



Date: 19 July 2012

Item 4: Hutton Review of Fair Pay in the Public Sector

This paper will be considered in public

1 Summary

- 1.1 The Hutton Review of Fair Pay in the Public Sector was published in March 2011 and addresses three core issues of:
- (a) fair and appropriate pay levels set through external and internal comparisons of top with median earnings levels;
 - (b) fair pay processes with independent and competent remuneration committees; and
 - (c) improved transparency and accountability.

2 Recommendation

- 2.1 **The Committee is asked to approve the suggested approach under each of the 12 recommendation of the Hutton Report, as set out in section 4 of the paper.**

3 Background

- 3.1 The report presents a framework which is aimed primarily at government and the civil service to manage public sector pay in the future in a more informed, rational and controlled way than has historically been the case. The report has been reviewed on its wider application to TfL.
- 3.2 The report acknowledges that high quality public services require high calibre leaders to deliver them and a key challenge is to maintain and improve standard of public service leadership.
- 3.3 The report aims to ensure that public service leaders are adequately and fairly rewarded to maintain sense of mission and public duty but recognises that tax payers are right to demand value for money.
- 3.4 It is acknowledged that the general public's understanding of senior public service roles and pay is often very poor and there is limited knowledge of what senior public servants actually do. That the absence of a consistent framework of senior pay principles denies the reassurance that rewards are fairly matched to responsibilities and performance.

- 3.5 The aim of the Hutton recommendations is that a framework for fairness in public service pay is established with reward proportional to the weight of responsibility and measured by individual performance, according to a fair process. It is anticipated that a fairness framework will ensure that senior pay in public services is fair and is seen to be fair.

4 Principle Features of the Report

- 4.1 **Earn back pay:** Senior public servants' pay should be more strongly linked to their performance through a system of 'earn back' pay. Under this system, executives will have an element of their basic pay 'at risk', to be earned back each year through meeting pre-agreed objectives. This will allow pay to vary down as well as up with performance, and ensure that public services do not offer rewards for failure.
- 4.2 **Improved Transparency:** all public service executives' full pay should be disclosed each year, along with an explanation of how it relates to job weight and performance.
- 4.3 **No Arbitrary Benchmarks:** The Government should not benchmark senior public servants' pay against that of the Prime Minister, and should not impose a fixed limit on pay multiples (such as 20 to 1). The multiple of chief executive to workforce median pay should be published each year, and any changes explained.
- 4.4 **An Informed Debate on Senior Pay:** Citizens need to understand public service executive pay in the context of job responsibilities. To support this informed debate, the Senior Salaries Review Body should publish Fair Pay Reports each year, detailing pay multiples across public services.
- 4.5 **Fair Pay Across the Economy:** To make tracking pay multiples normal practice across the economy, Will Hutton recommends that Public Limited Companies (PLCs) should also be required to track and publish their pay multiples – and the Government should consider commissioning annual Fair Pay Reports on PLCs as well as public service organisations.

5 Hutton Review Recommendations

- 5.1 The Remuneration Committee is asked to consider the twelve recommendations from the Hutton Review and agree the recommended approach for TfL:
- 5.2 There should be no cap on executive pay across public services but from 2012 all public service organisations publish their top to median pay multiples each year.

TfL already publishes data on Chief Officers and Directors and the new Data Transparency Code from the Department of Communities and Local Government (CLG) which is more onerous than that proposed by the Fair Pay Report will be adhered to by TfL. The CLG code covers the publication of pay multiples.

- 5.3 The government should commission the Senior Salaries Review body to publish annual Fair Pay reports from 2011-12.

TfL will be required to submit a return to the SSRB and whilst onerous this should not cause an issue for TfL.

- 5.4 By December 2012 establish a series of pay benchmarks for Non-Departmental Public Bodies Chief Executives.

No direct implication for TfL as TfL is not a Non-Departmental Public Body.

- 5.5 All organisations delivering public services should disclose in precise numbers the full remuneration of all executives, alongside an explanation of the responsibilities of each role and how executives' pay reflects individual performance.

As for 4.1 the mantle for disclosure appears to have been picked up by the Department for Communities and Local Government in its recent code which applies directly to TfL and which TfL will comply with

- 5.6 From 2011-12 public organisations should be required to submit executive pay data through an online template and make this data available on data.gov.uk.

As with 4.1 and 4.4 this may be picked up by the code on data transparency and if required disclosure will be made.

- 5.7 The Prime Minister or other politicians should not be used as a benchmark for remuneration of senior public servants. Pay should reflect due desert and be proportional to the weight of the role.

The abandonment of arbitrary benchmarks such as the Prime Minister's salary is a welcome development.

- 5.8 There should be an element of basic pay to be earned back through meeting pre-agreed objectives combined with non consolidated bonus awards for performance that exceeds targets.

TfL already has established 'pay at risk' rewards through its annual performance awards and it is not proposed that these should be changed. In comparison to the external market for executive pay, TfL has a limited reward package (e.g. it provides no Long Term Incentive arrangement and offers significantly lower levels of performance awards compared to the market) and the introduction of a 10% basic salary earn back provision will severely hamper the competitiveness of the organisation in its future recruitment, which is mainly from the private sector where no such 'earn back' arrangements exist. TfL's current performance awards drive performance to achieve specific targets and also reward performance that exceeds those targets.

- 5.9 Once earn-back has been implemented at the most senior levels, Government departments and other public service organisations should consider offering 'earn back' plus additional non consolidated bonuses for performance that exceeds targets to middle managers on an 'opt in' basis.

