



House of Commons  
Public Administration Select  
Committee

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**Top Pay in the Public  
Sector**

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**Sixth Report of Session 2009–10**

*Volume I*

*Report, together with formal minutes, oral and  
written evidence*

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## The Public Administration Select Committee

The Public Administration Select Committee is appointed by the House of Commons to examine the reports of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, which are laid before this House, and matters in connection therewith, and to consider matters relating to the quality and standards of administration provided by civil service departments, and other matters relating to the civil service.

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## Summary

Public sector pay and reward, particularly at the top, have been the focus of acute media and public concern for some time now. Headlines in national newspapers focusing on “bloated” “fat cats” running public services and the need to “crack down” on their pay have become commonplace. In this report we examine the facts behind these headlines.

Growth in public sector executive salaries over the last ten years has been considerable, driven in part by the much larger increases seen in the private sector over the same period. Even so, those at the top of the public sector continue to earn much less than those at the top of the private sector. The gap between executives in both sectors and those on average earnings has, however, widened massively.

Our witnesses were divided between those who believed that top level public sector salaries have become grossly inflated, and those who believe that they represent good value, or are even too low relative to the private sector and that this hinders effective recruitment. Whether top public servants are overpaid or not therefore depends to a large extent on perspective. As a consequence we conclude that introducing an absolute cap on senior salaries, for example at the level of the Prime Minister’s salary, would be arbitrary and unlikely to deliver better value for money to the taxpayer.

We believe, however, there is much more that could be done to ensure appropriate rigour and coherence in the processes for setting senior salaries in the public sector and the level of transparency and scrutiny that surrounds them. We have argued for:

- Better performance management across the public sector, to ensure that failure is not rewarded;
- Greater transparency, so that taxpayers know who is being paid how much for doing what, in line with the requirements for listed companies;
- More rigorous processes for setting public sector pay, including the appointment of stronger remuneration committees and access to an independent source of information; and
- More coherence in the way in which public sector pay is set, underpinned by a set of sector-wide principles.

To achieve these goals, we recommend the establishment of a Top Pay Commission that brings together and expands the remit of existing pay advice bodies. In addition to existing functions, the Commission would:

- Act as an independent source of data and information to pay setters across the public sector, including by publishing reports and findings where appropriate;
- Produce pay principles, guidelines for private sector comparisons and workable benchmarks for pay setters in the public sector;

- Investigate cases where these principles appear not to have been followed or where benchmarks have been substantially exceeded;
- ‘Name and shame’ organisations that are unable to justify their executive pay policies adequately; and
- Ensure necessary levels of transparency and accountability in public sector pay setting are being maintained.

We believe that our proposals will save public money in the medium to long term and restrain executive pay across the public sector. More importantly, they will ensure that where large salaries are paid they are seen to be achieving value for money. Ultimately, however, such measures will only be effective in the longer term if senior salary restraint in the public sector is matched in the private sector.

# 1 Introduction

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1. Public sector organisations need to be able to justify how they spend public money—particularly where relatively large sums are paid to individuals as salaries. Public sector pay and reward, particularly at the top, have been the focus of acute media and public concern for some time now. Headlines in national newspapers focusing on “bloated”<sup>1</sup> “fat cats”<sup>2</sup> running public services and the need to “crack down”<sup>3</sup> on their pay have become commonplace. It is no coincidence that this concern has come to the fore in a time of recession.

2. We were keen to establish the extent to which this public concern is justified, overall and in individual cases. It was striking during our inquiry to see the difference between the views of campaigners and journalists on the one hand, who tended to regard senior figures in the public sector as overpaid, and pay experts, who often took an opposite view. We have looked not just at absolute levels of reward, but also at how these levels are set, and what account needs to be taken of pay levels outside the public sector.

**3. It is clear that there is no consensus on the issue of top pay and reward in the public sector. Commentators and experts have markedly different views on the issue: the commentators considered the experts to be part of the problem, while the experts considered the commentators to be ill-informed.**

## Scope of the Inquiry

4. Our experience and interest in this area stem from our work in examining the civil service, public appointments and public bodies. As we made clear when we launched this inquiry, our focus is on civil service posts and on public appointments made by Ministers and by the Crown, including to non-departmental public bodies (or ‘quangos’ as they are commonly known). Our remit does not cover those public sector appointments which are the responsibility of the devolved administrations in Scotland, Wales and Northern Ireland, although the Scottish Government’s approach to executive pay is an interesting point of comparison, and we are aware of recent work by the Finance Committee of the Scottish Parliament in this area.<sup>4</sup>

5. We have also taken account of practice across the public and quasi-public sector more widely, including local government, the National Health Service, and public corporations. However, as we explore further below,<sup>5</sup> the boundaries of the public sector are not clear.

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1 Eg *The Times*, 10 July 2009; *The Sunday Times*, 28 June 2009

2 Eg *The Times*, 10 July 2009; *Mirror*, 8 July 2009; *Daily Star*, 6 July 2009; *The Sun*, 22 May 2009; *The Daily Express*, 27 April 2009; and many more

3 Eg *The Daily Express*, 27 April 2009

4 Fourth Report, 2009 (Session 3)

5 Chapter 1

## Conduct of the Inquiry

6. In the course of this inquiry, we took evidence from three panels of witnesses: one made up of commentators,<sup>6</sup> one of pay and recruitment experts,<sup>7</sup> and one of public appointees with responsibility for setting pay in specific public-sector organisations.<sup>8</sup> We have also taken evidence on this and other subjects from representatives of the main civil service trade unions.<sup>9</sup> The twenty written submissions included the views of pressure groups, consultants with experience of public sector pay, and public sector employers and trade unions. We asked for and received—after a considerable delay—some factual information from the Government. We have also benefited immensely from the expert advice of Steve Tatton, the editor of *Executive Compensation Review* at Income Data Service (IDS), and are grateful for assistance from the Committee Office Scrutiny Unit. We would like to thank them and all those who submitted evidence for their efforts.

## Structure of this Report

7. The first chapter of this report addresses the question of what constitutes the public sector. The following chapter looks at some ways of benchmarking executive pay in the public sector. The third chapter addresses the relationship between reward and performance in the public, whilst the fourth and fifth chapters examine the processes for setting executive pay in the public sector and their transparency.

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6 David Clark, Ben Farrugia, Tony Travers and Polly Toynbee

7 Peter Boreham, Hamish Davidson, David Evans and Christopher Johnson

8 Millie Banerjee (Ofcom), Tim Melville-Ross (Higher Education Funding Council for England) and Dr Anne Wright (National Lottery Commission); Bill Cockburn and Mike Langley (Senior Salaries Review Body)

9 Public Administration Select Committee, 2009, *Civil and Civil and Public Service Issues*, Evidence taken before the Public Administration Select Committee, HC 352



## 2 Scope of the report

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The man on the street has no idea where the public sector begins and ends, and the reason these stories build up so much steam is that people are shocked when they find out that these people are getting paid with taxpayers' money. (TaxPayers' Alliance)<sup>10</sup>

8. One of the most basic difficulties when starting to look at top pay in the public sector is definitional. As the above quotation shows, there is a lack of clarity about what constitutes the “public sector”. Indeed, the quotation itself conflates the concept of the “public sector” – a definition that can be based on ownership or on function – with “people [who] are getting paid with taxpayers' money”. The evidence we received shows that these two things are not always the same. Certain parts of the private sector rely heavily or entirely on taxpayers' money, while not all public sector workers are paid with taxpayers' money.

9. For example, some areas of the public sector contract work out to privately owned businesses and pay them with taxpayers' money. Some of these businesses survive almost entirely on such contracts. As Tony Travers of the London School of Economics told us:

There are now, because of successive governments' policy, a significant number of companies that are, for want of a better word, ‘parastatal’; that is, they only exist because the public sector buys services from them. Answering the question of whether some of those companies are really in the private sector, when they get 100% of their work, let us say, from the public sector, is a very, very awkward one. Public-private partnerships have made this a very murky piece of territory indeed to say where the public sector ends and the private sector begins.<sup>11</sup>

10. There are also parts of the public sector—Ordnance Survey and the Met Office, for example—that operate on a commercial basis and raise money without any direct recourse to taxpayers' funds. Another example is the Financial Services Authority, which performs a public function, but is established as a private limited company which raises all of the funding it requires from the companies it regulates.

11. There are other parts of the public sector—Ofcom, for example—which depend in part on central government funding and in part on funds raised from the sector in which they operate. Similarly there is question of comparison. When are we talking about pay, should a public sector, taxpayer funded body such as Royal Mail be compared with the public sector at large, or its private sector competitors? The FDA trade union has expanded on this confusing situation in its written evidence to us:

[there is] substantial room for debate about how wide to extend an inquiry into senior public sector pay given the ambiguous status of universities, the need to consider whether the BBC should be considered within the framework of the public sector or the wider private sector media industry, and public utilities such as Network Rail and the Post Office. There are also organisations such as those

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10 Q 17 [Ben Farrugia]

11 Q 17 [Tony Travers]

delivering the 2012 Olympics which are clearly public sector bodies but for which the Government appears to have explicitly used only the private sector as the comparator in setting salaries.<sup>12</sup>

### Case study: universities

12. The Committee of University Chairs (CUC) was keen to stress in its evidence to us that universities were “not-for-profit private institutions” outside of the public sector which “should not therefore be compared to schools, FE colleges, or indeed any other quasipublic organisation”. They also pointed out that “on average, 40% of university revenue now comes from non-state sources”.<sup>13</sup> This of course presumably means that the majority of their revenue comes from state sources. As it happens, this ratio of state to non-state funding mirrors almost exactly that at Ofcom, an avowedly public-sector organisation.<sup>14</sup>

CUC’s position was disputed by the Director General of the Society of Local Authority Chief Executives (SOLACE), who told us that University Vice-Chancellors “really are in the public sector”.<sup>15</sup> The FDA trade union perhaps most accurately described universities as having an “ambiguous status”.<sup>16</sup>

### Conclusion

13. There are parts of the public sector which receive none of their income from tax revenues; equally, there are parts of the private sector which receive all or nearly all of their income from public sources. In addition, there are organisations which to some eyes fall within the public sector, but not to others. Public private partnerships and the nationalised banks only add to this complexity. If “getting paid with taxpayers’ money” is the main concern,<sup>17</sup> why should the remuneration of senior executives at National Savings & Investments, a public body, be considered in a different framework from that at Royal Bank of Scotland, a publicly listed, but now largely taxpayer-owned, company? To take a different sector, why should remuneration at British Waterways (a public corporation) be considered in a different framework from that at Network Rail (a company limited by guarantee, the debts of which are underwritten by the government, and which is funded by the Government), or from that at Tube Lines (a private limited company carrying out work contracted entirely from the public sector)? We are not seeking to suggest that people in these organisations should be paid the same, but it does seem perverse to consider the pay of some of these people without any reference to the pay of the others, simply because of formal status issues.

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12 FDA written evidence

13 CUC written evidence

14 Q 192 [Millie Banerjee]

15 Q 1 [David Clark]

16 FDA written evidence

17 Q 17 [Ben Farrugia]

14. **The first obstacle to coherence in setting public sector pay is confusion about what constitutes the “public sector”. It is clear that there are many people who are paid with taxpayers’ money who are not in what is traditionally considered the public sector. Similarly, there are people who would be regarded as being in the public sector who are not paid with taxpayers’ money. When we launched this inquiry, we made clear that we would focus on civil service posts and on public appointments made by Ministers and by the Crown. These posts are indisputably within the public sector, and remain at the centre of our inquiry. However, the fact that boundary lines between the public, private and third sectors are blurred rather than clearly demarcated means that it would be not only wrong but impossible to look at public sector pay in isolation from pay elsewhere in the wider economy.**

### 3 Identifying the problem: levels of pay

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15. There was general agreement among our witnesses that top public sector pay is an issue of public and media concern. There was substantial disagreement among our witnesses, however, about the nature of the problem that needs to be addressed, and indeed whether there was a problem with public sector executives’ salaries at all. This chapter attempts to put the issue in context by considering the statistical evidence and the appropriate comparators for public sector pay.

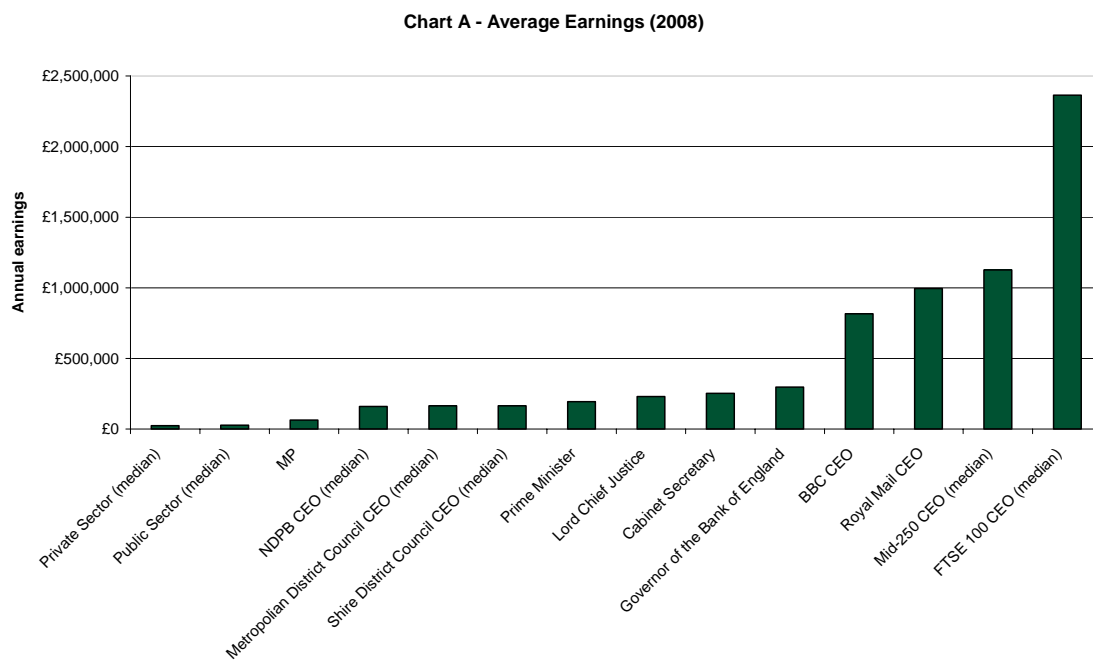
#### How much are public sector executives paid?

16. Chart A gives a broad-brush picture of the current state of play as regards pay in different parts of the public and private sectors. Only in a small number of relatively unusual public corporations does pay in the public sector approach that of a chief executive at a FTSE mid-250 company: these include Network Rail, BNFL, Royal Mail, Channel 4, the BBC and nationalised banks. Pay is not far behind at the Financial Services Authority and at the bodies organising and delivering the 2012 London Olympics. Pay of other top public servants is within a range of approximately 10–25 per cent of that of a FTSE mid-250 chief executive.

17. To judge from at least one poll, facts such as these are unlikely to be widely known. According to a poll conducted by YouGov and ITV in October 2009, 36 per cent of those surveyed thought that people who ran public sector organisations were paid less than their private sector counterparts, while 25 per cent thought they were paid more – in other words, only just over a third of respondents reflected the data shown below.<sup>18</sup>

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18 YouGov/ITV survey, 22–23 October 2009; [http://www.yougov.co.uk/extranets/ygarchives/content/pdf/ITV\\_23-Oct-2009.pdf](http://www.yougov.co.uk/extranets/ygarchives/content/pdf/ITV_23-Oct-2009.pdf) accessed 4 December 2009



Source: IDS Executive Compensation Review and Committee Office Scrutiny Unit

## Is public sector pay too high?

18. Much of the media and political focus on public sector pay has been on the absolute amounts received by individuals. For example, the *Daily Telegraph* on 22 November 2009 reported that Harriet Harman, as Minister for Women and Equality, had blocked a proposed salary of £185,000 for the new Chief Executive of the Equalities and Human Rights Commission.<sup>19</sup> Meanwhile the Shadow Chancellor, George Osborne, told the Conservative Party conference that “The excessive salaries at the top [of the public sector] have to go” and proposed that any public body offering to pay someone more than the Prime Minister should first seek the Chancellor’s approval.<sup>20</sup>

19. Some of the evidence we received echoed these concerns. The TaxPayers’ Alliance has provided much information about pay levels at the top of the public sector, although it has its own tax-cutting and state-reducing agenda. Their evidence argued that “top posts in the public sector are very well remunerated, by any standard or measure”, referring to “excessive wage inflation” and “escalating costs”.<sup>21</sup> The Institute of Directors (IoD) cited pay as one of a number of factors leading to what it described to us as “the worst of all worlds—a disappearing culture of public service, few executives moving between the public and private sectors, insufficient accountability, and high levels of remuneration”.<sup>22</sup> Polly Toynbee, of *The Guardian* newspaper, said that in her view “people are very concerned if

19 *The Daily Telegraph*, 22<sup>nd</sup> November 2009, “Harriet Harman halts £185,000 salary for equalities chief after backlash fear”

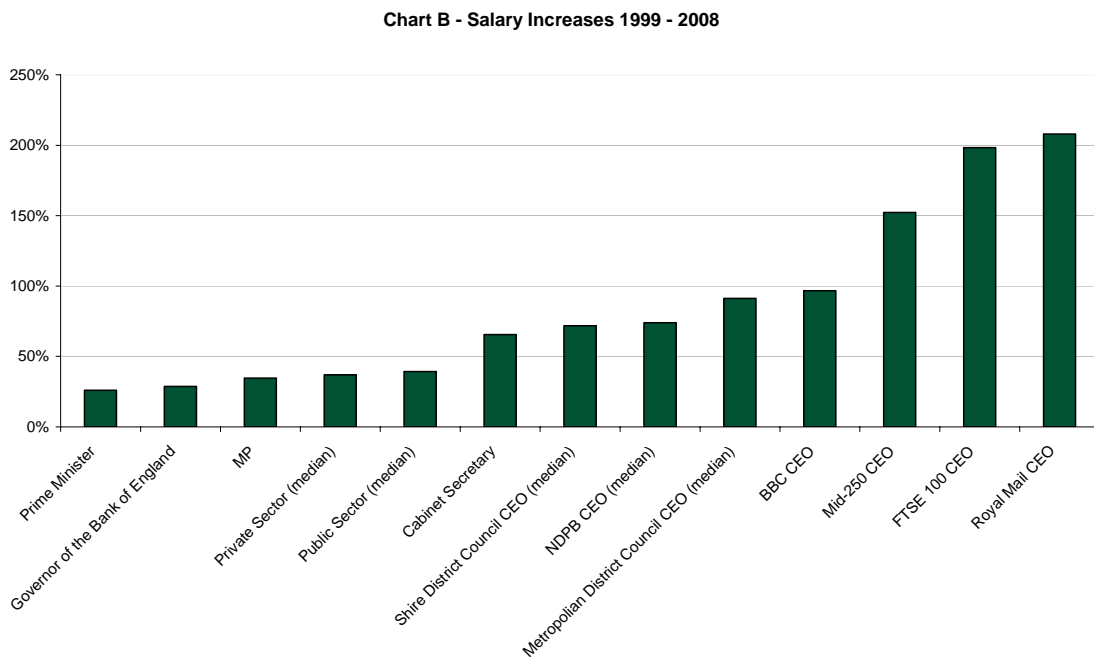
20 “George Osborne speech in full”, [www.inthenews.co.uk](http://www.inthenews.co.uk), accessed 2 December 2009

21 TPA written evidence

22 IoD written evidence. The author of this paper also works part-time for the TaxPayers’ Alliance.

they see what they consider to be large numbers of people earning more than the Prime Minister”.<sup>23</sup> This notion of a benchmark is one to which we return later in this Report.<sup>24</sup>

20. Chart B, below, shows how pay relativities have changed since the beginning of the decade and partly explains this growing concern. Public sector executive pay has been rising at a rate considerably faster than average earnings, albeit (with one exception) at a much slower rate than the pay of private sector executives, which has sky-rocketed. These increases are part of longer-term trends that stretch back over the past few decades, a period that also saw reduced taxation for higher earners which may have sharpened the issue of salary disparities.



