



OFFICE OF MANPOWER ECONOMICS

SENIOR SALARIES REVIEW BODY
KINGSGATE HOUSE
66-74 VICTORIA STREET
LONDON SW1E 6SW

Direct Telephone Line 020 7215 8258
GTN 215 8258
Fax 020 7215 4445
Web site www.ome.uk.com

**Rt Hon Michael J Martin MP
Speaker of the House of Commons
Speaker's House
Westminster
London
SW1A 0AA**

27 March 2009

Dear Mr Speaker

SALARY INCREASE FOR MEMBERS OF THE HOUSE OF COMMONS

The Resolution on Members' Salaries (No. 2) [Money] passed by the House on 3 July 2008 requires the Senior Salaries Review Body (SSRB) to carry out an annual exercise to identify the median of the percentage pay increases received by the 15 groups of public sector workers specified in the Resolution and to notify you of that figure. Members' salaries are to be increased by that median percentage, with effect from 1 April of the year in question.

The SSRB has now completed the annual exercise to determine the increase in Members' salaries to apply with effect from 1 April 2009. I am sorry that this has taken longer than I had hoped, because of difficulties in collecting the information and the need to obtain legal advice on the application of the Resolution to certain settlements.

In accordance with the Resolution, where possible the calculation uses the settlements applied in the preceding year, i.e. 2008, for the 15 prescribed groups.

However, in two cases (HM Revenue and Customs and local government) settlements for the groups specified were not finalised and implemented in 2008. We consider that this was exceptional. Normally settlements will be finalised in the year in which they are due. We have therefore excluded these two settlements from the calculation. In addition, although the Resolution seeks to define precisely how the calculation is to be done, it has again not been a straightforward exercise because it is often not easy to identify a single percentage figure for settlements in the way specified in the Resolution. We have excluded a further settlement (Ministry of Defence) because it involved a complicated package of pay restructuring and we were unable to identify a single percentage increase in pay scales.

I attach a technical note summarising for each of the 15 groups our assessment of the relevant increase for 2008, and showing how we arrived at the median increase of 2.33 per cent, the figure by which the salaries of Members of the House of Commons are to be increased with effect from 1 April 2009.

If there is any aspect of this letter or the calculation that you or your colleagues would like to discuss, I should be very happy to do so.

I am sending a copy of this letter to the Leader of the House of Commons.



pp

Bill Cockburn CBE TD
Chairman, Senior Salaries Review Body
(approved by the Chairman and signed in his absence)



Calculation of the MPs' Pay Up-rating Mechanism for 2009

A note on data sources

The data for List A and List C organisations - with the exception of Local Government - have been provided directly by the Office of Manpower Economics (OME) which provides the secretariat to the public sector pay review bodies. OME obtained information about the awards for Local Government and the List B organisations from the relevant Government Departments.

List A

Method discussion

The Resolution of 3 July 2008 requires the Senior Salaries Review Body (SSRB) to determine the last set of annual percentage pay scale increases finalised and given effect to prior to 31 December 2008. SSRB should then determine from among these the increase that was applicable to the **largest number of individuals** (for this purpose, taking increases of the same percentage together as if they were one increase).

In advising the SSRB, the Office of Manpower Economics has observed the following principles which it believes are explicit or implicit in the Resolution:

- only increases to the pay scale itself are to be taken into account, not increases (whether performance-related or not) received by individuals progressing through the pay scale;
- settlements are what the relevant employer actually implemented, which may differ from what the Review Body recommended;
- in the event of staging, provided that all staged payments are made prior to 31 December of the relevant year, the full award should be recorded;
- the increase applicable to the largest number of individuals (as described in the Resolution) is, in effect, the *modal* increase (the mode is the most frequently occurring value in a distribution);
- regional allowances, e.g. London weighting, should be taken into account when calculating the modal increase only if they have been consolidated into the pay scales as, for example, for school teachers who have separate London pay scales.

