



House of Commons
Public Administration Select
Committee

**Top Pay in the Public
Sector: Further Report**
**With the Government
Response to the
Committee's Sixth Report of
Session 2009-10**

Eleventh Report of Session 2009–10

*Report and appendix, together with formal
minutes*

*Ordered by the House of Commons
to be printed 18 March 2010*

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.

Current membership

Dr Tony Wright MP (*Labour, Cannock Chase*) (*Chair*)
Mr David Burrowes MP (*Conservative, Enfield Southgate*)
Paul Flynn MP (*Labour, Newport West*)
David Heyes MP (*Labour, Ashton under Lyne*)
Kelvin Hopkins MP (*Labour, Luton North*)
Mr Ian Liddell-Grainger MP (*Conservative, Bridgwater*)
Julie Morgan MP (*Labour, Cardiff North*)
Mr Gordon Prentice MP (*Labour, Pendle*)
Paul Rowen MP (*Liberal Democrats, Rochdale*)
Mr Charles Walker MP (*Conservative, Broxbourne*)
Jenny Willott MP (*Liberal Democrats, Cardiff Central*)

Powers

The powers of the Committee are set out in House of Commons Standing Orders, principally in SO No 146. These are available on the Internet via www.parliament.uk

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pasc>

Committee staff

The current staff of the Committee are Steven Mark (Clerk), David Slater (Second Clerk), Pauline Ngan (Committee Specialist), Louise Glen (Senior Committee Assistant) and Su Panchanathan (Committee Assistant)

Contacts

All correspondence should be addressed to the Clerk of the Public Administration Select Committee, Committee Office, First Floor, 7 Millbank, House of Commons, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5730; the Committee's email address is pasc@parliament.uk

Contents

Report	<i>Page</i>
Top Pay in the Public Sector: Further Report	3
Appendix – Government Response	6
Formal Minutes	12
List of Reports from the Committee during the current Parliament	13

Top Pay in the Public Sector: Further Report

1. We reported to the House on *Top Pay in the Public Sector* in our Sixth Report of Session 2009–10, published on 21 December 2009 as HC 172–I. We received a Government response to that Report on 11 March 2010, published below as an Appendix to this Report.
2. The Government’s response addresses only six of the 35 conclusions and recommendations in our original Report.
3. We are particularly disappointed that the Government has not responded directly to our main recommendation for the creation of a Top Pay Commission. We understand the difficulty in terms of timing that the Government faces on this matter. We appreciate that it would not wish to pre-empt the findings of the review of senior public sector remuneration being carried out by Bill Cockburn, Chair of the Senior Salaries Review Body, which is due to report in time for the 2010 Budget. Nevertheless, we recommend that the Government respond to our proposal for a Top Pay Commission before a General Election is announced—and we would have expected it to have said in its initial response that this is what it would be doing. It should also respond to the subsidiary recommendations at paragraphs 134–139, which read as follows:

A Top Pay Commission

Recommendation 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)

Recommendation 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)

Recommendation 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)

Recommendation 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

Recommendation 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)

4. There are also several other recommendations for action which are not addressed in the Government response. We draw particular attention to the following:

Performance and reward

Recommendation 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)

Transparency

Recommendation 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)

More flexible recruitment policies?

Recommendation 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)

5. The Government's only inescapable duty in relation to select committee reports is to respond to them (and in particular to the recommendations which are addressed to Government) fully and in a timely way. We recommend that the Government issue a supplementary response to our Sixth Report of Session 2009–10 on Top Pay in the Public Sector as soon as possible, and before a General Election is called. It should

address the recommendations on top public sector pay to which the Government has not yet responded, including our central recommendation for the creation of a Top Pay Commission.

Appendix—Government Response

The Government shares the Committee's views that reward at very senior levels deserves clear public justification and close and sceptical scrutiny; that pay setters need access to appropriate benchmarks when setting senior executive contracts; and that there should be a set of principles which all public sector bodies are expected to follow when determining senior pay.

At Pre-Budget Report 2009 the Government announced a set of fundamental reforms to pay-setting for senior staff aimed at increasing the transparency and accountability of decision making across the public sector. These included:

- Increased scrutiny of high pay, with a requirement for the Chief Secretary to the Treasury to approve all pay levels in excess of £150,000 and bonuses over £50,000 for Civil Servants on appointment and appointments to public sector bodies which are subject to Ministerial sign-off.
- Greater transparency, in terms of publishing salary and bonus details of named individual staff receiving pay at this level.
- For public sector bodies where Ministerial approval is not required, a clear expectation from Government that all organisations making senior managerial appointments in excess of £150,000 to publicly justify this level and any bonus in excess of £50,000 to the relevant Secretary of State.

Additionally, the Prime Minister asked the Senior Salaries Review Body (SSRB) to lead a review of senior pay across the public sector, including recommending the principles that should govern senior remuneration across the public sector and the methodology that could underpin a set of sector-by-sector benchmarks for senior remuneration in public sector organisations.

The Government after considering those recommendations may ask the review to make further recommendations about the benchmarks and the value of upper bounds for pay and bonuses.