Source: IDS Executive Compensation Review and Committee Office Scrutiny Unit

21. However, very few of those who contributed to our inquiry thought that there were large numbers of public sector workers being paid excessive salaries or that there should be an absolute bar on high pay in the public sector. Polly Toynbee told us that, “according to the TaxPayers’ Alliance’s own figures, only 387 people in the public sector are earning more than £150,000, so it is not a huge number of people, given how many public sector workers there are”<sup>25</sup>; while Professor Tony Travers similarly pointed to the “small number” of public sector chief executives being paid “stratospheric sums”.<sup>26</sup>

22. The TaxPayers’ Alliance themselves accepted that increased rigour in public sector salaries “does not have to mean an end to appropriate rewards” or that some public servants should not receive substantial salaries. They said that “the key consideration in the

23 Q 2 [Polly Toynbee]

24 See paras 33–41

25 Q 2 [Polly Toynbee]

26 Q 28 [Tony Travers]

setting and monitoring of executive pay must be value for money; ‘what is the lowest amount we can pay while securing a suitable candidate’.”<sup>27</sup>

23. By no means all of our contributors thought that there was a significant problem with the current level of top public sector pay. The Senior Salaries Review Body, which gives advice on pay levels for senior staff in parts of the public sector, told us that the approach suggested by the TaxPayers’ Alliance was, in fact, precisely the approach it takes:

our approach to pay is to pay at the lower end of what would be justified and, in fact, our view is to pay the minimum necessary to get people of the right quality in a sustainable position.<sup>28</sup>

24. The Chartered Institute of Personnel and Development (CIPD) has written that it “believes that much of the current media and political focus on public or private sector executive pay is misguided”.<sup>29</sup> Stephen Taylor, an experienced reward consultant, has written that “in general we get extraordinarily good value for money from the roughly 1000 people at the top of our public services; more than we deserve given the small-minded abuse they get”.<sup>30</sup>

25. One point made in evidence was that it can be difficult to compare in a fair way current and past salaries for a post whose roles and responsibilities have changed. Hamish Davidson, a recruitment consultant, argued that the job of local authority chief executives had been substantially more complex compared to twenty years ago, resulting in increased salaries to recruit a more skilled group of people.<sup>31</sup> This is especially true in some NDPBs, where roles and responsibilities can change regularly. An example of some of the difficulties of comparing a post holder’s job with that of his or her predecessor relates to the Chief Executive of Ofcom, and is discussed below.

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27 TPA written evidence

28 Q 271 [Bill Cockburn]

29 CIPD written evidence

30 Stephen Taylor written evidence

31 Hamish Davidson written evidence

### ***A Spurious Comparison? Remuneration of the Chief Executive of Ofcom***

Pay at Ofcom has received particular attention in the media and from politicians. In a speech on 19 March 2009, the Leader of the Opposition said:

“In 2001 the Chairman of the Independent Television Commission earned £77,590 a year. The Chief Executive of the ITC’s replacement, OFCOM, earned £417,581 last year - more than a five-fold increase. In fact, fourteen OFCOM executives are now paid more than the old ITC Chairman was.”<sup>32</sup>

As Ofcom argued at the time, in terms of the roles and responsibilities of the post, the pay of the Chief Executive of Ofcom is better compared with that of the Chief Executive of the Independent Television Commission (ITC), rather than its part-time Chairman. This came to £195,000 in 2001–02.<sup>33</sup>

However, Ofcom inherited the duties of not only the ITC, but also four other public bodies. The combined annual earnings of the executive heads of these five bodies came to more than £600,000 the best part of ten years ago. Even taking inflation into account, the Chief Executive of Ofcom is thus significantly better paid than any one of his predecessors, but he also receives substantially less than their combined earnings, even before inflation.

A comparison with the pay of his predecessors thus allows for it to be argued that the Chief Executive of Ofcom is either more expensive than his predecessors, or cheaper than them. This illustrates both the difficulties of comparing past and present remuneration and also the importance of ensuring comparisons are appropriate and rigorous.

26. At least one of our witnesses suggested that executive pay in the public sector was if anything too low. Christopher Johnson, a remuneration consultant who was previously a government official responsible for top pay in the civil service, suggested top public sector pay is “in general terms, too low, because in general terms we are not able to secure the talent into the public sector.”<sup>34</sup> Put bluntly:

The cost of employing public sector talent is low compared with the private sector. That low cost may result in less competent talent being available to provide leadership of service delivery for and on behalf of citizens and to ensure value for money for the taxpayer.<sup>35</sup>

While acknowledging that “hard evidence” was in short supply, he pointed to challenges in terms of “leadership and people management” and “small fields of suitable candidates for externally advertised senior vacancies”.<sup>36</sup>

32 *The Guardian*, 19 March 2009, ‘David Cameron: Debt reduction more important than tax cuts’

33 BBC News Online, [http://news.bbc.co.uk/1/hi/uk\\_politics/7952417.stm](http://news.bbc.co.uk/1/hi/uk_politics/7952417.stm), accessed 9 December 2009

34 Q 104 [Christopher Johnson]

35 Christopher Johnson written evidence

36 Christopher Johnson written evidence



27. Too often, the debate about top public sector pay carried out in the media is reductive and relies upon taking individual examples of “inflated pay” out of context. A more considered look at the statistics and other evidence shows that the issue is not a simple one: top pay in the public sector can be both significantly too low and much too high, depending entirely on perspective. Judged against the private sector, the public sector has exercised considerable restraint on executive pay, both in terms of the amounts paid and (with the occasional notable exception) the rate of increase. But pay for public sector executives has been increasing far more quickly than average pay in the economy as a whole, a fact that has inevitably fuelled anger amongst some taxpayers.

### Benchmarks: Comparisons with the Prime Minister’s salary

28. The discussion above touches on comparisons between the pay of public sector executives and the Prime Minister’s salary. This comparison, as well as benchmarking against private sector pay (discussed in the following section), attempts to put the level of top public sector pay into some kind of context. The key question, however, is whether such attempts use the right comparator—and if not, what the right benchmark would be.

29. The idea of using the Prime Minister as a benchmark for senior pay in the public service is superficially attractive. He is, after all, the head of the executive: why should any of those working beneath him earn more than he does? The idea has been taken up by politicians from both main parties including the Leader of the House and the Shadow Chancellor.<sup>37</sup>

30. The Prime Minister is entitled to £132,923 a year in addition to his Parliamentary salary of £64,766, making a total of £197,689.<sup>38</sup> According to the TaxPayers’ Alliance, in 2009 323 people in the public sector were paid more than the Prime Minister. These figures came from a wide range of public sector organisations and the “state controlled” banks.<sup>39</sup>

31. It is notable that the Prime Minister’s pay has increased at a far slower rate over the past ten years than pay for other senior figures, both in the public and private sectors. Indeed the Prime Minister’s salary increased by less than average earnings in the private or public sectors.<sup>40</sup> This suggests that the pay of the Prime Minister is subject to a very different set of factors from executive pay in the wider economy.

32. We heard a possible reason why this is the case:

The Prime Minister’s salary is a political compromise and the main earnings opportunity for a prime minister are not what he or she receives in office but the

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37 Observer, *Public sector fat cats' pay should be cut, says Harriet Harman*, 15 November 2009

38 House of Commons Library, *Members Factsheet M6*; This is the full entitlement. Prime Ministers have, from time to time, decided to forgo the full amount to which they are entitled. In 2009 the Prime Minister and Cabinet agreed to forgo an increase to both their ministerial and parliamentary salaries.

39 Public Sector Rich List 2009, <http://www.taxpayersalliance.com/publicsecrichlist2009.pdf>, accessed 8 December 2009.

40 See Chart B.



amount they are able to earn after leaving office from public speaking, directorships, publications and so on. It is an artificially low figure.<sup>41</sup>

The Chair of the Senior Salaries Review Body told us that “the Prime Minister’s pay is not objectively linked to the value of his job in relation to comparators” and that “the political world seems to be subject to its own salary discount”.<sup>42</sup> The SSRB believed that Ministers’ pay “is now lower than is justified, in the SSRB’s view, by the responsibilities of those posts”.<sup>43</sup>

33. A number of our witnesses were strongly opposed to the idea of using the Prime Minister’s pay as a salary cap on the public sector at large, Peter Boreham describing it as “a very bad basis on which to set other people’s salaries”.<sup>44</sup> Remuneration consultants and the Senior Salaries Review Body thought that it would lead to serious difficulties in recruiting and retaining good quality senior staff, because it failed to reflect circumstances in different labour markets.<sup>45</sup> In the words of Sir John Baker, a former Chair of the SSRB, the public sector “would become totally uncompetitive for top talent”.<sup>46</sup> Even the TaxPayers’ Alliance acknowledged that “there are certain people who are going to demand higher pay than the Prime Minister”,<sup>47</sup> particularly “if we want to see good managerial talent come in from the private sector, taking over public sector organisations”.<sup>48</sup>

34. There is therefore evidence suggesting that tying senior salaries to political considerations runs the significant risk of losing talented candidates. A practical example of this is the appointment of the Chair of the Electoral Commission, a post for which the salary and terms and conditions have to be approved by the House of Commons. When the post was last filled, the proposed salary caused some political controversy and both the salary and proposed time commitment were reduced to ensure the House’s acceptance of the appointment. The headhunter involved in seeking candidates for the post told us that those responsible for the recruitment:

were very lucky indeed that the candidate concerned accepted that cut and still took the job. I think most of the candidates would have declined to take the job because they would have been giving up a lot more money altogether.<sup>49</sup>

35. It would seem more appropriate to use the Prime Minister’s salary as an informal benchmark. The TaxPayers’ Alliance and Christopher Johnson agreed that “an extraordinarily good reason” or at least “clearer justification” was warranted where individuals were being paid more than the Prime Minister.<sup>50</sup>

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41 Q 160 [Peter Boreham]

42 Q 267 [Bill Cockburn]

43 SSRB written evidence

44 Q 160 [Peter Boreham]

45 Q 160 [Peter Boreham]; SSRB written evidence; Christopher Johnson written evidence

46 Sir John Baker written evidence

47 Q 36 [Ben Farrugia]

48 TPA written evidence

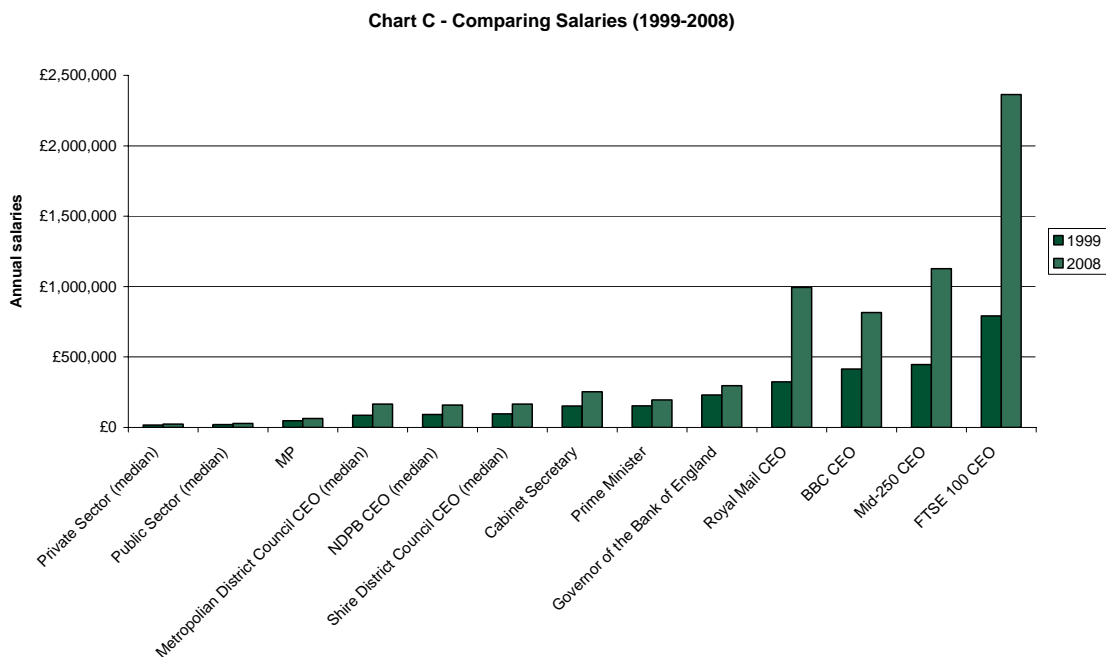
49 Q 168 [Hamish Davidson]

50 Q 36 [Ben Farrugia]; Q 161 [Christopher Johnson]

36. Public servants who earn more than the Prime Minister are very well paid indeed. Reward at this level deserves a clear and public justification, and close and sceptical scrutiny. But any proposal to use the Prime Minister’s salary as an absolute cap on public sector pay would be little more than a political stunt. Public servants are recruited from very different labour markets, and the pay they are offered needs to reflect those markets, even if it cannot match them. Prime Ministers pay themselves at a rate determined by politics more than by responsibility, and their earnings in retirement can if they wish vastly exceed their earnings in office.

### Benchmarks: Comparisons with the private sector

37. For some of our witnesses, the increases in public sector executive pay are directly linked to the much larger increases in private sector pay over recent decades. Polly Toynbee has described the situation in the public sector as amounting to “a relatively small leakage from the extraordinary escalation of pay differentials over the last 20 years”.<sup>51</sup> She described increasing pay among public sector executives as “an inevitable outcome” of increases in the private sector.<sup>52</sup> Chart C compares the extent of growth of executive salaries in the public and private sectors over the last ten years. This demonstrates how the percentage increases in pay identified in Chart B translate into absolute increases.



Source: IDS Executive Compensation Review and Committee Office Scrutiny Unit

38. The TaxPayers’ Alliance accepted that there could be a ‘contagion’ effect whereby growth in executive-level salaries had led, in part, to increasing top level public sector salaries. However, they argued strongly that attempting to compare public and private sector jobs (and therefore pay levels) is a fruitless exercise, except for “a select few senior posts”. Indeed, a theme in the evidence we received that was critical of public sector pay

51 Q 2 [Polly Toynbee]

52 Q 3 [Polly Toynbee]

was the claim that senior public servants are being remunerated on the basis of spurious comparisons with the private sector:

by and large we see career public servants who have never been tested in the private sector justifying their pay on the grounds that they could just leave and go and earn fantastic money elsewhere, and so they deserve this. That is a concern for us, because where is the proof of the pudding?<sup>53</sup>

Lots of people in public sector talk about believing they could do a job in private sector but few do in practice; equally, they keep finding reasons why private sector people would find it hard to do public sector jobs.<sup>54</sup>

Justifying this view, the TaxPayers' Alliance argued that the risks run in the private sector (in terms of job security, both for executives and those working for them) justify higher remuneration.<sup>55</sup> This is an argument we return to in the next chapter.

