned that the relationship between pay and performance, as embodied in the performance elements of the SCS pay system, is not defined with sufficient clarity. We are also concerned that the system is not operated with sufficient transparency. As a result, the potential motivational benefits of the pay system are not fully realised. We endorse the continuing work which the Government is undertaking in this area. It is essential for Departments to signal clearly what kind of performance and behaviours by their SCS staff will be valued in future, and to explain how the respective elements of the pay system (base pay and bonus) will reward the development of skills and delivery of objectives.
- 2.53 One issue is to articulate clearly what performance-related increases in base pay and non-consolidated bonuses are respectively intended to reward. We draw attention to the work which has been done to distinguish between these two elements of pay in the case of Permanent Secretaries. Base pay decisions for Permanent Secretaries depend on performance assessed against achievement of 'capacity building' objectives, which cover five areas (building capacity, relationships with stakeholders, contributing to other Departments' Public Service Agreements (PSAs), corporate management of the Civil Service, and personal leadership capacity). Non-consolidated bonuses on the other hand depend on performance against specific delivery objectives. Clearly this approach is not transferable to SCS levels below Permanent Secretary without amendment in detail, but it nonetheless serves to illustrate how the two elements of pay might be better distinguished in future.

- 2.54 So far as bonuses are concerned, the system at present (under which bonuses are awarded to most of those in the top tranche and approximately half of those in the middle tranche) lacks a firm rationale: bonuses are neither a special reward for those who give exceptional performance, nor a reward available in principle to every SCS member who meets his or her objectives established at the beginning of the year. Consequently there is widespread uncertainty about what bonuses are meant to achieve. The system is also difficult to administer, since Departments find it hard to differentiate between typical middle tranche performers (which they have to do, since only about half of the middle tranche can receive a bonus) and to justify decisions to those who just miss out.
- 2.55 We support the Government's intention that bonuses should be the primary reward for delivery of specific objectives. We endorse the proposal that the bonus pot should increase from 4 per cent to 5 per cent in 2005, and we are pleased to note that it remains the Government's intention to build up the pot to 10 per cent by 2008. However we emphasise that the process for rewarding bonuses must be robust, and transparent to individuals. It is essential that objectives set for bonus purposes are stretching, that the assessment of performance is rigorous, that the actual bonus award is clearly linked to performance, and that individuals are given open and honest feedback on how their performance is assessed at the end of the year. It is also essential to avoid any view that an annual bonus is an automatic entitlement. However we consider that all SCS members who achieve their priority business objectives, provided the process has been managed with rigour, should be eligible for consideration for a meaningful bonus each year, irrespective of their base pay award. We are pleased therefore to endorse the Government's view that they will extend bonuses so that they can be received by about three-quarters of the SCS.
- 2.56 The Government considers that, for motivational purposes, the minimum bonus level should be set at £2,500, allowing Departments scope to widen access to bonus opportunities whilst continuing to differentiate on the basis of performance and individual contribution. It also proposes that the minimum bonus should be stated in cash terms, and not as a percentage as in previous years, in order to extend Departments' discretion to make appropriate awards. We agree with both recommendations.

Recommendation 3: We recommend that the bonus pot should be 5 per cent in 2005, and that the minimum bonus payment should be £2,500.

Looking ahead

- 2.57 Our proposals conform with the objectives of the SCS pay system when it was introduced in 2002, and support the motivational aspects of the system. However if the credibility of the system is to be maintained, it is essential that funding is adequate to sustain progress over a period of years.
- 2.58 There are three main aspects to this. First, individuals must be confident that their pay will reach the progression target rate in a reasonable period of time if their performance warrants it. The days of automatic increments are long gone, but individuals should have a realistic expectation that they will advance towards the PTR *provided that* their performance, and their continuing development of competencies and professional skills, are fully satisfactory. As we have explained, this requires average base pay awards each year to exceed revalorisation of the scales.

- 2.59 Secondly, not only must individuals be able to make progress up their scales, but the scales themselves must keep pace with the market. This is necessary not least to facilitate external recruitment, which may now be stabilising at about 30 per cent. The evidence suggests that the SCS is able to recruit successfully, but that this is achieved by the flexibility within the system (e.g. to set shadow target rates above normal PTRs) to pay what is necessary to attract recruits from outside. This in turn leads to a dual salary structure within Departments, raising questions about possible real and perceived unfairness. Departments report that problems that can arise from the dual structure are currently manageable (perhaps because individual earnings are simply not transparent). However, they also recognise that problems could arise in the future (for example, when an external recruit originally appointed for a fixed term is given a permanent appointment, and retains his or her salary lead, or when an external recruit fails to deliver fully satisfactory performance). The position should be carefully monitored.
- 2.60 Thirdly, the right balance must be struck between base pay and bonus, and the processes must be laid down clearly and operated transparently, in order that the motivational benefits of the pay system are realised. Guidelines should be drawn up by Departments both for allocating individuals to performance tranches (including how skills growth should be recognised) and for the award of non-consolidated annual bonuses (which should be used to reward the achievement of robustly-set business objectives, in line with practice in the private and wider public sectors). Decisions on bonuses should be taken separately – i.e. they should not simply follow performance tranche allocation. Clarity and transparency will be increasingly important as non-consolidated bonuses become a larger element of the overall pay package, a development which we endorse.
- 2.61 In our view, the Government correctly aspires to a longer-term reward strategy that will ensure that the total reward and incentive package, including pensions, supports business goals and continuous performance improvement, and allows the civil service to compete in the market for the best talent. It clearly follows that a correspondingly long-term view needs to be taken of funding issues.
- 2.62 As proposed in the Government's evidence, we intend to carry out a review of SCS pay against market rates in summer 2005. This will inform next year's round and will provide an opportunity to realign the current scales with the market. We invite the Government in its evidence next year to consider whether there would be merit in a multi-year settlement from 1 April 2006 to ensure both progress and stability over the following three years or so, if necessary taking account of any changes to the pension arrangements for the SCS.

Retention issues

- 2.63 Finally, we return to the issue of statistical evidence about reasons for leaving the SCS. As noted in paragraph 2.20 above, good quality information on whether pay and conditions are a reason for leaving the SCS will be of value both to ourselves and the Government. We recommend that such information should be collected on a systematic basis in future, for example through exit interviews or questionnaires.

Recommendation 4: We recommend that information is collected and collated on the reasons why senior civil servants leave the service.

