

# **Review Body on Senior Salaries**

REPORT No. 75

## **Review of Northern Ireland Senior Civil Service pay 2010**

July 2010

*Chairman:* Bill Cockburn, CBE TD



# Foreword

## **Review Body on Senior Salaries**

The Review Body on Top Salaries (TSRB) was appointed in May 1971 and renamed the Review Body on Senior Salaries (SSRB) in July 1993, with revised terms of reference. The terms of reference were revised again in 1998 as a consequence of the Government's Comprehensive Spending Review, in 2001 to allow the devolved bodies direct access to the Review Body's advice and in 2007 to add certain NHS managers to the remit.

## **Value of our independent process**

The SSRB consists of ten individuals from varying walks of life, including business, human resources and economics, and including both public, third and private sector experience. It has independent status and as such is required to be politically impartial. Each member of the SSRB is recruited through an open process based on advertisement in the national press and overseen by the independent Office of the Commissioner for Public Appointments. The SSRB is supported by a secretariat based in the Office of Manpower Economics (OME), an independent Non-Departmental Public Body which does not report to Ministers.

In discharging our remit we insist on an open and transparent process to which stakeholders are invited to contribute. This combination of independent support, a range of professional experience and well-tried process allows us to study the evidence, receive views from all parties and consider all sides of any particular argument. As a result we can make balanced, evidence-based recommendations underpinned by sound rationale and taking into account all relevant factors and information.

## **The terms of reference of the Review Body on Senior Salaries**

The terms of reference are:

*The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence and the Secretary*

*of State for Health on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; very senior managers in the NHS<sup>1</sup>; and other such public appointments as may from time to time be specified.*

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

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

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

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

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

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

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<sup>1</sup> NHS Very Senior Managers in England are 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 Government's inflation target.*

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

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

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

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

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

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

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

*to relate reward to performance where appropriate;*

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

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

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

Members of the Review Body are:

Bill Cockburn CBE TD, *Chairman*<sup>2</sup>

Professor Richard Disney

Martin Fish

Mike Langley

Professor David Metcalf CBE<sup>2</sup>

Sir Peter North CBE QC

Professor Alasdair Smith

Chris Stephens<sup>2</sup>

Bruce Warman<sup>2</sup>

Paul Williams<sup>2</sup>

The Secretariat is provided by the Office of Manpower Economics.

This report was submitted to the Minister for Finance and Personnel on 29 July 2010

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<sup>2</sup> Members of the Northern Ireland Senior Civil Service sub-committee, chaired by Bill Cockburn.

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## **Summary and recommendations**

### **Background to this review**

1. The Northern Ireland Minister for Finance and Personnel asked us to carry out this review of the pay arrangements for the Senior Civil Service in Northern Ireland. Public sector employees constitute some 30 per cent of all employees in Northern Ireland, compared with 25 per cent across the UK as a whole. Some people have questioned whether senior public sector salaries are too high in Northern Ireland and, if so, whether that adversely affects the private sector.

2. There are some 220 members of the Senior Civil Service in Northern Ireland. They provide leadership for departments and agencies, and advice to the Ministers in the Northern Ireland Executive. They manage large budgets and organisations providing public services to the population and they operate in an unusual and challenging political environment.

### **Current pay arrangements**

3. Although the Northern Ireland SCS are managed separately from the SCS in Great Britain, their pay arrangements are based on the same model of three broad pay bands within which progression is by performance-related increases (there is no automatic pay progression) supplemented by performance-related, non-consolidated bonuses. However, although the system resembles that in Great Britain, median pay for each pay band in Northern Ireland is significantly lower than in Great Britain. Moreover, the Northern Ireland Executive has suspended the bonus arrangements in Northern Ireland since 2009.

4. Since the current pay arrangements were introduced throughout the United Kingdom in 2002, various problems have emerged, most notably the failure of the system to deliver the expected rate of pay progression, but other problems included the failure to take account of organisational performance when awarding individual bonuses and lack of clarity about the different

criteria for awarding base pay increases and bonuses. We conclude that the current pay system is widely perceived, both within and outside the senior civil service, as needing revision.

### **Levels of public sector pay in Northern Ireland**

5. Although we heard anecdotal concerns about senior public sector pay being higher than that in the private sector in Northern Ireland, we were unable to find hard evidence of this. There are very few large private sector employers in Northern Ireland and consequently very few senior managers who can be compared with the SCS; groups at this level cannot be separately identified in large-scale statistical surveys of the whole workforce. However, the information available to us suggests that, looking at total remuneration, the NI SCS are generally paid at or below levels of private sector comparators and roughly on a par with wider public sector employees at equivalent levels of seniority. Moreover, as noted above, median SCS pay in Northern Ireland is below that of the SCS in Great Britain.

### **Our conclusions**

6. We found no evidence of problems with recruitment and retention for generalist NI SCS posts, but recognise there can be difficulties in recruiting to some specialist posts at current pay levels. The bonus system is unpopular with the NI SCS themselves and does not provide an incentive for good performance. Moreover, the public perception is that it provides additional payments to people who already have good salaries. The failure of the current pay system to deliver pay progression, i.e. some reward for SCS members who increase their skills and experience, is demotivating. The existing pay ranges are much too long. They create unrealistic expectations since most NI SCS members will progress only a short way through their range. The pay of the NI SCS should be aligned to the local labour market and economic circumstances. It should normally be set on the basis of independent, evidence-based recommendations. Remuneration committees

with independent membership should play a stronger role in implementing and moderating pay decisions for individual NI SCS members.

7. Our full recommendations are as follow:

**Recommendation 1:** We recommend the following pay scales to replace the existing pay structure:

	Pay Band 1	Pay Band 2	Pay Band 3
Minimum	57,300	81,600	98,059
	59,320	84,100	101,000
	61,340	86,600	104,000
	63,360	89,100	107,000
	65,380	91,600	110,000
	67,400	94,100	113,000
	69,420	96,600	116,000
	71,440	99,100	119,000
	73,460	101,600	122,000
	75,480	104,100	125,000
Maximum	77,500	107,000	128,000

**Recommendation 2:** We recommend that, for those below the maximum of the pay scale:

- the top 10 per cent of performers move up two steps on the scales (or to the maximum if they are one step away); and
- the next 50 per cent of performers move up one step on the scale.

**Recommendation 3:** We recommend that the pay of any Northern Ireland Senior Civil Service members whose performance merits the imposition of a performance improvement plan or similar measure, should remain frozen, even when the pay scale is revalorised, unless and until their performance improves.

**Recommendation 4:** We recommend that those promoted to or within the Northern Ireland Senior Civil Service move to the lowest point of the scale to which they have been promoted that is above their current salary.

**Recommendation 5:** We recommend that members of the Northern Ireland Senior Civil Service who are paid above the maximum of the new pay scales should have their pay increased by the same percentage as any revalorisation of the relevant scale (or of the top point of that scale if the increase is not uniform), provided that their performance in the year immediately preceding the increase has been at least satisfactory.

**Recommendation 6:** We recommend that up to 25 per cent of the best performers who are either at the top of their pay scales or paid above the new maximum and therefore not eligible for pay progression steps be eligible for non-consolidated and non-pensionable performance awards of up to 5 per cent of their salary.

**Recommendation 7:** We recommend that assimilation to the new pay scales take place on 1 April 2011 and that:

- those whose current pay corresponds exactly to a scale point continue on that rate;
- those whose current pay is above the maximum scale point continue on that rate; and
- all others move to the next scale point above their current rate.

**Recommendation 8:** We recommend that for 2010-11 there be no increase in Northern Ireland Senior Civil Service pay.

**Recommendation 9:** We recommend that the current bonus scheme, suspended by the Executive in 2009, be discontinued.

**Recommendation 10:** We recommend that an independent body such as the Review Body on Senior Salaries should review Northern Ireland Senior Civil Service pay annually and that the Northern Ireland Executive undertake to accept its independent recommendations in all but the most exceptional circumstances.

**Recommendation 11:** We recommend that the new pay system be monitored carefully to ensure that it is not creating unintended upward pay drift and that it remains affordable.

**Recommendation 12:** We recommend that recruitment and retention premia be available to remunerate specialist roles and that remuneration committees determine the need for and correct level of any such premia.

**Recommendation 13:** We recommend that payment of a recruitment and retention premium cease if the individual for whom the premium was originally approved moves to another job in the Senior Civil Service that does not justify a premium or if labour market conditions change, rendering it no longer necessary. The remuneration committee should review any continuing premia every three years.

**Recommendation 14:** We recommend that remuneration committees consider whether, in specific circumstances, performance-related awards for members of the Northern Ireland Senior Civil Service in under-performing departments, agencies or parts of those organisations should be restricted or suspended for a period.



# Chapter 1

## Introduction

### Introduction and background to the review

1.1 The Senior Salaries Review Body (SSRB) has advised on the pay of the Senior Civil Service (SCS) in Great Britain since 1971. Although the Northern Ireland SCS have not been part of our remit group, our recommendations for the SCS in Great Britain have largely been applied to them until 2009. We were therefore pleased that the Minister for Finance and Personnel invited us to carry out a review of the pay arrangements for the SCS in Northern Ireland. We also advise on the pay of the judiciary and senior military officers throughout the United Kingdom, on the pay of certain senior health service managers in England and we reviewed the pay of senior executives in Northern Ireland health and social care organisations in 2009.

1.2 As in Great Britain, the Northern Ireland civil service (NICS) is the body of permanent officials who carry out the policies of, and provide advice to, the government of the day. In Northern Ireland, under the terms of the Belfast agreement, the government or Executive comprises the First Minister, the deputy First Minister, 11 Departmental Ministers and the junior ministers in the Office of the First Minister and Deputy First Minister. Ministers are nominated according to a proportional system by political parties represented in the Northern Ireland Legislative Assembly.

1.3 The Northern Ireland Senior Civil Service (NI SCS) are the 220 or so most senior managers in the NICS who provide leadership for departments and their associated executive agencies, and advise the Executive. We describe the composition of the NI SCS in more detail in Chapter 2. The nature of devolved government in Northern Ireland creates particular challenges for the NI SCS. Unlike in other parts of the United Kingdom, the Executive is not formed by a single party or two parties with a formal coalition.

Instead, Ministers are drawn from five different parties and they have drawn up a Programme for Government<sup>3</sup> setting out plans and priorities for the years 2008-11. The nature of government in Northern Ireland creates a greater need for co-ordination and negotiation of priorities across departments, a role which falls largely to the NI SCS.

#### *Senior public sector pay in Northern Ireland*

1.4 In recent years there has been increasing public and media focus on the pay of those in the public sector and even more so at senior level. The Committee for Finance and Personnel has debated the appropriateness of the NI SCS pay arrangements, especially the bonus system, on several occasions, and has called for an independent review of senior civil servants' pay arrangements. In response to that request, the Minister for Finance and Personnel announced on 11 June 2009 that an independent review on the NI SCS pay structure would take place. On 23 March 2010 the Minister wrote to the Chairman of the SSRB to ask us to review the pay arrangements of the NI SCS. Copies of that letter and of the terms of reference for our review are at Annex A.

#### *The comprehensive pay and grading review*

1.5 The NICS is currently conducting a comprehensive pay and grading review for staff below SCS which will report in 2011. That review covers all the civil service grades below the SCS, including Grades 7 and 6 from which members can be promoted to the SCS. We are not involved in that review but we believe those conducting it may find this report helpful, in particular our conclusions about overall pay levels and the relationship between the pay for Grade 6 and that for SCS Pay Band 1.

#### *The Northern Ireland Office*

1.6 The Northern Ireland Office (NIO) is a department of the UK civil service responsible for supporting the Secretary of State for Northern Ireland and overseeing the Northern Ireland devolution settlement, as well as

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<sup>3</sup> Northern Ireland Executive. *Programme for Government and Budget*. Available at: <http://www.northernireland.gov.uk/pfgfinal.pdf>

representing Northern Ireland issues at UK Government level. Although responsibility for policing and criminal justice was transferred to the Northern Ireland Assembly and Executive in April 2010, the NIO still has responsibility for other areas of governance such as national security, human rights and elections. The NIO has around 175 staff in Belfast and London. Since the NIO is part of the British civil service, its SCS members are not covered by this review.

### **The review process**

1.7 In order to carry out this review we formed a sub-committee consisting of the SSRB Chairman and four members – those on the sub-committee are identified at the end of the Foreword and a short outline of their professional backgrounds can be found on the Office of Manpower Economics (OME) website<sup>4</sup>. This review began in March 2010 and concluded with the submission of our report to the Minister for Finance and Personnel in July 2010. During that time the sub-committee met on seven occasions to consider evidence, formulate recommendations and draft the report, which was then approved by the whole SSRB membership.

### **Sources of evidence**

1.8 As an independent body we are able to take evidence from any relevant source and to make recommendations based on our judgement and all of the evidence we have received. One of the most important ways of gathering evidence is to meet members of our remit group – in this instance the NI SCS. In April 2010 we visited Northern Ireland and held discussion groups with members of the NI SCS, including Permanent Secretaries. We also met the Minister for Finance and Personnel and the Head of the NICS. We thank all those whom we met for their contributions, as well as those in the Department of Finance and Personnel who arranged our visit and obtained further written evidence for us. A list of those who provided evidence for the review can be found at Annex B. We received written evidence from the Northern Ireland Assembly Committee for Finance and Personnel, the

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<sup>4</sup> Review Body on Senior Salaries. *Members' biographies*. Available at: [http://www.ome.uk.com/members\\_biographies.cfm](http://www.ome.uk.com/members_biographies.cfm)

Northern Ireland branch of the Confederation of British Industry and the Northern Ireland Civil Service Commissioners. The FDA, the trade union which represents the SCS, gave oral and written evidence. Our secretariat also obtained data on the economic and labour market context in Northern Ireland for us.

### **Our report on Public Sector Senior Remuneration**

1.9 On 25 March 2010 the UK Government published our report on senior pay in the public sector<sup>5</sup>. That report proposed a draft code of practice for setting senior remuneration<sup>6</sup> in public sector organisations, reproduced in Annex C of this report. We believe the principles set out in the code are fully applicable to the NI SCS and we explain this in more detail in our recommendations in Chapter 4.

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<sup>5</sup> Review Body on Senior Salaries. *Report No. 74, Initial report on Public Sector Senior Remuneration 2010*. Cm 7848. Available at: [http://www.ome.uk.com/Initial\\_Report\\_on\\_Public\\_Sector\\_Senior\\_Remuneration\\_2010\\_PSSR.aspx](http://www.ome.uk.com/Initial_Report_on_Public_Sector_Senior_Remuneration_2010_PSSR.aspx)

<sup>6</sup> Defined as those with pensionable pay in excess of £100K per year.

## Chapter 2

### The Northern Ireland Senior Civil Service

#### The economic and labour market context in Northern Ireland

2.1 Evidence on the economy for Northern Ireland is difficult to separate from that for the United Kingdom. Many economic indicators, such as consumer price indices and gross domestic product, are not produced separately for Northern Ireland. However, the measures that are available indicate that the Northern Ireland economy has followed the same pattern as the rest of the United Kingdom and is now beginning to recover from recession.

#### *Output*

2.2 The most recent regional gross value added<sup>7</sup> (GVA) data, published in December 2009 by the Office for National Statistics (ONS), showed that Northern Ireland had GVA per head of £16,000 in 2008 which compared with a United Kingdom GVA per head of £20,500 and was the third lowest in the United Kingdom after Wales and the North East.