39. One of our witnesses from the SSRB disagreed with the tenor of the TaxPayers' Alliance's argument: "at the top levels there are, undoubtedly, people employed in the public sector who, if they chose, would be very marketable in the private sector". He suggested that the result of paying such people too little would be that it would be impossible to retain them:

"as long as the discount, the pay discount, the benefit discount for doing that job is outweighed by the job interest and the public sector ethos, that is okay, but if it gets out of kilter, if the potential outside becomes too great, then they will go."<sup>56</sup>

40. Interestingly, at least one measure of public opinion suggests that top public sector salaries should be closer to those in the private sector. According to the poll conducted by YouGov and ITV referred to earlier, 72 per cent of people surveyed thought that the people who run public and private sector organisations should be paid about the same.<sup>57</sup>

41. The FDA trade union argued that there should be an explicit link between public and private sector pay.<sup>58</sup> Stephen Taylor also made a practical argument from attempting to maintain some degree of comparability, based on the need to enable people to move between jobs and sectors without pay disparities acting as a barrier to this movement:

it is highly desirable that managers at many levels, including the top, are able to move reasonably easily between the public and private sector. Each sector would be much the poorer without the mutual understanding which this movement enables. The loss of that understanding in return for a little money saved from senior public sector

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53 Q 31 [Ben Farrugia]

54 Hamish Davidson written evidence

55 TPA Written evidence

56 Q 290 [Mike Langley]

57 YouGov/ITV survey, 22–23 October 2009

58 FDA written evidence, paras 3.1–3.5

salaries would be a very bad bargain indeed. So I am afraid you cannot insulate the public sector remuneration debate from the private sector one.<sup>59</sup>

42. This movement between public and private sectors is most marked in sectors where a regulator or other body needs to recruit people with relevant private sector experience. Christopher Johnson told us:

Different parts of the public sector compete for executive talent in different markets. For example, government owned companies typically compete with the private sector for business leaders with proven track record; the civil service has grown about 2/3rds of its executive talent from within and recruited 1/3rd externally from the public and private sectors.<sup>60</sup>

### ***Recruiting from the market***

43. In the course of our evidence we heard of several real-life examples in which public sector organisations had experienced difficulty in recruitment because of the increased pay levels in the markets from which they were seeking to recruit.

44. Millie Banerjee, the Chair of Ofcom's remuneration committee, argued that pay at her organisation was low, relative to the markets in which it needed to find its senior staff:

Even as I speak, even with the recession, we are trying to recruit a senior person reporting to Ed Richards [the Chief Executive], and people are falling off the shortlist because we simply cannot afford them.<sup>61</sup>

People do not come to work in Ofcom because of the pay. They do not. In fact, we have people coming to work in Ofcom, some of our specialist lawyers, for instance, competition lawyers, who we need, who actually take a cut in pay. They do not stay long; they stay about five years but they like to come to an organisation like Ofcom as part of their career development.<sup>62</sup>

She told us that the reward packages that Ofcom offered were “the minimum ... if we did not pay what we pay, I do not think we would get the right kind of people”, while acknowledging that “we know we cannot match the private-sector salaries.”<sup>63</sup>

45. Tim Melville-Ross, who chairs the Higher Education Funding Council for England (HEFCE), told us that “one of the principal reasons” the previous Chief Executive had left the Council was that “He was under-remunerated in relation to the market in which he operates and so he left HEFCE and is now at Birmingham on a considerably larger package.” Difficulties were then encountered in trying to recruit his successor when the

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59 Stephen Taylor written evidence

60 Christopher Johnson written evidence

61 Q 194 [Millie Banerjee]

62 Q 196 [Millie Banerjee]

63 Q 198 [Millie Banerjee]

salary that was proposed for the post turned out to be “significantly less than what he was already earning”.<sup>64</sup>

46. Mr Melville-Ross, a former Chief Executive of the Nationwide Building Society, also countered the argument that “by anybody’s standards £600,000 is a lot of money” in a discussion about the salary of the Chief Executive of the Financial Services Authority:

By City standards it is not, I have to tell you. The sorts of packages that have been enjoyed by people running banks, who have had even more disastrous experiences than the FSA itself, are vastly greater than that ... For goodness’ sake, do not encourage the organisation [FSA] to pay less for talent right now because it really needs that talent to go through the process of reform that Lord Turner has suggested<sup>65</sup>

### ***Pressure to recruit externally***

47. There has also been a trend towards other parts of the public sector, such as the Senior Civil Service, looking to recruit from the private sector where this would not formerly have been the case. Where career civil servants have not acquired the necessary skills—in finance, IT and human resources, for example—civil service management has had to look to recruit from better-paid markets. Even when taking “a significant reduction in earnings”, such people have almost always ended up being paid substantially more than career civil servants at the same level.<sup>66</sup>

48. Christopher Johnson told us that this approach had two downsides, first, that he did not “see consistently the ability of the public sector to attract great talent” in this way; and, secondly that the pay differentials it created were bringing about “a very significant internal relativity pressure” which he saw “becoming quite a serious problem”.<sup>67</sup>

49. Jonathan Baume from the FDA told us that, other than at Permanent Secretary level, Civil Service Departments had too often been led by “what the person we want wants us to pay” rather than by “what we are willing to pay”, with the result that a number of senior staff were paid more than their Permanent Secretary bosses:

Now, if you want to pay £1 million for a project manager, I am sure you would get a very good project manager. The question is: should the Civil Service be paying £1 million? I might be exaggerating slightly, but we have been led by the people rather than led by what we want to pay, which is how most organisations actually work and certainly in the public sector.<sup>68</sup>

50. We are looking at the broader ramifications of external appointments to the civil service as part of another concurrent inquiry, on which we hope to report soon.

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64 Q 199 [Tim Melville-Ross]

65 Qq 221–2 [Tim Melville-Ross]

66 Q 103 [Christopher Johnson]

67 Q 103 [Christopher Johnson]

68 *Civil and Public Service Issues* Q 16 [Jonathan Baume]

### Conclusion on private sector comparisons

51. Christopher Johnson attempted to put comparability in perspective, by suggesting that it “should be one input in determining pay alongside other factors that enable the public sector to attract and retain the talent it needs, and that take into account affordability.”<sup>69</sup> This reflects the reality that pay at the top of the public sector is always going to lag behind possible private sector comparators; the issue is by how much, and whether it matters.

52. **The extent to which individual public and private sector salaries are comparable is difficult to establish and will vary from post to post. The influence of private sector pay on public sector salaries is also felt in other ways, such as through the knock-on effects of spiralling private sector salaries over recent decades. This influence is especially evident in those areas where there has been a drive towards recruiting more public servants from the private sector, for example to fill skills gaps in information technology and finance.**

53. **It is in the interests of public sector executives to ‘talk up’ their marketability in the private sector, just as it is in the interests of private sector executives to talk up their incentive to move overseas. With this in mind, it is perhaps unsurprising that those setting pay may have wanted to err on the side of caution when public finances were reasonably provident. Paying slightly over the odds risks wasting a little public money. Paying too little risks wasting a lot of public money trying to motivate those staff who have stayed while attempting to recruit replacements for the most competent staff, who have left. Against a background of budget cuts, the need for more stringency in setting salaries is clear. However it would be particularly damaging if talented managers able to deliver substantial savings left the public sector because of pay reductions that would contribute relatively little to deficit reduction.**

### Conclusion on benchmarking

54. It is impossible to have a constructive debate about executive pay without appropriate benchmarks. However, the previous sections have shown some of the difficulties in developing such benchmarks and the ways in which benchmarks themselves can become a source of debate. **It is important that pay setters have access to appropriate benchmarks when negotiating senior executives’ contracts and ensure that comparisons with the private sector are used appropriately. There is a strong argument for undertaking this benchmarking process centrally and in a way that is independent of the pay setters themselves. This is an argument we return to later in this report.**

### Reducing the deficit

55. A number of measures have been proposed to curb expenditure on public sector pay by both the Government and Opposition in order to reduce the public sector deficit. These proposals include measures on public sector pensions and a cap or freeze on public sector salary increases. This section briefly examines these proposals.

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69 Christopher Johnson written evidence

## Pensions

56. As is well known, pension arrangements for staff in the public sector below senior levels tend to be more satisfactory than those in the private sector, because of the erosion of private sector schemes. This was described to us as part of a “deal” in return for lower pay.<sup>70</sup> However, the position at executive level is not so clear cut. It was pointed out that “in the private sector executives receive proportionately greater pensions on their already high salaries”.<sup>71</sup>

57. There are also differences in approach in different parts of the public sector. Most senior civil servants are members of an unfunded<sup>72</sup> defined-benefit scheme based on final salary. Local government employees belong to a similar but funded<sup>73</sup> scheme, with fixed employee contributions and fluctuating employer contributions. Public bodies may offer their executives membership of a funded scheme or of an unfunded scheme, or may provide them with some other form of pension compensation. At Ofcom, for example, senior executives are “provided with an allowance, determined as a percentage of base salary, which the individual can take as extra salary or invest in a pension scheme of their choice”.<sup>74</sup>

58. The overall cost of public service pensions is a matter which falls outside the scope of this Report. However, the final-salary-based nature of most public sector pension schemes means that the cost of pensions for the highest earners is correspondingly higher.<sup>75</sup> The Chancellor of the Exchequer announced as part of the 2009 Pre-Budget Report that employer contributions to public sector pensions would be capped and that the highest earners would be expected to pay a larger contribution towards their pensions.<sup>76</sup> The Chancellor said in his speech that “public pensions need to be broadly in line with those offered in the private sector.”<sup>77</sup> We note that such a policy, if applied to pay as well as pensions, would almost certainly lead to substantial increases in public sector executive pay.

59. The Opposition has proposed imposing a £50,000 cap on annual public sector pension payments. We heard a more radical proposal in evidence, suggesting that pensionable salary should be capped at £30,000, implying a maximum final-salary based pension in retirement of about £15,000, with the option of a defined-contribution scheme for those seeking a higher pension.<sup>78</sup>

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70 Q 173 [Dave Evans]

71 Q 171 [Peter Boreham]

72 Where payments to pensioners are made out of contributions made by existing employers, rather than a fund set aside for the purpose.

73 Where payments are made out of a fund built up by employee contributions and invested.

74 Ofcom Annual Report 2008–09

75 Hay written evidence

76 HM Treasury, 2009, *Pre-Budget Report 2009: Securing the recovery: growth and opportunity* para. 6.51

77 House of Commons Debates, vol. 502, part 13, col. 369

78 Q 172 [Peter Boreham]; also Q 173 [Christopher Johnson]; Hay and Christopher Johnson memos



60. The FDA trade union has written that

the current public sector pension provision is fully justified, and affordable in the long term. Most of the media criticism is economically ill-informed ... The pension is also an integral part of the reward package for senior public servants and any attempt to remove or dilute it would inevitably create an inflationary pressure on the other elements of the pay package.<sup>79</sup>

61. In general, for a public servant to receive a pension of above £50,000, they would need to have a salary of around £100,000 and about 40 years' service. As a very small proportion of public servants fulfil these criteria, a cap set at this level would save relatively little money overall. Capping pensionable salary at £30,000 would save a great deal more, but would affect large numbers of people who are not by any means senior executives.

**62. Proposals to cap pension payments to senior executives in the public sector go somewhat beyond the scope of this report. Such proposals deserve close attention, but a cap will only be effective and worthwhile if it is fair on the people affected, if it is sustainable in terms of recruitment, retention and motivation, and if the savings that it produces are genuine and significant across the public payroll.**

### **A pay freeze**

63. One proposal that has been made by, among others, the Chief Executive of the Audit Commission and both main political parties is a short-term public sector pay freeze on senior salaries. The Government, in the Pre-Budget Report, has proposed a one-year pay freeze for senior people in the public sector, including chief executives of NDPBs, senior civil servants, GPs and senior NHS managers. It also announced a 1% on all public sector pay increases until 2013.<sup>80</sup>

64. The concept of a top pay freeze received significant support from our witnesses from across the political spectrum:

You cannot underestimate the power of gesture, quite often, when you are in a national crisis.<sup>81</sup>

President Obama acknowledged the need for action (for both political and economic reasons) and froze the pay of any White House Staff earning over \$100,000 on his first day in office. A similar move should be replicated here, with the pay of all senior public sector staff frozen immediately to reflect the recession and falling pay in the private sector.<sup>82</sup>

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79 FDA written evidence

80 *Pre-Budget Report* para 6.50

81 Q 35 [Polly Toynbee]

82 TPA written evidence



65. Stephen Taylor, however, has warned that:

History shows that holding down top pay does no more than that, i.e. it does not hold down pay at lower levels. All that happens is differentials are squeezed and then fewer people strive for the top jobs. That is already the case in the Civil Service.<sup>83</sup>

The SSRB meanwhile has warned of a world in which “ ‘signalling’ becomes the dominant consideration”, whilst the Prospect trade union described the announcements by the Government and Opposition as “politically motivated tokenism of the worst kind ... a cynical ploy designed to grab the headlines while doing nothing to resolve the problems it pretends to cure”.<sup>84</sup>

**66. Given the level of the budget deficit, the announcement of a short-term pay freeze for senior public servants alongside a cap on all public sector pay increases was not unexpected. The arguments for such a move are less about the levels of pay themselves and more about saving money and ensuring that the public sector is seen to be ‘sharing the pain’ of recession fairly.**

## 4 Performance and reward

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67. One of the main criticisms that we have heard of performance management of top public sector executives is the sense that dismissal on the grounds of poor performance is rare, and that instead senior staff who leave organisations against their own will are often encouraged to go with generous compensation payments. Christopher Johnson has told us that “the public sector has quite a lot to learn in terms of managing performance rigorously and consistently across a broad population of senior people”.<sup>85</sup> Hamish Davidson was characteristically outspoken in suggesting that the public sector needed to apply “a lot more ruthlessness, frankly, in dealing with failure.”<sup>86</sup>

68. Indeed, the TaxPayers’ Alliance’s main concern as expressed to us was not high pay itself, but rather “rewards for failure”:<sup>87</sup>

the generous rewarding of public sector executives after serious management failures are an abhorrent abuse of resources, particularly as they are awarded to executives who enjoyed massive salaries, prior to their dismissal, for being ‘excellent managers’ when clearly they were not.<sup>88</sup>

They recommended that “public sector executive employment contracts must contain clauses that exclude the possibility of payouts or compensation for loss of office should the individual be made to resign for reasons of proven poor performance”.<sup>89</sup> Hay

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83 Stephen Taylor

84 SSRB report

85 Q 124 [Christopher Johnson]

86 Q 123 [Hamish Davidson]

87 Q 5 [Ben Farrugia]

88 TPA written evidence

89 TPA written evidence

remuneration consultants broadly agreed, stating that “it is inappropriate for senior executives to be eligible for generous redundancy payments”.<sup>90</sup>

69. Several of our witnesses countered campaigners’ claims that all public sector jobs were secure, pointing to an increasingly high risk of dismissal for senior executives in local government and the NHS.<sup>91</sup> Tony Travers went even further, claiming that “in some parts of the public sector, the downside risk of things going wrong is total ruin”.<sup>92</sup> Certainly, for managers of hospitals, schools and children’s services, failure—real or perceived—can mean national opprobrium.

70. There is also a side issue here. At the top of some public sector organisations an employee’s continued employment often depends to a large extent on personal and political factors. In August, the Secretary of State for Communities and Local Government asked the Audit Commission to investigate severance settlements paid to local authority chief executives, saying that

it's not acceptable for town hall chiefs and council leaders to agree expensive deals to part company just because they don't get on or because they'd prefer to work with someone else. If a chief executive, who has served his or her administration well, yet leaves for no justifiable reasons, it does not mean a council should spend large amounts of taxpayers’ money just to move them on to the next council so they can then find a more favoured face.<sup>93</sup>

71. The proposal has drawn a strong response from the Society of Local Government Chief Executives:

The truth is that severance arises in the vast majority of cases not because of any genuine performance issue, but because a council leader wishes a change in personnel. Some local politicians seem to regard the costs of related severance settlements as an acceptable use of public monies, even though they hold elected office only on a temporary basis. The statutory protection bestowed on chief executives, as well as chief financial and legal officers, rightly provides a check against their whimsical or illegitimate dismissal by politicians which often causes personal distress and financial uncertainty for the individuals affected. To weaken this protection would be against the public interest and dismantle important protection against the potential abuse of power.<sup>94</sup>

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90 Hay written evidence; The Government has recently announced plans to reduce the redundancy payments made to senior civil servants. *Financial Times*, 5 December 2009, ‘Civil servants face big cuts in redundancy deals’

91 Q 1 [David Clark]; Q 118 [Hamish Davidson]; MIP evidence

92 Q 32 [Tony Travers]

93 BBC News online, 26 August 2009, Council boss pay-offs face review, <http://news.bbc.co.uk/1/hi/8221512.stm>, accessed 9 December 2009

94 Letter from David Clark to the Chair of the Audit Commission, October 2009, online at [http://www.solace.org.uk/library\\_documents/SOLACE\\_response\\_to\\_Audit\\_Commission\\_severance\\_inquiry\\_October\\_2009.pdf](http://www.solace.org.uk/library_documents/SOLACE_response_to_Audit_Commission_severance_inquiry_October_2009.pdf), accessed 9 December 2009

72. David Clark, elaborated on this point in evidence. He picked up on a phrase used by a witness from the TaxPayers' Alliance about "examples of public sector executives who have left an organisation for gross incompetence almost"<sup>95</sup>:

I think your phrase was "fired for nearly gross incompetence". I think gross incompetence is actually like pregnancy, you either are or you are not, you cannot be nearly. Let us just look at some of the people who have been fired before we get carried away. In a number of cases they have been fired for pure politics. Let us go back to Lincolnshire pre-Tony McArdle when Mr Speechley was the leader and forced out a chief executive who then got a huge pay-off, and why was he forced out, he was forced out because he was the one who called in the police who eventually put Mr Speechley in jail. He then returned to the chamber with a tag! In those circumstances the chief exec got a big pay-off for being sacked for doing the job, so it may be that somebody is nearly grossly incompetent but in a lot of cases they get the push for doing the things that you would want them to do.<sup>96</sup>

73. This particular example is about dismissal for personal or political rather than performance reasons. It is important to distinguish between the two, and we can see why senior staff working in a political context might need some protection from dismissal on a political whim—although generous severance payments do not seem to us like the best form of protection from the taxpayer's perspective.