1. Senior military

Figure used by SSRB: 3.64%

From 1 April 2008 the basic salaries (salary scale points) for the senior military were all increased by 2.2%. At the same time SSRB recommended payment of X-factor (an allowance to compensate for disadvantages of service life) should be extended to 2- and 3-star senior officers, but not to more senior ranks. The 2008-9 value of X-factor for 2- and 3-star officers was set at a flat cash amount corresponding to 15% of the cash value of X-factor to those at the top of the OF-4 pay scale: a flat cash payment of approximately £1,364.

The modal increase for the senior military was therefore the 3.64% (rounded to 2 decimal places) total increase received by the 24 2-star officers on pay point 1 of the 2-star pay scale.

2. Judiciary

Figure used by SSRB: 2.53%

The Resolution refers to ‘holders of judicial office’. Many such office-holders are paid a fee rather than a salary. In some but by no means all cases, the fees are linked to the salary rates. However, SSRB does not have detailed information on all the different fees paid in courts and tribunals in the United Kingdom, nor on the numbers of fee-paid judiciary. However, as SSRB itself recommends on judicial salaries and has information on the numbers of salaried judiciary, it has based its determination on those salaries.

The salaried judiciary are paid on spot rates in 9 distinct salary groups. When calculated to two decimal places, the salary increase differed from salary group to salary group, ranging from 1.97% for group 6.2 up to 2.60% in group 6.1. However, in terms of numbers the judiciary is dominated by salary groups 7 (47%) and group 6.1 (38%). As no other salary group experienced an *identical* percentage increase to group 6.1 (when calculated to two decimal places), the relevant figure is the percentage increase (2.53%) for those in salary group 7.

3. NHS Very Senior Managers

Figure used by SSRB: 2.2%.

The NHS Very Senior Managers included in SSRB’s terms of reference are those covered by the Very Senior Managers’ pay framework. This group comprises the very senior managers working in English Strategic Health Authorities, Primary Care Trusts, Ambulance Trusts and Special Health Authorities, but excludes those in other NHS Trusts, e.g. acute trusts, foundation trusts, mental health trusts.

This group was awarded an increase of 2.2% with effect from 1 April 2008, in line with the SSRB recommendation.

4. Doctors and Dentists

Figure used by SSRB: 2.2%

In 2008 the Government accepted the DDRB’s recommendation for a 2.2 per cent across-the-board increase to the national salary scales for *salaried* doctors and dentists working in hospitals and in the wider community. Independent general medical and dental practitioners are self-employed and do not have salary scales so are not covered by the Resolution.

5. Prison Service

Figure used by SSRB: 2.2%

In 2008 over 15,400 prison officers in England and Wales, some 45% of the remit group in those countries, received an increase of 2.2%. Around a further 4,000 staff (senior officers, the minimum of the principal officer scale, and the maximum of the Manager A scale) all received 2.7%. The remaining 14,500 prison officers in England and Wales received no additional award other than annual increments.

In Northern Ireland, the second year of a three-year deal for the prison service again saw an increase of 3.5% (2.0% +1.5% for efficiency gains) for around 1,800 staff.

The modal increase is therefore the 2.2% which applied to over 15,000 staff in England and Wales. (Prison officers in Scotland are not covered by the review body and are therefore excluded from the calculation by paragraph 3 of the Resolution.)

6. NHS staff (excluding doctors and dentists and very senior managers)

Figure used by SSRB: 2.75%

All points on the Agenda for Change pay scales increased by 2.75% from 1 April 2008, the first year of a three-year pay deal.

7. School Teachers

Figure used by SSRB: 2.45%

The headline 2.45% settlement that took effect from September 2008 was paid to the vast majority of teachers (about 87% of all teachers in the England and Wales remit group). The only exceptions were some teachers in London (STRB bands A and B) where pay points increased by between 2.45% and 4%. This was also the first year of a three-year deal.