Permanent Secretaries

- 2.64 Consideration of Permanent Secretaries pay falls to the Permanent Secretaries' Remuneration Committee, which will meet in mid-2005. We expect Permanent Secretaries' pay to move ahead consistently with our recommendations for SCS pay generally.
- 2.65 The Government's evidence draws attention to one specific problem, namely the significant overlap between the SCS Pay Band 3 pay scale and Permanent Secretaries Pay Band A. This means that promotees from Pay Band 3, who receive a 10 per cent pay award on promotion, may sometimes overtake longer-serving Permanent Secretaries. In order to alleviate the problem, the Government proposes that the minima for Permanent Secretaries Pay Band A should be raised by 5 per cent on 1 April 2005 and 5 per cent on 1 April 2006 on top of the normal uplift.
- 2.66 We note that the problem is by no means unique to the interface between these two pay bands, but we accept that it is particularly severe in this case. We therefore agree with the proposal.
- 2.67 In other respects, we recommend that the pay band minima and target rates for Permanent Secretaries should be uprated by 2.5 per cent, and that the maxima (akin to Recruitment and Performance Ceilings) should be raised by 3 per cent, in line with our recommendation for the SCS generally.

Recommendation 5: We recommend that the range for the Permanent Secretaries Pay System should be £130,350 to £264,250 from 1 April 2005.

Chapter 3

The armed forces

Introduction

3.1 At 1 July 2004 there were 123 senior officers in post, up to and including the Chief of Defence Staff (CDS). Of these, 10 were 4-star officers, 20 were 3-star officers and 93 were 2-star officers. This represented a decrease of eight posts over the previous year.

Evidence

3.2 In our 2004 Report¹ we recommended that:

- MOD should consider the case for establishing a performance-related pay scale for the CDS and for broadly aligning it over the next two or three years with that of the Cabinet Secretary; and
- MOD should develop proposals for new performance-related pay scales for 2-star, 3-star and 4-star officers on the premise that, over time, the pay of the CDS, as the senior post in the structure, would be broadly linked with that of the Cabinet Secretary and the Lord Chief Justice.

3.3 The MOD's evidence put forward proposals for meeting these recommendations, and as in previous years it also covered the operation of the pay system and associated performance management system for senior officers; recruitment and retention; and issues for the pay round. On uplift, the MOD said that it viewed an acceptable outcome as one informed by the award recommended by the Armed Forces' Pay Review Body, inflation (as measured by the CPI and RPIX), and other factors such as the manning situation. The written evidence was supported by oral evidence from the Chief of Defence Staff, the Permanent Under Secretary at the MOD, and the Chiefs of Staff.

3.4 In addition, prior to receiving the evidence, we held discussion groups with a selection of 2-star and 3-star officers about their experiences of the pay and performance management systems and other issues affecting the senior military more generally. As in previous years, we found the comments from these sessions extremely helpful.

Recruitment and retention

3.5 With the exception of some senior medical and dental posts, the armed forces do not recruit directly to posts above the training ranks. Consequently, the posts within our remit are filled by promotion from within the Services. It is therefore a matter of great importance that the armed forces are able to recruit, train and retain high calibre officers at the lower levels. These officers provide the pool of talent from which senior personnel will be drawn.

3.6 The MOD's evidence commented that there was no evident shortage of appropriately qualified officers to fill senior officer posts. It emphasised the importance of maintaining a healthy pool of talent at lower levels, and of effective and efficient top-level management.

¹ The Twenty-Sixth Report on Senior Salaries, Cm 6099. The Stationery Office. 2004.

The performance management and pay system

3.7 The performance management and pay system has been in full operation since 1 April 2002. It comprises an incremental pay system for each of the groups of senior officers, with the exception of the Chief of Defence Staff who until now has received a spot salary, and medical and dental officers who also receive a spot rate. The incremental points are revalorised in line with our recommended basic uplift each year, and are each worth about 2 per cent of the scale midpoint. Progression within the pay bands is determined by reference to the achievement of personal performance targets, and takes the form of zero, one or two incremental steps². The system is described in full in our twenty-fourth report³. Current pay scales are set out in Table 3.1 below.

Table 3.1: Pay scales at 1 April 2004

Scale point	Value of scale points		
	4-star	3-star	2-star
7			£98,063
6	£142,205	£114,995	£96,313
5	£138,940	£112,442	£94,562
4	£135,675	£109,888	£92,812
3	£132,411	£107,336	£91,060
2	£129,146	£104,781	£89,310
1 (Minimum)	£125,882	£102,227	£87,559

Chief of Defence Staff: £189,000

3.8 The MOD informed us that the third annual reporting period under the PMPS (Performance Management Pay System) finished at the end of February 2004. All senior officers were assessed by their line managers against a set of objectives linked to Departmental Plans. Single Service Boards then considered the assessments for 2-star officers and graded their performance using a common scoring system which indicated whether an individual was in contention for the award of a double or single increment, or none at all. A Chiefs of Staff Board graded 3-star officers and non-Chiefs of Staff 4-star officers using the same scoring system as used for 2-stars.

3.9 The results were then reported in June 2004 to the Senior Officers Remuneration Committee, chaired by the Permanent Under Secretary and comprising the Chief of Defence Staff, the Chiefs of Staff, and an external member. The Committee agreed the recommendations, and concluded that the processes used to nominate individuals for the award of increments were clear, fair and objective.

3.10 Approximately 12 per cent of senior officers were not eligible for any incremental uplift, having served insufficient time in rank. Of those eligible, some 89 per cent were awarded a single increment, payable as from 1 April 2004, and the remaining 11 per cent awarded a double increment in recognition of their outstanding performance. Each senior officer received a letter in which he was informed of his personal award. Line managers have not hitherto been informed of the awards for the officers on whom they report, but we are pleased to note that this will change in future.

² To guard against potential legal challenge concerning the independence of the Service Prosecuting Authorities, the Director of Army Legal Services and the Director of Legal Services (RAF) are not subject to the performance related pay element of the new system, but receive a single increment.

³ The Twenty Fourth Report on Senior Salaries, Cm 5389-1. The Stationery Office. 2002.

3.11 Equal pay issues are not relevant at present as there are no women in our remit group.

Proposals for the 2005 pay award

Chief of Defence Staff

3.12 The MOD's proposal for establishing a performance-related pay scale for the Chief of Defence Staff, broadly aligned to the salary of the Cabinet Secretary, is set out in Table 3.2. The table shows how broad alignment would be achieved over a three-year period, expressed at constant (2004-05) rates.