The letter from the Prime Minister to Bill Cockburn, Chair of SSRB, and the terms of reference for the review are attached. It asks for an interim report on the principles and benchmark methodology in time to inform Budget 2010.

The Government's response to the specific recommendations in the Committee's report is set out below:

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)

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. (Paragraph 106)

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)

The Government strongly agrees that we need to ensure greater transparency and scrutiny of top public sector salaries. We have therefore made two key changes:

- All public sector bodies subject to direct Ministerial control are now required to publish the salary, including benefits in kind and the level and justification of any bonus, of named individuals paid more than £150,000 to the nearest £5,000.
- In addition, these public sector bodies will also be required to publish the number of staff paid more than £50,000 in £5,000 bands.

These requirements cover all individuals earning above this level and not just board members. The Government also expects all other public bodies to comply with this level of disclosure. We believe that this level and degree of rounding represents an appropriate level of disclosure of salary levels.

As the Committee acknowledges in their report, the Government has already moved to increase transparency on senior pay in local government. The new regulations bring local government into line with the reporting requirements of civil servants and listed companies. In addition, the Secretary of State for Communities and Local Government has asked the Audit Commission to investigate severance pay in local government to see if practices offer value for money for the taxpayer.

The Government will consider the proposal to require public sector bodies to declare how the earnings of their senior staff relate to the earnings of other employees, once the SSRB-led review has reported on the principles which should govern senior remuneration. In addition the Government will expect relevant audit or regulatory bodies to incorporate into their regimes certification that the relevant body operates remuneration policies which maximise value for money for the taxpayer.

We 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)

The Government welcomes this advice and has already asked the SSRB to lead a review of senior remuneration in the public sector, including making recommendations on the pay structure for NDPB chief executives. The terms of reference ask the review to make recommendations on the principles that should govern senior remuneration across the public sector and the methodology that could underpin a set of sector-by-sector

benchmarks for senior remuneration in public sector organisations. We will consider the committee's recommendations on this matter alongside the SSRB's report.

The Government after considering those recommendations will ask the review to undertake further work such as making recommendations about benchmarks and possible upper bounds for pay and bonuses in particular sectors.

The review will be led by SSRB which has extensive experience on senior pay remuneration that the Government believes will be invaluable in this review of pay-setting principles and methodology. The Government has asked the SSRB to work with the Chairs of other public sector Pay Review Bodies and the Chair of the Police Negotiating Body. The SSRB have invited Michael O'Higgins to take part in the review given his experience of local government.

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)

The Government is committed to ensuring the successful recruitment of high quality candidates from the public, private and third sectors; also that appointments are made on merit through fair and open competition and as part of this approach senior posts are routinely advertised to external candidates. It is important that the selection methods used during competitions and public appointments processes provide both the candidate and the selection panel with enough information about the role and the qualities of the candidates to make good, evidence-based appointment decisions against the selection criteria. In relation to employment, the public sector continues to attract candidates from outside the sector. For example, as of 31 March 2009, 22% of Senior Civil Servants were appointed from outside the Civil Service.

Neither the Government nor the Commissioner for Public Appointments collects statistical information on the sectoral background of public appointees. However, the Commissioner for Public Appointments regularly meets and consults with recruitment consultants and others in both the public and private sectors on a wide range of issues. This includes consultation on her Code of Practice which sets out the procedures for making public appointments, and the promotion of diversity and equality of opportunity within those procedures. Given the importance of this issue, both the Government and the Commissioner are committed to ensuring that recruitment processes for Ministerial appointments to the boards of public bodies are working appropriately and based on the over-riding principle of appointment on merit, attracting high quality candidates from the public, private and third sectors.

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)

Government pay policy promotes senior pay restraint through the use of appropriate frameworks and control mechanisms that ensure the organisation benefits from its investment in senior staff. In view of this, it would not be appropriate to offer extra funding for growing talent in return for senior pay restraint.

There are a number of successful programmes already running across the public sector that place emphasis on growing their own talent. This includes the Civil Service, which has core programmes for graduates (Fast Streamers) and those new to the Senior Civil Service. In 2009, the number of internal candidates promoted into Director General level posts in the Civil Service as a result of a competition far exceeded those appointed from outside. Similarly, the Improvement and Development Agency for Local Government has a range of programmes, which develop and nurture talent at all levels for senior leadership roles.

There is also targeted training to increase the numbers progressing in Social Work through the National Skills Academy for Social Care, which has a particular emphasis on providing learning support and training practice to those small and medium-sized organisation with limited training and development budgets.

In the NHS, a new leadership framework has been put in place over the last two years, designed to deliver increased capacity and capability across the healthcare system. The National Leadership Council is taking forward an ambitious programme of work to that end, including the Top Leaders Programme. This Programme will support and develop those leaders already in the most complex roles, and identify and develop a pool of exceptional leaders who are either ready now or with the potential soon for our most senior and complex roles.