#### *Cost of living*

2.3 The most recent published ONS regional consumer price levels are for 2004 and these showed Northern Ireland price levels 4.2 per cent below the United Kingdom average.<sup>8</sup> More recent official regional housing prices are available and these show that the average house price in Northern Ireland was £163,000 compared with £208,000 for the United Kingdom in April 2010. However, as Figure 2.1 shows, the trend for house prices in Northern Ireland has been a steep decline from a high in 2007 compared with a much more gentle decrease in the other countries of the United Kingdom, from which

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<sup>7</sup> Gross value added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. GVA is used in the estimation of gross domestic product (GDP):

GVA + taxes on products - subsidies on products = GDP

Regional GVA is published by the Office for National Statistics but regional GDP is not.

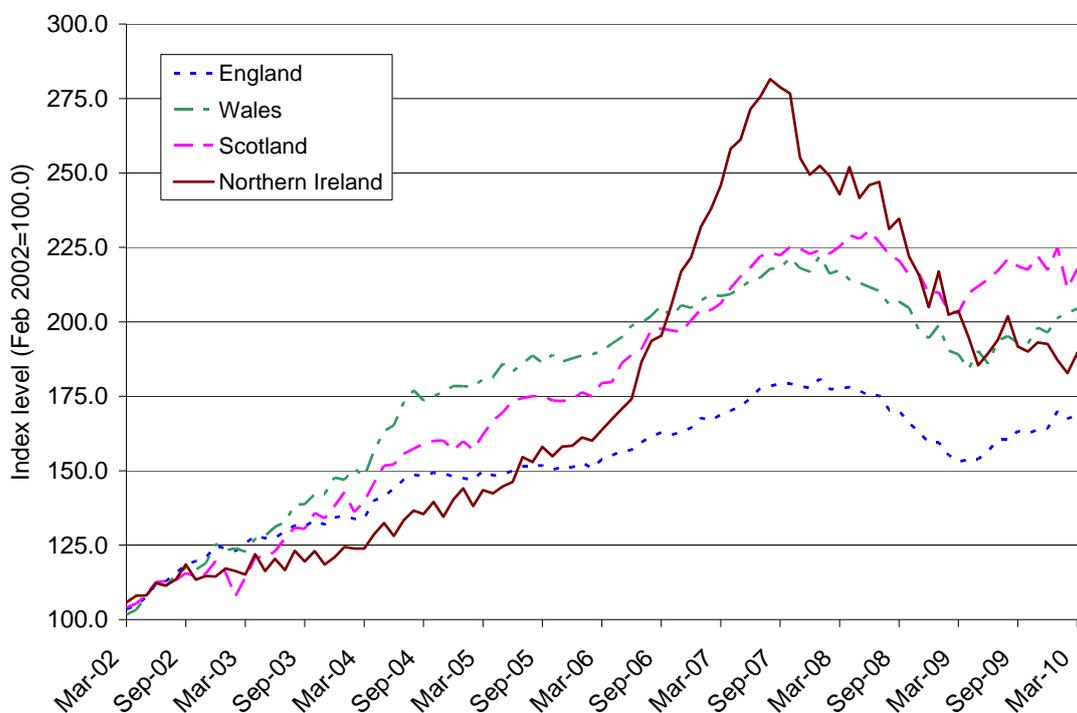
<sup>8</sup> Wingfield D., Fenwick D. and Smith K. *Relative regional consumer price levels in 2004*.

Economic Trends 615, February 2005. Available at:

[http://www.statistics.gov.uk/articles/economic\\_trends/ET615Wingfield.pdf](http://www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf)

England, Wales and Scotland have now mostly recovered. Regional comparisons by Croner Reward in March 2010 show that the income required in Northern Ireland to maintain a given standard of living is less than for the United Kingdom as a whole, one of the key factors being lower housing costs.<sup>9</sup> Whilst this is not as complete a picture as we should like, all of these data sources indicate that Northern Ireland has a lower cost of living than the average in the United Kingdom.

**Figure 2.1: House Price Indices for the countries of the United Kingdom, March 2002 – April 2010**



Source: Communities and Local Government

### *Labour market*

2.4 Turning to the labour market, we have more sources of evidence. Unemployment in Northern Ireland is currently lower on the International Labour Organization (ILO) method but higher on the claimant count than in the UK as a whole. The ILO Unemployment measure was 6.9 per cent in Northern Ireland compared with 7.9 per cent for the whole of the United Kingdom for the

<sup>9</sup> Housing costs include rent, council tax and water rates.

most recent quarter.<sup>10</sup> The Northern Ireland claimant count was 55,500 (a rate of 6.2 per cent) compared with 1,481,100 (a rate of 4.6 per cent) across the United Kingdom.

2.5 In 2009 the ONS Labour Force Survey recorded 30 per cent of Northern Ireland employees in the public sector compared with 25 per cent in the United Kingdom as a whole. Sir David Varney noted the size of the public sector in Northern Ireland and commented on the likely historical reasons in his *Review of the Competitiveness of Northern Ireland*.<sup>11</sup>

“The reasons for the present structure of the Northern Ireland economy, and in particular the ongoing significance of the public sector, are complex, but are likely to reflect historically low levels of private sector investment and development during the years of the Troubles, and the subsequent high level of public sector investment aimed at supporting economic recovery.”

Therefore, there is more public sector management of the infrastructure in Northern Ireland<sup>12</sup> than in any other area of the United Kingdom and, overall, the public sector makes up a larger proportion of the Northern Ireland labour market than it does across the United Kingdom as a whole. Figure 2.2 shows the structure of the public sector with roughly two-thirds of public sector employees working in health and education.

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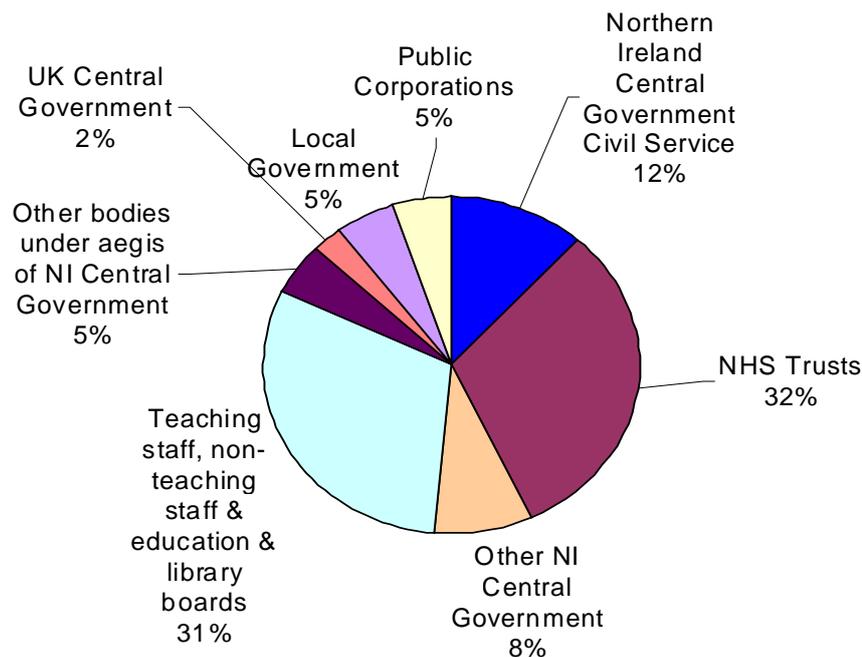
<sup>10</sup> Office for National Statistics. *Labour Force Survey*. February – April 2010.

<sup>11</sup> Sir David Varney. *Review of the Competitiveness of Northern Ireland*, April 2008. Available at:

[http://www.hm-treasury.gov.uk/d/varney\\_review300408.pdf](http://www.hm-treasury.gov.uk/d/varney_review300408.pdf)

<sup>12</sup> For example, water and sewerage services are supplied by Northern Ireland Water, a Government-owned company, and the railways are operated by Northern Ireland Railways which are also state-owned.

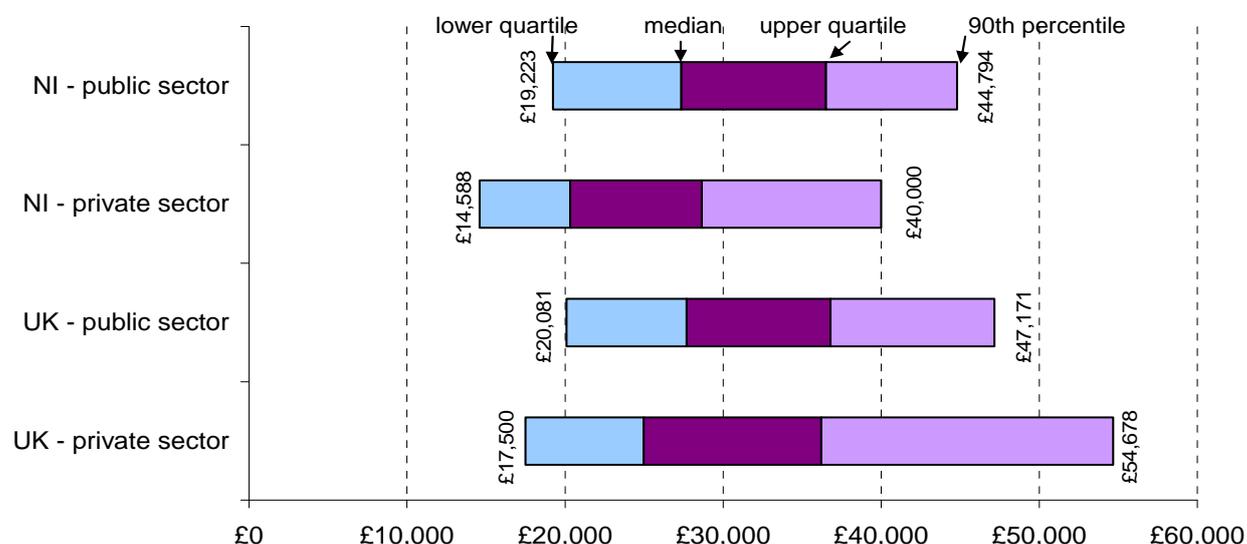
Figure 2.2: Northern Ireland public sector employment by sector, 2009



Source: NI Public Sector Employee Jobs, Department of Enterprise, Trade and Investment NI

2.6 The broad distribution of earnings across the public and private sectors is given in figure 2.3. This shows that the gap between public and private sector earnings is larger in Northern Ireland than in the United Kingdom as a whole. However, the Northern Ireland SCS are paid above the 90<sup>th</sup> percentile of public sector pay and thus are not covered by these data which simply provide broad background about relative public and private sector pay. Moreover, it is important in looking at these figures to bear in mind that they may be affected by compositional differences between the public and private sector workforces, with the public sector workers having on average higher levels of education or qualification than those in the private sector. There are no published figures comparing earnings at the level of NI SCS members with those of comparable workers in the private sector in Northern Ireland. This is because the sample sizes for such workers in the Office for National Statistics Annual Survey of Hours and Earnings are too small to be statistically reliable. We have, however, obtained some figures from PricewaterhouseCoopers – see in particular Table 3.6 in Chapter 3 – which suggest that the median total remuneration of most private sector workers at levels comparable with the NI SCS is higher than that of the SCS.

Figure 2.3: **Distribution of full-time earnings in the public and private sectors, 2009**



Source: Annual Survey of Hours and Earnings, ONS 2009

Note: SCS pay in Great Britain would be at the 95<sup>th</sup> percentile of the public sector and above and therefore beyond the range given here.

### Role of the Northern Ireland Senior Civil Service

2.7 As indicated earlier, the Northern Ireland civil service (NICS) is one of the largest employers in Northern Ireland with around 25,000 permanent staff<sup>13</sup> in a wide range of disciplines. It is administered separately from the rest of the home civil service in the United Kingdom (the Diplomatic Service is also separately managed), although the Head of the NICS is a member of the UK Permanent Secretaries Management Group.

2.8 The Senior Civil Service (SCS) was established in 1996 following recommendations in the Continuity and Change White Papers which stated that the civil service should be:

“led by a highly professional group of senior advisers and managers working closely in support of Ministers both in the development and implementation of Government policy and in the management of

<sup>13</sup> Department for Employment and Learning, *Northern Ireland Civil Service (NICS) Fact Sheet*. Available at: <http://www.careersserviceni.com/NR/rdonlyres/38DE1009-2261-40D2-97F3-6803C82B06B9/0/NICS.pdf>

services”<sup>14</sup>

While decisions on reward arrangements for those below the SCS were transferred to individual Departments in Great Britain, the SCS remained as a single body across departments “whose focus and loyalty was wider than simply one Department or agency”.<sup>15</sup> The SCS have been treated as a single entity for reward and performance management purposes.

2.9 Members of the SCS in the Northern Ireland civil service provide leadership in the delivery of public services and the design of policy, as well as advice and support for Ministers in the Northern Ireland Executive. More specifically, they are tasked with supporting Ministers in the delivery of the Executive’s Programme for Government, a programme aimed at building “a peaceful, fair and prosperous society in Northern Ireland, with respect for the rule of law and where everyone can enjoy a better quality of life now and in years to come.”<sup>16</sup>

2.10 The Northern Ireland Executive consists of 12 departments<sup>17</sup>, 11 of which were created, along with the Northern Ireland Assembly, by the Northern Ireland Act 1998 and the Departments (Northern Ireland) Order 1999. The remaining department, the Department of Justice, is a new Northern Ireland department which came into existence on 12 April 2010 following the transfer of responsibility for policing and justice functions from the Northern Ireland Office (NIO).

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<sup>14</sup> The Civil Service. *Continuity and Change*. Cm 2627. July 1994 and the Civil Service. *Taking Forward Continuity and Change*. Cm 2748. January 1995: quoted in *Senior Civil Service Workforce and Reward Strategy: Report of the Steering Group to the Cabinet Secretary*. November 2008, paragraph 3.5. Available at: [http://www.civilservice.gov.uk/Assets/Final%20Version%20of%20Sir%20David%20Normington's%20report%20for%20publication.\\_tcm6-6542.doc](http://www.civilservice.gov.uk/Assets/Final%20Version%20of%20Sir%20David%20Normington's%20report%20for%20publication._tcm6-6542.doc)

<sup>15</sup> *Ibid*, paragraph 3.5.

<sup>16</sup> Northern Ireland Executive, *Programme for Government and Budget*. Available at: <http://www.northernireland.gov.uk/pfgfinal.pdf>

<sup>17</sup> Office of the First Minister and Deputy First Minister; Department of Agriculture and Rural Development; Department of Culture, Arts and Leisure; Department of Education; Department for Employment and Learning; Department of Enterprise, Trade and Investment; Department of the Environment; Department of Finance and Personnel; Department of Health, Department of Justice; Social Services and Public Safety; Department for Regional Development; and the Department for Social Development.

## Relationship between the SCS in Northern Ireland and Great Britain

2.11 SCS staff in Northern Ireland below the Head of the Civil Service are divided into three pay bands. Permanent Secretaries in Northern Ireland are in Pay Band 3, unlike those in Great Britain who are in a separate pay grouping above Pay Band 3. The rationale for this is that government departments in Northern Ireland are smaller and therefore the scale and span of control exercised by Permanent Secretaries in Northern Ireland is less than their mainland counterparts. Pay Band 2 contains Deputy Secretary (Grade 3) level posts and Pay Band 1 contains Assistant Secretary (Grade 5) level posts. There is flexibility to use a fourth pay band, Pay Band 1A, which overlaps the top of the Pay Band 1 pay scale and bottom of Pay Band 2 but we are advised that this pay band is not used in Northern Ireland. Table 2.1 below shows the composition of the Northern Ireland and GB SCS.