Table 3.2: Proposed pay scale for Chief of Defence Staff

Current rate 2004-05	Levels	Proposed scale (at unrevalorised 2004-05 rate)		
		2005-06	2006-07	2007-08
	4	£205,160	£209,752	£214,409
	3	£201,137	£205,639	£210,205
	2	£197,193	£201,607	£206,083
£189,000	1	£193,327	£197,657	£202,042

3.13 The above four-point scale is intended to match the typical CDS career path (appointed for two years, with possible extension for a further year). The top of the scale matches the target rate for the Cabinet Secretary (£214,409) in year 3 of the transition. The MOD said that they proposed to assimilate the CDS to the new scale at level 1 on 1 April 2005.

3.14 The CDS will be assessed under the same reporting arrangements as other senior officers, though he will have only one reporting officer – the Secretary of State. It is envisaged that the CDS will receive a single increment each year, assuming that his performance is assessed as satisfactory.

New pay scales for 2, 3 and 4-star officers

3.15 The MOD's proposals for new pay scales (at 2004-05 rates) for 2-star, 3-star and 4-star officers are set out in Tables 3.3, 3.4, and 3.5 respectively below. In drawing up the new scales, the MOD has proposed no changes to the number of salary points in each scale, on the grounds that the current number allows enough headroom for outstanding performers, and provides a sufficient retention incentive to those who spend longer than average in a particular rank. The scales have been developed with reference to Progression Target Rates for the Senior Civil Service (which form the pay scale maximum in 2007-08 in the case of the 2 and 3-star scales) and SCS median salaries (which are the basis of level 3 of the 2 and 3-star scales in 2007-08, and level 4 of the 4-star scale).

Table 3.3: Proposed pay scales for 2-star officers

Levels	Current scale	Proposed scale (at unrevalorised 2004-05 rate)		
	2004-05	2005-06	2006-07	2007-08
7	£98,063	£98,515	£98,967	£99,419
6	£96,313	£96,652	£96,991	£97,330
5	£94,562	£94,788	£95,014	£95,240
4	£92,812	£92,924	£93,037	£93,150
3	£91,060	£91,060	£91,060	£91,060
2	£89,310	£89,310	£89,310	£89,310
1	£87,559	£87,559	£87,559	£87,559

Note: At 2004-05 rates, the SCS Pay Band 2 PTR was £99,419 and the minimum was £73,762. The median salary for Pay Band 2 was estimated when this table was drawn up at £91,007.

Table 3.4: Proposed pay scales for 3-star officers

Levels	Current scale	Proposed scale (at unrevalorised 2004-05 rate)		
	2004-05	2005-06	2006-07	2007-08
6	£114,995	£117,783	£123,567	£129,352
5	£112,442	£114,838	£119,618	£125,203
4	£109,888	£111,967	£115,658	£121,053
3	£107,336	£109,168	£111,689	£116,903
2	£104,781	£106,438	£107,738	£110,340
1	£102,227	£103,778	£103,778	£103,778

Note: At 2004-05 rates, the SCS Pay Band 3 PTR was £129,352 and the minimum was £90,867. The median salary for Pay Band 3 was estimated when this table was drawn up at £116,903.

Table 3.5: Proposed pay scales for 4-star officers

Levels	Current scale	Proposed scale (at unrevalorised 2004-05 rate)		
	2004-05	2005-06	2006-07	2007-08
6	£142,205	£145,831	£150,507	£155,185
5	£138,940	£142,972	£147,556	£152,142
4	£135,675	£140,169	£144,663	£149,159
3	£132,411	£137,421	£141,826	£146,234
2	£129,146	£134,726	£139,045	£143,367
1	£125,882	£132,084	£136,319	£140,566

Note: At 2004-05 rates, the range for the Permanent Secretaries' pay system was £121,100 to £256,550. The median salary for Permanent Secretaries was estimated when this table was drawn up at £149,160.

Our comments and recommendations

3.16 We are pleased to endorse the MOD's proposals for the new pay scales, on the grounds that they:

- Align the pay scale of the CDS with that of the Cabinet Secretary over a three year period;
- Establish appropriate performance-related pay scales for 2-star, 3-star and 4-star officers over the same period.

3.17 Our principal concerns last year were that the salary of the Chief of Defence Staff should be broadly comparable with that of the Cabinet Secretary, and that the structure below should have internal coherence. These concerns are met by the MOD's proposals.

Although it was not part of our recommendations last year that the pay scales of 2-star, 3-star and 4-star officers should be precisely linked with the salaries of their equivalent grades in the SCS (Pay Band 2, Pay Band 3, and Permanent Secretary respectively), we have no objection to the fact that the MOD has drawn up the new scales by reference to the median salaries and progression target rates of the equivalent SCS grades, and recognise the MOD's reasons for doing so.

3.18 We recommend that the rate of revalorisation to be applied to the scales from 1 April 2005 should be 2.5 per cent, in line with our recommended increase for SCS pay bands and target rates. We have revised the scales on this basis, as set out in Tables 3.6 to 3.9 below. We have also reviewed the scales in the light of the concurrent recommendation by the Armed Forces' Pay Review Body that 1-star officers and below should receive an award of 3 per cent, and have adjusted the bottom of the 2-star scale upwards by a further 0.5 per cent (i.e. by 3 per cent in total) in order to preserve the differential with the 1-star scale.

Recommendation 6: We recommend that the MOD should introduce new performance-related pay scales for 2-star officers and above from 1 April 2005 as set out in Tables 3.6 to 3.9 below. These scales incorporate revalorisation at the rate of 2.5 per cent on 1 April 2005.

Table 3.6: Recommended pay scales for 2-star officers at 2005-06 rates

Levels	2005-06	2006-07	2007-08
7	£100,978	£101,441	£101,904
6	£99,068	£99,416	£99,763
5	£97,158	£97,389	£97,621
4	£95,247	£95,363	£95,479
3	£93,337	£93,337	£93,337
2	£91,543	£91,543	£91,543
1	£90,186	£90,186	£90,186

Table 3.7: Recommended pay scales for 3-star officers at 2005-06 rates

Levels	2005-06	2006-07	2007-08
6	£120,728	£126,656	£132,586
5	£117,709	£122,608	£128,333
4	£114,766	£118,549	£124,079
3	£111,897	£114,481	£119,826
2	£109,099	£110,431	£113,099
1	£106,372	£106,372	£106,372

Table 3.8: Recommended pay scales for 4-star officers at 2005-06 rates

Levels	2005-06	2006-07	2007-08
6	£149,477	£154,270	£159,065
5	£146,546	£151,245	£155,946
4	£143,673	£148,280	£152,888
3	£140,857	£145,372	£149,890
2	£138,094	£142,521	£146,951
1	£135,386	£139,727	£144,080

Table 3.9: Recommended pay scales for the Chief of Defence Staff at 2005-06 rates

Levels	2005-06	2006-07	2007-08
4	£210,289	£214,996	£219,769
3	£206,165	£210,780	£215,460
2	£202,123	£206,647	£211,235
1	£198,160	£202,598	£207,093

Note: Tables 3.6 to 3.9 incorporate revalorisation as from 1 April 2005. They do not incorporate revalorisation in subsequent years.