Government also supports the National College's succession planning strategy. This adopts a local solutions approach to finding and growing talent in the teaching profession. The next generation of head teachers are being developed through the National Professional Qualification for Headship (NPQH), which is now compulsory for all first-time head teachers. In addition the College's new Accelerate to Headship Programme aims to recruit high quality teachers and those from a non-traditional background to headship within four years of starting the programme. There are also new programmes to develop middle leaders, and to put high quality teachers through an intensive two year programme to prepare them to go on to lead and improve performance in challenging urban secondary schools.

Annex 1: Letter from The Prime Minister to Mr Bill Cockburn CBE TD, 23 December 2009

As you know the Government has serious concerns about the high level of senior pay in some parts of the public sector.

I am writing therefore to request that the Senior Salaries Review Body (SSRB) lead a review of senior remuneration in the public sector, including making recommendations on a pay structure for NDPB chief executives. I attach the terms of reference for the review.

In carrying out this review I would be grateful if you work with the Chairs of the other public sector Pay Review Bodies and the Chair of the Police Negotiating Body. I think the review will also benefit from the direct involvement of someone with experience of local government. In addition you may wish to invite others to submit evidence or work with you on the principles that should apply to the determination of public sector remuneration.

I would be grateful for an interim report on the principles and methodology in time to inform Budget 2010.

I am copying this letter to Alistair Darling, Liam Byrne and Sir Gus O'Donnell.

Annex 2: Review of Public Sector Senior Remuneration

The terms of reference of the review are to consider senior remuneration across the public sector and before Budget 2010 make recommendations on:

- the principles that should govern senior remuneration across the public sector; and
- the methodology that could underpin a set of sector-by-sector benchmarks for senior remuneration in public sector organisations and that could provide a clear upper bound for pay and bonus levels.

The Government after considering those recommendations may ask the review to make further recommendations about the benchmarks and the value of upper bounds for pay and bonuses.

The recommended principles and benchmarks should reflect and take account of the level of remuneration necessary to attract, retain and motivate staff of the quality required, the prevailing macroeconomic circumstances and the need to secure value for money from the senior public sector paybill, as well as the need to promote fairness and respect the legitimate expectations of taxpayers. The review will need to have regard to:

- the labour market for roles in each sector;
- any discount to the market rate to reflect the value of delivering a public service mission;
- the total value of the public sector package including variable pay, benefits in kind and pensions - as well as job security;
- comparable benchmarks in the public sector - particularly comparable roles in the senior civil service; and
- the need for senior public sector staff to show leadership through pay restraint.

The benchmarks will need to be flexible and allow for exceptions if justified, but should cover the vast majority of organisations in each category. They would need to comprise the full value of the remuneration package, including base pay, variable pay, bonus, pension and any other elements of the package.

The scope of the review should be the whole of the public sector. For the purposes of this review, this covers those staff covered by the Senior Salaries Review Body (senior civil servants, NHS very senior managers, senior military and judges), senior staff in non-departmental public bodies, local government, schools, higher and further education (reliant on significant public funding), the NHS, police authorities and forces, regulatory bodies, public corporations and the BBC. It should not cover senior staff in publicly-owned banks, which are subject to different arrangements.

As part of this review, the Government wishes the SSRB to review the structure of reward packages for NDPB chief executives (the list of bodies to be agreed with the Treasury) and to report to the Government on a recommended pay structure by the end of July 2010. A progress report covering the principles to be adopted should be concluded by Budget 2010.

The Government will work with the review to determine what legislative and non-statutory means are most appropriate to enforce compliance across the wider public sector.

Formal Minutes

Thursday 18 March 2010

Members present:

Dr Tony Wright, in the Chair

Paul Flynn
David Heyes
Kelvin Hopkins
Julie Morgan

Mr Gordon Prentice
Paul Rowen
Jenny Willott

Draft Report (*Top Pay in the Public Sector: Further Report, with the Government Response to the Committee's Sixth Report of Session 2009-10*) proposed by the Chair, brought up and read.

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

Paragraphs 1 to 5 read and agreed to.

A paper was appended to the Report.

Resolved, That the Report be the Tenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

[The Committee Adjourned.]

List of Reports from the Committee during the current Parliament

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 (<i>HC 394</i>)
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 (<i>HC 471</i>)
Fifth Report	Lobbying: Developments since the Committee's First Report of Session 2008-09	HC 108 (<i>HC 393</i>)
Sixth Report	Top Pay in the Public Sector	HC 172 (<i>HC 472</i>)
Seventh Report	Outsiders and Insiders: External Appointments to the Senior Civil Service	HC 241 (<i>HC 500</i>)
Eighth Report	Goats and Tsars: Ministerial and other appointments from outside Parliament	HC 330
Ninth Report	Too Many Ministers?	HC 457
Tenth Report	Parliament and the Ombudsman: Further Report, with the Government Response to the Committee's Fourth Report of Session 2009-10	HC 471
Eleventh Report	Top Pay in the Public Sector: Further Report, with the Government Response to the Committee's Sixth Report of Session 2009-10	HC 472
Twelfth Report	Outsiders and Insiders: External Appointments to the Senior Civil Service, with the Government Response to the Committee's Seventh Report of Session 2009-10	HC 500

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>)
Session 2006–07		
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
Session 2005–06		
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>)