Table 2.1: **Senior Civil Service staff headcount by grade, as at 1 January 2009**

NI grade	GB equivalent	NI SCS <sup>1</sup>	%	GB SCS <sup>2</sup>	%
Head of NICS	Permanent Secretary	1	0.5	36	0.8
Permanent Secretary (Grade 2a)	Pay Band 3	14	6.7	171	4.0
Deputy Secretary (Grade 3)	Pay Band 2	39	18.7	770	18.1
-	Pay Band 1A	0	0	199	4.7
Assistant Secretary (Grade 5)	Pay Band 1	155	74.1	3,078	72.4
<b>Total</b>		<b>209</b>	<b>100</b>	<b>4,254</b>	<b>100.0</b>

Sources: Northern Ireland Civil Service, Cabinet Office

<sup>1</sup> The figures exclude the GB SCS members (in the Northern Ireland Office) who transferred to the NI SCS in April 2010.

<sup>2</sup> This is a slightly lower figure than the total SCS as it excludes 17 SCS in non-standard pay bands.

2.12 As can be seen in Table 2.2 below, the headcount trend in the NI SCS is very different to the GB SCS; while numbers in the NI SCS have fallen by just over 6 per cent in the years 2004 – 2009, those in the rest of the UK have risen by almost 10 per cent. However, despite this fall there is still a greater density of SCS members in Northern Ireland, nearly twice that of the United Kingdom as a whole.<sup>18</sup>

**Table 2.2: Total Senior Civil Service headcount, 2004 - 2009**

<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009<sup>1</sup></b>
NI SCS	223	233	224	225	207	209
% change since previous year	n/a	4.5	-3.9	0.4	-8.0	1.0
% change since 2004	n/a	4.5	0.4	0.9	-7.2	-6.3
GB SCS	3,893	3,906	4,031	4,075	4,212	4,271
% change since previous year	n/a	0.3	3.2	1.1	3.4	1.4
% change since 2004	n/a	0.3	3.5	4.7	8.2	9.7

Sources: HRConnect, Northern Ireland Human Resource Management System (HMRS), Cabinet Office

<sup>1</sup> The figures exclude the GB SCS members (in the Northern Ireland Office) who transferred to the NI SCS in April 2010.

2.13 A number of GB civil service departments employ staff in Northern Ireland and their pay and performance arrangements are covered by Cabinet Office guidance. The following departments have employees based in Northern Ireland:

- Immigration and Nationality Directorate;
- HM Revenue and Customs;
- Maritime and Coastguard Agency;
- Ministry of Defence;
- Northern Ireland Office; and
- Identity and Passport Service.

2.14 The SCS in Northern Ireland are able to take up secondment opportunities, including those in the GB civil service. These are of fixed duration and although secondees retain their NICS status, their annual pay award is determined by their employing Department. The presence in Northern

<sup>18</sup> There is one NI SCS member per 7,500 Northern Ireland residents compared to one SCS member per 14,000 Great Britain residents.

Ireland of civil servants on GB pay rates means that NICS members are likely to be aware of pay differences between the two groups.



## Chapter 3

### Remuneration of the Senior Civil Service in Northern Ireland

#### Introduction

3.1 The current pay system for the SCS in Northern Ireland is essentially the same as that for the SCS in Great Britain. The SCS in Northern Ireland below the Head of the NI Civil Service<sup>19</sup> are divided into three main pay bands.

Table 3.1: Northern Ireland Senior Civil Service pay bands as at 1 April 2009

Pay Band	Minimum	Maximum	Median salary	Number in band
1	£57,300	£116,000	£65,177	155
2	£81,600	£160,000	£92,752	36
3	£98,059	£205,000	£106,243	14

Source: Northern Ireland Civil Service

Notes:

<sup>1</sup> The figures exclude the GB SCS members (in the Northern Ireland Office) who transferred to the NI SCS in April 2010.

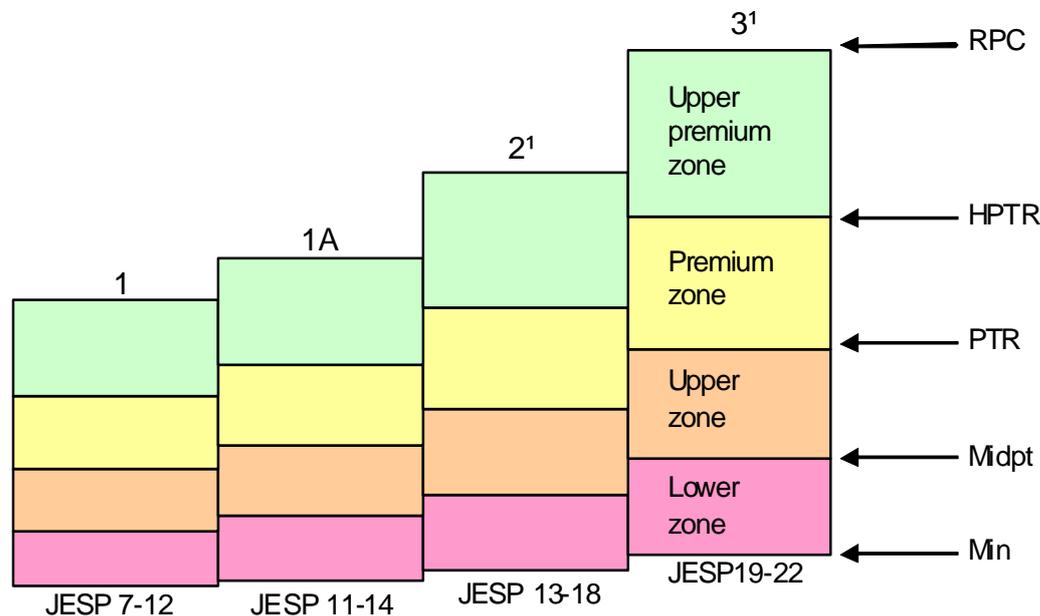
#### History of the current pay arrangements

3.2 The current pay arrangements were introduced in 2002 at the same time as the introduction of new pay arrangements for the SCS in Great Britain. The principal feature of the new system was a reduction from the previous nine pay bands for senior staff below Permanent Secretary to three (or four, with Band 1A) very broad pay bands, where each band corresponded to a range of job evaluation scores (according to Job Evaluation of Senior Posts – JESP). The rationale for the Northern Ireland Civil Service (NICS) following the same pay arrangements for the SCS as in Great Britain is that the NICS uses the same grading structure based on a similar job evaluation methodology (although Permanent Secretaries in Northern Ireland are in Pay Band 3). Moreover, as mentioned in Chapter 2, there are members of the GB civil service in Northern Ireland.

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<sup>19</sup> The Head of the NI Civil Service is paid as a Permanent Secretary in the same pay band (£141,836 - £277,349) as Permanent Secretaries in Great Britain.

Table 3.2: **Structure of the GB pay system from 1 April 2002**



Key: Midpt = Midpoint between minimum and PTR  
 PTR = Progression Target Rate  
 HPTR = Higher Performance Target Rate  
 RPC = Recruitment and Performance Ceiling  
 JESP = Job Evaluation of Senior Posts

1. The NI SCS system uses ranges of JESP 13-17 for staff in Pay Band 2 and 18-22 for Permanent Secretaries.

3.3 Under this system SCS members were expected to progress annually towards the Progression Target Rate (PTR) at a speed determined by their assessed performance each year against a number of agreed measures, subject to a range for individual pay awards (in 2002-03, 0 to 10 per cent of salary) and an overall ceiling on the increase in pay bill, both recommended annually by the SSRB. Individuals were allocated to one of three performance tranches, with a quarter in the top tranche, between five and ten per cent in the bottom tranche, and the remainder in the middle tranche. The wholly 'satisfactory' performer should have progressed to the PTR in nine or so years, whereas a consistently 'top' performer should have done so in three or four years. Progression through the range was therefore determined by performance, but also by the individual's existing position in the pay band. The system was intended to give larger increases and hence more rapid pay progression for individuals in the top and middle performance tranches who

were paid towards the bottom of a pay band, compared with similar performers already paid at higher levels. The performance tranches and associated rates of progression that applied when the system was introduced are set out in Table 3.3.

**Table 3.3: Pay matrix with effect from 1 April 2002**

Performance Tranche	Position in Pay Range							RPC
	Lower Zone	Midpoint	Upper Zone	PTR	Premium Zone	Higher PTR	Upper Premium Zone	
Top (1) (25%)	10.0%				8.0%			7.0%
Middle (2) (65-70%)	6.0%	4.5%		2.5%	2.5%			
Bottom (3) (5-10%)	0 to 2.5%	0 to 2.5%		0 to 2.5%	0 to 2.5%			

NB: Any pay awards for staff with salaries above the Recruitment and Performance Ceiling were paid as in the upper premium zone and were non-consolidated.

The PTR was intended to be the effective pay band maximum for most staff. However, the consistently best performers could progress beyond this level to the Higher Performance Target Rate (HPTR) and beyond. The area above the PTR could also be used (supposedly exceptionally) when, in seeking to recruit externally, departments considered that the PTR did not allow them to attract candidates with the necessary skills. It appears that departments in Great Britain made much more use of this facility than those in Northern Ireland, because they recruited more external candidates, and this helps to explain why median SCS pay is now significantly higher in Great Britain than in Northern Ireland.

3.4 PTRs were dropped for Pay Bands 2 and 3 in Great Britain and Northern Ireland in April 2006 and were also abolished for Pay Bands 1 and 1A two years later. The PTRs were removed because the Government “envisage[d] a more individualised approach to pay”. It noted the gap in pay levels between the SCS and the external executive market was especially marked at these levels and that a “more individualised approach for the most senior people would closely reflect best practice in large organisations in both the private and

wider public sectors”.<sup>20</sup>

3.5 Pay bands in Great Britain and Northern Ireland were in line until 2009 when the Northern Ireland Government decided not to apply the increases in the pay bands recommended for the SCS and applied in Great Britain. This leaves the current pay bands in Great Britain and Northern Ireland as follows in Table 3.4.

Table 3.4: **Current SCS pay bands (as at 1 April 2010)**

Pay Band	Great Britain			Northern Ireland		
	Minimum £	Maximum £	Median <sup>1</sup> £	Minimum £	Maximum £	Median <sup>1</sup> £
1	58,200	117,800	73,699	57,300	116,000	65,177
2	82,900	162,500	102,005	81,600	160,000	92,752
3	101,500	208,100	135,150	98,059	205,000	106,243

<sup>1</sup> As at 1 April 2009

## Bonus

3.6 Base pay awards were intended to reflect growth in skills/experience while in-year performance against objectives was rewarded, from 2002, by non-consolidated bonuses, paid originally to 75 per cent of the SCS and more recently to 65 per cent in Great Britain. Bonuses were subject to a minimum and maximum cash amount for each Pay Band and the size of individual awards was intended to reflect relative performance. The bonus system was phased in. Originally the bonus pot was 3 per cent of pay bill and the Government’s aim for Great Britain was to increase the pot gradually to 10 per cent of pay bill, although this target was never reached and departments often did not use the full amount available in a given year. For example, the Government had proposed and SSRB agreed that the pot for the GB SCS in 2008-09 should be 8.6 per cent of pay bill but departments used only 7.6 per cent of pay bill. Permanent Secretaries have now decided retrospectively to reduce the pot for the SCS in Great Britain to a maximum of 5 per cent of pay bill for bonuses paid in respect of performance in the year 2009-10. In addition, the Prime Minister has announced that for 2010-11 only 25 per cent of the GB

<sup>20</sup> Cabinet Office evidence to the SSRB – December 2005.

SCS will receive bonuses, and the Government announced a two-year public sector pay freeze in Great Britain in the Emergency Budget on 22 June 2010. Meanwhile, the Northern Ireland Executive decided in August 2009 not to pay any bonuses to the SCS for 2008-09 and instead increased base pay by 3.5 per cent on average with effect from April 2009. The Executive has not yet taken any decisions on SCS base pay and bonuses from 2010-11 but is awaiting this report.

### **Problems with the pay system**

3.7 We have documented problems with the pay system described above in successive annual reports. Although those reports were concerned with Great Britain, we understand that many of the problems also apply to Northern Ireland. The most important failings put to us can be summarised as follows:

- pay progression proved to be much slower than expected, even though the Government set the PTR significantly lower than SSRB had recommended. This was essentially because annual pay settlements were low, reflecting low inflation, which made it impossible for departments to honour the pay matrix set out in Table 3.3 above. According to that matrix, 90 to 95 per cent of SCS members in the lower pay zone should have received increases of between 6 and 10 per cent of salary. However, most SCS members were in that zone and it was impossible for them to receive increases of that magnitude when the overall pay award had to be contained within an average annual pay bill increase of 3.65 per cent between 2002 and 2009. If the pay band minima and maxima were increased by the same percentage as the increase in the pay bill, as was often the case, then an SCS member receiving an average increase would stay in roughly the same position relative to the pay band minimum and would not progress towards the maximum;
- the distinction between base pay increases and bonuses was

always at best poorly understood by both departments and the SCS themselves, with some departments conflating the two decisions. Much of the rationale for the original system has now been forgotten;

- although the Recruitment and Performance Ceiling (RPC) was never intended to be attainable for most SCS members, it created resentment and some risk of equal pay claims when external recruits were appointed at pay levels well above those of most existing SCS members and sometimes close to (or exceptionally in a few cases even above) the RPC. This appears to have been much rarer in Northern Ireland than in Great Britain, partly because the thresholds above which central approval of starting salaries is required are lower in Northern Ireland;
- performance is very difficult to measure across the SCS and we have heard complaints from SCS members that the process is not objective, for example because policy work is hard to measure, the degree of challenge is hard to predict and priorities can change in year. In comparison, some delivery jobs have measurable outputs which make performance easier to assess;
- another argument is that most SCS members work as part of teams and the emphasis on individual and relative performance is both divisive and runs counter to a co-operative approach;
- moreover, some argue that the application of forced distributions in small units can be demotivating because it can oblige managers to place some satisfactory performers in the bottom performance tranche, with consequences for their pay and morale. However, against this, many SCS members have told us that the civil service does not deal sufficiently rigorously with

poor performers and that forced distribution is therefore a necessary, albeit sometimes arbitrary, discipline;

- there is a strong view that bonuses do not act as incentives to good performance, in part because they are too small (private sector bonuses – excluding financial services – at the equivalent level of seniority would typically average around 25 per cent of salary<sup>21</sup> compared to around 10 per cent for those SCS members receiving one) and because in the SCS there is no automatic link between achieving objectives and receiving a bonus. Some SCS members could achieve all their objectives but not receive a bonus because their immediate colleagues were perceived to have performed relatively better, or to have faced greater challenges during the year in question;
- although modelled on private sector practice, the SCS bonus system takes no account of organisational performance. Whereas in the private sector the size of bonuses (and indeed whether bonuses are paid at all in a given period) depends largely on the financial performance of the organisation as a whole and its component cost centres, the SCS has a fixed bonus pot each year. This leads to accusations that bonuses are being paid in some parts of the civil service that are publicly perceived to have performed badly.

### **Specific Northern Ireland issues**

3.8 Following an investigation by the Assembly's Committee for Finance and Personnel with the Department of Finance and Personnel into the operation of the pay and bonus system, the Committee raised concerns about whether the system was meeting the objectives of the NI SCS pay strategy and questioned whether the arrangements for the NI SCS should mirror those applying to the

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<sup>21</sup> Source: Hay Group. Median private sector bonuses in the past year ranged from 14 per cent of base salary at the equivalent of Grade 6 (i.e. immediately below SCS) to 35 per cent at the equivalent of Pay Band 3.