Senior medical and dental officers

3.19 MOD proposes that the pay of 2-star DMS officers in 2005-06 should continue to be set 5 per cent higher than 1-star officers, with 3-star officers receiving a further 5 per cent. It comments that the implication of the proposed new pay scales on the salary differentiation between mainstream officers and DMS officers may require more detailed consideration as part of the 2006 pay round.

Recommendation 7: We recommend that the pay of medical and dental officers of 2-star rank continue to be 5 per cent above their comparators at 1-star, and that those of 3-star rank continue to receive 5 per cent more than their 2-star comparators.

Chapter 4

The judiciary

Introduction

- 4.1 Our judicial remit comprises around 2,000 individuals in over 70 categories of post throughout the United Kingdom. For salary purposes, these posts are divided into nine salary groups. Each member of a salary group is paid the same spot rate. The salary group structure is set out in Appendix F.

Evidence

- 4.2 We received written evidence from the Department for Constitutional Affairs (DCA), the Justice Department of the Scottish Executive, and the Northern Ireland Courts Service. The Lord Chief Justice of England and Wales also provided a written submission. We heard oral evidence from the Lord Chancellor¹, the Permanent Secretary of his Department, and from the Lord Chief Justice of England and Wales (accompanied by colleagues from the senior judiciary). We also considered written evidence submitted by individual members of the judiciary and by their representatives. A full list of those who supplied evidence is at Appendix A.
- 4.3 During the summer of 2004 members of the Judicial Sub-committee, along with other members of the Review Body, visited Edinburgh for discussions with the Lord President of the Court of Session and senior colleagues and to see the Sheriff Court in action. Visits were also made in London to the Central Criminal Court, the Immigration Appeal Centre at Taylor House, and the Immigration Tribunal Centre at Field House. This allowed us the opportunity to witness court and tribunal procedures and hear at first-hand from judicial post-holders about issues of concern. We are grateful to all our hosts and to those who assisted us with the arrangements.

Recruitment

- 4.4 The DCA's evidence indicated that there were few general recruitment and retention problems in relation to full-time judicial post-holders during the past year. All posts had been filled with candidates of sufficiently high calibre. Appendix G contains statistical evidence on recruitment into the judiciary reported to us this round.

High Court Bench

- 4.5 The DCA reported to us that recruitment to the High Court Bench was undertaken successfully in 2003-04. However their evidence noted that three people had refused formal offers of appointment in 2003-04. They had cited family and professional commitments and circuit obligations as factors.
- 4.6 The Lord Chief Justice informed us that he was concerned that the official recruitment data masked a more serious problem at the 'informal' approach stage. He was aware that a number of barristers whom he considered to be highly suitable for senior judicial appointment had let it be known that they would not accept an offer to join the judiciary. His concern related mainly to the specialist courts such as the commercial court where he believed that real difficulties could arise if it became necessary to

¹ Lord Falconer the current Lord Chancellor also holds the title of Secretary of State for Constitutional affairs. For ease of reference this Report refers to him as the Lord Chancellor.

increase current levels of recruitment. The Lord Chief Justice accepted that it was not realistic to expect judicial salaries to match the salaries of the highest earners at the Bar, but he argued that salaries should nevertheless be set at a level which did not undermine the perception of the job and the esteem in which it was held.

- 4.7 We will continue to monitor recruitment data carefully, and remain keen to see detailed information in future years on issues such as why individuals do not wish to be considered for appointment. As part of the major review of the judicial salary structure (as detailed below) we will be obtaining data on pre-appointment earnings.

Diversity

- 4.8 The DCA drew our attention to the recent Consultation Paper “Increasing Diversity in the Judiciary”². The consultation exercise is intended to identify the factors which deter people from any particular background from applying for judicial office. The DCA will then examine ways of reducing or removing those barriers, in order to widen the pool from which judicial appointees are drawn. We welcome this initiative, which may help us to identify whether any amendments to the overall remuneration package of the judiciary are necessary in future to support diversity objectives.

Constitutional and legal reforms

- 4.9 We reported in 2004 on the major changes that the judiciary is facing, and this year’s report is again set against the context of major constitutional and legal reforms. In its evidence the DCA provided an update on the various reforms, but did not ask us to consider any changes to judicial salary arrangements in advance of the major review. We are content to proceed on this basis.

Asylum and Immigration

- 4.10 The DCA wrote to us in June 2004 with details of the proposed judicial structure for the new single-tier Asylum and Immigration Tribunal. We said that we were content that the DCA should proceed in line with its proposals for the allocation of salary groups within the new structure, subject to the proviso that the major review would include the posts concerned. We reserved the right to recommend adjusting the appropriate salaries attached to the posts in the new structure in line with the findings of the major review.

Judicial pensions

- 4.11 The Government’s proposals for reforming the tax treatment of occupational and personal pensions were implemented in the Finance Act 2004 and will come into effect in April 2006. The legislation provides for a new lifetime limit (initially £1.5 million) on the capitalised value of a person’s pension benefits from all sources, beyond which the excess will be subject to a recovery charge of 25 per cent on top of income tax. The changes have the potential to impact adversely on a number of the judiciary. We were told that the Lord Chancellor had written to the judiciary to reassure them that it was the Government’s objective to enable them to remain in an equivalent financial position in respect of their judicial pension benefits after the tax changes had come into effect. This will involve amendment of the judicial pension schemes, which will require primary legislation. The Lord Chief Justice reported to us that until this happens, there is an uncertain situation for the judiciary, which could be very damaging. He specifically drew our attention to the risk that many judges might resign before the new rules come into force in order to avoid the new tax regime.