8. Armed Forces

Figure used by SSRB: 3.51%

SSRB decided in 2008 that calculations for the armed forces pay scales should be *inclusive* of X-factor¹ since the Armed Forces Pay Review Body (AFPRB) publishes its recommended pay scales with X-factor incorporated.

The Government endorsed the AFPRB's recommendations that from 1 April 2008 the core award for the main armed forces remit group should be 2.6% on basic pay. From the same date, X-factor was increased by 1 percentage point of salary from 13% to 14% (with revised

¹ X-factor is a pensionable addition to pay that recognises the relative disadvantage of conditions of service experienced by members of the Armed Forces compared to those in the civilian sector.

tapering arrangements applying from level 6 of the OF-4 pay scale upwards). Some 98.5% of the armed forces therefore received a base pay salary increase of 3.51% (rounded to 2 decimal places).

The Defence Medical Services (DMS) received an increase of 2.2% in line with the DDRB's recommendations. However, the DMS covers around only 1,000 people, compared to some 170,000 in the main AFPRB remit group receiving the 3.51% award.

9. Police Officers

Figure used by SSRB: 2.65%

Police pay scales increased by a uniform 2.65% from September 2008, the first year of a three-year deal.

10. Local Government

Figure used by SSRB: omitted from calculation this year

The National Joint Council for Local Government Services (NJC) negotiates the award for the bulk of local government staff (chief officer pay is subject to a separate negotiation). The NJC failed to reach agreement on the award for 2008 and the issue was referred to arbitration. Meanwhile, local government employers made a goodwill payment of 2.45% on 43 out of 46 of the incremental pay points on the spinal column backdated to 1 April 2008. An extra £100 was provided on each of the lowest three pay points leading to differing percentage increases on the bottom three spinal column points of around 3.3%. The result of the arbitration, announced on 4 March 2009, was an increase of 2.75%.

However, the Resolution states that SSRB must determine "the last set of annual percentage pay scale increases finalised and given effect to prior to 31st December of the preceding year" (emphasis supplied). Because of the recourse to arbitration, the 2008 award for Local Government was, exceptionally, not finalised and given effect to before 31 December 2008.

The Resolution itself states:

"(8) the SSRB shall determine each relevant increase for the purposes of paragraph (1) except where the SSRB decides, in relation to a particular group, that it is not possible for it to make such a determination because of changes in pay setting arrangements for that group or other exceptional circumstances, in which case that group shall be ignored for the purposes of paragraph (1);"

In view of the exceptional circumstances, this settlement has therefore been excluded from the calculation for this year.

List B

Method Discussion

The Resolution states that the relevant figure for each of the organisations in List B is the average of the last set of annual percentage pay scale increases finalised and given effect prior to 31 December 2008. However, where departments have not applied percentage increases to every step in pay scales, it is not obvious how an average annual percentage pay scale increase is to be calculated.

The *Civil Service Pay Guidelines 2008-09* at paragraph 6.1.4 state “the term ‘basic award’ has different meanings for different pay systems... For organisations with a step or spine based system, the basic award refers to the revalorisation of the steps/spines. For those without step or spine based mechanisms for pay progression through pay ranges the basic award will generally be defined as the consolidated increase to the pay range maxima and/or milestones.”

The *Pay Guidelines* do not specify how to calculate the basic award if different parts of a pay scale are increased by different percentages, or if some are frozen and some increased. Discussions with departments suggest there may be inconsistency in methods employed by departments as a result of different interpretations of the guidance.

OME is reliant on other organisations to provide the most appropriate settlement figures for List B organisations. However, these figures can be difficult to interpret for the purposes of the Resolution.

11. Department for Work and Pensions

Figure used by SSRB: 0%

The DWP pay structure is based on a number of grade-specific pay scales with minima and maxima. There are no fixed points, steps or milestones. There are separate scales based on geographical location (Inner London, Outer London, National and Specified Location Pay Zone) and separate scales for specialists.

The 2008 award was the second year of a three-year award. OME understands that the PCS union is still technically in dispute with DWP about the award. The settlement date for the second year was 1st July 2008 and increases were paid with July salaries.