SCS in Great Britain. One outcome was that in 2009, the NI Executive decided not to pay bonus awards to the NI SCS for that year while bonuses continued to be paid to the SCS in Great Britain. In addition, there was no revalorisation of minima and maxima of NI SCS pay bands and these remained frozen at their 2008 levels, although they were increased by 1.5 per cent for the GB SCS, in accordance with our recommendation. However, while the GB SCS received an overall base pay increase of 2.3 per cent (individual awards were again varied according to performance), the pay bill for the SCS in Northern Ireland was increased by 3.5 per cent. At the time, the Finance Minister announced that the pay package “will cost £1.1 million less [in 2009-10] than if the Northern Ireland Civil Service had applied the pay award made to senior civil servants in Great Britain”<sup>22</sup>.

3.9 As explained in Chapter 2, Permanent Secretaries’ posts in the NI SCS are in Pay Band 3 unlike those in Great Britain which are in a separate pay grouping above Pay Band 3. The head of the NI Civil Service discusses the performance of Permanent Secretaries with Ministers and presents pay recommendations to the independently chaired Permanent Secretary Remuneration Committee which then makes decisions.

3.10 During oral evidence sessions and in written evidence, we heard that a significant number of the SCS are paid towards the bottom of their pay scales. This can be seen in Table 3.4 above which shows that median salaries in Northern Ireland are significantly lower than in Great Britain.

### *Bonuses*

3.11 Bonuses were funded from a percentage of the pay bill, currently 8.6 per cent, which was set aside for that purpose. They were taxable and non-consolidated (i.e. they did not count towards the calculation of pension benefits and were paid for one year only). The bonus pot was built up over eight years, using money that could otherwise have been used for consolidated pay.

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<sup>22</sup> Northern Ireland Executive news release, 10 August 2009 *No payments for Senior Civil Servants*. Available at: <http://www.northernireland.gov.uk/news/news-dfp/news-dfp-august-2009/news-dfp-090809-no-bonus-payments.htm>

3.12 All NI SCS members were eligible to receive bonus awards and until 2008 75 per cent did so. This was part of the design of the original scheme: bonuses were intended to be part of the pay of average performers. Only those who fell below an acceptable level would not receive a bonus. Thus bonuses were simply a form of performance-related pay. They were not restricted to the very best performers because it was thought that would be divisive and demotivating for those who were performing satisfactorily. Nevertheless, bonuses were intended to be varied so that the best performers received significantly larger amounts than those whose performance was merely adequate. As with base pay, there seems in practice to have been less differentiation between outstanding and other performers in Northern Ireland compared to Great Britain.

3.13 In 2008-09, the cost of bonus payments made to the NI SCS was £1.2 million out of a total pay bill of £15 million. As part of the 2008 pay award, around 25 per cent of the Northern Ireland SCS in Pay bands 1 and 2 received £10,500, another 25 per cent received £7,500 and 25 per cent received £5,000. In the same year all Permanent Secretaries received individual bonuses of between £5,000 and £13,000. In 2009, following intense media and public interest in the payment of bonuses at a time of increasing economic difficulties, the NI Executive decided not to pay bonus awards to the SCS for that year while members of the SCS in other parts of the UK continued to have access to bonus awards.

3.14 While many in the NI SCS recognised the advantages of an average consolidated pay increase of 3.5 per cent, particularly when their mainland counterparts were awarded an average pay increase of 2.3 per cent, some felt let down and were concerned that in future years pay decisions could result in no bonus as well as no, or little, increase in base pay. The Head of the NI Civil Service told us that bonuses were not acceptable in the current economic climate and that the SCS do not feel motivated by the current bonus arrangements. However, he believed that there should be some mechanism for rewarding good performance.

## *Pension*

3.15 Pension arrangements for members of the NI SCS are provided through the Principal Pension Scheme (Northern Ireland). The scheme is similar to that in operation for civil servants in the rest of the UK. A final salary pension scheme is available for all those who joined the NI civil service before 30 July 2007. For those joining after this date, pension provision is based on career average earnings. The statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year.

3.16 New joiners on or after 1 October 2002 may opt for a “Partnership” account instead. This is a money purchase stakeholder arrangement with an employer contribution. Retirement income is provided by an annuity bought with the partnership pension account ‘pot’.

3.17 Members of the NI SCS we met valued their pension arrangements which are generally considered more generous than those available to employees in the private sector.

## **Pay progression**

3.18 The terms of reference for this review require our recommendations to inform decisions on future SCS pay arrangements so that they:

“provide appropriate arrangements for salary progression to ensure that competent employees meet target rates in a reasonable period of time”.

3.19 Individual pay uplifts can be in the range 0 to 9 per cent within the overall base pay increase. However, awards among the SCS in Northern Ireland have tended to be towards the bottom of the range, because of a reluctance to use a wide range of awards to differentiate significantly between highest and lowest performers, and consequently pay progression to reward NI SCS members’ growing skills and experience is slow, even for the highest performers. As discussed above, a combination of successive low pay uplifts and increases to pay band minima and maxima has resulted in most NI SCS members still being paid towards the bottom of their pay scales. Median pay levels are relatively close to the minima of pay bands.

3.20 In an attempt to address some of the structural issues in the pay structure, namely poor progression for those at the bottom of the pay bands and overlap with the maximum of the Grade 6 pay scales which was resulting in the lowest paid in the NI SCS being overtaken in pay terms by their subordinates, an increase in base pay of £1,000 was awarded in 2008 to members of Pay Band 1 with 5 years plus service and who were earning less than £62,407. The increase was funded from a reduction in the bonus pot and benefited around 20 staff. However, several members of the SCS told us they are still close to the bottom of their pay scales despite being in the SCS for a number of years. We also heard of those transferring from the Northern Ireland Office this year being doubly disadvantaged by not being able to benefit from the £1,000 consolidated increase, nor the 3.5 per cent base pay increase awarded to NI SCS for 2008-09. However, we understand that this group had access to bonus awards in 2009 and 2010, the latter having been agreed before the devolution of policing and justice.

3.21 The length of the pay bands creates an expectation that the SCS will move steadily towards the maximum but the reality is that progression within a pay band is slow. We heard from one member of the SCS who said that his salary was around £3,300 above the minimum of his pay scale despite being in his current grade for five years and receiving good performance ratings. The majority of those to whom we spoke discussed the demotivational effect of this: poor pay progression is seen by many as their biggest complaint about their pay and performance arrangements. The differentiated awards described in the preceding paragraph were a first step towards addressing slow pay progression. More needs to be done, though as noted above, the purpose of the current broad bands is not understood and the high maxima can create unrealistic expectations.

### **Recruitment and retention**

3.22 At 1 January 2010 there were 25 vacancies in the Northern Ireland SCS, 18 of which were being covered by temporary promotion. The most recent Annual Report of the Civil Service Commissioners for Northern Ireland noted

that 21 appointments were made in 2008-09, 19 filled by internal candidates and two by external candidates.

3.23 The Civil Service Commissioners for Northern Ireland chair all external competitions for appointments to the Senior Civil Service. In evidence to us they reported that the quality of successful candidates for advertised posts is good and that there appear to be sufficient numbers of appointable candidates for the more generic posts involving policy roles. However, recruiting for some specific professional posts has proved more difficult, with the higher salaries available in the private and wider public sectors cited as the main reason. This evidence is corroborated by Department of Finance and Personnel officials who reported that, while in the main there are sufficient applications for SCS posts, difficulties exist in recruiting for some specialist posts, such as legislative draftsmen where the level of starting salary appears to be the barrier to recruitment. We also heard evidence of difficulties in recruiting other specialists, in particular finance staff and, increasingly, HR specialists.

3.24 As shown in Table 3.5 below, the main reason for leaving the Northern Ireland SCS is retirement (including early retirement) while the number of resignations has remained in single figures for several years. Leavers represent on average 7.8 per cent of the NI SCS workforce over each of the last five years, a lower percentage than for the SCS in Great Britain (9.7 per cent on average). However, the Head of the Civil Service in Northern Ireland informed us that four members of the civil service in the finance specialism had recently left to join organisations in the wider public sector.

**Table 3.5: Northern Ireland Senior Civil Service exits by reasons for departure, 2004-05 – 2008-09**

	2004-05	2005-06	2006-07	2007-08	2008-09 <sup>1</sup>	Totals
Resignation	2	1	0	7	2	12
Retirement	7	6	4	5	10	32
Early Retirement	3	9	8	8	3	31
Health	1	2	0	0	1	4
Other	1	0	3	2	0	6
<b>Total</b>	<b>14</b>	<b>18</b>	<b>15</b>	<b>22</b>	<b>16</b>	<b>85</b>

Sources: HRConnect, Northern Ireland Human Resource Management System

Notes:

<sup>1</sup> 2009 data sourced from HRConnect, previous years' data sourced from HRMS.

<sup>2</sup> The figures exclude the GB SCS members (in the Northern Ireland Office) who transferred to the NI SCS in April 2010.

3.25 Apart from some specialist posts, there appears to be little problem with recruitment and retention. However, the picture could be starting to change. One Permanent Secretary reported that the quality of the field to fill a Pay Band 1 vacancy had been poor. He also said that graduates were leaving the civil service to join the private sector. He believed this was because of the lack of promotion prospects, but the figures in Table 3.5 do not appear to show a problem for the SCS, with resignations averaging fewer than two per year between 2004 and 2009. There appears to have been no particular reason for the higher figure in 2007-08 but we understand that five of the seven leavers that year went to the wider public sector and only one joined the private sector.

### **Overlap with Grade 6**

3.26 The civil service feeder grades for the SCS are Grades 6 and 7. There is no overlap in Northern Ireland between the maximum of the Grade 7 pay scale and the minimum of the Pay Band 1 pay scale but the Grade 6 maximum is more than £5,000 higher than the Pay Band 1 minimum. As described above, an attempt was made in 2008 to tackle the issue of overlap with a financial adjustment awarded to the lowest paid members of Pay Band 1.

3.27 We have discussed the issue of overlap in pay between members of our remit group and their feeder grades in our annual reports on senior pay. While it is common for pay ranges to overlap, it can raise issues which need careful

management. For example, we heard of a person recently promoted from Grade 6 to the SCS who is being paid at a higher rate than longer serving members of the SCS. Also, we were told that women tend to be promoted to the SCS from Grade 7 rather than from Grade 6 and so start their SCS careers on lower salaries than many male colleagues, a potentially discriminatory effect of the current pay structure. In the past we have recommended and the Government has accepted that SCS members should receive at least 10 per cent increase in pay on promotion. This was intended to reflect the increase in responsibility. However, we must now reconsider whether that recommendation should continue to apply since it may have the effect of reinforcing indirectly discriminatory differences between individuals' pay.

3.28 Another reason for the lower pay of some women joining the SCS is that they are more likely to have taken time out of the workplace for caring responsibilities and hence to be lower in their pay scales when they join the SCS. Again, the 10 per cent increase on promotion rule could have the effect of perpetuating lower levels of pay for such people.

### **Pay of comparators**

3.29 During this review, we considered the pay of comparators in the SCS in Great Britain and the Republic of Ireland. We also sought information on pay in the wider public and private sectors in Northern Ireland although it was difficult to find reliable figures on pay for people at levels comparable to the SCS. Better evidence in this area is needed for future reviews of NI SCS pay.

3.30 For the NICS, the proposal to link public sector pay to that of the local pay market challenges the long-held principle of pay parity with the GB Civil Service. However, in its evidence to us, the Northern Ireland Committee for Finance and Personnel said:

“The Committee was also concerned that the pay and bonus arrangements for SCS staff in the NICS simply mirrored those of Whitehall departments, and did not take account of local economic conditions.”

3.31 The Department of Finance and Personnel produces regular updates to the technical annex of its Pay and Workforce Plan<sup>23</sup> in which it draws on the Annual Survey of Hours and Earnings (ASHE) to report on the public and private sector pay differentials of key occupational groups. However, the picture is not clear. For example, data for Corporate Managers (who include the SCS) in Northern Ireland show that the public sector differential “declined considerably” from the period 2005–2007 to 2006–2008<sup>24</sup> but “increased considerably” over the period 2006–2008 to 2007–2009<sup>25</sup>. Another difficulty is that the public and private sectors differ from each other in their workforce profile (employees in each sector differ in terms of age, experience, qualifications and levels of education) and when considering some SCS roles, such as policy development, it is difficult to find equivalent private sector roles. The difficulty is illustrated by figures from the Institute for Fiscal Studies<sup>26</sup> which show that raw public-private sector pay differentials in Northern Ireland in 2006 to 2009 are 24 per cent for men and 31 per cent for women but when differences in the employee characteristics listed above are taken into consideration, the figures drop to 5 per cent for men and 12 per cent for women.

3.32 Most private sector companies in Northern Ireland are small and often family-owned. A representative of the CBI pointed out to us that it is likely that only the largest companies will be in competition with the civil service for senior staff and that there is very little interchange of staff at that level between the civil service and the private sector. He was aware of only one individual from the private sector moving to the public sector before returning some five years later.

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<sup>23</sup> Department of Finance and Personnel. *Pay and Workforce Plan 2007-08*. Available at: [http://www.dfpni.gov.uk/pay\\_and\\_workforce\\_strategy\\_07.pdf](http://www.dfpni.gov.uk/pay_and_workforce_strategy_07.pdf)

<sup>24</sup> Department of Finance and Personnel. *2009-10 Northern Ireland Public Sector Pay and Workforce Technical Annex*. Available at: [http://www.dfpni.gov.uk/2009-10\\_pay\\_and\\_workforce\\_technical\\_annex.pdf](http://www.dfpni.gov.uk/2009-10_pay_and_workforce_technical_annex.pdf)

<sup>25</sup> Department of Finance and Personnel. *2010-11 Northern Ireland Public Sector Pay and Workforce Technical Annex*. Available at: <http://www.dfpni.gov.uk/2010-11-pay-and-workforce-technical-annex.pdf>

<sup>26</sup> The Institute for Fiscal Studies. *The IFS Green Budget February 2010, Section 9, Table 9.4*. Available at: <http://www.ifs.org.uk/budgets/gb2010/gb2010.pdf>

3.33 PricewaterhouseCoopers (PwC) have previously benchmarked pay at Pay Band 1 and Pay Band 2 levels and we asked them to provide benchmark data on these grades to inform our review. Table 3.6 below shows median salary data for Pay Bands 1 and 2 and comparators in private sector organisations in 2009.

**Table 3.6: Comparison of NI SCS and private sector base pay and total remuneration 2009**

	<b>Pay Band 1</b>	<b>Comparator in “holistic”<sup>1</sup> NI private sector organisation</b>	<b>Comparator in large<sup>2</sup> NI private sector organisation</b>	<b>Pay Band 2</b>	<b>Comparator in “holistic”<sup>1</sup> NI private sector organisation</b>	<b>Comparator in large<sup>2</sup> NI private sector organisation</b>
Median base salary	£65,177	£60,000	£90,000	£92,752	£73,500	£115,000
Median total remuneration <sup>3</sup>	£79,516	£85,500	£130,500	£113,157	£106,725	£170,000

Sources: PwC, DFPNI, OME

**Notes**

1. PwC use the term “holistic” to refer to organisations of all sizes and degrees of complexity.
2. Large companies are complex organisations with more than 1,000 employees.
3. Includes basic salary, pension, bonus, and car allowance but not ‘sundries’ such as medical insurance, nor share options – PwC comment that the latter are not as common in NI as elsewhere in the UK. The SCS received no bonus awards in 2009. The assumed average value of the SCS pension is 22% of salary – the actual value will depend on age and the scheme to which each SCS member belongs but the Towers Watson report of February 2010 assumed an average age of 50 to arrive at the 22% figure.