74. We are, however, strongly in favour of rigorous performance management of public servants at all levels, including at the top. Dismissal for poor performance is rare in the public sector, apparently just as rare at the top as elsewhere, and this in a context in which poor public service provision and project and procurement failure are not exactly unknown. **Where highly paid public servants fail to perform effectively, they should face the very real prospect of losing their jobs without any kind of generous pay-off. Clearly, assessments of performance will need to be sophisticated and well-informed, given the potentially serious consequences for the individuals concerned. In particular, assessments of individuals' performance should not be simply correlated from overall organisational performance, as many other factors may have influenced organisational success or failure.**

## Performance-related pay

75. One way to go further in the direction of ensuring that high pay is related to high performance might be to make an increasing proportion of executive pay performance-related. However, differences in attitude to performance-related pay are striking.

76. In general, executive positions in the public service are able to earn additional performance-related payments above base salary, but these are almost always at a much lower level than is common in the private sector. They nonetheless vary substantially. In the Senior Civil Service, such payments were received by more than 60 per cent of staff in

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95 Q 75 [Ben Farrugia]

96 Q 77 [David Clark]

2008–09, averaging at approximately 10 per cent of salary.<sup>97</sup> NDPBs and other public bodies have their own arrangements: for example, for the Higher Education Funding Council for England (HEFCE) the maximum bonus payable to the Chief Executive has been 10 per cent of base salary in recent years, while at Ofcom, the equivalent maximum bonus has been 20 per cent.<sup>98</sup> Public corporations are the exception: senior executives at Network Rail could have been entitled to performance payments amounting to a theoretical maximum of an additional 100 per cent of their base salary in 2008–09.<sup>99</sup>

77. Human resources and reward professionals across the board believe that there is insufficient performance-related pay in most of the public sector,<sup>100</sup> and that if current performance-related pay systems are seen to have failed, that is because they have been poorly applied, or have sought to reward the wrong kinds of performance.<sup>101</sup> The Chairman of the SSRB told us that the body is “unashamedly in support of incentive performance bonuses”,<sup>102</sup> with a few exceptions, such as the judiciary.<sup>103</sup> Hay remuneration consultants have put the basic argument for relating pay to performance most strongly by describing the alternative: “to pay people the same whether or not they perform—which is not even common sense, let alone good use of public money”.<sup>104</sup> Christopher Johnson, in a similar vein, told us that service delivery improvements were difficult to achieve when pay systems were about “rewarding people for having a job rather than rewarding people for doing the job well”.<sup>105</sup>

78. It is easy to theorise about a system of pay which would reward individuals for performance against objectively measurable, valid targets to which they could genuinely aspire to contribute; but it is hard to put such a system into practice, especially where outputs are “difficult to measure”,<sup>106</sup> for example where people are responsible for providing policy advice (which may be ignored or overruled) or for delivering a service to a hard-to-reach section of the community as part of a complex chain of agencies.

79. Trade unions are largely opposed to performance-related pay. They believe it is misconceived in that public sector workers are not or should not be motivated by pay, describing it as “as much a demotivating factor as a boost to morale”.<sup>107</sup> They believe it is poorly applied, in that it is not clear what performances it is supposed to reward.<sup>108</sup> They believe that it is reputationally damaging, in that it feeds the popular belief that there is a

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97 SSRB, Thirty-First Report on Senior Salaries 2009, Cm 7556, para 2.27 and Table 2.5; for example, the largest single bonus payment made by the Foreign and Commonwealth Office in 2008-09 was £15,000 HoC Debates, 501 c375-6W

98 Ofcom written evidence

99 Network Rail Ltd, Annual Report and Accounts 2008, p 27

100 Sir John Baker written evidence; Qq 105 and 122 [Peter Boreham]; Stephen Taylor written evidence; Qq 124 and 162 [Christopher Johnson]

101 Hay memorandum (“Just because a few organisations...”); CIPD written evidence; Q 273 [Bill Cockburn]; Q 275 [Mike Langley]

102 Q 273 [Bill Cockburn]

103 Q 277 [Bill Cockburn]

104 Hay written evidence

105 Q 176 [Christopher Johnson]

106 SSRB written evidence

107 FDA written evidence

108 *Civil and Public Service Issues* Q 34 [Paul Noon]

public sector “bonus culture”, and this even though the amount of money actually involved is relatively slight.<sup>109</sup> Finally, they believe, at least for those parts of the public service where politicians set pay levels, that performance-related pay exists less to reward performance, than to provide a margin of expense that could easily be removed for broader political or economic reasons, without needing to reduce base pay:

It is not money on top, it is part of the annual pay increase that is redistributed as an annual bonus ... it is cheaper for the Exchequer because it is not paid on pensions, it is not paid on National Insurance or whatever else.<sup>110</sup>

80. This is particularly true at the moment, when the economic downturn, along with media pressure, has led to a number of public sector organisations to limit incentive payments. For example, civil service permanent secretaries agreed in February 2009 to waive their rights to a performance-related bonus for 2008–09, while the Ofcom executive board agreed in May of the same year that they should not be considered for bonus payments for 2009–10. In July 2009, the BBC Trust and the BBC Executive Board’s Remuneration Committee came to an agreement that bonuses for Executive Board directors would be suspended indefinitely. These developments reflect an understanding that senior public servants need to be seen to share in the pain of a recession—but they also suggest that performance-related pay in such circumstances becomes less a matter of individual or even organisational performance and more about the performance of the wider economy.

81. This last point is a particular bone of contention. Jonathan Baume from the FDA told us:

Ministers are arguing and were arguing that SCS [senior civil servants] should not get their bonuses, regardless of the fact that ministers have designed the current pay system and have insisted on an expansion of the bonus scheme. I felt that it was totally inappropriate for ministers to be taking that particular view.<sup>111</sup>

82. More widely, it is clear that the political and economic environment is not favourable towards introducing a system that would lead to more public sector workers receiving a greater part of their salary in the form of bonuses and other incentives. This is demonstrated by the recent furore over payments at the Ministry of Defence, where nearly 100,000 civil servants are employed, which resulted in headlines such as “MoD penpushers pocket £300m as British soldiers die in Afghanistan”.<sup>112</sup>

**83. Regardless of the arguments for and against a greater proportion of senior salaries being directly linked to performance it is clear that such a move would not be acceptable in the current political and economic climate. The word “bonus” has acquired a toxic quality and become associated with unjustifiable reward – despite the fact that the eligibility for such payments is generally given instead of increases in base pay.**

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109 FDA written evidence

110 Q 29 – *Civil and Public Service Issues* [Jonathan Baume]

111 Q 36 – *Civil and Public Service Issues* [Jonathan Baume]

112 Daily Mail, 13 November 2009

## Respect

84. The debate around rewards for failure and performance-related pay feeds into a wider concern that some of witnesses had, namely that respect for public service workers, particularly those at the top, was diminishing, and that this lack of respect could result in public sector executives demanding salaries that are closer to private sector ones. As the SSRB has put it,

These hugely dedicated people do not expect to receive the financial rewards of comparable leaders and senior managers in the private sector in return for this vital work, but they do expect recognition of the value of what they do, respect for their commitment to public service and fair pay.<sup>113</sup>

85. This point was also picked up by Polly Toynbee, who said she thought that top public servants “deserve more respect”<sup>114</sup> and by Christopher Johnson, who worried about “demonisation of fat cats” because it discouraged “really good people from coming into the sector, i.e. ‘Why should I put up with that?’”<sup>115</sup> The FDA referred to a desire to see “less political scapegoating”.<sup>116</sup>

86. We referred at the beginning of this Report to the recent barrage of negative news coverage about pay at the top of the public sector. Ironically, such coverage is likely to make it harder to find talented people to fill executive roles at significantly below the market rate. Why should people want to take on such roles, if the outcome is public vilification, especially where they could be vilified (probably less personally and publicly) while being paid five or ten times the amount in the private sector? For those whose skills are not so easily transferable, the problem of morale is likely to reveal itself further down the organisation: why should talented people aspire to a career in the public sector if they can see that those who are successful face media scorn?

**87. We are concerned by the consistent media demonisation of senior people in the public service. Continued negative media coverage is likely to undermine one of the main intangible benefits of public sector work: a sense of doing valuable and valued work for the public good. In the absence of this sense of respect, the public sector is likely to have to pay more, rather than less, to encourage talented people into senior roles.**

**88. The Government, politicians in particular, need to stand behind and explain the decisions they have taken on senior pay when these are challenged. The Government has a responsibility even when pay is set locally: it should support the outcomes produced by the pay systems it has established.**

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113 SSRB written evidence quoting 30<sup>th</sup> report

114 Q 25 [Polly Toynbee]

115 Q 135 [Christopher Johnson]

116 FDA written evidence

## 5 Transparency

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Personally, I think absolutely philosophically and generally there should be openness about what people get paid in those situations: it is public money fundamentally.<sup>117</sup>

89. Information about pay levels in the public sector is currently haphazard. This chapter looks at arguments for greater openness and consistency in reporting of top public sector salaries.

### ***Current situation: central government***

90. Much of central government is subject to the requirements of the Government Financial Reporting Manual (FReM). This manual does not, however, apply to local government, those public corporations that are not trading funds, and NHS trusts and NHS foundation trusts (although the equivalent manuals for NHS trusts and foundation trusts are broadly compliant with FReM).

91. FReM requires the annual production of a remuneration report as set out in Chapter 6 of the Companies Act 2006 and the regulations applying to large and medium-sized companies and groups,<sup>118</sup> with some adjustments to reflect the public sector context.<sup>119</sup> Essentially this requires the publication of detailed remuneration information about board members. There are three substantial differences from the requirements on listed companies: salaries of officials are disclosed in bands of £5,000 (rather than disclosure of precise sums received); many NDPBs do not provide separate breakdowns of salary and bonus payments; and there is no explanation as to why bonuses are paid. Public corporations which are not trading funds generally follow private sector practice in disclosing remuneration, providing exact rather than banded sums.

92. The rationale for disclosing in bands is that the disclosure of exact salaries would amount to an unwarranted intrusion into individuals' privacy and personal affairs. This has been upheld by the Information Commissioner as striking a proportionate balance between the public's right to information and the individual's right to see their personal data protected.<sup>120</sup> It should be noted, however, that there is a degree of circularity at play here. The Information Commissioner considered that it would be intrusive to release exact salary information because the individuals concerned would not expect these details to be disclosed. This expectation arises because the Government routinely publishes salary details within £5,000 bands. If Government practice were to change, individual expectations would also change.

93. There have been cases where NHS trust directors have refused to disclose information about their salaries, using the Data Protection Act 1998. In 2003 the then Chief Executive

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117 Q 126 [Hamish Davidson]

118 SI 2008 No. 410

119 For example, the requirement to include a line graph of shareholdings is irrelevant in the public sector context.

120 See for example Information Commissioner's Office reference F550250552.



of the NHS, Sir Nigel Crisp, wrote to NHS trusts urging them to disclose this information and stating that:

I regard it as a matter of principle that those who are paid from the public purse should expect to be completely open about how much they are paid.<sup>121</sup>

94. Remuneration reports need not and do not disclose the remuneration received by staff other than those at board level, although some of those other staff may well be earning more than some board members. Information on remuneration of staff below board level may be made available following specific freedom of information requests, but is not regularly published.

**95. We do not see how the publication of more exact remuneration figures for senior public sector executives, including separate breakdowns of salary and bonuses, could constitute a genuine breach of their privacy, as long as they were given adequate notice of the intention to do so. This information is after all already required of directors of listed companies in the private sector. We recommend that disclosure of top public sector salaries should be brought more into line with the requirements for listed companies, with the amount received in both salary and bonuses published along with explanations as to why bonuses were paid.**

### **Current situation: local government**

96. Reporting requirements for local government<sup>122</sup> are contained in a separate set of regulations.<sup>123</sup> Currently the only requirement for remuneration reporting is to provide a note of the number of employees receiving remuneration above £50,000, in brackets of £10,000.

97. In March 2009 the Government published a consultation paper to seek views on amending the Accounts and Audit Regulations 2003 to improve transparency of reporting of remuneration of senior officers in some (local government related) public bodies. The Government produced its response to this consultation in October 2009, including proposals to require these bodies to publish detailed information about the remuneration of their senior officers from 2010–11 onwards. The information would be similar in nature to that already published for Civil Service Departments.

98. The evidence that we received was highly critical of the current lack of transparency in local government. All of those we spoke to, including the representatives of the people concerned, agreed that there was an unarguable case for publishing the earnings of senior officers in local government.<sup>124</sup> **We welcome the Government's intention to bring the publication requirements for senior remuneration levels in local government bodies in line with those for central government. This should, as we recommend earlier, mean that full details of top local government salaries and bonuses should be published.**

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121 National Health Service, 2009, *Manual for Accounts*, Chapter 2, p 17

122 Including National Parks authorities, police authorities and fire authorities

123 Accounts and Audit Regulations 2003, SI 2003 No. 533

124 Q 1 [David Clark]; Q 9 [Tony Travers]; Q 128 [Peter Boreham]; Q 294 [Bill Cockburn]; LGA written evidence; Hay written evidence



### *Proposals for greater transparency*

99. The question is whether these reforms go far enough. Both the Government and Official Opposition have proposed publishing a wider range of top salaries than at present. In the Pre-Budget Report the Chancellor of the Exchequer announced that all individuals paid more than £150,000 would have their names and salaries published within £5,000 bands and the number of individuals paid more than £50,000 would be published in increments of £50,000.<sup>125</sup>

100. In April 2009, the Leader of the Opposition suggested that if in Government he would “publish online all public sector salaries over £150,000”.<sup>126</sup> In October 2009, the Shadow Minister for the Cabinet Office announced that if in Government, his party would “publish online the salaries of the 35,000 most senior civil servants”.<sup>127</sup> This would appear to include middle management posts, earning from around £40,000 per year.

101. It was suggested in evidence to us that the salaries of all public servants should be made available online for those “with remuneration of £50,000 or more”<sup>128</sup> and that “all minutes, agreements and memos pertaining to the setting of pay and conditions for board level and £100,000 plus earning members of public sector bodies should be available online”.<sup>129</sup>

102. Most of our witnesses thought that transparency would be of “net benefit”<sup>130</sup> not only to the public, but also to the process of setting pay:

because it opens up accountability more clearly, ... it will be something that restricts wage inflation.<sup>131</sup>

It is very difficult, if you are a local authority, to go out and set the highest local authority chief executive salary in the country, because that will be immediately picked up on and the remuneration committee will be asked to justify that, so you would have to have a really clear reason for doing that.<sup>132</sup>

the reality is that where there is no transparency pay levels tend to be higher. If you look around Europe, the country in Europe that has the highest pay arrangements is Switzerland, and that is because Switzerland only started to publish last year.<sup>133</sup>

103. Both campaigning groups and remuneration consultants agreed that there should be “consistency” or “baseline transparency” across the public sector.<sup>134</sup> **We strongly support**

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125 Pre-Budget Report para 6.50

126 Rt Hon David Cameron MP, Speech, 26 April 2009

127 Rt Hon Francis Maude MP, Speech, 5 October 2009

128 IoD written evidence

129 TPA written evidence

130 Hay written evidence

131 Q 130 [Christopher Johnson]

132 Q 130 [Peter Boreham]

133 Q 131 [Peter Boreham]

134 TPA written evidence; Q 133 [Peter Boreham]

**the idea that transparency should be broadly consistent across the public sector: it would be inconsistent and potentially unfair to require the earnings of one group of public servants to be disclosed at a level not required of other public servants.**

104. A representative of local government chief executives suggested to us that earnings needed to be put into context, and should be published alongside job descriptions.<sup>135</sup> The CIPD has made a similar point:

For a reasoned judgement to be made there must be disclosure not only of the full remuneration package but also what the individual has done and is doing to earn that sum.<sup>136</sup>

**105. The proposed changes to local government remuneration disclosure will bring about a position in which there is a broadly comparable level of transparency across the public sector. It is at least a starting point for consistency which is an improvement on the status quo.**

**106. However we believe transparency can go further. We recommend the routine disclosure of the remuneration of all public servants earning above a certain amount, in the region of £100,000, not just members of management boards. We heard arguments for disclosure at lower salary levels; whilst we understand why people may be interested in this data, it would be considerably more costly to produce and would be disproportionate, especially where we are talking about mid-level managers.**

**107. We also see value in providing a brief description of how an individual has earned the level of remuneration being disclosed. This could help the public to come to a more informed view on the value for money being provided by their most highly paid public servants.**

## Consideration of pay conditions more widely

108. Polly Toynbee proposed the use of ratios to measure the differentials between high and low pay within organisations, and specifically that the Low Pay Commission should be transformed into a Pay Commission and given an advisory role in this area.<sup>137</sup> Stephen Taylor has also written that he is “attracted to the idea of a ratio, eg that we wouldn't expect the top salary in a public sector organisation to be much more (or indeed much less) than X times its average salary and would look for justification if it was”.<sup>138</sup>

109. Peter Boreham told us that in his view “ratios are garbage” although remuneration committees needed to “have regard to the way that they treat their people relative to how they treat their bosses”.<sup>139</sup> He argued that ratios tended to incentivise organisational tinkering, rather than pay restraint. He gave a notional example: “As soon as my

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135 Q 1 [David Clark]

136 CIPD written evidence

137 Q 93 [Polly Toynbee]

138 Stephen Taylor written evidence

139 Q 136 [Peter Boreham]

organisation outsources its cleaning and catering staff to Chris's organisation, then my ratio gets better and his gets worse".<sup>140</sup>

110. Quoted companies are required to provide "a statement of how pay and employment conditions of employees of the company and of other undertakings within the same group as the company were taken into account when determining directors' remuneration for the relevant financial year".<sup>141</sup> **Decisions on senior pay should take into account the earnings, conditions of employment and job security of other employees of the same organisation. We accept that simply publishing a ratio in isolation could be misleading, but we recommend that public sector bodies should be required to declare how the earnings of their senior people relate to the earnings of their other employees.**

111. We consider in the next chapter Polly Toynbee's suggestion for a dedicated pay commission to provide advice on top public sector pay issues.