Pay scale maxima in 2008 were frozen at 2007 levels. Minima were increased by between 0% and 5% (£0 and £1,760). The rationale for increasing the minima for some pay scales and not others was the need to reduce the length of the longer scales. Increasing the minima of these, combined with freezing the maxima of all pay scales has enabled some improvements in progression towards the band maxima.

Staff progress up the pay scale by means of a progression payment, which varies by grade and geographical location. All staff receive a pay award unless they are unsatisfactory performers.

All satisfactory performers received a consolidated/pensionable progression payment capped at the maximum of the pay scale. Staff already on the maximum received a non-consolidated

and non-pensionable payment equal to 3% of the previous year's pay scale maximum. The award was not broken down between "revalorisation" and "progression". Non-consolidated bonus payments are payable, differentiated by grade and performance marking.

Since individuals' increases were determined by performance and there was no increase in pay scale maxima, the average increase as defined by the Resolution was 0%. This interpretation is consistent with that applied to the Home Office and Ministry of Defence awards in 2007.

12. Her Majesty's Revenue and Customs

Figure used by SSRB: omitted from calculation this year

A new three-year deal, backdated to 1 June 2008 is in payment at HMRC. Awards for the more senior staff (Grades 6, 7 and the "training band") were implemented in November 2008, but the deal for other staff (the vast majority) was due to be imposed in February 2009 and was not agreed by the PCS union.

As with the Local Government award discussed above, the latest HMRC award was, exceptionally, not "finalised and given effect to" before 31 December 2008. This settlement has therefore been omitted from the calculation for this year.

13. Ministry of Defence

Figure used by SSRB: omitted from calculation this year

A new three-year pay deal has been implemented at the Ministry of Defence to complete its pay strategy of simplifying its pay system, by restructuring into short pay scales with pay determined by job weight.

The main features of the pay deal affecting basic pay (as opposed to allowances etc) include:

- moving from a pay spine with increments worth 2.5%, to new shorter pay scales with 3% increments;
- increases in pay below the pay band maxima to be through progression (in future – from 1 August 2009 - this will usually be one pay scale point worth 3%, but an additional increment may be payable in certain circumstances for length in grade);
- assimilation arrangements for those below pay band maxima including a 2.5% increase (akin to progression increase under the old pay spine), then movement onto the next highest point on the new pay scale;
- shortening of pay scales so that the increase at the minima for grades averages 6.25%, but varies from 3.1% to 9.4% for individual grades;
- pay band maxima for most grades increased by 2%, but for the more junior E grades these were reduced by 14.6% (for grade E2) and by 11.6% (E1) as these were judged too high for generic pay scales (pay protection allowances would initially apply to those directly affected);
- creation of a new London pay scale (but not implemented until 1 May 2009, so out of scope for these purposes) which involves consolidating an existing recruitment and

retention allowance (worth 4%, or 7% for the most junior grades). London Weighting remains separate.

It is clear that MOD's pay system underwent significant restructuring in the 2008 pay settlement. OME calculations suggest that the change to individual pay points varied from +9.35% (minimum for grade E2) to -14.69% (maximum for grade E1). Arguably these percentages encompass the traditional MoD progression-related payment of 2.5% (which should be excluded under the Resolution's definitions), but this is not separately identified as such under the terms of the pay settlement.

Crude average pay point changes in 2008 have been calculated, taking no account of numbers of staff on each. As mentioned in the paragraph above, these figures ignore the fact that MoD staff have in previous years been awarded a progression award of 2.5%. Overall the overall crude average pay point change has been calculated by OME as 2.41%. Looking at individual grades, the average pay point change varies from 3.97% for grade D to -0.05% for grade E1.

No single figure gives a good representation of the revalorisation of the MoD pay system in 2008. MoD states that the value of the award was 3.83% in 2008, but this figure is very likely to incorporate pay elements specifically excluded under the terms of the Resolution.