3.34 The table above indicates that median base pay of the NI SCS is higher than that of comparators in all private sector organisations in PwC’s survey but lower when considering the pay of comparators in large organisations (complex private sector organisations with more than 1,000 employees). When total remuneration is considered, the pay of the NI SCS Pay Band 1 is lower than comparators in all surveyed organisations and markedly lower than private sector comparators in large organisations. Total remuneration for Pay Band 2 is only slightly higher than for comparators in all surveyed private organisations and markedly lower than those in large organisations.

3.35 The Civil Service Commissioners also reported that SCS salaries for the most senior posts are generally perceived to be lower than those for comparative jobs in the private sector and elsewhere, and, as reported earlier,

they have had difficulties in attracting applicants for some professional or specialist posts which attract higher salaries in the private sector.

3.36 This evidence tends to contradict that in Sir David Varney's report<sup>27</sup>, although Sir David was looking at pay across the whole of the public sector. Sir David found that:

“the public sector in Northern Ireland still pays on average 19 per cent more than the private sector – in contrast the public sector pays on average 1 per cent less in the UK as a whole. Further, ... there is a particularly high wage differential at more senior civil service levels. The difference is largely due to the fact that private sector wages in Northern Ireland are below UK levels, while public sector pay tends to follow UK public sector average.

**7.19** This implies that the public sector is paying a wage much higher than is necessary to get the workers it needs, especially given the geographical constraints which make it unlikely that most public sector workers would switch to jobs outside Northern Ireland if the wage differential were reduced over time. While the precise dynamics of the relationship between private and public sector pay are complex, it is clearly inefficient for the public sector to pay wages that are higher than necessary.

**7.20** Such a high differential has serious consequences for the private sector, reducing its attractiveness to workers, and particularly to the most talented and highest skilled in senior level jobs. Ultimately, workers will, to a large extent, choose jobs on the basis of the wages offered, and a differential of the size that exists in Northern Ireland, combined with other public sector benefits such as flexible hours and pensions, make it more difficult for the private sector to compete for the most highly skilled workers.”

We have not been able to find any evidence to bear out Sir David's assertion that “there is a particularly high wage differential at more senior civil service levels”. We have found no data to suggest that SCS pay levels are higher than those in the private sector for comparable jobs. The evidence from PwC cited above rather suggests the opposite. Moreover, SCS pay levels (as measured by median salaries) are significantly lower in Northern Ireland than in Great Britain: the difference is approximately -12 per cent at Pay Band 1, -9 per cent at Pay Band 2 and -21 per cent at Pay Band 3.

3.37 Data supplied to us by the Department of Finance and Personnel and summarised at Annex E indicate that the median base salaries of each NI SCS pay band are broadly in line with those of comparators in the wider public

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<sup>27</sup> Sir David Varney. *Review of the Competitiveness of Northern Ireland*, April 2008. Available at: [http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/varney\\_review300408.pdf](http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/varney_review300408.pdf)

sector.

3.38 In 2010, the pay of senior civil servants in the Republic of Ireland was reduced following recommendations made by the Review Body on Higher Remuneration in the Public Sector<sup>28</sup> which also recommended freezing pay until 2012 “at the earliest” for groups within its remit and a suspension, until 2012, of performance–related awards. As can be seen from Table 3.7 below, salary levels available to senior civil servants and the feeder grade in the Republic of Ireland tend to be higher than those available to those in similar posts in the senior civil service in Northern Ireland.

Table 3.7: **Salaries of Senior Civil Servants in the Republic of Ireland**

Grade	Salary wef 1 September 2008		Salary wef 1 January 2010	
	€	Equivalent in £ using Purchasing Power Parity at 1.49 <sup>1</sup>	€	Equivalent in £ using Purchasing Power Parity at 1.42 <sup>2</sup>
Secretary General	€221,929	£148,946	€188,640	£132,845
Deputy Secretary	€177,547	£119,159	€168,000	£118,310
Assistant Secretary	€131,748 - €150,712	£88,421 - £101,149	€127,796 - €146,191	£89,997 - £102,951
<i>Principal</i> <sup>3</sup> (Higher)	€92,730 - €114,366	£62,235 - £76,756	€85,957 - €105,429	£60,533 - £74,246

Sources: Department of Finance, Republic of Ireland; OECD

Notes:

1. PPP in 2008.
2. PPP in 2009 (estimate).
3. The post of Principal is the Republic of Ireland Senior Civil Service feeder grade.

On the assumption that Secretary General broadly equates to NI Permanent Secretary, Deputy Secretary to Pay Band 2 and Assistant Secretary to Pay Band 1, these figures suggest that Irish senior civil servants are still paid significantly more, even after the recent pay cuts, than those in Northern Ireland, after allowing for differences in the cost of living. (The difference is even greater if salaries are converted using the current exchange rate rather

<sup>28</sup> Review Body On Higher Remuneration In The Public Sector. *Report No. 44 to the Minister for Finance on the levels of remuneration currently appropriate to certain posts covered by the Review Body*. September 2009. Available at: <http://www.reviewbody.gov.ie/Documents/Report%2044.pdf>

than Purchasing Power Parities which take account of differences in the cost of living in different countries.)

## Diversity

3.39 The NI Civil Service's employment equality and diversity plan<sup>29</sup> and its progress report<sup>30</sup> provide the following diversity figures for the NI SCS workforce:

Table 3.8: **Composition of the Northern Ireland SCS<sup>1</sup>**

	1 January 2008	1 January 2009
	%	%
Protestant:	56.0	51.0
Roman Catholic	37.5	37.0
Male	72.6	69.6
Female	27.4	30.4
Disability <sup>2</sup>	3.6	3.5
Ethnic Minority <sup>2</sup>	1.2	1.2

<sup>1</sup> This includes staff at Grade 5 and above in general service grades and analogous grades in other occupational groups

<sup>2</sup> The figures for disability and ethnic minority relate to those staff who have chosen to declare this information for equal opportunities monitoring purposes.

3.40 Under Article 55 of the Fair Employment and Treatment (NI) Order 1998<sup>31</sup>, all registered employers in Northern Ireland are required to review the workforce composition of Protestants and Roman Catholics and ensure that there is fair participation of both communities in the workplace. The NI Civil Service's progress report says that although there has been under-representation in the past of Roman Catholics at senior levels in the SCS, there is now fair participation and evidence suggests that recent SCS appointments closely match the community background of the 2001 census.

<sup>29</sup> Department of Finance and Personnel. *Northern Ireland Civil Service Employment Equality and Diversity Plan 2008 to 2011*. Available at: [http://www.dfpni.gov.uk/nics\\_employment\\_equality\\_and\\_diversity\\_plan\\_-\\_september\\_2008.pdf](http://www.dfpni.gov.uk/nics_employment_equality_and_diversity_plan_-_september_2008.pdf)

<sup>30</sup> Department of Finance and Personnel. *Northern Ireland Civil Service Employment Equality and Diversity Plan 2008 to 2011 Progress Report October 2009*. Available at: <http://www.dfpni.gov.uk/nics-employment-equality-and-diversity-plan-progress-report-october-2009.pdf>

<sup>31</sup> *The Fair Employment and Treatment (Northern Ireland) Order*. SI 1998/3162 (NI 21). Available at: <http://www.opsi.gov.uk/si/si1998/98316206.htm#55>

3.41 During oral evidence sessions we heard that the balance in religions in the SCS reflects that of the population and although women are underrepresented in the SCS, we are told that the picture is healthier in the SCS's feeder grades.

3.42 The SCS has a leadership role in promoting diversity in the culture of the civil service. We therefore welcome and support the work being carried out to improve diversity in the NI Civil Service including training events and the current review on gender composition in the NI Civil Service compared with the labour market.

## Chapter 4

### Proposals for a new pay system

#### Our objectives for a new pay system

4.1 In drawing up our proposals for a new pay system for the Northern Ireland Senior Civil Service (NI SCS) we have paid careful attention to our terms of reference, and in particular the request to us to bring forward recommendations so that future SCS pay arrangements:

- “(i) meet the needs of the NICS in terms of attracting, retaining, motivating and rewarding SCS staff;
- (ii) provide transparency and robustness in SCS pay and reward decisions, with due regard to the reward and remuneration arrangements elsewhere in the public sector and in the private sector;
- (iii) address any potential vulnerabilities in the current SCS pay system in respect of equal pay or age discrimination legislation;
- (iv) promote strong performance management arrangements, ensuring that appropriate incentives are in place to promote and reward high performance and the delivery of business objectives, as well as ensuring that ineffective performance is identified and dealt with appropriately;
- (v) provide for appropriate arrangements for salary progression to ensure that competent employees meet target rates in a reasonable period of time; and
- (vi) appropriately reflect both administrative and professional/specialist roles in the SCS.”

We have also had in mind the points made to us both orally and in writing by members of the NI SCS, notably:

- their desire for an independent, stable system of pay determination, not subject to arbitrary interference;
- their desire for real pay progression.

Finally we were concerned to design a system which, in addition to meeting the above criteria, achieves the best value for money for the taxpayer and avoids

distorting effects on the wider labour market, both public and private, in Northern Ireland.

### **Performance-related pay**

4.2 The current pay system, described in Chapter 3, contains two distinct elements of performance-related pay: base pay increases and bonuses, both of which are in principle differentiated according to performance. We consider that the attempt to distinguish between two types of performance – long-term improvement in skills which justified a base pay increase and short-term achievement of objectives which justified a non-consolidated bonus – has failed because it was poorly understood and difficult to operate.

4.3 Nevertheless, we think any SCS pay system should contain a significant element of performance-related pay for the following reasons:

- it is right in principle that those who perform better than their colleagues should be paid more;
- performance-related pay is an essential part of a performance management system: it enables management to send signals about an organisation's priorities and the sort of behaviour and leadership it expects from senior managers, to reward those who best respond to those signals and warn those who fail to do so; and
- performance-related pay can have an incentive effect, helping organisations to perform better, although we accept that this effect may be weaker in the SCS, where people tend to be motivated more by a public service ethos than by money.

4.4 The bonus element of the current NI SCS pay system had some advantages, not least that the reward for good performance during the previous year was a one-off, non-consolidated and non-pensionable payment which had to be earned anew each year. This helped to reduce the cost of final salary

pensions. It also sent signals to higher performers that their departments recognised and valued their contributions. However, the system suffered from various disadvantages, perhaps the most serious of which was the fact that, at least initially, 75 per cent of NI SCS members were eligible for bonuses. It was hard to explain why half of the below-average performers should receive a bonus in addition to basic salary. Although the bonus pot had been built up using money that could otherwise have been used for base pay increases, it appeared to the public that most NI SCS members were receiving additional payments, over and above their salaries, simply for doing the job. The reality was more complicated than that: as explained in Chapter 3, the bonus scheme had to be seen in the context of the whole system. In the system from 2002 automatic pay increments had been abolished and all pay increases and bonuses were dependent on, and graduated according to, relative performance. This meant that the top performers received most but the solid middle tranche also received something, since these are the people who deliver much of the work. Nevertheless, the SCS bonus scheme has fallen into disrepute in both Great Britain and Northern Ireland, partly because of largely unfounded comparisons with bonus systems in the financial services sector, but partly, too, because it was very difficult to justify payment of bonuses to managers of organisations which were perceived as performing poorly. We understand why the Executive decided to suspend bonuses for the NI SCS in 2009 and we do not believe it would be realistic to propose restoring them. We need to find another way of providing an incentive and reward for high performance.

### **Our proposals for a new system**

4.5 We therefore propose a new system in which members of the SCS will not receive bonuses. These are the main features of the new scheme we propose:

- replacement of the three existing very broad pay bands (see Table 3.4 above) with much shorter, ten point pay scales, where a consistently top performer can receive an increase of two pay progression steps each year and thus reach the top of the scale in five years, and an

average performer receiving one progression step each year may do so in 10 years. The bottom 40 per cent in any one year will not move up the scale at the end of that year although they could receive a pay increase if the scale is revalorised as a result of the annual pay review;

- the opportunity to earn non-consolidated, performance-related payments for exceptional performers who have reached the top of the scale; and
- recruitment and retention premia to be available for posts in specialisms which could not otherwise be filled at normal rates. The use of such premia should be subject to the approval of a remuneration committee in line with the recommendations in our *Initial report on public sector senior remuneration*<sup>32</sup>.

### **Performance-related pay scales**

4.6 We recommend that in future, for those paid below the maxima of the new scales, there should be performance-related annual pay progression. The top 10 per cent of performers should move up two steps on the scale (or to the top if they are only one step away). The next 50 per cent of performers should move up a single pay progression step. Thus a consistently top performer could move from the minimum of the scale to the maximum in five years, while a consistently average performer (i.e. those from the 11<sup>th</sup> to the 60<sup>th</sup> percentile of the performance distribution) would do so in 10 years. The balance of NI SCS members in any given year would not move up the scale though they could receive pay increases if the scales were revalorised (see below). However, we believe that any NI SCS members those whose performance merits the imposition of a performance improvement plan or similar measure, should receive no pay increase at all, even if the scale is revalorised, unless and until their performance improves.

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<sup>32</sup> Review Body on Senior Salaries. *Report no. 74, Initial Report on Public Sector Senior Remuneration 2010*. Cm 7848

4.7 Our recommended pay scales are as follows:

<b>Recommendation 1: We recommend the following pay scales to replace the existing pay structure:</b>			
	<b>Pay Band 1</b>	<b>Pay Band 2</b>	<b>Pay Band 3</b>
<b>Minimum</b>	<b>57,300</b>	<b>81,600</b>	<b>98,059</b>
	<b>59,320</b>	<b>84,100</b>	<b>101,000</b>
	<b>61,340</b>	<b>86,600</b>	<b>104,000</b>
	<b>63,360</b>	<b>89,100</b>	<b>107,000</b>
	<b>65,380</b>	<b>91,600</b>	<b>110,000</b>
	<b>67,400</b>	<b>94,100</b>	<b>113,000</b>
	<b>69,420</b>	<b>96,600</b>	<b>116,000</b>
	<b>71,440</b>	<b>99,100</b>	<b>119,000</b>
	<b>73,460</b>	<b>101,600</b>	<b>122,000</b>
	<b>75,480</b>	<b>104,100</b>	<b>125,000</b>
<b>Maximum</b>	<b>77,500</b>	<b>107,000</b>	<b>128,000</b>

As shown by Table 4.1 below, most members of each pay band are currently paid well below the proposed new maxima and will thus have the opportunity to benefit from the new progression system.

Table 4.1: **NI SCS lower quartile, median and upper quartile pay, 2010**

	<b>Pay Band 1</b>	<b>Pay Band 2</b>	<b>Pay Band 3</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Lower quartile</b>	61,274	87,559	103,441
<b>Median</b>	65,126	91,819	105,033
<b>Upper quartile</b>	69,445	97,459	111,485

**Recommendation 2: We recommend that, for those below the maximum of the pay scale:**

- the top 10 per cent of performers move up two steps on the scales (or to the maximum if they are one step away); and
- the next 50 per cent of performers move up one step on the scale.