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140 Q 140 [Peter Boreham]

141 SI 2008, No 410, Schedule 8, paragraph 4

## 6 Identifying the problem: setting pay

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112. Several contributors from a variety of backgrounds were critical of the mechanisms in place for determining pay and reward at the top of the public sector, in particular a lack of coherence between different parts of the public sector. Peter Boreham told us:

NDPB chief executives and non-executives' pay is all over the place. If you were trying to look at how it should be, it should be related to how big is this organisation, how complicated, to what level do we need commercial experience in those kinds of roles and to what extent has responsibility been devolved to those bodies but when you track those factors you cannot translate that into the differentials of pay.<sup>142</sup>

113. The Local Government Association recognised “that there is real political and public concern about ... how well the mechanisms for setting top pay are operating”.<sup>143</sup> Christopher Johnson told us that “there is no coherent approach to or common set of principles for executive pay in the public sector”<sup>144</sup>; while the spokesman for a trade union representing higher grades in the civil service said that he thought the system was “a mess”.<sup>145</sup>

114. The Cabinet Secretary has told us that

the relativities at the moment are out of sync ... When you see the massive disparities within the public sector there is something wrong, and I would say probably the Prime Minister's salary in that is too low.<sup>146</sup>

115. Current arrangements have also had their defenders. Sir John Baker, a former Chair of the SSRB, suggested that the “lack of uniformity in senior pay levels [within the public sector] is a minor problem measured against the advantages and flexibility of diversity” and that “there is a lot that is right in the determination of the remuneration of top-level public service posts.”<sup>147</sup> NDPB Chairs, perhaps unsurprisingly, told us that there was at least a “degree of consistency” in how their pay-setting processes operated.<sup>148</sup>

116. On 7 December 2009 the Chief Secretary to the Treasury announced that the Chair of the SSRB would conduct a review of senior pay across the whole of the public sector to report by the next Budget. As an interim measure, the Chief Secretary announced that he would review any proposal for a salary offer set by Government of over £150,000.<sup>149</sup>

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142 Q 184 [Peter Boreham]

143 LGA written evidence

144 Christopher Johnson written evidence

145 Q 24 – *Civil and Public Service Issues* [Jonathan Baume]

146 Public Administration Select Committee, 2009, *Work of the Cabinet Office in 2008-09*, uncorrected evidence taken before the Public Administration Select Committee, HC 1078-i, Q 137

147 Sir John Baker written evidence

148 Qq 191–192

149 House of Commons Debates, 7 December 2009, vol. 502, No. 11, c. 29

## Who sets top pay?

117. Pay levels for senior posts across the public sector are set in a variety of ways. In some cases they are set by politicians: usually either central government Ministers or locally elected office-holders, but in a minority of instances by the House of Commons. In others, they are set by remuneration committees of boards, the members of which are often but not always appointed by politicians. The table below gives some idea of the complexity of the situation (the detailed arrangements are set out in Annex A):

Type of body	Who sets senior pay	Advised by	Advisers appointed by	Comments
Civil service	Prime Minister	Senior Salaries Review Body	Prime Minister, following fair and open competition	
NDPBs	Ministers across Government	Board of each NDPB	Ministers across Government, following fair and open competition	In practice, NDPB boards often take the lead.
Public corporations	Board remuneration committee of each corporation	Government Departments, where these are shareholders		Boards appointed by Ministers, following fair and open competition.
NHS (Foundation status)	Board of Directors			Board of Governors appoints Board of Directors
NHS (Non-foundation status)	Ministers	Senior Salaries Review Body	Ministers, following fair and open competition	Applies only to posts within the Very Senior Managers framework
NHS (doctors and dentists)	Ministers	Review Body on Doctors' and Dentists' Remuneration	Ministers, following fair and open competition	
Schools (headteachers)	Ministers (school governors for foundation and grant-aided schools)	School Teachers' Review Body	Ministers, following fair and open competition	Foundation and grant-aided schools have substantial independence in determining starting pay.
Police	Ministers	Police Negotiating Board	Ministers/Statute	Local police authorities have flexibility to award additional payments.
Local authority	Local councillors	Local Government	Local councillors	About 90% of

senior executives		Employers		local councils use a national Single Status Agreement as a basis for setting pay.
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118. This overview shows that people in different parts of the public sector have their pay set in very different ways. Politicians often have the final say. Even where they do not, the Government cannot, as one of our witnesses remarked “get out from under saying that at some level it is responsible if not for the precise pay level then certainly for the arrangements that lie behind the way the decision is made.”<sup>150</sup>

119. There are substantial differences in approach even for those parts of the public sector where politicians do have the final say on pay. The centralised arrangements for civil servants are very different from the devolved arrangements for NDPB and local authority chief executives. Taking decisions centrally ensures an overview and allows politicians to keep a lid on pay, but it can also make it difficult to provide flexibility where there is competition for candidates with other parts of the economy. Local decision-making allows for this flexibility, but can make it difficult to take account of the wider interest in setting appropriate pay levels across the public sector, and could even encourage pay spirals where different organisations are in competition for a limited range of candidates.

### Tensions between centralised and devolved systems

120. These differences of approach can cause tensions and place upward pressures on pay. This is a particular issue because staff moves between different parts of the public sector have become increasingly common. The Civil Service has in recent years been looking to people with experience of the wider public sector to fill some of its leadership roles—and has been increasingly discovering that it has to pay these people more than its own.<sup>151</sup> Christopher Johnson told us that sometimes, these pay disparities were simply too great to afford:

In my experience in the Civil Service, it proved easier to recruit talent from the private sector to senior roles in the public sector than from other parts of the public sector. Private sector candidates were attracted by the intrinsic value of the work and quality of experience to be gained, and this was a part of the ‘package’ along with reward. However, candidates from other parts of the public sector already enjoyed intrinsically valuable work and had gained quality experience. The gap in pay between the Civil Service and chief executives in local government and senior managers in the NHS, made it difficult to attract candidates from those parts of the public sector.<sup>152</sup>

150 Q 71 [Tony Travers]. See also Q 248 [Mike Langley].

151 Hamish Davidson written evidence

152 Christopher Johnson written evidence

121. These tensions can be particularly acute inside organisations such as the NHS, where centralised and devolved pay arrangements sit side by side. A recent report commissioned by the Department of Health noted that:

... foundation trusts are using their new status and increased freedom to set pay levels ahead of those organisations covered by the [Very Senior Manager] Framework. Median salaries for Chief Executive in foundation trusts and for such posts as Finance Director and Nursing Director, for example, are shown to be higher than their non-foundation trust counterparts; the distribution of the majority of foundation trust salaries is concentrated in a narrower range; and the greater proportion of foundation trust Chief Executives were on higher salaries than their non-foundation counterparts.<sup>153</sup>

These tensions are examined in more depth as a case study below.

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<sup>153</sup> Department of Health, 2008, The NHS Very Senior Managers Framework, An independent evaluation by Dr Alan Wright, para. 2.36

### **Case study: National Health Service management**

Three different pay systems apply to different sections of NHS healthcare management, and we heard that the tensions between these different systems have been causing “tremendous problems”.<sup>154</sup> Put briefly, pay levels for board-level Very Senior Managers (VSM)<sup>155</sup> are subject to a strong degree of central control, while their equivalents at Acute and Mental Health Trusts, including those with Foundation status, have their pay set locally. Meanwhile, all managers below board level (within almost every NHS organisation, including the vast majority of Foundation Trusts) are subject to the Agenda for Change pay framework, under which a Deputy Director of Finance, for example, could earn as much as £100,000.

A review conducted by the Department of Health found what was elegantly described as “a broad consensus on uncertainty” on achieving effective movement of personnel across the NHS as a whole “with one sector operating under the controls imposed by the [Very Senior Manager] Framework and the provider sector [Foundation and NHS Trusts] having freedom to set its own rates.”<sup>156</sup> This was reflected in the “anecdotal evidence” we received “that NHS foundation trusts and local authorities use their greater pay freedoms to outbid the rest of the NHS for the best managers.”<sup>157</sup>

We have also encountered concern about movement vertically within those parts of the NHS to which the VSM framework applies: “Salaries [for finance professionals in the NHS] below board-level compare well with the private sector, but directors of finance in the NHS are paid much less than their counterparts on private sector boards ... Many organisations have struggled to appoint key people, in circumstances where pay is not the only factor. In our evidence to the SSRB this year we intend to explore the views of many assistant directors that directorships are not worth the candle. They don’t see the relatively small increase in pay compensates for the career risks and exposure of working at board-level.”<sup>158</sup>

Both employers and senior managers told us that they favoured a move to a wholly devolved system.

Employers told us: “the general view is that it would be preferable if NHS organisations were all able to manage their own senior pay arrangements. The VSM framework does not have the confidence of the organisations which are obliged to implement it. It is not ‘felt fair’. Fully devolved arrangements would facilitate recruitment of the best candidate for a role in any organisation and encourage movement between organisational types. It would remove barriers to recruitment in ‘hard to fill posts’ and enable organisations to incentivise challenging assignments. Currently, there is a strong disincentive for a successful manager of an NHS Trust or Foundation trust to move to a post in an organisation operating the

154 Q 114 [Dave Evans]

155 Described in Annex A

156 The NHS Very Senior Managers’ pay framework: an independent evaluation, by Dr Alan Wright

157 MIP written evidence

158 MIP written evidence



Very Senior Managers pay framework. This is potentially restricting the candidate pools for the ‘world class commissioning’ of patient care.”

Senior managers told us: “We would certainly like to see greater consistency within the NHS. We argue that consistency can only be realistically achieved by giving all NHS remuneration committees the same powers to appoint and remunerate directors as applies to foundation trusts.”<sup>159</sup>

A further concern expressed to us were the relativities between pay for senior healthcare managers and that for top doctors, described to us as “the elephant in the room”.<sup>160</sup>

122. The SSRB, while acknowledging the need for pay flexibility to respond to the market value of different skills and knowledge, has mentioned “tensions caused by the fact that pay levels differ between different parts of the public sector” which had led to “complaints from senior civil servants who tell us that they deal with and do much the same work as people in other public sector bodies, e.g. regulatory bodies, local authorities, while being paid appreciably less than those people.”<sup>161</sup>

123. The two main effects of such pay disparities are:

- that those parts of the public sector operating more centralised (and by and large less extravagant) systems of pay find it difficult to recruit from those parts of the public sector with devolved pay arrangements, and
- that where they do succeed in recruiting such people, it is generally only by paying them more than existing staff, which gives rise to feelings of ill-treatment. As Stephen Taylor has observed, “the greatest source of feeling unfairly treated [on pay] is not the absolute but relative level, and ... relativities near to home ... are what matter”.<sup>162</sup>

### Should pay be set locally or centrally?

124. Much of this diversity has come about because there is a genuine tension between the desire of central government to devolve responsibility and yet to maintain control.

125. The argument for devolution is the need for flexibility “to reflect diverse requirements and markets”,<sup>163</sup> and the belief that local bodies are “close to the challenge and close to the market”.<sup>164</sup> We have heard that “at the very top level, [pay] often needs to be tailored to very specific needs where skills are scarce and real talent perhaps in short supply”, with “some top jobs [having] an accent on leadership, some on policy analysis and formulation,

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159 MIP written evidence

160 MiP written evidence

161 SSRB written evidence

162 Stephen Taylor written evidence

163 Sir John Baker written evidence

164 Q 208 [Dr Anne Wright]

some on professional expertise, some on change management, some on the delivery of services, some on presentational skills”.<sup>165</sup>

126. All of our witnesses from organisations that currently have local autonomy in setting pay did not think that a centralised system of pay review and determination would suit their organisational needs.<sup>166</sup> Perhaps more surprisingly, the Senior Salaries Review Body agreed, telling us that for them to advise on the pay of chief executives across a range of public bodies would be “too difficult, too disparate a field”.<sup>167</sup> Sir John Baker, a former chairman of the SSRB, provided the most colourful evidence against greater centralisation:

To members of a pay review body the oppressive weight of government control, which only gets heavier and never lighter, imposes frustrating constraints on finding sound and creative solutions to problems with pay levels and systems that inevitably emerge because labour markets, the nature of demands of the work to be done, the organisation of business, are dynamic. Problems and anomalies tend to build up, creating more and more tension until a crisis breaks. These tensions, which will always exist to a greater or lesser degree, would become more challenging if there were even greater efforts made to bring more and more public sector top appointments and senior pay groups within a yet more centralised and regulated system. It would be a gross mistake to impose greater central control to deal with a handful of high-profile outlying cases.<sup>168</sup>

127. There are, however, arguments for greater central control, notably that devolution can lead to inconsistent levels of pay inflation, and to pay disparities that impede the free movement of staff across the wider public sector. Christopher Johnson, describing his experience at the Cabinet Office, noted that the different pay regimes in local government and the civil service “got in the way of our ability to attract people into the Civil Service” and added that “from a citizen and a taxpayer point of view, that cannot be right”.<sup>169</sup>

128. Christopher Johnson has told us that the current pay review body system is “too bitty”.<sup>170</sup> The FDA trade union described NPDBs as “a law unto themselves” and suggested that a “more ‘level playing field’ was needed”.<sup>171</sup> As a specific example, Jonathan Baume mentioned the Chief Executive of the Qualifications and Curriculum Authority (QCA):

it is very hard to see how the Head of the QCA should be paid maybe 80% more than, say, the Head of the Department for Children, Schools and Families, for example. What is the logic to it?<sup>172</sup>

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165 John Baker written evidence

166 Q 208 [Millie Banerjee; Dr Anne Wright]; Q 209 [Tim Melville-Ross]; LGA written evidence

167 Q 236 [Mike Langley]

168 Sir John Baker written evidence

169 Q 124

170 Q 124

171 Q 21 – *Civil and Public Service Issues* [Jonathan Baume]; FDA written evidence

172 Q 21 – *Civil and Public Service Issues* [Jonathan Baume]

The FDA has proposed that “all senior staff in the public sector” could “be brought within the aegis of a Review Body” with the aim of establishing “a basic system of job weighting” to provide more consistency.<sup>173</sup>

129. The ‘uneven playing field’ problem can be seen in one of two ways: it could either be a result of the Government keeping pay artificially low in those parts of the public sector over which it has direct control, as Sir John Baker suggests, or alternatively a result of pay rising to unreasonable levels in those parts of the public sector with devolved arrangements. It may also be a combination of both factors.

130. The problem is not an easy one to solve. Increasing the pay of permanent secretaries in the civil service to the levels now received by the more highly paid chief executives in local government, for example, would probably be a political non-starter even if there were no budget deficit. On the other side of the equation, central government has relatively few levers with which to seek to reduce executive pay in local government to levels closer to those in the civil service.

131. A one-size-fits-all approach is also likely to have a negative effect on capability in those parts of the public sector where government needs to recruit people with private-sector experience. Regulators, for example, need to ensure that they have a detailed understanding of the industries for which they are responsible. If professional finance and IT skills are in short supply in the public sector, the Government has little option in the short term but to pay close to the going market rate to buy in these skills. If pay regimes do not allow for this kind of flexibility, then other ways will be found of acquiring these skills: through the use of highly paid contractors, for example.

132. We do, however, see room for improvement in the current arrangements. We are attracted to the idea that reward principles could be applied across the public sector, and that a central body might have a role in establishing and reviewing these principles.<sup>174</sup> A central body could be responsible for collating data on pay and reward and providing this data to bodies across the public sector to use as part of their decision-making processes.<sup>175</sup> Such a move could decrease the need for public bodies to turn to private sector remuneration consultancies as their main and perhaps only source of advice on pay.

133. We would also go one step further, and suggest that an independent central body might usefully monitor the implementation of these principles, and report publicly on cases where it felt that serious disparities were developing, whether in specific organisations, or across the public sector.

**134. We do not recommend an extension of the existing pay review body system, which makes annual recommendations to decision-makers on pay levels in certain parts of the public sector. We have heard that the current degree of centralisation of pay decisions already causes tensions that make it difficult for different parts of the public sector to respond to local circumstances.**

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173 FDA written evidence

174 FDA written evidence; Q 185 [Peter Boreham]

175 Q 208 [Dr Anne Wright]; Q 210

135. We do, however, recommend the establishment of an independent centre of expertise on public sector pay, with a particular focus on executive reward, a Top Pay Commission. This Commission should have a broad remit to collate, analyse and publish information on pay across the whole public sector and, where relevant, beyond. It should publish principles which all public sector bodies would be expected to follow and be able to show that they had followed and benchmarks against which the levels of pay that they set can be judged. With this in mind, the Commission should have the freedom to conduct investigations, on request or at its own initiative, where serious tensions or disparities appeared to be emerging, and to recommend ways of resolving or bridging these disparities.