² www.dca.gov.uk/consult/judiciary/diversitycp25-04.htm

4.12 We note that it remains the Government's intention to resolve the issue and that a Judicial Pensions Bill to protect the value of judges' pensions is included in the legislative programme for the 2004-05 session. We understand the Government's argument that the measures in the Bill are necessary in order that the terms on which existing members of the judiciary were appointed can be honoured. However we note that it is the Government's intention that the revised pension arrangements should also be available to judges who have yet to be appointed. Pensions issues of course affect all our remit groups, and we would expect to take account of the value of their pension arrangements when assessing overall remuneration packages in future, as we have done in the past. We will continue to monitor developments and will revisit the issue as part of next year's review if necessary.

Affordability

4.13 We were told by the DCA that their 2004 Spending Review settlement allowed for a 2.5 per cent increase in the judicial pay bill, and that any increase above 2.5 per cent would have an adverse effect on service delivery and/or cost to the court user within the justice system (although we noted that each 1 per cent increase in judicial salaries would increase the pay bill by £2.6 million only). The Lord Chancellor presented three arguments to us. First, he said that the budget for improving service in courts (e.g. new facilities to enable video evidence) was quite small, so that even a minor increase in the judicial pay bill could have an adverse impact on users. Secondly, he argued that the difference between an award of 2.5 per cent and, say, 3.5 per cent would not have a significant effect on the morale of judges, compared to the more important pension issue. And thirdly, he proposed that comparability with the SCS should be dealt with next year, as part of the major review.

Pay

4.14 We are satisfied that for the time being, in the year prior to the major review, no changes should be made to the judicial salary structure. Our concern this year is to ensure that the overall pay of the judiciary does not fall behind that of the Senior Civil Service, as this would be likely to necessitate an element of catch-up at some future date. Our recommendations for the SCS in Chapter 2 above are expected to increase the pay bill for SCS base pay by about 2.7 per cent. However our recommendations are also designed to secure real pay progression for most SCS members, depending on their performance. Recognising that judges do not have incremental progression, and taking account of the latest available information on inflation and average earnings³, we have come to the judgement that the existing pay scales for the judiciary should be increased by 3 per cent from 1 April 2005 in order to retain the relative pay position of the judiciary, and we recommend accordingly.

Recommendation 8: We recommend that judicial salaries should be increased by 3 per cent from 1 April 2005.

4.15 The effect of our recommendation will be to increase the pay bill by £1.3 million more than the DCA's proposed increase of 2.5 per cent. Set in overall context, we are not persuaded that affordability is a constraint.

³ paragraphs 1.10 to 1.13 above.

4.16 The salaries resulting from this recommendation are set out in Table 4.1.

Table 4.1: Recommended judicial salaries from 1 April 2005

Salary group	Salary
Group 1	£211,399
Group 1.1	£191,276
Group 2	£184,814
Group 3	£175,671
Group 4	£155,404
Group 5	£125,803
Group 6.1	£116,515
Group 6.2	£112,116
Group 7	£93,483

Major review of the judicial salary structure – progress report

4.17 We have now embarked on our major review of the judicial salary structure as foreshadowed in last year's report. The objective of the review is to produce a pay structure which attracts the right calibre of people, recognises the demands of particularly complex roles, and provides reassurance that pay is set fairly, whilst taking account of recent reforms. We are being advised on the process for carrying out the review by a small consultative group comprising four members of the England and Wales judiciary. We are also establishing appropriate arrangements for Scotland and Northern Ireland.

4.18 The first stage of the review is a job evaluation study, which we have commissioned PricewaterhouseCoopers (PwC) to carry out. PwC is currently conducting about 125 interviews with individual post-holders and assessing their posts against five factors. The factors are:

- Jurisdiction;
- Complexity and diversity of cases;
- Impact and sensitivity of decisions;
- Court craft; and
- Out of court, administration, management and leadership responsibilities.

Our presumption at the outset is that the factors should carry equal weight, but it is open to those interviewed to argue that certain factors should carry more weight than others, either across all judicial posts, or at their particular level. The 125 posts chosen for interview have been carefully selected to ensure that they are representative of the judiciary as a whole.

4.19 After they have completed the interviews, agreed job summaries with the interviewees, and taken into account any considerations which emerged during the interviews about the weightings which should attach to each factor, PwC will produce a job evaluation score for each category of post, and a rank order of posts. We expect to publish the conclusions of the job evaluation exercise in summer 2005. This will enable interested parties to frame their evidence, which will be invited during autumn 2005.

4.20 PwC will also advise us on the appropriate salary level for each category of post. The key factors to be taken into account will be:

- The job evaluation conclusions;
- The salary of the Lord Chief Justice, which will fix the top point of the judicial salary scale (and which is linked to the salary of the Cabinet Secretary by the 'linkage' formula recommended in our 2004 report);
- Market evidence about the size of salary differentials in relation to job weight scores within a basket of comparator groups;
- Surveys of pre-appointment earnings;
- Pensions; and
- Evidence received from interested parties during the autumn.

We will develop our recommendations during autumn 2005. They will be finalised and made to the government in our next report early in 2006.

John Baker, CBE *Chairman*
Mark Baker, CBE
David Clayman
Mary Galbraith
Professor David Greenaway
Mei Sim Lai, OBE
James McKenna
Sir Peter North, CBE, QC
Richard Pearson
Janet Rubin

3 February 2005

Appendix A

List of those who gave evidence

Senior Civil Service

Cabinet Secretary and Head of the Home Civil Service
Civil Service Commissioners
FDA and Prospect (joint union evidence)

Senior Civil Service Discussion Groups (13 attended)
HR Directors' Discussion Group (7 attended)

Armed Forces

Chief of Defence Staff
Chief of the Air Staff
Chief of the General Staff
Permanent Under Secretary, Ministry of Defence

Three-Star Officers' Discussion Group (7 attended)
Two-Star Officers' Discussion Group (6 attended)

Judiciary

Secretary of State for Constitutional Affairs and Lord Chancellor
Lord Chief Justice of England and Wales and senior colleagues
The Association of District Chairmen of the Appeals Service
The Association of District Judges
The Council of Chairmen of Employment Tribunals

Permanent Secretary, Department for Constitutional Affairs
Northern Ireland Court Service
Scottish Executive, Justice Department

Office-holders met on visits:

The Lord President of the Court of Session and senior colleagues
The Sheriffs at the Edinburgh Sheriff Courts
The Judges at the Old Bailey
The Adjudicators at the Office of the Chief Adjudicator Immigration Appeals
The Adjudicators at the Immigration Appellate Authority

Appendix B

Website references for publications

Past reports from the SSRB, since 2001, can be found at
<http://www.ome.uk.com/>

Twenty-Sixth Report on Senior Salaries
<http://www.ome.uk.com/downloads/26th%20Report%20on%20Senior%20Salaries.pdf>