**Recommendation 3: We recommend that the pay of any Northern Ireland Senior Civil Service members whose performance merits the imposition of a performance improvement plan or similar measure, should remain frozen, even when the pay scale is revalorised, unless and until their performance improves.**

4.8 We have set the bottom of the scales at the same level as the current minima. All the evidence that we have seen points to there being no problem with recruiting or retaining members of the SCS in Northern Ireland, with the exception of a few specialist posts. We therefore see no need to increase the pay band minima at this time. However, we are aware that the Grade 6 scale substantially overlaps the Pay Band 1 scale we have proposed and this may cause problems because those promoted to the SCS from Grade 6 may leapfrog those who have been in the SCS for some time. This is undesirable and could lead to equal pay claims. The problem could become worse if the Grade 6 scale were to be increased by the current pay and grading review of the NICS below SCS level. We therefore suggest that any review of pay for grades below pay band 1 should seek to avoid exacerbating the problem.

4.9 In Northern Ireland those promoted to or within the SCS currently receive a pay increase of at least 10 per cent. We now consider that this rule should no longer apply in Northern Ireland because of the distortions and legal problems it may cause. Instead we recommend that those promoted should move to the lowest point of the scale to which they have been promoted that is above their current salary. This may be the scale minimum in some cases.

**Recommendation 4: We recommend that those promoted to or within the Northern Ireland Senior Civil Service move to the lowest point of the scale to which they have been promoted that is above their current salary.**

4.10 Approximately a tenth of the NI SCS are currently paid above the maxima of our proposed new scales. We recommend that those people should

have their base pay increased by the same percentage as any revalorisation of the relevant scale (or of the top point of that scale if the increase is not uniform) provided that their performance in the year immediately preceding the increase has been at least satisfactory. They would also be eligible for non-consolidated performance awards in the same way as those at the top of their scale (see below).

**Recommendation 5: We recommend that members of the Northern Ireland Senior Civil Service who are paid above the maximum of the new pay scales should have their base pay increased by the same percentage as any revalorisation of the relevant scale (or of the top point of that scale if the increase is not uniform), provided that their performance in the year immediately preceding the increase has been at least satisfactory.**

#### **Non-consolidated performance awards**

4.11 Under our proposed new system, many more people will reach the top of their pay scale. There must be some incentive for these people to maintain their levels of performance. We therefore recommend that those at the top of their scale or already paid above the new maximum should be eligible for non-consolidated performance awards. These should be limited to the best performers. We recommend that up to 25 per cent of those not eligible for pay progression steps should be able to receive non-consolidated performance awards of up to 5 per cent of the individual's salary. These awards would not be pensionable.

**Recommendation 6: We recommend that up to 25 per cent of the best performers who are either at the top of their pay scales or paid above the new maximum and therefore not eligible for pay progression steps be eligible for non-consolidated and non-pensionable performance awards of up to 5 per cent of their salary.**

## **Assimilation to pay scales**

4.12 We recommend that assimilation to the new scales should take place on 1 April 2011. Anyone whose current pay corresponds exactly to a scale point on the new scale should continue on that rate while all others will move to the next scale point above their current rate. (As noted above, those currently paid above the new scale maxima will mark time.) We estimate that this will cost 1.3 per cent of the current pay bill. However, this is more than offset by the saving from no longer paying bonuses. When bonuses were last paid in 2008, the cost was 8.6 per cent of the pay bill. Even taking account of the 3.5 per cent increase in base pay in 2009, the NI SCS have effectively had an average pay cut of around 5 per cent since then because of the abolition of bonuses and the pay bill on a like-for-like basis will still be significantly lower in cash terms after assimilation than if bonuses had continued to be paid.

**Recommendation 7: We recommend that assimilation to the new pay scales take place on 1 April 2011 and that:**

- **those whose current pay corresponds exactly to a scale point continue on that rate;**
- **those whose current pay is above the maximum scale point continue on that rate; and**
- **all others move to the next scale point above their current rate.**

## **Revalorisation of scales – determining SCS pay**

4.13 We strongly believe that the pay of the SCS in Northern Ireland should be set on the basis of objective, evidence-based procedures. Inevitably, SCS pay is highly visible to the media and is a matter of political concern. In previous reports on our remit groups we have discussed the difficulties in taking corrective action on pay, even when justified by evidence, and pointed out that given the small numbers in our remit groups, and particularly the number of SCS in Northern Ireland, the level of settlements has little effect on the public sector pay bill and wider economy. But while pay should be set taking account

of the wider political and economic environment, it is only in the most exceptional circumstances that political considerations should be allowed to override all others.<sup>33</sup> We accept that those circumstances obtained in 2009-10, while the recession was at its worst, when the Northern Ireland Executive suspended the SCS bonus scheme but awarded an increase of 3.5 per cent in base pay<sup>34</sup>. For 2010-11 we recommend no increase in SCS pay and no payment of bonuses. We realise that this will be a disappointment to SCS members but, as noted above, we have seen no evidence to suggest that an increase is currently necessary for recruitment, retention or motivation. SCS salaries are well within the top 10 per cent of earnings in Northern Ireland. Hitherto employment in the SCS has been much more secure than in the private sector and most SCS members have had final salary pensions. Inflation as measured by the Retail Prices Index was negative during much of 2009 although it has spiked up recently, in part because of the return of the VAT rate to 17.5 per cent.

**Recommendation 8: We recommend that for 2010-11 there be no increase in Northern Ireland Senior Civil Service pay.**

**Recommendation 9: We recommend that the current bonus scheme, suspended by the Executive in 2009, be discontinued.**

4.14 In future years there could be pay increases for the SCS. We believe there should be an annual review carried out by an independent body such as ourselves, taking evidence from the Executive, trade unions and the NI SCS themselves and looking particularly at recruitment, retention and motivation, as well as at affordability and the broader economic context. We already have some experience of the Northern Ireland labour market through regularly recommending on the pay of the judiciary and we also carried out a one-off

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<sup>33</sup> The UK Government gave such an undertaking in 1971 when it set up the first independent pay review bodies.

<sup>34</sup> This was the average increase. Since increases were modulated by performance, some will have received more and others less than this but we understand most increases were close to this figure.

study of senior health service managers in Northern Ireland. There may be another body suitable to carry out this task, but whoever does it, the Northern Ireland Executive should undertake to accept its independent recommendations in all but the most exceptional circumstances. This is necessary to ensure that the SCS have confidence that their pay will be set fairly and objectively and not for political expedience.

**Recommendation 10: We recommend that an independent body such as the Review Body on Senior Salaries should review Northern Ireland Senior Civil Service pay annually and that the Northern Ireland Executive undertake to accept its independent recommendations in all but the most exceptional circumstances.**

4.15 The new pay system will need to be monitored carefully to ensure that it is not creating unintended upward pay drift (i.e. that the pay bill is not increasing year on year simply because of people moving up the pay scale). Our estimates below suggest that this will not be the case, but it will depend to some extent on the pattern of leavers and joiners. If highly paid leavers are replaced by people paid at the bottom of the scale while others progress through the scales at the rates we have suggested, then the system should be cost neutral, at least after a few years, but this will need to be monitored. If problems in recruitment or retention emerge, then the scales could be revalorised, either by applying a uniform percentage increase or possibly more targeted adjustments. If, on the other hand and against our expectations, progression through the pay scales generated a net cost, and there was no new money available, this would need to be dealt with by reducing the proportion of people receiving performance-related increases or non-consolidated awards.

**Recommendation 11: We recommend that the new pay system be monitored carefully to ensure that it is not creating unintended upward pay drift and that it remains affordable.**

## **Recruitment and retention premia**

4.16 The evidence suggests that the above scales will be sufficient to recruit and retain well-qualified people for most NI SCS posts, but there may be difficulties in a few specialist areas. For such posts there should be flexibility to pay a recruitment and retention premium. The need for and level of such a premium should be authorised by an independent remuneration committee, as recommended in our draft code of practice on top-level reward in the public sector<sup>35</sup>. We have considered whether to recommend limits for such payments, but on balance we think this should be left to remuneration committees to determine, subject to the provisos that the premium should be no higher than is necessary to recruit and retain suitably qualified individuals, and that the premium should cease if the individual moves to another job in the SCS which does not justify a premium, or if labour market conditions mean it is no longer necessary. The remuneration committee should therefore review any continuing recruitment and retention premia every three years. Our understanding is that where similar allowances are paid to NICS members below SCS level, they are almost invariably pensionable and we think that recruitment and retention premia at SCS level should also be pensionable unless, in specific circumstances, the remuneration committee judges that this is not necessary or appropriate.

**Recommendation 12: We recommend that recruitment and retention premia be available to remunerate specialist roles and that remuneration committees determine the need for and correct level of any such premia.**

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<sup>35</sup> Review Body on Senior Salaries. *Report no. 74, Initial Report on Public Sector Senior Remuneration 2010*. Cm 7848

**Recommendation 13: We recommend that payment of a recruitment and retention premium cease if the individual for whom the premium was originally approved moves to another job in the Senior Civil Service that does not justify a premium or if labour market conditions change, rendering it no longer necessary. The remuneration committee should review any continuing premia every three years.**

### **Performance management**

4.17 The pay system we have recommended is predicated on a performance management system that is capable of distinguishing different levels of performance fairly and objectively, so that decisions on the award of pay progression steps are well-founded and defensible. We have been assured by senior managers that the Northern Ireland SCS performance management system does meet these criteria.

### **Organisational performance**

4.18 One of the criticisms of the system of SCS bonuses was that the same proportion of SCS members received bonuses across the whole of the SCS, regardless of the relative performance of different organisations or parts of organisations. This is a difficult issue to address because there is, at present, no satisfactory method of measuring the performance of different bodies within the civil service. Moreover, even where a body is clearly underperforming, that may be due to factors outside the control of the current SCS managers. We therefore make no general recommendation on this subject but leave it to remuneration committees to consider whether, in specific circumstances, performance-related awards for the NI SCS in under-performing departments, agencies or parts of those organisations should be restricted or suspended for a period.

**Recommendation 14: We recommend that remuneration committees consider whether, in specific circumstances, performance-related awards for members of the Northern Ireland Senior Civil Service in under-performing departments, agencies or parts of those organisations should be restricted or suspended for a period.**

### **Age discrimination**

4.19 We have taken legal advice on whether our proposed pay scales are compatible with equality legislation and in particular law against age discrimination. We believe our proposed system can be justified as meeting business needs. The differential award of pay progression steps (two, one or none each year) provides an incentive to better performance and helps to retain the best performers who will have progressed most quickly through the scales. This system is clearly very different to one in which progression is wholly dependent on length of service in the grade.

### **Costs of our proposals**

4.20 The effects (positive and negative) on pay bill of moving to the new pay system come from four causes. The costs and savings can be roughly estimated from the existing pay structure:

- as described above, the cost of adjusting all the salaries within the scale to the next scale point is estimated at 1.3 per cent of the existing pay bill;
- the cost of awarding seven performance pay progression steps per ten people who are below the maximum (i.e. 10 per cent receiving two pay progression steps and 50 per cent receiving one pay progression step) each year is estimated at 1.6 per cent of pay bill;
- the cost of paying non-consolidated performance awards for the top 25 per cent of those who have reached the new maximum on the pay scale or are paid above the maximum (capped at 5 per cent of each individual's salary) is estimated at 0.2 per cent of pay bill; and
- the saving from the replacement of higher paid SCS members who retire or resign with lower paid new entrants to the pay bands: this has averaged

around 1.8 per cent of pay bill in recent years, although this figure is volatile because of the very small numbers (less than 10 per cent of the SCS – fewer than 20 people a year on average – see Table 3.5 above).

4.21 Therefore, the total effect on pay bill is estimated as 1.3 per cent in the first year and 0 per cent per year afterwards assuming that the number of posts remains constant and that turnover follows the same pattern as for the last few years. In other words, the new system should become roughly cost neutral from the second year. This calculation of course excludes any revalorisation of the new salary scales, but it does suggest that the new system is unlikely to result in pay drift after the first year, and that small amount of drift is offset several times over by the saving from ending the current bonus system.

#### **Effect of our proposals on motivation**

4.22 We have considered how our proposals may affect the motivation of NI SCS members. We recognise that there is likely to be some disappointment with aspects of our proposals, notably the recommendations to reduce the maxima of the current pay bands, to freeze pay this year and reduce the proportion of the SCS who can receive performance-related increases. However, we believe that this should be balanced by recognition that there will be more certain pay progression for the top 60 per cent of performers through annual, consolidated, performance-related increases to base pay, and that all but the very lowest performers whose performance merits the imposition of a performance improvement plan or similar measure will receive increases when the pay scales are revalorised. Our recommendation for an independent pay review mechanism will, if accepted, help to take SCS pay out of the political arena.

4.23 We acknowledge that our proposals will formalise lower pay rates for NI SCS compared to those of SCS employed by GB departments (including their staff based in Northern Ireland) although they will also provide faster and more certain pay progression for consistently good performers. However, we think that the economic circumstances in Northern Ireland, including the lower cost of

living and the relatively self-contained labour market, justify that somewhat lower pay.

4.24 Finally, it goes without saying that the effects of our recommendations should be closely monitored so that any problems or unintended consequences can quickly be brought to the attention of the independent body that we propose should advise the Executive on NI SCS pay, and it can then identify any necessary corrections to the system.



## Annex A

### Letter from the Minister for Finance and Personnel: terms of reference for the review

From the Office of the  
Minister for Finance & Personnel



DFP Private Office  
Craigantlet Buildings  
Stoney Road  
Belfast BT4 3SX

Telephone: 028 90529140

Email: [private.office@dfpni.gov.uk](mailto:private.office@dfpni.gov.uk)

Your ref:  
Our reference: SUB 125/10

Bill Cockburn CBE TD  
Chairperson  
Office of Manpower Economics  
Senior Salaries Review Body  
6<sup>th</sup> Floor  
Kingsgate House  
66-74 Victoria Street  
LONDON  
SW1E 6SW

23<sup>rd</sup> March 2010

*Dear Mr Cockburn*

The issue of senior civil servants' pay has attracted widespread public, political and media attention in Northern Ireland in recent years, and the Northern Ireland Assembly's Committee for Finance & Personnel has taken a keen interest in the subject. In particular, members of the Committee have called for an independent review of senior civil servants' pay arrangements. As the Minister responsible for public sector pay in Northern Ireland, I agree that such a review would be useful in providing a solid foundation for future decisions on senior civil servants' pay awards in Northern Ireland.

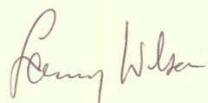
I am keen to move forward with the review as quickly as possible. Following discussions with my officials, I understand that the Office of Manpower Economics has indicated that the Senior Salaries Review Body would be willing and available to carry out a review of Senior Civil Service salaries in the Northern Ireland Civil Service, and I am very grateful for this.

I would very much welcome a review undertaken by the Senior Salaries Review Body in view of its independence and obvious professional expertise in this area and am writing formally to request that the SSRB undertakes the review in accordance with the enclosed terms of reference.

I understand that my officials have begun work with staff in the Office of Manpower Economics on the logistics for the review and that the review team currently plans to visit Belfast on the 15<sup>th</sup> and 16<sup>th</sup> April to take oral evidence from a range of interested parties. I have asked my officials to provide whatever support and help they can to the review team to facilitate its work.

I very much look forward to the outcome of this review which will be valuable in informing future arrangements for senior civil servants' pay in Northern Ireland.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sammy Wilson', written in a cursive style.