136. The Commission need not involve creating a new body. Its functions could be merged with those of the Senior Salaries Review Body and it could be supported by an enhanced Office of Manpower Economics. Nonetheless, the setting up of a such a Commission would, inevitably, involve some upfront costs. We believe that ultimately a Top Pay Commission would save public money by reducing the need for public sector bodies to use private sector consultants, and by using the threat of investigation to control major public sector pay disparities.

### *Should a Top Pay Commission cover the private sector?*

137. Earlier in this report we discussed what Tony Travers called the “contagion effect” whereby top pay in the public sector was, in part, being driven by spiralling executive pay in the private sector.<sup>176</sup> Polly Toynbee described this as “an inevitable outcome” of increasing private sector salaries and argued that it would be necessary to tackle both private and public sector salary increases if executive pay in the public sector was to be reduced.<sup>177</sup> She suggested that the remit of the Low Pay Commission should be extended to suggest guidelines and benchmarks for both low and high pay across the public and private sectors. She argued that this would give those who hold pay setters to account—shareholders in the private sector or parliamentarians in the public sector—an impartial evidence base with which to scrutinise executive salaries and the relationship between the highest earners and the rest of the organisation.<sup>178</sup> In August 2009 the Government rejected a proposal from the pressure group Compass to establish a High Pay Commission to oversee and review top level pay in the City.

138. Our inquiry was specifically on executive pay in the public sector, and the Top Pay Commission we have proposed would therefore be concerned primarily with the public sector. However, an important function of the Top Pay Commission would be to monitor pay levels beyond the public sector where these have an impact on public sector pay, or on the ability of the public sector to recruit and train suitable people – to identify the extent of the ‘contagion effect’ identified by our witnesses – and to report on this impact, so that Government and the public can decide what wider action might be appropriate. It would also need to be able to keep an eye on public sector spending which might constitute pay by proxy, such as consultancy contracts and legal fees.

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176 Q 4 [Tony Travers]

177 Q 3 [Polly Toynbee]

178 Q 93 [Polly Toynbee]

## Better accountability

139. We have already discussed some of the coherence problems caused by devolved decision making; and one area where this can cause particular difficulties is accountability, local accountability in particular. Stephen Taylor voiced a common message when writing that “the pay of local government chief executives should be determined by local politicians” on the basis that “if the local populace don’t think they get value they can vote for a new lot”.<sup>179</sup> He is right, but only partly right, because higher pay may benefit the local population, but be bad for the country as a whole. This has been acknowledged by the Local Government Association (LGA) in its recent advice to councils that they “should take steps to ensure that top pay growth does not move out of line with general pay growth in the economy, unless changes can be fully justified by exceptional performance”.<sup>180</sup> **Where pay decisions are devolved, as they are in local authorities and in Foundation Trusts, mechanisms are needed to ensure that the impact of any local pay growth on the wider economy is fully taken into account. We envisage this being one of the principles a Top Pay Commission would seek to uphold.**

## Upwards pressures on pay setters

140. In addition to the evidence we received on coherence, we also received evidence pointing to a number of upward pressures on pay setters in the public sector. In this section we examine some of these pressures.

### *Competition for candidates leading to spiralling salaries*

141. Pay inflation resulting from competition for a small pool of favoured candidates appears to be a problem in pockets of the public sector. This was brought to particular prominence by an Audit Commission discussion paper: *Tougher at the Top?*, which suggested that in some circumstances local authorities were competing with one another for top performers in a way which was driving up the pay of chief executives:

Higher rates of recruitment of existing chief executives have led to increased turnover rates, additional recruitment costs and wage inflation.<sup>181</sup>

The Local Government Association accepts that “The Audit Commission’s research observed ... a perception that the appointment of an existing chief executive with a good track record is the best way to improve performance.”<sup>182</sup> However, Hamish Davidson argued that pay inflation for local authority chief executives was mainly a result of the changing, increasingly demanding nature of the job:

the modern role of a [chief executive] of a unitary, Met or City authority is probably the broadest in all of public sector. These are tough jobs. The talent required to be successful in this new model [chief executive] role is now much greater than was the

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179 Stephen Taylor

180 LGA written evidence

181 Audit Commission, 2008, *Tougher at the Top?*, p. 9

182 LGA written evidence

case in years past, and inevitably then, the pool of such candidates of such calibre is small. Candidates of this calibre are in great demand – and this has contributed to their ability to command higher salaries.<sup>183</sup>

142. According to the SSRB, wage inflation of this kind is not a problem within their remit groups “which have clearly defined pay systems”. They have, however, “heard anecdotal evidence” of wage inflation “for example where poorly performing local authorities, schools or NHS Trusts compete to recruit chief executives, heads or other senior managers with successful records of improving organisational performance”. This has a knock-on impact, in that members of the SSRB’s remit groups “increasingly point to other parts of the public sector where pay appears to be higher for no obvious reason.”<sup>184</sup> As Christopher Johnson told us:

Base pay [among local authority chief executives] has risen over the last few years at about twice the rate of, for example, the Civil Service. About a third of local authority chief executives are paid at or above the same level as permanent secretaries, which has made it difficult to attract chief executives into the Civil Service.<sup>185</sup>

### *Fishing in a small pool of reluctant fish*

143. The TaxPayers’ Alliance contends that “the majority of highly paid senior public sector jobs are not affected by a particular scarcity of suitable candidates”.<sup>186</sup> Hamish Davidson, however, went so far as to describe this statement as “utter rubbish.”<sup>187</sup> For obvious reasons, there is unlikely to be a scarcity of potential candidates for any highly paid job—the key consideration is how to decide whether these candidates are ‘suitable’ or not.

144. Hamish Davidson argued, that for chief executive posts, “the kind of skills you are looking for are in very short supply” and that “some of these people are not so prone to apply of their own volition”.<sup>188</sup> He explained the reasons behind this “dramatic change”<sup>189</sup> in candidate behaviour—particularly among the “strongest and highest profile”<sup>190</sup> candidates—as follows:

They are worried about leaks, they are worried about undermining the relationship with their leader, they are worried about the knock-on effects of destabilising their organisation if word gets out that they might be leaving.<sup>191</sup>

145. According to his view, the practice of fair and open competition in the public sector, and in particular of taking up current employer references prior to interview, tended to

183 Hamish Davidson written evidence

184 SSRB written evidence

185 Christopher Johnson written evidence

186 TPA written evidence

187 Hamish Davidson written evidence

188 Q 118 [Hamish Davidson]

189 Q 119 [Hamish Davidson]

190 Hamish Davidson written evidence

191 Q 120 [Hamish Davidson]



discourage strong candidates from applying for senior public sector roles unless directly approached<sup>192</sup>, and that as a result:

the local government recruitment market (and indeed, at a slightly slower but still inexorable rate, the rest of the senior level public sector recruitment market) is moving towards a more 'private sector' model of recruiting, where although, because of the 'open and fair competition' tenet, roles are still advertised, the working assumption amongst increasing numbers of employers is that the strongest candidates are likely to be generated through headhunting.<sup>193</sup>

146. His conclusion was that “the balance of power in negotiations has shifted from the employer and more towards the candidate when it comes to talking about remuneration”.<sup>194</sup>

147. However, he argued that public sector bodies tended to exacerbate this situation through the “inherent conservatism of the appointment process”<sup>195</sup> and by the tendency of public bodies to define the specifications for senior posts so tightly as to limit the pool of potential candidates unnecessarily. He mentioned “the tendency of public sector employers to: write specifications ... that require candidates to, effectively, walk on water and perform miracles several times a day”, and of recruitment panels tending to “appoint to the lowest common denominator and ... conservatively with minimal risk” whatever might be being stated in public about the need to appoint “more people with pace and passion”.<sup>196</sup>

148. Peter Boreham agreed that some of the “perceived shortage of talent” driving up pay was “perceived rather than real.”<sup>197</sup> This opinion was echoed by the Society of Local Authority Chief Executives:

What is happening in a number of cases - and we have seen it - is that leaders of councils, often large shires, when they lose their chief exec, publicly say, 'We only want somebody who has been the chief executive of a county council before and it must be an excellent rated county council.' Then you look around and that is nine people, five of whom are nearing retirement. Once you do that, you are going to get spiralling wages. One of SOLACE's positions on this is that councillors are a little risk-averse.<sup>198</sup>

149. Another suggestion is that pay inflation has resulted in part from using more measurable performance indicators.<sup>199</sup> This has been mentioned particularly in the context of the local authority Comprehensive Performance Assessment (CPA) regime, where the “desperate need” for councils to increase their low ratings led them into bidding wars for top Chief Executives:

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192 Hamish Davidson written evidence

193 Hamish Davidson written evidence

194 Hamish Davidson written evidence

195 Q 148 [Hamish Davidson]

196 Q 123 [Hamish Davidson]

197 Q 189 [Peter Boreham]

198 Q 30 [David Clark]

199 Q 81 [Tony Travers]

Increasingly, there emerged a reluctance to make an internal appointment as Chief Executive and to opt for the external. Now, had the internal candidate been appointed, then the salary could typically be set at the lower end of the range. However, given the increasing trend to appoint ‘externally’, and given my point about the prevailing culture within the public sector of never taking a pay cut, the inevitable consequence ever increasing salary inflation.<sup>200</sup>

**150. There is little to discourage those taking local decisions on senior pay from paying over the odds for a candidate who is a ‘safe bet’, and very little to incentivise them to appoint someone who might represent better value, possibly internally, who is of potential but with less experience at the top level.**

### *Use of consultants and headhunters*

151. Our panel of consultants argued that their work strengthened the hand of public sector pay setters and ironed out some of the problems discussed above:

I think you need an external perspective ..., otherwise you end up either with misinformed decisions or, indeed, the executives themselves pushing for something and the non-executive directors not having enough confidence to push back.<sup>201</sup>

When I have been into organisations that have been advised by other consultants, I normally find a reasonably well ordered set of pay arrangements. When I walk into an organisation for the first time that has not had access to professional advice, I often, not always, find that pay arrangements are quite a long way out of line with what I would normally expect to pay, sometimes too low but quite often too high, and that is because things have been set in a vacuum without professional advice.<sup>202</sup>

152. However, the work of consultants and headhunters came in for criticism from some of our witnesses. The Institute of Directors thought their involvement was “a waste of taxpayers’ money and should be done inhouse” and warned of the risk of “a form of cartel if the same consultancy advises a number of different public sector organisations.”<sup>203</sup> The TaxPayers’ Alliance wrote that:

the use of consultancies to advise on pay does little to encourage public confidence in the system or deliver value for money, often acting as little more than an expensive rubber stamp ... Note too that recent sharp rises in public sector executive pay is concomitant with the increased use of consultancies.<sup>204</sup>

153. Polly Toynbee agreed that the role of headhunters deserved scrutiny,<sup>205</sup> while the Senior Salaries Review Body (SSRB), which advises the Government on remuneration for senior civil servants among others, noted the “danger that it is in the consultants’ interest

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200 Hamish Davidson written evidence

201 Q 119 [Peter Boreham]

202 Q 170 [Peter Boreham]

203 IoD written evidence

204 TPA written evidence

205 Q 30 [Polly Toynbee]



to set ... salaries higher than strictly necessary in order to make posts easier to fill, and even because in some cases the consultants' remuneration may be linked to the salary on appointment."<sup>206</sup> This latter point was denied by the consultants themselves, who told us that they worked on a fixed rate basis for public bodies.<sup>207</sup>

154. Hamish Davidson, a headhunter himself, was critical of the role his professional colleagues sometimes played, describing them as “part of the problem, not part of the solution”.<sup>208</sup> In particular he argued that headhunters are “often culpable” by not challenging the unnecessarily narrow person specifications drawn up by public sector bodies, discussed earlier. He suggested that headhunters often went along with such specifications for a variety of reasons, including a desire not to “rock the boat” in terms of their relationship with their client, the fact that a narrow brief means less work for the headhunter and a professional background that shares the public body's view that only a “conventional” candidate could do the job..<sup>209</sup>

155. The Trade Union representing senior civil servants is also of the view that there would “almost certainly” have to be a role for consultancies in the determination of pay for public sector posts, but that this should be a “support and technical” role, rather than a “delegation of decision making”.<sup>210</sup>

**156. There is clearly a need for public bodies to receive expert advice on executive remuneration and recruitment. However, we believe this could be provided more efficiently and in a way that is more transparent. A Top Pay Commission, as proposed earlier in this report, would provide a central, independent source of advice to pay setters across the public sector and should reduce the need to employ individual consultants on an organisation by organisation basis.**

## Strengthening the hand of pay setters

157. In the previous section we discussed some of the pressures on pay setters that have led to increasing executive salaries in the public sector. In this section we examine ways in which these pressures could be reduced.

### *More flexible recruitment policies?*

158. Fair and open competition is central to public sector recruitment practice, but cultural differences can be an issue when seeking to recruit candidates from the private sector. Recruitment decisions in the public sector, on the part of both candidates and employers, can be relatively protracted. Hamish Davidson referred to what he saw as

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206 SSRB written evidence

207 Q 120 [Hamish Davidson]

208 Q 148 [Hamish Davidson]

209 Hamish Davidson written evidence

210 FDA written evidence

‘Byzantine’ appointments processes that ‘effectively’ un-nerve and often end up discriminating against candidates from outside of the public sector, for whom these processes resemble some archaic, process-driven ritual.<sup>211</sup>

**159. We recommend that the Government and the Commissioner for Public Appointments examine whether there is any validity to the argument that recruitment procedures to senior public sector positions diverge from recruitment practice elsewhere to the extent that good candidates from outside the public sector are dissuaded either from applying for posts or from accepting offers of employment.**

### *More effective and independent boards*

160. Where boards of individual organisations are involved in setting pay, how those boards themselves are recruited and remunerated has been raised as an important issue by both experts and pressure groups:

If you want to get more black and minority ethnic non-executive directors into the public service, you have to recruit people who have got a day job, and the reality is that if they have got a day job, £290 a day is not going to do it. It also raises the question of diversity of outlook: because if all your non-executive directors are portfolio non-executives or people who have retired, you are not getting the perspective of people who are in work at the moment, who are raising families and who are more representative of the population of the UK as a whole.<sup>212</sup>

The system of ‘remuneration panels’ and ‘remuneration boards’, in which most public sector executive pay is set are inadequate; ordinary taxpayers are rarely represented.<sup>213</sup>

161. Where pay decisions are devolved to individual bodies, the soundness of those decisions on executive pay will depend largely on the strength, expertise and independence of the board members of those bodies. The board members from whom we heard in evidence seemed well-placed to take these kinds of decisions, but we have concerns about whether this is the case throughout the public sector. The TaxPayers’ Alliance reflected what we suspect is a common concern among the public, that boards are not always strong and independent enough to take hard decisions on pay.<sup>214</sup> **Unless the range of people represented at board level is broadened there is a real risk that they will be limited in their experience and in the challenge they are able to bring to bear to the executive staff of their organisation, on senior pay as well as on other issues.**

162. Where pay levels are set by politicians, who cannot be expected to be experts in remuneration, their decisions will depend substantially on the quality and independence of the advice they receive. The independent Top Pay Commission which we have recommended could help to provide consistency of independent advice and to act as a counterweight to private-sector consultancy, as well as a watchdog where individual bodies

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211 Hamish Davidson written evidence

212 Q 148 [Peter Boreham]

213 TPA written evidence

214 Q 73 [Ben Farrugia]

were tempted to put their own interests too far ahead of those of the public sector more widely.

163. The LGA believes that local councils should “improve accountability through appointment of remuneration committees with members from outside the council”.<sup>215</sup> This is in keeping with Christopher Johnson’s recommendation that “executive reward decisions—policy and application to individuals—should be made through remuneration committees that include independent members and report to Ministers or authority members or boards, as appropriate”.<sup>216</sup> There should be a strong element of independent oversight of executive reward decisions at bodies across the public sector, whether in central government, local government, the National Health Service or elsewhere. **Executive reward proposals at all public bodies, including those comprising elected members, should be worked up either by remuneration committees, which should include a majority of visibly independent members, or by independent pay review bodies.**

### **Better human resource management**

164. There are several reasons why a strong human resources capability is vital to restraining executive pay in the public sector.