Evidence submitted to the SSRB by the Cabinet Office
http://www.civilservice.gov.uk/management_information/senior_civil_service/index.asp

Evidence submitted to the SSRB by the Department for Constitutional Affairs
<http://www.dca.gov.uk/judicial/judgepay.pdf>

Evidence submitted to the SSRB by the FDA and Prospect (joint union evidence)
<http://www.fda.org.uk>

Appendix C

Existing salaries for the three remit groups (1 April 2004 to 31 March 2005)

Senior civil servants

Pay band	Minimum	Progression Target Rate	Higher Performance Target Rate	Recruitment Performance & Ceiling	Numbers in post ¹
3	£90,867	£129,352	£151,802	£192,424	121
2	£73,762	£99,419	£118,662	£155,008	617
1A	£62,004	£83,384	£93,005	£122,938	177
1	£53,451	£74,298	£83,384	£112,248	2,653
Permanent Secretaries: £121,100 to £256,550					40

Senior officers of the armed forces

Scale point	Value of scale points		
	4-star	3-star	2-star
7			£98,063
6	£142,205	£114,995	£96,313
5	£138,940	£112,442	£94,562
4	£135,675	£109,888	£92,812
3	£132,411	£107,336	£91,060
2	£129,146	£104,781	£89,310
1 (Minimum)	£125,882	£102,227	£87,559
Numbers in post ¹	10	20	93
Chief of Defence Staff: £189,000			

Members of the judiciary

Salary Group	Salaries	Numbers in post ¹
1	£205,242	1
1.1	£185,705	4
2	£179,431	14
3	£170,554	48
4	£150,878	139
5	£122,139	84
6.1	£113,121	767
6.2	£108,850	44
7 ²	£90,760	962

¹ Numbers in post are correct at the following dates: 22 September 2004 for SCS, based on returns to the SCS database; 1 July 2004 for senior military; and 1 April 2004 for the judiciary.

² Group 7 postholders in London are paid an additional £2,000 salary lead and an additional £2,000 London allowance.

Appendix D

Existing base salaries of Permanent Secretaries in £5,000 bands (as at November 2004)

Band £	Number in Band	Office Holder
£215,000-£219,999	1	Cabinet Secretary and Head of the Home Civil Service
£210,000-£214,999	–	
£205,000-£209,999	–	
£200,000-£204,999	–	
£195,000-£199,999	1	1st Parliamentary Counsel
£190,000-£194,999	1	Permanent Secretary of Department of Health & Chief Executive of National Health Service
£185,000-£189,999	1	Permanent Secretary of Foreign and Commonwealth Office
£180,000-£184,999	2	Chief Executive of Jobcentre Plus Permanent Secretary of Department for Work and Pensions
£175,000-£179,999	1	Permanent Secretary of Cabinet Office & Joint Intelligence Co-ordinator
£170,000-£174,999	–	
£165,000-£169,999	2	Chief Medical Officer Permanent Secretary of HM Treasury
£160,000-£164,999	1	Permanent Secretary of Ministry of Defence
£155,000-£159,999	4	Permanent Secretaries of: – Northern Ireland Office – Home Office – National Assembly for Wales Second Permanent Secretary of HM Treasury
£150,000-£154,999	5	Permanent Secretary Crime, Policing, Counter Terrorism & Delivery, Home Office Permanent Secretary, National Offender Management Service, Home Office Permanent Secretaries of: – Treasury Solicitor – Department for Education & Skills – HM Customs & Revenue
£145,000-£149,999	4	Permanent Secretaries of: – Department of Trade & Industry – Department for International Development – Department for Transport – Department of the Environment, Food & Rural Affairs
£140,000-£144,999	3	PM's Advisor, Overseas and Defence Permanent Secretaries of: – Office of the Deputy Prime Minister – Department for Constitutional Affairs

£135,000-£139,999	7	Permanent Secretaries of: – Department for Culture, Media & Sport – Scottish Executive – Government Communications Director General Security Service Chairman of Office for National Statistics Second Permanent Secretary, Department for Constitutional Affairs Head of the Secret Intelligence Service
£130,000-£134,999	–	
£125,000-£129,999	1	MOD Chief Scientific Adviser
£120,000-£124,999	6	Director, Government Communications Headquarters Chief of Defence Procurement Second Permanent Secretaries of: – Department of Work and Pensions – Ministry of Defence Chairman, UK Trade and Investment PM’s Adviser European Affairs

Source: The Cabinet Office

Appendix E

Recruitment to the Senior Civil Service

Open competitions for appointments to senior civil service posts (pay band 2 and above)¹

	Source				Total
	Civil Service	Wider Public Sector	Private Sector	Other	
2003-04	43 (48%)	19 (21%)	24 (27%)	3 (3%)	89
2002-03	29 (30%)	26 (27%)	42 (43%)	0 (0%)	97

Source: Civil Service Commissioners

¹ From 16 July 2002, the Civil Service Commissioners ceased to have responsibility for approving the majority of SCS posts at Pay Bands 1 and 1A. Commissioners' approval is now only required for open recruitment to SCS Pay Band 2 and above.

Fast Stream recruitment

	Vacancies		Applications		Recommended for appointment ¹	
	2003 ²	(2004) ³	2003 ²	(2004) ³	2003 ²	(2004) ³
General Fast Stream	304	(254)	17,659	(6,564)	360	(301)
<i>Including:</i>						
<i>Central Departments,</i>						
<i>Diplomatic Service,</i>						
<i>Diplomatic Service Economists,</i>						
<i>European Fast Stream,</i>						
<i>Science & Engineering,</i>						
<i>Clerkships, Legal Officers</i>						
<i>(Europe)</i>						
Economists ⁴	162	(172)	989	(867)	111	(86)
Statisticians	74	(74)	497	(576)	32	(43)
GCHQ	6	(6)	887	(510)	7	(8)
In-service nominations	29	(52)	92	(123)	29	(52)

Source: Cabinet Office

¹ The number of applicants who were successful in the competition.

² Figures for the competition which finished between April 2003 and March 2004.

³ Provisional figures for the competition which finished between April 2004 and March 2005.

⁴ The Economist scheme is still in progress.