**SAMMY WILSON MP MLA**

## **NORTHERN IRELAND CIVIL SERVICE - A REVIEW OF THE PAY SYSTEM FOR SENIOR CIVIL SERVANTS**

### **Terms of Reference**

#### **Background**

1. The Northern Ireland Civil Service (NICS) comprises 11 Government departments and their associated executive agencies. The most senior officials in the NICS belong to a cadre of staff known as the Senior Civil Service (SCS). There are approximately 220 members of staff in this cadre across three distinct grades and pay bands - Grade 5 (Assistant Secretary), Grade 3 (Deputy Secretary) and Grade 2 (Permanent Secretary). The staff in this cadre comprise both general administrative staff (about 75% of the total) and a number of professional staff such as medical doctors, lawyers, engineers and veterinary professionals.
2. Annual pay strategies and pay awards for all SCS staff in the NICS have for a number of years been based on the parameters for pay bill growth and non-consolidated bonus levels recommended for SCS pay in the civil service in Great Britain by the Independent Senior Salaries Review Body (SSRB) and agreed/modified by the Government in Westminster. Within the overall framework for SCS pay recommended by the SSRB and agreed/modified by the Government, the NICS has determined more detailed features of its own annual SCS pay strategy and pay award. Annual strategies and pay awards for SCS staff in the NICS are subject to the approval of the Minister for Finance and Personnel. In 2009 the Minister for Finance and Personnel decided that the pay award for SCS staff should not contain any non-consolidated bonus payments. In 2009 the total pay bill for SCS staffing the NICS was approximately £14m.

#### **Review**

3. The Minister for Finance and Personnel, who has responsibility for issues concerning the management of the NICS, wishes to undertake a

review of pay arrangements for SCS staff in the NICS. For the purposes of this review the NICS comprises the 11 Northern Ireland Government Departments and their Executive Agencies. The purpose of the review is to examine the current SCS pay and reward system, making comparisons with similar jobs in the wider public and private sectors with a view to bringing forward recommendations to inform decisions on future SCS pay arrangements so that they:

- (i) meet the needs of the NICS in terms of attracting, retaining, motivating and rewarding SCS staff;
- (ii) provide transparency and robustness in SCS pay and reward decisions, with due regard to the reward and remuneration arrangements elsewhere in the public sector and in the private sector;
- (iii) address any potential vulnerabilities in the current SCS pay system in respect of equal pay or age discrimination legislation;
- (iv) promote strong performance management arrangements, ensuring that appropriate incentives are in place to promote and reward high performance and the delivery of business objectives, as well as ensuring that ineffective performance is identified and dealt with appropriately;
- (v) provide for appropriate arrangements for salary progression to ensure that competent employees meet target rates in a reasonable period of time; and
- (vi) appropriately reflect both administrative and professional/specialist roles in the SCS.

## Outputs

4. The review will be a time-bound piece of work with its main output a final report to be delivered to the Minister for Finance and Personnel. The final report should cover the main review outputs:
  - (i) a review and assessment of the current arrangements for determining SCS pay and reward in the NICS;
  - (ii) a review and report of key stakeholders' views, which will include amongst others the Northern Ireland Assembly's Committee for Finance and Personnel, the Cabinet Office in Whitehall, the Senior Salaries Review Body and SCS staff representatives;
  - (iii) a proportionate review of the arrangements in place for pay and reward systems for senior civil servants in comparable jobs in Great Britain, including the other devolved administrations, and the Republic of Ireland, including the role of the Senior Salaries Review Body and its possible remit in relation to the NICS;
  - (iv) consideration of pay and reward systems in comparable jobs in the wider public sector and the private sector in Northern Ireland and their comparison with pay and reward systems for the NICS; and
  - (v) proposals for how the quantum of annual pay awards for SCS staff in the NICS should be determined.



## **Annex B**

### **List of those who gave evidence**

Minister for Finance and Personnel

Head of the Northern Ireland Civil Service

Permanent Secretaries (X 3)

Northern Ireland SCS (X 7)

FDA

Roy E Bailie OBE, Chairman, The Baird Group

We also received written evidence from the Committee for Finance and Personnel, the NI Civil Service Commissioners, the FDA, the Northern Ireland branch of the Confederation of British Industry and two members of the Northern Ireland Senior Civil Service.



## **Code of Practice on top-level reward in the public sector**

### **Preamble**

**It is in the public interest that people of the right ability and experience can be recruited and retained by the public sector to lead and deliver the services and functions that are essential to the nation. They should be motivated to perform at the highest level and should be rewarded appropriately for their achievements. Their rewards should properly reflect the taxpayer's interest in value for money, high standards of governance and transparency.**

**This Code of Practice is to provide guidance to those responsible for setting senior pay on appointment and subsequently. The Code applies to chief executives and senior executive teams of public sector organisations, regardless of their level of pay, and to other employees receiving more than £100,000 a year in pensionable pay.**

**The principles, if applied properly and proportionately, will ensure that decisions are taken at the right level, are open to scrutiny, and can be publicly justified.**

**The Code is to apply widely across the public sector. Organisations vary greatly in terms of their size, governance and structure. For governance in particular, there are significant differences in the arrangements applying to public corporations, local authorities, Non-Departmental Public Bodies and others – some, for example, do not have external sponsors. Many will readily fit with the Code; others may need to adapt some of the specific provisions to their circumstances. But it is essential that the broad principles underlying the Code are embraced on a mandatory basis to ensure public confidence.**

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## Glossary

**Code:** refers to this Code of Practice on top-level reward in the public sector

**Governing body:** is the body of elected or appointed persons at the top of an organisation that oversees its activities. Often this is a board (and can be variously named, for example council, board of trustees, board of governors, board of managers, or executive board). For local authorities it may be the Council itself, its cabinet or a senior committee. Some organisations may not have a formal governing body, either because they are too small or because of the manner in which they are constituted. In these cases, references to the governing body shall be taken as referring to whoever at the top of the organisation is charged with its policy and strategic oversight.

**Independent representative:** usually a member of the organisation's governing body who is independent of or external to its line management structure. Organisations that do not have such membership of their governing body may need to make alternative arrangements for external involvement in their senior remuneration processes.

**Organisation:** refers to any public sector organisation of any size or however constituted.

**People earning more than £100,000:** the Code applies to people working in the organisation who are outside the senior executive team but whose pensionable salary is more than £100,000 a year (though the disclosure requirements are less onerous than for senior executives). Pensionable salary will be considered on an annualised basis, to take into account part-time working. Once the salary criterion is met, the Code provisions apply to the individual's total remuneration package.

**Remuneration committee:** a committee established by the governing body of an organisation to make determinations on top-level remuneration. It typically comprises two or three independent representatives.

**Senior executive team:** those in a senior management position in the organisation, whether using this description or not – normally including at least the chief executive and his or her senior direct reports.

**Senior executive:** a member of the senior executive team. This term normally includes senior executives employed on an interim basis, unless the period of employment is less than six months.

**Sponsor:** the person or body that exercises oversight over an organisation and acts as guardian of the public interest in respect of its activities. Those carrying out this function include government departments, representative councils, regulators and independent trusts. Not all organisations have a sponsor: where the Code requires provision for escalation to a sponsor, such bodies will need to make appropriate arrangements to recognise the exceptional character of decisions falling outside the applicable pay framework.

**Top-level reward:** reward for those covered by this Code, namely the senior executive team and those earning more than £100,000 a year.



## Principles of top-level reward in the public sector

Senior public sector remuneration must provide value for money for the taxpayer and not pay more than is necessary to recruit, retain and motivate suitably qualified staff. All aspects of pay determination should in principle be subject to: independent governance arrangements; objective justification of starting pay and subsequent changes; and appropriate disclosure of reward structures and all elements of reward received.

### Governance

**Delegated authority:** top-level reward in public sector organisations must be positioned within a defined pay framework agreed by their sponsor or equivalent. Within that pay framework, governing bodies of organisations have primary responsibility and accountability for top-level reward in the organisation.

**Independence:** individual top-level reward should, where possible, be determined by skilled people of seniority and standing who are independent of management and constitute a free-standing remuneration committee.

**Escalation:** escalation procedures must apply where an organisation exceptionally needs to offer remuneration outside the bounds of its defined pay framework.

**Contracts of employment:** there must be comprehensive contracts of employment that protect the interests of the individual and the organisation.

### Remuneration

**Value for money:** remuneration must demonstrably provide value for money in the use of public resources and be no more than is necessary to attract, retain and motivate able staff, on a sustainable basis, to deliver public functions.

**Total reward:** in determining top-level reward, organisations must consider separately the elements of a total reward package – base pay, incentives, pension contributions and any other material benefits. The composition of the reward package must be appropriate to the role and circumstances of the organisation.

**Payment for performance:** performance should normally be the basis of any progression or uplift in base pay. Other elements of performance-related or contingent pay may be used if appropriate to the organisation's public service mission and helpful in motivating and retaining senior staff.

### Disclosure

**Disclosure of procedures:** organisations must demonstrate that their remuneration processes apply the spirit of this Code and its specific provisions as far as possible on a 'comply or explain' basis. Their policies, frameworks and governance arrangements for top-level reward should therefore be clearly described and publicly available.

**Disclosure of remuneration:** organisations must disclose annually the total remuneration of individual staff members covered by this Code, the basis of decisions on that remuneration, any exceptions made to established policies and frameworks and any significant changes to those policies and frameworks.

**Audit: audit procedures must be established and documented that are independent of the remuneration process. A report on compliance with this Code must be included in the organisation's annual audit report.**

# 1. Governance

## 1.1 Delegated authority

Top-level reward in public sector organisations must be positioned within a defined pay framework agreed by their sponsor or equivalent. Within that pay framework, governing bodies of organisations have primary responsibility and accountability for top-level reward in the organisation.

---

### *Guidance*

- **This Code or a comparable set of provisions is an integral part of any scheme of delegated authority.**
- **Delegation frameworks must be clear on the degree of delegation, whether national payscales or some form of indicative pay banding are to be used, whether performance-related pay is appropriate to the organisation, and the issues on which the approval of the sponsor (or equivalent) is required.**
- **Organisations independent of central government or who do not otherwise have an external sponsor must ensure a proper remuneration framework is in place. Because of the constitutional arrangements for the body, this may be specific to it. Equally, there may be scope for collaboration with similar organisations.**
- **Organisations must ensure that recruitment and renewal remuneration packages are considered and approved – within a clear scheme of authority levels – before they are advertised, offered or awarded.**
- **The independence and escalation principles below do not obviate the primary responsibility and accountability of the governing body for the organisation's approach to top-level reward and for the existence and effective operation of suitable procedures.**

## 1.2 Independence

Individual top-level reward should, where possible, be determined by skilled people of seniority and standing who are independent of management and constitute a free-standing remuneration committee.

---

### *Guidance*

- **No-one should be involved in deciding his or her own remuneration.**
- **Subject to the escalation principle below, the remuneration committee will determine pay policies and processes, starting salary, the performance pay regime and, where relevant, conditions for payment of bonuses and agreement to bonuses paid in practice.**
- **The remuneration committee should operate independently of the organisation's management and should have access to administrative support and resources for independent research (including the ability to tender for and appoint consultants). The committee's terms of reference must be publicly available.**
- **Where an organisation does not have independent representatives on its governing body, an alternative method of securing independent involvement should be identified in the organisation's published remuneration policies**
- **The remuneration committee should be chaired by a designated senior independent representative, whose appointment should be approved by the sponsor or equivalent. Ideally, at least one member of the committee should have expertise in the field of remuneration. The Chair of the governing body may not sit on the committee if he or she has an executive function in the organisation.**
- **Appointments to the remuneration committee should normally be for three years in the first instance, with provision for one further three-year term subject to satisfactory performance. Suitable refresher training should be provided for committee members at regular intervals to ensure that their understanding is up to date.**
- **For smaller organisations, it may be more effective for a remuneration committee to operate across a number of organisations at an appropriate level of aggregation.**

### 1.3 Escalation

Escalation procedures must apply where an organisation exceptionally needs to offer remuneration outside the bounds of its defined pay framework.

---

#### *Guidance*

- The organisation's published remuneration policy should be clear on the criteria justifying an exception, the levels or types of remuneration for which escalation is required, and the hierarchy of escalation (particularly the point at which reference to the sponsor or equivalent is required).
- Escalation will also be required for changes of substance in governance arrangements or in remuneration policies and procedures.
- The process for activating individual requests for an exceptional remuneration offer must be thoroughly documented by the remuneration committee. There must be a full reasoned statement of the rationale for any such offer.
- The associated processes should be transacted as quickly as possible when the need for escalation is identified, either before the start of a recruitment campaign, on finding a preferred candidate, or where the need for an exceptional in-service award is identified. The escalation processes should conclude as soon as possible, ideally within 10 days.
- Organisations independent of government or that do not otherwise have an external sponsor must put in place appropriate arrangements to recognise the exceptional character of decisions falling outside the applicable pay framework.

## 1.4 Contracts of employment

There must be comprehensive contracts of employment that protect the interests of the individual and the organisation.

---

### *Guidance*

- **Contracts of employment must unambiguously set out full details of the total remuneration package and other terms. These must include the arrangements for making any uplift in the base salary or any material changes to other benefits during the lifetime of the contract.**
- **Contracts must take account of sound practice in specifying matters such as contract length, notice periods (not normally longer than six months), and arrangements for termination and any associated compensation.**
- **The remuneration committee should consider carefully any terms of settlement providing for compensation in the event of early termination (including cash compensation, pension contributions and other elements). Under certain circumstances, it may be more appropriate to pay any compensation in stages (either to a defined point or until the departing employee secures another source of income, whichever is shorter) rather than as a single lump sum.**
- **Rigorous performance management and appraisal systems must be in place to provide evidence for contract changes or extensions.**
- **The approval of the governing body is required for the principle and terms of any external role, paid or unpaid, carried out by a senior executive in working time. Considerations include the time required for the role and any potential for conflict of interest or detriment to the home organisation. For paid roles, the remuneration committee should determine the treatment of all fees or other income, with the presumption that these be remitted to the main employer unless there are exceptional reasons otherwise.**
- **The remuneration committee will monitor the organisation's application of this principle, particularly making sure that contracts do not offer excessive or inappropriate reward structures or leave the organisation open to allegations that it is willing to reward failure.**
- **Where contracts of employment are not appropriate (for office holders, for example) the items covered in this section should be reflected to the extent possible in letters of appointment, statements of terms and conditions or similar instruments.**

## 2 Appropriate remuneration

### 2.1 Value for money

Remuneration must demonstrably provide value for money in the use of public resources and be no more than is necessary to attract, retain and motivate able staff, on a sustainable basis, to deliver public functions.