165. First, this capability enables organisations to assess more accurately how to structure reward packages to maximise performance and minimise the loss of talent, at least cost:

it is essential that those making external appointments and negotiating pay packages, are expert enough to secure value for money. More internal expertise may be required here, not least to question any advice received from external recruitment consultants<sup>217</sup>

awareness of what is happening in the private sector is important, as is careful monitoring of the quality of new recruits and retention rates.<sup>218</sup>

166. It has been suggested to us by professionals in the field that this happens only haphazardly across the public sector:

only 11 per cent of employers in the public sector have adopted a total reward strategy and ... few evaluate the impact of their reward practices on the organisation<sup>219</sup>

Overall, executive reward in the public sector is not well managed. It insufficiently supports the acquisition, development, management and retention (and exit) of the talent required to provide leadership of service delivery for and on behalf of citizens and to ensure value for money for the taxpayer.<sup>220</sup>

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215 LGA written evidence

216 Christopher Johnson written evidence

217 Sir John Baker written evidence

218 Sir John Baker written evidence

219 CIPD written evidence

220 Christopher Johnson written evidence

167. Peter Boreham meanwhile suggested that the public sector was not an attractive environment for reward experts to work in compared with the private sector:

The reality is in the public sector the level of reward expertise within most organisations is limited compared to the private sector, partly because the private sector has exciting toys to play with like incentive programmes and company car schemes, share schemes, and all those things.<sup>221</sup>

**168. A consistent and skilled approach to reward is even more important in the public sector than in the private, where excessive executive pay can often be relatively easily absorbed within profits. The evidence we received, however, suggests that reward practice is poorly applied across much of the public sector. The public purse would have much to gain from a more rigorous approach to the management of executive reward across the public sector.**

169. Second, it is far cheaper for organisations to grow their own talent than to have to buy it in from outside at a market premium.

it is very important that the public sector grows talent. The Civil Service is 500,000 people strong - that is a large organisation, by any stretch of the imagination - and ought to be able to be capable of growing a lot of its own internal talent, but that does imply very careful exposure to different experiences through a career which may be outside as well as inside the public sector. So I put a lot of weight on talent management processes.<sup>222</sup>

It is also very important for councils working alone and in partnerships to do more to develop their most talented employees to take up leadership positions in the future. This will increase the supply of potential leaders.<sup>223</sup>

170. Again, it has been suggested to us that this “is a massive area of lost opportunity”:

The extent to which the public sector, despite the literal explosion of ‘leadership development bodies’ fails miserably to invest effectively in growing its own talent (especially amongst women and BME communities) is staggering. In this area, the private sector (most particularly within global multinationals) is far ahead of the public sector.<sup>224</sup>

**171. In terms of executive pay, it is almost always cheaper to promote from within than to have to go to the market to recruit. We are therefore disturbed by the lack of clear evidence that government is successfully growing its own talent in those areas long identified as suffering from a skills shortfall.**

**172. We recommend that the Government re-examine the incentives available to those making executive appointments across the public sector to ensure that they reward public bodies who grow their own talent, rather than just encouraging the appointment**

221 Q 111 [Peter Boreham]

222 Q 124 [Christopher Johnson]; also Q 170 [Hamish Davidson]

223 LGA written evidence

224 Hamish Davidson written evidence

**of stale and expensive serial candidates. This examination should consider the possibility of providing additional funding or powers to organisations that successfully restrain executive pay, as a counterbalance to the temptation to appoint from a small and expensive pool of tried and tested candidates.**

173. One difficulty may be that the skills that have been identified as required are very similar to those needed in the private sector, allowing the best-trained public servants to seek better remunerated employment elsewhere more easily than they might have been able to in the past. If the skills required by some public servants are no longer distinct from those required in the private sector, it will become increasingly hard to insulate public sector pay from private sector pay, without losing a great deal of talent.

174. Thirdly, by managing performance effectively, organisations are better able to assess whether they are in fact getting value for money from their people, linking to the performance issues we discussed in Chapter 4.

### **Making the most of intangible benefits**

Organisations should remember that there is more to an employee's reward package than just money.<sup>225</sup>

175. The fact that the public sector pays its senior people significantly less than their counterparts in the private sector has traditionally been offset by other intangible benefits, including job interest and satisfaction, and a sense of contributing to society, along with the increased possibility of receiving an honour.<sup>226</sup>

176. There are also some tangible benefits beyond pay that are competitive with practice at the top of the private sector, but by no means all:

Some benefits are competitive with private sector practice, for example, leave arrangements and pension provision, while other elements are below market practice, for example, private health insurance, share plans, car policy.<sup>227</sup>

The SSRB among others also pointed to work/life balance as a potential benefit of public sector employment.<sup>228</sup>

177. Christopher Johnson told us why some senior people in the private sector might want to work in the public sector for less money:

For example, if you were a senior commercial person, say, in a big organisation like BP or Shell, you could be interested in coming into the public sector because the scale in which you are operating in a commercial role is much more significant than might be the case out in the private sector.<sup>229</sup>

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225 CIPD written evidence

226 Q 101 [Tony Travers]

227 Christopher Johnson written evidence

228 SSRB written evidence; Christopher Johnson written evidence

229 Q 109 [Christopher Johnson]

178. Both the FDA and TaxPayers' Alliance pointed to professional autonomy as a more important motivating factor than pay.<sup>230</sup> The TaxPayers' Alliance also pointed to the 'public sector ethos' as an attitude that needed reinforcing:

Public sector workers often stress that they do their jobs, in part, out of sense of duty; this attitude must be reintroduced into the top levels of the public sector.<sup>231</sup>

We are not convinced that the public service ethos is entirely absent. If it was, senior public sector salaries would be still higher than they are at present. However we agree that this is something that is valuable and is worth protecting, which is – as we discussed earlier – a particular challenge at a time of overwhelmingly negative press coverage.

**179. Particularly at a time when public money is in short supply, public sector organisations will need to pay close attention to the low-cost and cost-free elements of reward that they can provide to their senior executives, as well as to other staff—from job interest and satisfaction, to development opportunities, to work/life balance—and to prevent these elements from being eroded. This is a human resources challenge of some scale, which we hope has been recognised.**

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230 TPA written evidence; FDA written evidence

231 TPA written evidence

## 7 Conclusion

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180. This has been one of our more difficult inquiries. Highly paid public servants are an easy target for politicians and the media, and also a timely target, because this is an area in which feelings are running high. We have wanted to maintain a balanced perspective, and not simply to assume that top public servants' salaries can be painlessly cut.

181. It is almost certain that some top public service posts could be performed adequately, or better than adequately, for less money than now. It may well also be the case that other posts would provide better value for taxpayers' money if their incumbents were paid closer to the market rate (meaning, more)—although the suggestion goes against both the popular grain and the financial imperative.

182. We have identified a number of reasons why executive-level public sector pay has risen over the last ten years. These include “contagion” from much larger increases in the private sector, increasing competition for a small number of suitable candidates, tensions between devolved and centralised pay setting arrangements and an increased reluctance on the part of candidates to come forward. Whilst some of these factors cannot be addressed without a major change in the nature of our economy, we also heard evidence of ways in which the public sector could be more rigorous in setting executive pay.

183. All of our witnesses accepted that some public servants need to be paid substantial salaries that are comparable with—although not equal to—those at the top of the private sector. However the public will not accept such salaries unless there is:

- Better performance management, to ensure that failure is not rewarded;
- Greater transparency, so that taxpayers know who is being paid how much for doing what; and
- More coherence in the way in which public sector pay is set, backed up by an independent source of advice to strengthen the hand of pay setters and “name and shame” the outliers.

184. We have recommended the creation of a Top Pay Commission to oversee executive remuneration in the public sector. Its role would be to:

- Act as an independent source of data and information to pay setters across the public sector, including by publishing reports and findings where appropriate;
- Produce pay principles, guidelines for private sector comparisons and workable benchmarks for pay setters in the public sector;
- Investigate cases where these principles appear not to have been followed or where benchmarks have been substantially exceeded;
- ‘Name and shame’ organisations that are unable to justify their executive pay policies adequately; and

- Ensure necessary levels of transparency and accountability in public sector pay setting are being maintained.

185. We believe that our proposals in this report will go a long way to achieving the goals set out above and will, as a result, be more effective at restraining top public sector pay than an arbitrary cap or limit on salary levels. However, rising executive pay in the public sector is itself a symptom of a wider problem—that of escalating executive salaries across the whole economy, nationally and internationally. **Action to restrain public sector top pay will ultimately be effective only if similar restraint is shown in the private sector.**



# Conclusions and recommendations

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## Introduction

1. It is clear that there is no consensus on the issue of top pay and reward in the public sector. Commentators and experts have markedly different views on the issue: the commentators considered the experts to be part of the problem, while the experts considered the commentators to be ill-informed. (Paragraph 3)
2. The first obstacle to coherence in setting public sector pay is confusion about what constitutes the “public sector”. It is clear that there are many people who are paid with taxpayers’ money who are not in what is traditionally considered the public sector. Similarly, there are people who would be regarded as being in the public sector who are not paid with taxpayers’ money. When we launched this inquiry, we made clear that we would focus on civil service posts and on public appointments made by Ministers and by the Crown. These posts are indisputably within the public sector, and remain at the centre of our inquiry. However, the fact that boundary lines between the public, private and third sectors are blurred rather than clearly demarcated means that it would be not only wrong but impossible to look at public sector pay in isolation from pay elsewhere in the wider economy. (Paragraph 14)

## Is Public Sector pay too high?

3. Too often, the debate about top public sector pay carried out in the media is reductive and relies upon taking individual examples of “inflated pay” out of context. A more considered look at the statistics and other evidence shows that the issue is not a simple one: top pay in the public sector can be both significantly too low and much too high, depending entirely on perspective. Judged against the private sector, the public sector has exercised considerable restraint on executive pay, both in terms of the amounts paid and (with the occasional notable exception) the rate of increase. But pay for public sector executives has been increasing far more quickly than average pay in the economy as a whole, a fact that has inevitably fuelled anger amongst some taxpayers. (Paragraph 27)
4. Public servants who earn more than the Prime Minister are very well paid indeed. Reward at this level deserves a clear and public justification, and close and sceptical scrutiny. But any proposal to use the Prime Minister’s salary as an absolute cap on public sector pay would be little more than a political stunt. Public servants are recruited from very different labour markets, and the pay they are offered needs to reflect those markets, even if it cannot match them. Prime Ministers pay themselves at a rate determined by politics more than by responsibility, and their earnings in retirement can if they wish vastly exceed their earnings in office. (Paragraph 36)
5. The extent to which individual public and private sector salaries are comparable is difficult to establish and will vary from post to post. The influence of private sector pay on public sector salaries is also felt in other ways, such as through the knock-on effects of spiralling private sector salaries over recent decades. This influence is

especially evident in those areas where there has been a drive towards recruiting more public servants from the private sector, for example to fill skills gaps in information technology and finance. (Paragraph 52)

6. It is in the interests of public sector executives to 'talk up' their marketability in the private sector, just as it is in the interests of private sector executives to talk up their incentive to move overseas. With this in mind, it is perhaps unsurprising that those setting pay may have wanted to err on the side of caution when public finances were reasonably provident. Paying slightly over the odds risks wasting a little public money. Paying too little risks wasting a lot of public money trying to motivate those staff who have stayed while attempting to recruit replacements for the most competent staff, who have left. Against a background of budget cuts, the need for more stringency in setting salaries is clear. However it would be particularly damaging if talented managers able to deliver substantial savings left the public sector because of pay reductions that would contribute relatively little to deficit reduction. (Paragraph 53)
7. It is important that pay setters have access to appropriate benchmarks when negotiating senior executives' contracts and ensure that comparisons with the private sector are used appropriately. There is a strong argument for undertaking this benchmarking process centrally and in a way that is independent of the pay setters themselves. This is an argument we return to later in this report. (Paragraph 54)

### Reducing the deficit

8. Proposals to cap pension payments to senior executives in the public sector go somewhat beyond the scope of this report. Such proposals deserve close attention, but a cap will only be effective and worthwhile if it is fair on the people affected, if it is sustainable in terms of recruitment, retention and motivation, and if the savings that it produces are genuine and significant across the public paybill. (Paragraph 62)
9. Given the level of the budget deficit, the announcement of a short-term pay freeze for senior public servants alongside a cap on all public sector pay increases was not unexpected. The arguments for such a move are less about the levels of pay themselves and more about saving money and ensuring that the public sector is seen to be 'sharing the pain' of recession fairly. (Paragraph 66)

### Performance and reward

10. Where highly paid public servants fail to perform effectively, they should face the very real prospect of losing their jobs without any kind of generous pay-off. Clearly, assessments of performance will need to be sophisticated and well-informed, given the potentially serious consequences for the individuals concerned. In particular, assessments of individuals' performance should not be simply correlated from overall organisational performance, as many other factors may have influenced organisational success or failure. (Paragraph 74)
11. Regardless of the arguments for and against a greater proportion of senior salaries being directly linked to performance it is clear that such a move would not be

acceptable in the current political and economic climate. The word “bonus” has acquired a toxic quality and become associated with unjustifiable reward – despite the fact that the eligibility for such payments is generally given instead of increases in base pay. (Paragraph 83)

## Respect

12. We are concerned by the consistent media demonisation of senior people in the public service. Continued negative media coverage is likely to undermine one of the main intangible benefits of public sector work: a sense of doing valuable and valued work for the public good. In the absence of this sense of respect, the public sector is likely to have to pay more, rather than less, to encourage talented people into senior roles. (Paragraph 87)
13. The Government, politicians in particular, need to stand behind and explain the decisions they have taken on senior pay when these are challenged. The Government has a responsibility even when pay is set locally: it should support the outcomes produced by the pay systems it has established. (Paragraph 88)

## Transparency

14. We do not see how the publication of more exact remuneration figures for senior public sector executives, including separate breakdowns of salary and bonuses, could constitute a genuine breach of their privacy, as long as they were given adequate notice of the intention to do so. This information is after all already required of directors of listed companies in the private sector. We recommend that disclosure of top public sector salaries should be brought more into line with the requirements for listed companies, with the amount received in both salary and bonuses published along with explanations as to why bonuses were paid. (Paragraph 95)
15. We welcome the Government’s intention to bring the publication requirements for senior remuneration levels in local government bodies in line with those for central government. This should, as we recommend earlier, mean that full details of top local government salaries and bonuses should be published. (Paragraph 98)
16. We strongly support the idea that transparency should be broadly consistent across the public sector: it would be inconsistent and potentially unfair to require the earnings of one group of public servants to be disclosed at a level not required of other public servants. (Paragraph 103)
17. The proposed changes to local government remuneration disclosure will bring about a position in which there is a broadly comparable level of transparency across the public sector. It is at least a starting point for consistency which is an improvement on the status quo. (Paragraph 105)
18. However we believe transparency can go further. We recommend the routine disclosure of the remuneration of all public servants earning above a certain amount, in the region of £100,000, not just members of management boards. We heard arguments for disclosure at lower salary levels; whilst we understand why people may

be interested in this data, it would be considerably more costly to produce and would be disproportionate, especially where we are talking about mid-level managers. (Paragraph 106)

19. We also see value in providing a brief description of how an individual has earned the level of remuneration being disclosed. This could help the public to come to a more informed view on the value for money being provided by their most highly paid public servants. (Paragraph 107)

### Consideration of pay conditions more widely

20. Decisions on senior pay should take into account the earnings, conditions of employment and job security of other employees of the same organisation. We accept that simply publishing a ratio in isolation could be misleading, but we recommend that public sector bodies should be required to declare how the earnings of their senior people relate to the earnings of their other employees. (Paragraph 110)

### A Top Pay Commission

21. We do not recommend an extension of the existing pay review body system, which makes annual recommendations to decision-makers on pay levels in certain parts of the public sector. We have heard that the current degree of centralisation of pay decisions already causes tensions that make it difficult for different parts of the public sector to respond to local circumstances. (Paragraph 134)
22. We do, however, recommend the establishment of an independent centre of expertise on public sector pay, with a particular focus on executive reward, a Top Pay Commission. This Commission should have a broad remit to collate, analyse and publish information on pay across the whole public sector and, where relevant, beyond. It should publish principles which all public sector bodies would be expected to follow and be able to show that they had followed and benchmarks against which the levels of pay that they set can be judged. With this in mind, the Commission should have the freedom to conduct investigations, on request or at its own initiative, where serious tensions or disparities appeared to be emerging, and to recommend ways of resolving or bridging these disparities. (Paragraph 135)
23. The Commission need not involve creating a new body. Its functions could be merged with those of the Senior Salaries Review Body and it could be supported by an enhanced Office of Manpower Economics. Nonetheless, the setting up of a such a Commission would, inevitably, involve some upfront costs. We believe that ultimately a Top Pay Commission would save public money by reducing the need for public sector bodies to use private sector consultants, and by using the threat of investigation to control major public sector pay disparities. (Paragraph 136)
24. Our inquiry was specifically on executive pay in the public sector, and the Top Pay Commission we have proposed would therefore be concerned primarily with the public sector. However, an important function of the Top Pay Commission would be to monitor pay levels beyond the public sector where these have an impact on public sector pay, or on the ability of the public sector to recruit and train suitable people –

to identify the extent of the ‘contagion effect’ identified by our witnesses – and to report on this impact, so that Government and the public can decide what wider action might be appropriate. It would also need to be able to keep an eye on public sector spending which might constitute pay by proxy, such as consultancy contracts and legal fees. (Paragraph 138)

25. Where pay decisions are devolved, as they are in local authorities and in Foundation Trusts, mechanisms are needed to ensure that the impact of any local pay growth on the wider economy is fully taken into account. We envisage this being one of the principles a Top Pay Commission would seek to uphold. (Paragraph 139)

### **Reducing pressures on pay setters**

26. There is little to discourage those taking local decisions on senior pay from paying over the odds for a candidate who is a ‘safe bet’, and very little to incentivise them to appoint someone who might represent better value, possibly internally, who is of potential but with less experience at the top level. (Paragraph 150)
27. There is clearly a need for public bodies to receive expert advice on executive remuneration and recruitment. However, we believe this could be provided more efficiently and in a way that is more transparent. A Top Pay Commission, as proposed earlier in this report, would provide a central, independent source of advice to pay setters across the public sector and should reduce the need to employ individual consultants on an organisation by organisation basis. (Paragraph 156)

### **More flexible recruitment policies?**

28. We recommend that the Government and the Commissioner for Public Appointments examine whether there is any validity to the argument that recruitment procedures to senior public sector positions diverge from recruitment practice elsewhere to the extent that good candidates from outside the public sector are dissuaded either from applying for posts or from accepting offers of employment. (Paragraph 159)
29. Unless the range of people represented at board level is broadened there is a real risk that they will be limited in their experience and in the challenge they are able to bring to bear to the executive staff of their organisation, on senior pay as well as on other issues. (Paragraph 161)
30. Executive reward proposals at all public bodies, including those comprising elected members, should be worked up either by remuneration committees, which should include a majority of visibly independent members, or by independent pay review bodies. (Paragraph 163)

### **Better human resource management**

31. A consistent and skilled approach to reward is even more important in the public sector than in the private, where excessive executive pay can often be relatively easily absorbed within profits. The evidence we received, however, suggests that reward

practice is poorly applied across much of the public sector. The public purse would have much to gain from a more rigorous approach to the management of executive reward across the public sector. (Paragraph 168)

32. In terms of executive pay, it is almost always cheaper to promote from within than to have to go to the market to recruit. We are therefore disturbed by the lack of clear evidence that government is successfully growing its own talent in those areas long identified as suffering from a skills shortfall. (Paragraph 171)
33. We recommend that the Government re-examine the incentives available to those making executive appointments across the public sector to ensure that they reward public bodies who grow their own talent, rather than just encouraging the appointment of stale and expensive serial candidates. This examination should consider the possibility of providing additional funding or powers to organisations that successfully restrain executive pay, as a counterbalance to the temptation to appoint from a small and expensive pool of tried and tested candidates. (Paragraph 172)
34. Particularly at a time when public money is in short supply, public sector organisations will need to pay close attention to the low-cost and cost-free elements of reward that they can provide to their senior executives, as well as to other staff—from job interest and satisfaction, to development opportunities, to work/life balance—and to prevent these elements from being eroded. This is a human resources challenge of some scale, which we hope has been recognised. (Paragraph 179)

## Conclusion

35. Action to restrain public sector top pay will ultimately be effective only if similar restraint is shown in the private sector. (Paragraph 185)

## Annex A

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This Annex sets out various methods of setting public sector pay.