Appendix F

Judicial salary structure at 1 April 2004¹

Group 1

Lord Chief Justice of England and Wales

Group 1.1

Lord Chief Justice of Northern Ireland

Lord President of the Court of Session

Master of the Rolls

Senior Lord of Appeal in Ordinary (Senior Law Lord)

Group 2

Lords of Appeal in Ordinary

Lord Justice Clerk

President of the Family Division

Vice-Chancellor

Group 3

Inner House Judges of the Court of Session

Lords Justices of Appeal

Lords Justices of Appeal (Northern Ireland)

Group 4

High Court Judges

Outer House Judges of the Court of Session

Puisne Judges (Northern Ireland)

Vice-Chancellor of the County Palatine of Lancaster²

Group 5

Chief Immigration Adjudicator

Chief Social Security Commissioners (England and Wales; Scotland; and Northern Ireland)

Circuit Judges at the Central Criminal Court in London (Old Bailey Judges)

Deputy President, Immigration Appeals Tribunal

Judges of the Technology and Construction Court

President, Appeals Service (England and Wales; and Scotland)

President, Care Standards Tribunal

President, Employment Tribunal (England and Wales; and Scotland)

President, Immigration Appeals Tribunal²

President, Lands Tribunal (England and Wales)

President, Lands Tribunal (Scotland) and Chairman, Scottish Land Court

Presiding Special Commissioner, President of the VAT and Duties Tribunals and President of the Financial Services and Markets Tribunal³

Recorder of Belfast

Recorder of Liverpool

Recorder of Manchester

Senior Circuit Judges

¹ Alphabetical order within salary group.

² Post currently held by a High Court Judge.

³ The current postholder is paid Group 4 salary. The post remains in Group 5.

Senior District Judge (Chief Magistrate)
Sheriffs Principal
Specialist Circuit Judges (Chancery, Mercantile and Patent Judges)

Group 6.1

Chief Registrar and Senior and Chief Masters
Circuit Judges
County Court Judges (Northern Ireland)⁴
Deputy Chief Immigration Adjudicator
Judge Advocate of the Fleet
Judge Advocate General
Master, Court of Protection
President, Appeals Tribunal (Northern Ireland)
President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
President, Lands Tribunal (Northern Ireland)⁵
Regional Chairmen, Employment Tribunals (England and Wales; and Scotland)
Registrar of Criminal Appeals
Senior District Judge, Principal Registry of the Family Division
Sheriffs
Social Security Commissioners (England, Wales and Scotland; and Northern Ireland)
Vice-President, Immigration Appeals Tribunal

Group 6.2

Regional Immigration Adjudicator
Chairmen, VAT and Duties Tribunals and Special Commissioners of Income Tax
Deputy Senior District Judge (Magistrates' Courts)
Members, Lands Tribunals (England and Wales; Scotland; and Northern Ireland)
Regional Chairmen, Appeals Tribunal
Vice-Judge Advocate General
Vice-President, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
Vice-Presidents, VAT and Duties Tribunals (England and Wales; and Scotland)

Group 7

Adjudicator to HM Land Registry
Assistant Judge Advocates General
Chairmen, Employment Tribunals (England and Wales; and Scotland)
Chairmen, Industrial Tribunals and Fair Employment Tribunal (Northern Ireland)
Deputy President Pensions Appeal Tribunal⁶
Deputy Regional Immigration Adjudicator⁷
District Chairmen Appeals Tribunal
District Judges
District Judges (Magistrates' Courts)
District Judges (Northern Ireland)
District Judges of the Principal Registry of the Family Division
Immigration Adjudicators
Masters and Registrars of the Supreme Court
Masters of the Supreme Court (Northern Ireland)
President, Pensions Appeal Tribunals
Regional Chairman, Mental Health Review Tribunal (England)
Regional Immigration Adjudicator (Training)⁷
Resident Magistrates (Northern Ireland)

⁴ Paid the salary for Group 5 so long as they are required to carry out significantly different work from their counterparts elsewhere in the UK: Circuit Judges in England and Wales and Sheriffs in Scotland.

⁵ Post currently held by a High Court Judge.

⁶ Paid at 7.5 per cent below the Group 7 salary.

⁷ Salary set at 108 per cent of the Group 7 salary.

Appendix G

Recruitment to the judiciary 2003-04

House of Lords

In the reporting period, there were 12 Lords of Appeal in Ordinary in post, the most recent appointment being made on 12 January 2004.

Court of Appeal

In the reporting period, there were 37 Lord Justices of Appeal in post, the most recent appointment being made on 23 March 2004.

High Court Bench

The Lord Chancellor decided that he did not wish to pre-empt any new arrangements for recruiting High Court Judges that might be put in place by a Judicial Appointments Commission when it is established. He therefore decided to run an appointments exercise similar to those that operated in 1998 and 2000. In July 2003, applications were invited via advertisements in *The Times*, the *Bar News* and the *Law Society Gazette*. Additionally, members of the senior judiciary were invited to nominate candidates whom they felt might have a strong claim for consideration. 96 applications were received (although four withdrew during the process) and a further 82 candidates were nominated. The Lord Chancellor consulted the senior judiciary and leaders of the legal profession on all candidates. Out of this strong field of candidates 101 were assessed as suitable for appointment to the High Court.

10 appointments were made to the High Court Bench from 1 April 2003 to 31 March 2004. Of the 10 judges appointed, three were promoted from the Circuit Bench. The complement of the High Court Bench is 108 and there are currently 106 judges in post excluding Mr Justice Bratza who is a Judge of the European Court of Human Rights. There were three refusals of offers of appointment in 2003-04. Family and professional commitments and the circuit obligations were mentioned as factors.

European Court of Human Rights

Mr Justice Bratza was elected as a Judge of the European Court of Human Rights in 1998, for a term of six years. He has been re-elected to serve a further six year term.

Circuit Bench

Between 1 April 2003 and 31 March 2004, 34 judges were appointed to the Circuit Bench, of whom 25 were from the reserve list. A further four were appointed to posts in salary Group 5 (one at the Central Criminal Court, one at Liverpool Combined Court Centre, one at Birmingham Combined Court Centre and one at Harrow Crown Court). At 1 April 2004 there were 614 judges in post. The complement for 2004-05 is 622, the same level as the previous year.

District Benches

District Judges (Civil) – There was no general competition for 2003-04, but 18 District Judges were appointed from the reserve list on which 22 candidates had been placed at the conclusion of the competition held the previous year. However, since it had not been possible to find a suitable Welsh speaking candidate for the Wales & Chester Circuit, a competition was held which attracted two applicants. Both were interviewed and one was appointed.

District Judges (Magistrates' Courts) – A competition was held during the period of this report and 119 applications were received. 25 candidates were approved for immediate appointment and eight placed on a reserve list. The overall quality of the candidates was good and the field remains competitive.