---

#### *Guidance*

- **Public sector organisations should seek to recruit and retain the best person for the job, but they should also refuse to meet excessive demands, particularly at appointment or reappointment.**
- **Pay on appointment or reappointment must be decided following a rigorous assessment of the relevant market and the amount it is necessary and appropriate to pay for suitable staff. Pay benchmarks should normally be drawn from the wider public sector rather than the private sector (and based on a suitably broad range of public sector bodies). The level of pay offered should also take account of the other benefits offered. The remuneration package must additionally reflect affordability.**
- **The appropriate level of remuneration for a post must be considered afresh at each appointment: the salary of a previous incumbent is not an automatic benchmark as individual circumstances will be different and recruitment markets evolve. Similarly, there must be no assumption that remuneration for a candidate needs to be at the same level as in his or her previous role – some posts are inherently attractive and people may be willing to accept a lower salary.**
- **The remuneration committee must have regard to pay and employment conditions elsewhere in the department, organisation or the wider public sector, particularly when determining annual salary increases.**
- **Remuneration can decrease under the right contractual circumstances, such as where an exceptional temporary contract is made permanent or an exceptional role returns to normal.**
- **Public sector organisations should normally regard internal or sectoral talent as the primary source of their future leadership cadre. External recruitment will be an appropriate solution in the right circumstances, but this does not obviate the need to ensure appropriate succession planning and talent management policies are in place for key roles.**

## **2.2 Total reward**

**In determining top-level reward, organisations must consider separately the elements of a total reward package – base pay, incentives, pension contributions and any other material benefits. The composition of the reward package must be appropriate to the role and circumstances of the organisation.**

---

### *Guidance*

- **The elements of the total reward package must be identified separately in contracts and in all reporting on individual remuneration. The costs to the employer of the separate elements of the reward package, particularly pension contributions, need to be evaluated in a meticulous and consistent manner.**

## **2.3 Payment for performance**

Performance should normally be the basis of any progression or uplift in base pay. Other elements of performance-related or contingent pay may be used if appropriate to the organisation's public service mission and helpful in motivating and retaining senior staff.

---

### *Guidance*

- **A formal system of (at least) annual appraisal must be in place for all staff covered by this Code. The outcome of this evaluation must be reported to the remuneration committee and form the basis of any recommendation on remuneration for the executives in question.**
- **Awards should be demonstrably merited and never made in cases of poor performance.**
- **All progression and any uplift in base pay must be dependent on a positive recommendation based on performance, even where incremental payscales apply.**
- **Variable components of remuneration should only be used where they can be linked to predetermined, objective and measurable performance criteria, which may include criteria of a non-financial nature. The less precise the terms in which success can be defined, generally the smaller an element this type of pay should be of the overall remuneration package.**
- **In its policies, the organisation must set defined limits on the variable components of remuneration. There may be circumstances in which it is appropriate to defer significant variable components of remuneration for a number of years to ensure that success is sustainably implemented.**
- **For some positions, particularly those related to the delivery of a large long-term project, it may be more appropriate for performance-related payments to be made on the basis of performance across the contract as a whole or in relation to specified milestones, not on an annual basis.**
- **Contractually guaranteed bonuses are rarely appropriate in the public sector. Exceptions will require the approval of the sponsor or equivalent.**
- **Payments actually made and the justification for them must be included in the annual remuneration report prescribed in section 3.1.**



## 3 Disclosure

### 3.1 Disclosure of procedures

Organisations must demonstrate that their remuneration processes apply the spirit of this Code and its specific provisions as far as possible on a 'comply or explain' basis. Their policies, frameworks and governance arrangements for top-level reward should therefore be clearly described and publicly available.

---

#### *Guidance*

- Some provisions of this Code may not be fully applicable to some organisations. It may also be that the spirit of the Code could be more effectively observed through an alternative procedure to the one prescribed here. In such cases of non-compliance, the governing body must explain and justify the alternative procedure and agree it with its sponsor or equivalent.
- The remuneration committee must produce a clear and easily understandable annual remuneration report for publication by the governing body, covering the matters specified in the Code, and particularly in this section and section 3.2.
- Any changes made to relevant policies, frameworks or governance arrangements and any deviation from them in particular cases during the year must be specifically described and justified in the committee's annual remuneration report.
- It is acceptable for the current version of any relevant policies, frameworks and governance arrangements to be made available through the organisation's website, provided a clear reference and link is included in the remuneration committee's annual report.

### **3.2 Disclosure of remuneration**

**Organisations must disclose annually the total remuneration of individual staff members covered by this Code, the basis of decisions on that remuneration, any exceptions made to established policies and frameworks and any significant changes to those policies and frameworks.**

---

#### *Guidance*

- **The annual remuneration report prescribed in section 3.1 should also cover the matters required by this section.**
- **The report must disclose the cash value of each element of the remuneration of each senior executive, identifying them by name and job title.**
- **Outside the senior executive team, those earning more than £100,000 a year do not need to be identified by name, but the numbers of such staff and the cash value of their total reward should be disclosed in bands of five thousand pounds.**
- **The remuneration report must also comment on any appointments, re-appointments or changes to individual terms and conditions where there has been a departure from the defined remuneration framework for the organisation or from the provisions of this Code, together with a statement of the reasons for the departure.**
- **In cases of early termination of a contract, the process followed and any compensation awarded must be subject to full disclosure.**
- **The committee should also be prepared to provide ad hoc reports on the appointment of a new senior executive or any other significant event that involves changes to a senior remuneration package.**

### **3.3 Audit**

**Audit procedures must be established and documented that are independent of the remuneration process. A report on compliance with this Code must be included in the organisation's annual audit report.**

---

#### *Guidance*

- **The remuneration committee will apply the necessary internal controls to allow it to comply with any audit enquiry.**
- **The governing body will monitor and review the effectiveness of the organisation's internal audit function in relation to remuneration matters.**
- **The terms of reference of the audit procedures should be made publicly available in accordance with section 3.1 above.**



## **Annex D**

### **List of Northern Ireland civil service departments**

Office of the First Minister and Deputy First Minister

Department of Agriculture and Rural Development

Department of Culture, Arts and Leisure

Department of Education

Department for Employment and Learning

Department of Enterprise, Trade and Investment

Department of the Environment

Department of Finance and Personnel

Department of Health, Social Services and Public Safety

Department for Regional Development

Department for Social Development

Department of Justice

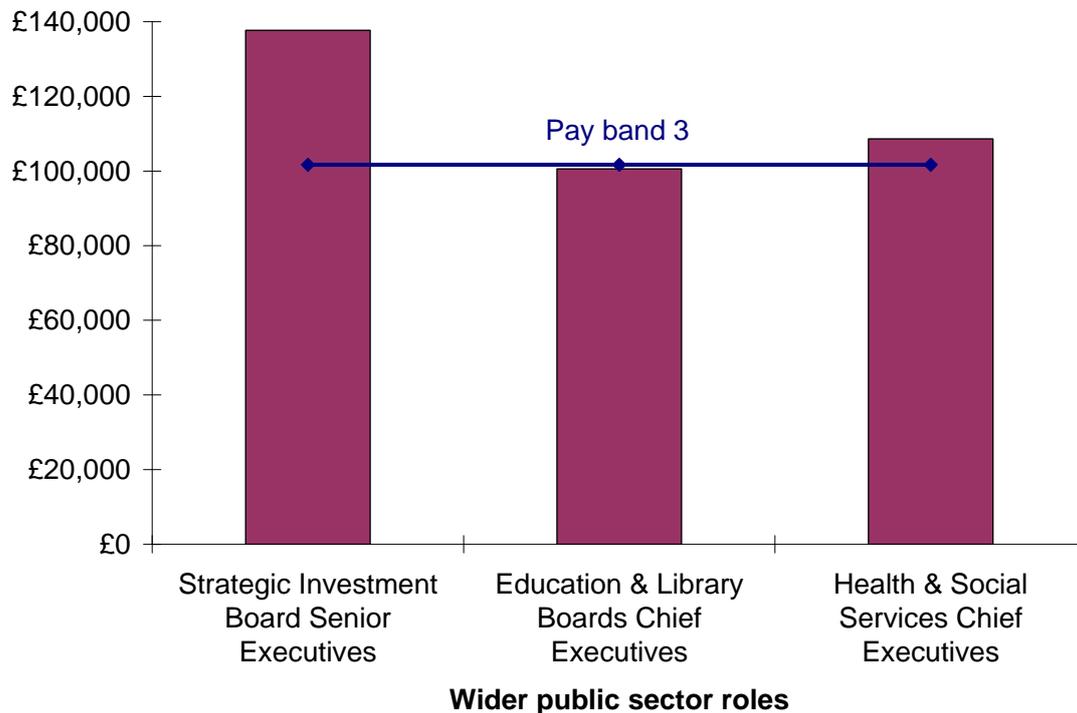


## Annex E

### Median salaries of members of the Northern Ireland Senior Civil Service and wider public sector comparators 2008-09<sup>36,37</sup>

The following charts compare the pay of each of the NI SCS pay bands with that of broadly comparable senior posts in the wider public sector in Northern Ireland.

#### Median basic salaries for pay band 3 and wider public sector comparators (full-time equivalents)



Source: Strategic Policy Division of the Department of Finance and Personnel

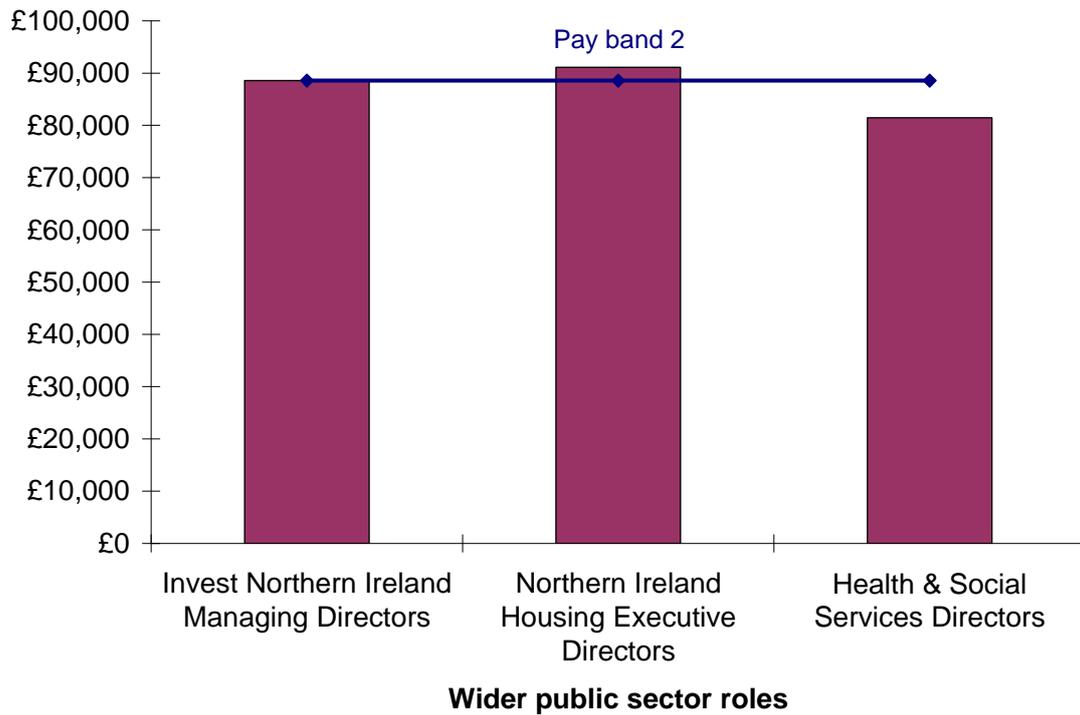
Note:

In terms of full-time equivalents, there are three comparable Strategic Investment Board Senior Executives, five Education and Library Board Chief Executives and ten Health and Social Services Chief Executives.

<sup>36</sup> Pay data for Northern Ireland Senior Civil Service, Invest Northern Ireland and Health and Social Services senior officials relates to 2009-10.

<sup>37</sup> Bonus payments are excluded.

**Median basic salaries for pay band 2 and wider public sector comparators (full-time equivalents)**

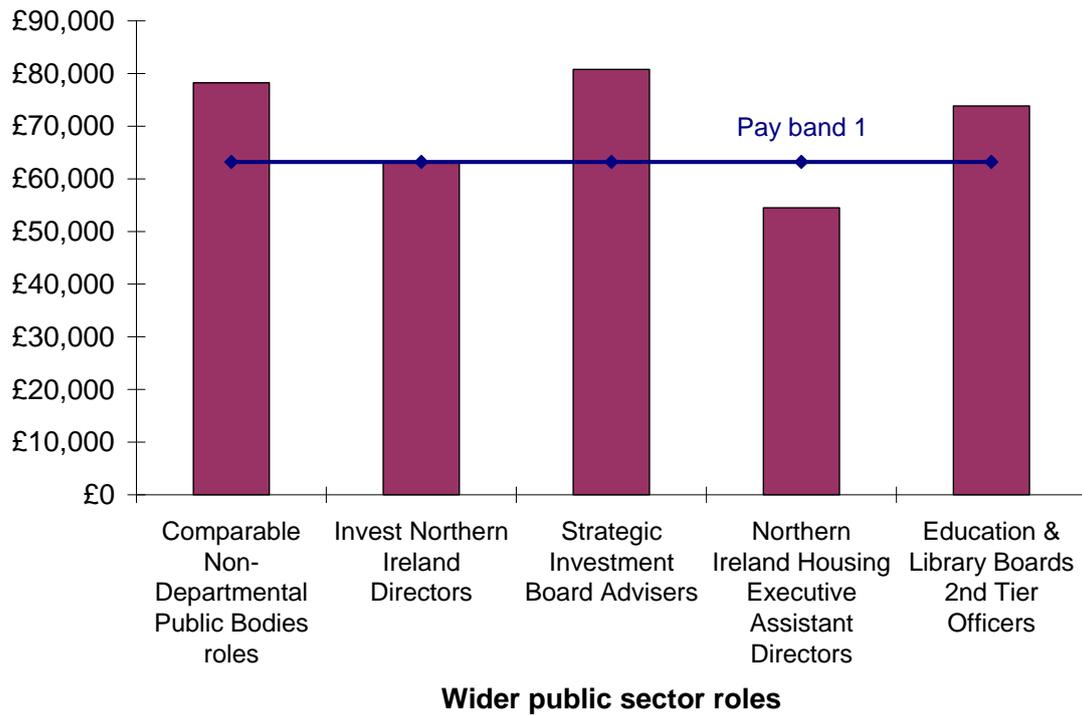


Source: Strategic Policy Division of the Department of Finance and Personnel

Notes:

1. In terms of full-time equivalents, there are four Invest Northern Ireland Managing Directors, six Northern Ireland Housing Executive Directors and 59 Health and Social Services Directors.
2. The salary for Northern Ireland Housing Executive Directors is the mean as the median was not available.

**Median basic salaries for pay band 1 and wider public sector comparators (full-time equivalents)**



Source: Strategic Policy Division of the Department of Finance and Personnel

Notes:

1. In terms of full-time equivalents, there are 10 comparable Non-Departmental Public Bodies roles, 14 Invest Northern Ireland Directors, 11½ Strategic Investment Board Advisers, 29 Northern Ireland Housing Executive Assistant Directors and 27 Education and Library Boards 2<sup>nd</sup> Tier Officers.
2. The salary for comparable Non-Department Public Bodies roles is the mean as the median was not available.



## Annex F

### Northern Ireland Senior Civil Service pay bands as at 31 March 2009

Northern Ireland		
Pay Band	Minimum	Maximum
1	£57,300	£116,000
2	£81,600	£160,000
3	£98,059	£205,000

Source: Northern Ireland Civil Service



## **Annex G**

### **Glossary of abbreviations**

DFPNI	Department of Finance and Personnel – Northern Ireland
GB SCS	Great Britain Senior Civil Service
HPTR	Higher Performance Target Rate
ILO	International Labour Organization
NHS	National Health Service
NICS	Northern Ireland Civil Service
NI CSC	Northern Ireland Civil Service Commissioners
NIO	Northern Ireland Office
NI SCS	Northern Ireland Senior Civil Service
OME	Office of Manpower Economics
ONS	Office for National Statistics
PTR	Progression Target Rate
RPC	Recruitment and Performance Ceiling
SCS	Senior Civil Service
SSRB	Senior Salaries Review Body