### ***Central Government policy and practice***

The Ministerial Sub-Committee that considers public sector pay in the round is the Sub-Committee on Public Sector Pay (PSX(P)) of the Ministerial Committee on Public Services and Public Expenditure. Its terms of reference are “To consider public sector pay and pensions policy and proposals for pay and workforce reform; and report as necessary to the Committee on Public Services and Public Expenditure”. It is chaired alternately by the Chancellor of the Exchequer and the Chief Secretary to the Treasury. Working to this Ministerial Sub-Committee is a Committee of civil servants from across Whitehall, the Public Sector Pay Committee (PSPC), also known as the “Pay Gateway”, established in 2005 to provide advice to the Chief Secretary on all significant public sector pay decisions.

The PSPC “sets common objectives for pay across government and ensures that pay awards and pay systems are evidence-based, consistent, and financially sustainable over the long run”.<sup>232</sup> All independent review body recommendations are considered by this Committee. In addition, according to Civil Service Pay Guidance for 2009–10, “High level information on payments to Chief Executives of NDPBs will be scrutinised by the Public Sector Pay Committee (PSPC) on a post-hoc basis to ensure that they are properly justified”.<sup>233</sup> What is unclear is the extent to which the PSPC, despite its nominal role across the public sector, can influence pay decisions in local government, public corporations, and Foundation Trusts, where Ministers have no formal role in the pay-setting process.

### ***Senior Salaries Review Body: senior civil servants among others***

The Senior Salaries Review Body (SSRB) is one of a number of pay review bodies set up on a (generally) non-statutory basis to provide independent advice to Ministers and others on pay in different parts of the public sector, and particularly to provide annual recommendations on pay levels. The SSRB provides independent advice to Ministers 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 – a subset of very senior managers in the NHS were recently added to its remit.

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232 HM Treasury, Convergence Programme for the United Kingdom, December 2006, Para 6.8

233 <http://www.hm-treasury.gov.uk/d/civilservicepayguidance010409.pdf>, accessed 9 December 2009



Other review bodies consider the pay of the armed forces, doctors and dentists, school teachers, prison staff and the police.

There is no independent review body providing advice on the pay, pensions and allowances of other executive posts for which Ministers have responsibility. These include the Chief Executives and other senior executives of NDPBs.

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

The Review Body provides advice only. Final decisions on pay for the main categories are taken by the relevant Ministers, including the Prime Minister. Not all of the recommendations of the SSRB for 2009–10 were accepted by Ministers in 2009, with increases for the senior civil service, judiciary and very senior NHS managers limited to 1.5%, set against recommendations of 2.1%, 2.6% and 2.4% respectively. The SSRB's recommended 2.8% increase for senior military personnel was accepted in full.

### ***Non-departmental public bodies***

Responsibility for pay arrangements for senior staff at NDPBs also rests with Ministers, but instead of there being an overarching pay advisory body, the main advice that these Ministers receive comes from the non-executive board of each NDPB. The members of this board are appointed by the relevant Minister. In a minority of cases, NDPB staff are civil servants, for whom civil service pay arrangements apply. In the majority of cases, the NDPB board will make recommendations on pay for senior executives, along with pay for other staff, generally via a remuneration committee. Although each NDPB's annual pay remit is subject to approval by the sponsor Department, and in some cases also by HM Treasury,<sup>234</sup> it seems that in practice most of the work on setting pay is taken at NDPB board level. Pay for NDPB chief executives is explicitly the responsibility of the sponsor Department,<sup>235</sup> but again, in practice, much of the work in determining chief executive pay seems to be carried out by individual NDPB boards, with little obvious intervention from sponsor Departments, at least until recently.<sup>236</sup>

The logic here appears to be that different NDPBs recruit their senior staff from very different markets; the pay an NDPB offers needs to reflect the relevant market; and the NDPB board is better-placed than a large Government Department to make an initial tailored judgment on the pay levels they need to offer to attract and retain suitable people.

According to the memorandum we have received from the Government, HM Treasury asks to be consulted by the sponsor Department in particular scenarios:

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234 Civil Service Pay Guidance 2009–10, Box 5.A

235 Civil Service Pay Guidance 2009–10, para 10.1

236 Q 191 [Tim Melville-Ross]



- where proposed remuneration packages for new Chief Executives are significant or potentially repercussive.
- where proposals to increase the remuneration of an existing Chief Executive beyond existing uplift arrangements are significant or potentially repercussive, and
- where other executives are to be paid the same as, or more than, the Chief Executive.<sup>237</sup>

But as the Government memorandum makes clear “Unless there is a new appointment or restructuring of an existing post, HMT does not currently monitor remuneration of NDPB Chief Executives (or those paid the same or more) and departments establish their own monitoring arrangements.” In other words, there is no central overview of senior executive pay at NDPBs.

### ***Public corporations and NHS Foundation Trusts***

There is even greater delegation of powers to set executive pay at public corporations and NHS Foundation Trusts. For these organisations, pay is generally set by the boards of those bodies themselves, without the need to consult with or seek the approval of Ministers (except where Government holds shares in a corporation).

### ***Other NHS bodies***

Other NHS bodies have less independence from central government. The SSRB advises the Department for Health on pay for chief executives, executive directors (except medical directors), and other senior managers with board level responsibility who report directly to the chief executive, in Strategic Health Authorities, Special Health Authorities, Primary Care Trusts and Ambulance Trusts. The pay of other staff within these organisations (apart from doctors and dentists) is set according to the Agenda for Change pay scheme, the maintenance of which is within the overall responsibility of the NHS Staff Council. Pay for doctors and dentists is set by the Department of Health, on the advice of the Review Body on Doctors’ and Dentists’ Remuneration, which, like the SSRB, is staffed by the Office of Manpower Economics.

### ***School headteachers***

Pay ranges for headteachers and other senior staff at local authority maintained schools are set by the Secretary of State for Children, Schools and Families, on the advice of the School Teachers’ Review Body, again staffed by Office of Manpower Economics civil servants. Governing bodies of foundation and grant-aided schools have much greater freedom in setting starting pay for their senior staff.

### ***Senior police officers***

The salaries and allowances of police chief officers are set by the Home Secretary on the recommendation of the Police Negotiating Board, a statutory review body, with an

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independent Chair and Deputy Chair, and a membership made up of representatives of Government, police authorities and chief police officers, and of the police staff associations. If the parties fail to agree, the matter can ultimately be referred to arbitration by the Police Arbitration Tribunal, which operates under the auspices of the Advisory, Conciliation and Arbitration Service.

Local Police Authorities, made up of local councillors, magistrates and independent members (recruited from the community), are responsible for appointing chief constables and other senior police officers. While they have no discretion over salary, they have reportedly offered substantial additional payments to successful candidates, such as for relocation costs, school fees, and retention payments.<sup>238</sup> Police Authorities also set the pay of their own chief executives; reportedly, this is often at the same level as for an Assistant Chief Constable.<sup>239</sup>

### **Local authority executives**

Individual councils—generally the locally elected politicians themselves—are responsible for setting the pay of chief executives and other senior staff. As the Local Government Association has explained to us, there is

a voluntary arrangement whereby all but around 10% of councils take part in national negotiations through Joint Councils involving the recognised Trade Unions. The JNC is a collective bargaining mechanism that agrees a national annual basic pay increase and some other core terms and conditions—particularly the disciplinary process for Chief Executives. The individual salary level to which any national increase is applied is set entirely at local level, based on an assessment of the size of the job and relevant market comparators. The way in which pay is adjusted each year is also a matter for local discretion.<sup>240</sup>

In other words, while there is substantial co-ordination between councils on annual increases in pay, starting pay remains a matter for each individual council.

The LGA has also “advised councils to set up independent remuneration committees to oversee the process of setting top pay and reward packages. ... preferably with representatives from outside the council”.<sup>241</sup> We have no evidence on how many councils in fact have such remuneration committees.

### **Appointment and remuneration of pay-setters**

Chairs and board members of NDPBs and public corporations are appointed by Ministers as public appointments, following fair and open competition processes. Their remuneration varies from unpaid, to modest, to high, and their duties are generally part-time. The following examples give an idea of the range involved: the Boards of Trustees of

238 The Times, Secret pay deals give top police thousands extra, 6 July 2009

239 Minutes of the Human Resources & Staff Liaison Committee of Dyfed-Powys Police Authority, 18 May 2009

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241 LGA written evidence

museums are generally unpaid; the Chair of UK Sport is remunerated at £38,817 per year for a commitment of 2-3 days per week; while the Chair of Ofcom receives around £200,000 per year for a commitment of 3 days per week.

Individual Departments are responsible for determining the levels of remuneration paid to public appointments for which they are responsible. The Government has explained the rationale behind this as follows:

public appointments vary greatly in terms of roles, responsibilities, profile and importance. It is important that Departments have flexibility to determine an appropriate level of remuneration based on what can be very particular circumstances.<sup>242</sup>

Departments are bound by the general principle that they must ensure that any remuneration offered to a public appointment is “appropriate, affordable and provides value for money to the taxpayer”. They should also “adopt a consistent approach in the levels of remuneration offered to public appointments for which they are responsible”. However, within these bounds, Departments have put in place different internal procedures to determine the remuneration for public appointments:

Some Departments, for example, have issued general guidance to officials, but allow decisions on remuneration to be made on a case by case basis. Some allow flexibility but require senior level oversight and “sign-off”. And other Departments have set specific benchmarks or ranges to help inform the levels of remuneration set for all their public appointments.<sup>243</sup>

Chairs and non-executive members of NHS bodies other than Foundation Trusts are appointed by an NDPB, the Appointments Commission, on behalf of the Secretary of State for Health. Their rates of remuneration are set by the Department of Health. Pay for non-executive directors at Foundation Trusts is set by each Trust’s Board of Governors, a majority of whom are elected from among patients and the local public.

### ***Exceptions: House of Commons approval***

Primary legislation provides that the salaries of the Information Commissioner and Chair of the Electoral Commission are subject to approval by the House of Commons.

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# Formal Minutes

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**Tuesday 15 December 2009**

Members present:

Dr Tony Wright, in the Chair

Paul Flynn  
David Heyes  
Kelvin Hopkins

Mr Ian Liddell-Grainger  
Mr Gordon Prentice

Draft Report (*Top Pay in the Public Sector*), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 185 read and agreed to.

Annex and Summary agreed to.

*Resolved*, That the Report be the Sixth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 12 March, 26 March, 23 April, 30 April, 21 May, 9 June and 15 October.

[Adjourned till Thursday 14 January at 9.45 am

# Witnesses

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## Thursday 30 April 2009

Page

**David Clark**, Director, SOLACE, **Ben Farrugia**, Policy Analyst, TaxPayers Alliance, **Polly Toynbee**, The Guardian and **Tony Travers**, Director, Greater London Group, London School of Economics

Ev 1

## Thursday 21 May 2009

**Peter Boreham**, Head of UK Executive Remuneration, Hay Group, **David Evans**, Head of Pay and Labour Market Services, Capita Survey and Research Unit, **Christopher Johnson**, UK Human Capital Leader, Mercer (formerly of the Cabinet Office), and **Hamish Davidson**, Recruitment Consultant

Ev 17

## Thursday 18 June 2009

**Millie Banerjee**, Chair, Remuneration Committee, Ofcom, **Tim Melville-Ross**, Chair, Higher Education Funding Council for England and **Dr Anne Wright**, Chair, National Lottery Commission

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**Bill Cockburn**, Chairman, **Mike Langley**, Member and **Keith Mason**, Director of Secretariat, Senior Salaries Review Body

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6	Hamish Davidson	Ev 66
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20	Stephen Taylor, Director of Taylor Haig	Ev 104

# List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2009–10

First Report	Bad Language: The Use and Abuse of Official Language	HC 17
Second Report	Work of the Committee in 2008-09	HC 20
Third Report	Selection of a new Chair of the Advisory Committee on Business Appointments	HC 42 ( <i>HC 139</i> )
Fourth Report	Parliament and the Ombudsman	HC 107
Fifth Report	Lobbying: Developments since the Committee's First Report of Session 2008-09	HC 108

## Session 2008-09

First Report	Lobbying: Access and influence in Whitehall	HC 36 ( <i>HC 1058</i> )
Second Report	Justice Delayed: The Ombudsman's Report on Equitable Life	HC 41 ( <i>HC 953</i> )
Third Report	Ethics and Standards: Further Report	HC 43 ( <i>HC 332</i> )
Fourth Report	Work of the Committee in 2007-08	HC 42
Fifth Report	Response to White Paper: "An Elected Second Chamber"	HC 137 ( <i>HC 59</i> )
Sixth Report	Justice denied? The Government response to the Ombudsman's report on Equitable Life	HC 219 ( <i>HC 569</i> )
Seventh Report	Further Report on Machinery of Government Changes	HC 540
Eight Report	Good Government	HC 97 ( <i>HC 1045</i> )
Ninth Report	The Iraq Inquiry	HC 721 ( <i>HC 992</i> )
Tenth Report	Leaks and Whistleblowing in Whitehall	HC 83

## Session 2007–08

First Report	Machinery of Government Changes: A follow-up Report	HC 160 ( <i>HC 514</i> )
Second Report	Propriety and Peerages	HC 153 ( <i>Cm 7374</i> )
Third Report	Parliament and public appointments: Pre-appointment hearings by select committees	HC 152 ( <i>HC 515</i> )
Fourth Report	Work of the Committee in 2007	HC 236 ( <i>HC 458</i> )
Fifth Report	When Citizens Complain	HC 409 ( <i>HC 997</i> )
Sixth Report	User Involvement in Public Services	HC 410 ( <i>HC 998</i> )
Seventh Report	Investigating the Conduct of Ministers	HC 381 ( <i>HC 1056</i> )
Eighth Report	Machinery of Government Changes: Further Report	HC 514 ( <i>HC 540, Session 2008–09</i> )
Ninth Report	Parliamentary Commissions of Inquiry	HC 473 ( <i>HC 1060</i> )
Tenth Report	Constitutional Renewal: Draft Bill and White Paper	HC 499 ( <i>cm 7688</i> )

Eleventh Report	Public Services and the Third Sector: Rhetoric and Reality	HC 112 ( <i>HC 1209</i> )
Twelfth Report	From Citizen's Charter to Public Service Guarantees: Entitlement to Public Services	HC 411 ( <i>HC 1147</i> )
Thirteenth Report	Selection of a new Chair of the House of Lords Appointments Commission	HC 985
Fourteenth Report	Mandarins Unpeeled: Memoirs and Commentary by Former Ministers and Civil Servants	HC 664 ( <i>HC 428, Session 2008–09</i> )
<b>Session 2006–07</b>		
First Report	The Work of the Committee in 2005–06	HC 258
Second Report	Governing the Future	HC 123 ( <i>Cm 7154</i> )
Third Report	Politics and Administration: Ministers and Civil Servants	HC 122 ( <i>HC 1057, Session 2007–08</i> )
Fourth Report	Ethics and Standards: The Regulation of Conduct in Public Life	HC 121 ( <i>HC 88, Session 2007–08</i> )
Fifth Report	Pensions Bill: Government Undertakings relating to the Financial Assistance Scheme	HC 523 ( <i>HC 922</i> )
Sixth Report	The Business Appointment Rules	HC 651 ( <i>HC 1087</i> )
Seventh Report	Machinery of Government Changes	HC 672 ( <i>HC 90, Session 2007–08</i> )
Eighth Report	The Pensions Bill and the FAS: An Update, Including the Government Response to the Fifth Report of Session 2006–07	HC 922 ( <i>HC 1048</i> )
Ninth Report	Skills for Government	HC 93 ( <i>HC 89</i> )
First Special Report	The Governance of Britain	HC 901
<b>Session 2005–06</b>		
First Report	A Debt of Honour	HC 735 ( <i>Cm 1020</i> )
Second Report	Tax Credits: putting things right	HC 577 ( <i>HC 1076</i> )
Third Report	Legislative and Regulatory Reform Bill	HC 1033 ( <i>HC 1205</i> )
Fourth Report	Propriety and Honours: Interim Findings	HC 1119 ( <i>Cm 7374</i> )
Fifth Report	Whitehall Confidential? The Publication of Political Memoirs	HC 689 ( <i>HC 91, Session 2007–08</i> )

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