Deputy Senior District Judge (Chief Magistrate) – The then Deputy Senior District Judge (Chief Magistrate) was successful in a competition to fill the Senior District Judge (Chief Magistrate) post which left his post unfilled. A competition was held to find a successor. 11 applications were received. Seven applicants were interviewed and one was approved for immediate appointment.

Senior District Judge of the Principal Registry of the Family Division – The Senior District Judge of the Family Division retired in January 2004 and a competition was held to find a successor. Applications were sought from all District Judges of the Principal Registry of the Family Division. Four applications were received, all four were interviewed and one was appointed.

District Judges of the Principal Registry of the Family Division – A competition was held during the period of this report. All Deputy District Judges of the Principal Registry of the Family Division; Deputy District Judges (Civil); District Judges (Civil); Deputy District Judges (Magistrates' Courts); District Judges (Magistrates' Courts); District Probate Registrars; and Deputy District Probate Registrars were notified of the vacancy. 23 applications were received and 15 candidates were selected for interview. One candidate was approved for appointment and two candidates were placed on the reserve list.

Masters and Registrars of the High Court

Chief Bankruptcy Registrar of the High Court – The Chief Bankruptcy Registrar died in August 2003 and a competition was held to find a successor. Applications were sought from all the Bankruptcy Registrars of the High Court. Four applications were received, all four were interviewed and one successful candidate was identified.

Registrar in Bankruptcy – There was no competition during the period for this appointment but one candidate was appointed from the reserve list to relieve the pressure of work due to the Chief Bankruptcy Registrar's absence through illness.

Queen's Bench Master/Chancery Master/Taxing Master – No vacancies were declared and thus there was no competition for appointments in 2003-04.

Judge Advocate General

An advertisement was placed in March 2004 to fill the vacant post of Judge Advocate General. There were 15 applicants, of whom four were interviewed (and one was subsequently appointed in October 2004).

Tribunals

Mental Health Review Tribunals – In June 2003 two vacancies for new full-time posts of Regional Chairman of the Mental Health Review Tribunal (England) were advertised. 21 applications were received and 10 candidates called to interview. Of those interviewed 7 were deemed appointable and the two posts were filled in March 2004. These posts were placed in salary Group 7 following the Review Body's recommendation.

Immigration Appeal Tribunal – During the period there was a competition to fill eight full-time Vice President posts in the IAT. There were 23 applicants of whom 17 were called to interview, nine were deemed appointable and eight were appointed.

Immigration Adjudicators – During the period there was a competition to fill the post of Training Adjudicator. There were 18 applicants of whom 15 were called to interview, one was deemed appointable and one was appointed. There was also a competition to fill the post of Regional Adjudicator for Birmingham. There were seven applicants, of whom four were called to interview, one was deemed appointable and was appointed.

Employment Tribunal – During the period there was a competition to fill three posts (in Southampton, London South and Manchester) for full-time Regional Chairmen of Employment Tribunals. There were 14 applicants, of whom 10 were selected for interview. Eight were deemed appointable, of whom three were appointed to fill the posts in question.

The Appeal Service – A competition was launched in August 2003 to fill an innovative full-time post for a medically qualified panel member. There were 14 applicants, of whom four were invited to interview. The vacancy was filled and three candidates were placed on a reserve list for 12 months.

Appendix H

Previous reports in this series

No. 2: Interim Report on Top Salaries	Cmnd. 5001, June 1972.
No. 3: Second Interim Report on Top Salaries	Cmnd. 5372, July 1973.
No. 4: Third Interim Report on Top Salaries	Cmnd. 5595, June 1974.
No. 6: Report on Top Salaries	Cmnd. 5846, December 1974.
No. 10: Second Report on Top Salaries	Cmnd. 7253, June 1978.
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No. 46: Twenty-Third Report on Senior Salaries	Cm 4995, February 2001.
No. 51: Twenty-Fourth Report on Senior Salaries	
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No. 55: Twenty-Fifth Report on Senior Salaries	Cm 5718, February 2003.
No. 56: Twenty-Sixth Report on Senior Salaries	Cm 6099, February 2004.

Appendix I

Glossary of terms and abbreviations

General

SSRB	Senior Salaries Review Body.
AFPRB	Armed Forces' Pay Review Body.
Average	The sum of a set of values divided by the number of values.
Median	The value in a set of observations, ranked in ascending order, that divides the data into two parts of equal size.
Base pay	Basic salary, excluding non-consolidated bonuses, allowances, value of pensions, etc.
Job weight	The relative level, complexity and responsibility of different jobs/positions.
Pay band	A salary range with a minimum and maximum within which posts are allocated according to job weight.
Performance related pay	Any method by which links are established between the assessed performance of an individual in a job and what he or she receives in salary, bonus payments, incentives or benefits.
CPI	Consumer Prices Index.
RPI	Retail Prices Index.
RPIX	Retail Prices Index excluding mortgage interest payments.

Senior civil service

Performance tranche	One of three tranches (or sets) to which individuals are allocated according to annual assessment of their performance. These are then used in a pay matrix to determine the size of individual annual increases in salary.
Progression Target Rate (PTR)	Point in the pay band which represents the effective maximum for most senior civil servants. Only the top 25 per cent of performers will be able to progress beyond this point.
Recruitment & Performance Ceiling (RPC)	The pay band ceiling. Once pay has reached the RPC, further consolidated pay awards are restricted to the annual revalorisation of the RPC, with the balance of any award non-consolidated.
Target Rate (TR)	A point in the pay band which represents the effective maximum for most Permanent Secretaries. Only the top 25 per cent of performers will be able to progress beyond this point.

Shadow Target Rate (STR)	If a post, recruited through an open competition, requires specific, scarce skills, which would attract a market premium, a STR can be set above the standard PTR but below the Pay Band ceiling.
SCS	Senior civil service/servants.
Fast Stream	A recruitment, training and development scheme aimed at very able graduates, selected on the basis of their potential to reach the senior civil service.
Senior Leadership Committee (SLC)	Considers applications and appointments to the most senior posts – normally those at Pay Band 3 and Permanent Secretary level. The Committee is chaired by the Head of the Home Civil Service and attended by the First Commissioner.

The armed forces

CDS	Chief of Defence Staff.
MOD	Ministry of Defence.
PMPS	Performance Management and Pay System.

The judiciary

DCA	Department for Constitutional Affairs.
LCJ	Lord Chief Justice.
Salary Group	The grouping of judicial posts, for pay purposes, according to job weight. See Appendix F.



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