OME's judgement is that in respect of the MoD it is impossible to determine the relevant increase because of changes in pay setting arrangements; it therefore recommends that this award is omitted from the calculations this year in accordance with paragraph 8 of the Resolution. SSRB agrees with this recommendation.

14. Home Office

Figure used by SSRB: 0.5%

The 2008 Home Office pay settlement, effective from 1 July 2008, was the second year of a three-year settlement. The Home Office re-introduced a "milestone" system in 2007. All staff with satisfactory performance (i.e. those who "met required standards" received a *progression* of four milestones up to the consolidated maximum for their grade, with any steps above the consolidated maximum paid as a non-consolidated, non-pensionable bonus.

The main details of the award were:

- All milestones revalorised by 0.5%
- All consolidated maxima increased by 1 milestone (i.e. 1%)
- All minima increased by 2 milestones (i.e. 2%), except grades SGB2, Typist, Grade 7 and Grade 6
- Minima of AA, SGB2, Typist, Grade 7 and Grade 6 increased by three milestones (i.e. 3%)
- Revalorisation and progression resulted in average basic award of 3.39%
- No major restructuring of pay system, but performance appraisal system was changed to two-box system (i.e. "met required standards" or "not met required standards")
- Highly effective performers received non-consolidated, non-pensionable bonus of 2% of the July 2007 consolidated maximum for their grade

- Grade 7 and Grade 6 staff who were recommended for an enhanced bonus received 4% of the July 2007 consolidated maximum for their grade.

The Civil Service Pay Guidelines 2008-09 document at paragraph 6.1.4 states that for organisations with a step or spine based system (the Home Office system appears to meet this definition), the Basic Award refers to the revalorisation of the steps/spines. This suggests that the relevant figure for the Home Office is 0.5%. The Home Office has confirmed that, other than via progression through the scales by means of performance, no sizable proportion of staff received an increase greater than 0.5%.

List C

Method Discussion

As set out in the Resolution, the relevant increase is the last annual percentage increase in the basic settlement (excluding ‘recyclables’, i.e. pay bill savings resulting from higher paid leavers being replaced by others who on average are paid less) finalised and given effect prior to 31 December 2008.

15. The Senior Civil Service

Figure used by SSRB: 1.5%

The Government accepted the SSRB’s recommendations that:

- the base pay of the SCS should, on average, increase by 2.5 per cent from 1 April 2008, comprising 1.5 per cent of new money and 1 per cent of recyclables; and
- the SCS bonus pot for 2008-09 should be increased by 1 per cent (equivalent to a 0.8 per cent increase on the pay bill because bonuses are not pensionable).

Given that the recyclables and bonus pot elements are excluded by the Resolution definition for List C organisations, the 1.5 per cent increase (new money) should be used.

MPs' Pay Index: Settlement Summary

| Order position | Organisations <i>(listed in ascending order of settlement size)</i> | % |
|-----------------------|--|----------|
| 1 | Work & Pensions (DWP) | 0.00 |
| 2 | Home Office (HO) | 0.50 |
| 3 | Senior Civil Service (SCS) | 1.50 |
| 4 | Doctors and Dentists | 2.20 |
| 5 | NHS Very Senior Managers | 2.20 |
| 6 | Prison Service | 2.20 |
| 7 | School Teachers | 2.45 |
| 8 | Judiciary | 2.53 |
| 9 | Police Officers | 2.65 |
| 10 | NHS staff | 2.75 |
| 11 | Armed Forces | 3.51 |
| 12 | Senior Military | 3.64 |

Omitted from this year's figures: HM Revenue and Customs, Local Government, Ministry of Defence (MoD)

Median figure

With the three settlements omitted as explained above, the median position for 12 settlements is mid-way between the 6th and 7th settlements listed in size order:

$$\text{Median} = (2.20 + 2.45)/2 = \mathbf{2.33\%} \text{ (to two decimal places).}$$

The figure determined by SSRB is therefore **2.33%**.

OME
March 2009