TfL already has in place established performance related pay rewards across all its middle management population. To provide additional performance awards could disrupt the balance of the existing total remuneration (i.e. make it excessive) and the opt in approach could be divisive across the organisation and damaging to the cohesiveness of critical teams. It is not therefore intended to implement 'earn back' pay for middle managers.

- 5.10 Government departments and public service should identify ways of offering gain sharing schemes linked to achievement of business plans, allowing all employees who contribute to share the benefits of productivity increases.

TfL has in place various collective bargaining arrangements and in general provides a relatively high total remuneration value compared to the market for staff and increases to the total remuneration package at lower levels may result in a general level of pay that is unnecessarily excessive. This could only be seriously considered at such time that the 'fixed' reward elements are reduced and the reward package is rebalanced.

- 5.11 To increase supply of candidates for top positions, the Government should facilitate greater opportunities to move across different public sector services and between public and private sectors.

TfL already has in place open transparent recruitment and well established and respected graduate programmes and with much of TfL's management resource currently sourced directly from the private sector it will not offer merit for TfL in changing its current approach.

- 5.12 All public service organisations should adopt the proposed Fair Pay Code to embed fairness principles and ensure fair process in executive remuneration.

The proposal is that organisations will be required to Comply or Explain via a statement in the Annual Report and Accounts. TfL will if the Fair Code is adopted by Government provide such a statement.

- 5.13 The Government should require listed companies to publish top to median pay multiples in their annual reporting from January 2012, and consider how clearer explanation of executive pay by private companies can be achieved.

No direct implications for TfL.

List of appendices to this report:

Appendix 1 – Full details of each of the 12 recommendation of the Fair Pay code in full for information

List of Background Papers:

The Hutton Review of Fair Pay in the Public Sector, published in March 2011.

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Recommendations

Recommendation 1 – Using pay multiples to track executive pay against that of all employees

The Government should not cap pay across public services, but should require that from 2011-12 all public service organisations publish their top to median pay multiples each year to allow the public to hold them to account.

The Government should require that public bodies annually publish chief executive's (or equivalent) earnings, median earnings of the organisation's workforce, and the ratio between these two figures in their annual remuneration reports. All taxable earnings should be included within this multiple. Year-on-year movements in the chief executive's earnings and median earnings should be disclosed and explained. Disclosures should begin in remuneration reports covering the financial year 2011-12, including prior year comparators.

Recommendation 2 – Informing the public debate through annual Fair Pay Reports

To support citizen accountability, the Government should commission the Senior Salaries Review Body to publish annual Fair Pay Reports, starting from 2011-12. These reports should set out trends in pay multiples across public services, highlight year-on-year changes and identify organisations that fail to produce meaningful, specific and verifiable explanations for their pay multiples and for changes.

As trends emerge from the SSRB's annual Fair Pay Reports, if the Government judges that pay multiples in individual organisations have shown continued unjustified increases, it should consider intervening directly to control senior pay in the organisations concerned.

If pay multiples continue to rise across public services without adequate justification, as a last resort the Government should restrict organisations' autonomy over senior pay and instead impose centrally-set pay bands.

Recommendation 3 – Re-calibrating the pay of Non-Departmental Public Body chief executives

To address particular concerns that the pay of Non-Departmental Public Body chief executives has become detached from the responsibilities of their roles, the Government should by December 2011 establish a series of pay benchmarks for NDPB chief executives, following advice from the Senior Salaries Review Body.

Recommendation 4 – From disclosure to explanation: ensuring complete transparency over executive roles and remuneration

To enable citizens to understand executive remuneration and the nature of executive responsibilities, from 2011-12 the Government should require that all organisations delivering public services disclose in precise numbers the full remuneration of all executives, alongside an explanation of the responsibilities of each role and of how executives' pay reflects individual performance.

Recommendation 5 – Enabling citizen analysis of executive pay

From 2011-12, the Government should require public organisations to submit executive pay data through an online template, and make this data available on data.gov.uk, to allow citizens to access and analyse this data and thus have the information required to hold public service organisations to account.

Recommendation 6 – Abandoning arbitrary benchmarks for public service pay

Once this framework of recommendations is in place, the Government should refrain from using the pay of the Prime Minister or other politicians as a benchmark for the remuneration of senior public servants, whose pay should reflect their due desert and be proportional to the weight of their roles and their performance.

Recommendation 7 – Preventing rewards for failure through earn-back pay for senior public servants

To allow pay to vary down as well as up with performance, all public service executives should have an element of their basic pay that needs to be earned back each year through meeting pre-agreed objectives.

The Government should by September 2011 bring forward proposals for Senior Civil Service pay to include an element of base pay at risk, and should encourage the application of earn-back pay to other organisations delivering public services. This earn-back should be conditional upon meeting pre-agreed objectives; excellent performers who go beyond their objectives should be eligible for additional pay. To be effective, the at-risk element must exceed 10 per cent of basic salary.

The scheme will need to be phased in, in order to avoid adversely impacting current employees and avoiding contractual difficulties.

Recommendation 8 – Extending earn-back pay to high performing middle managers

To identify and reward high fliers, once earn-back pay has been implemented at the most senior levels, Government departments and other public service organisations should consider offering this pay structure to middle managers on an opt-in basis.

Recommendation 9 – Sharing the rewards of greater productivity

To prevent executives monopolising the rewards of productivity increases, and allow all employees who have contributed to share the benefits, government departments should identify ways of offering gain sharing schemes linked to achievement of the efficiency aspects of their business plans. The Government should also explore options for gain sharing schemes across public services more widely.

Recommendation 10a – Opening up opportunities for future generations of public service leaders

To increase the supply of candidates for top positions and reinforce public service management as a career, the Government should facilitate greater opportunities for managers to move across different public services, and between the public and private sectors.

By the end of 2011 the Government should establish a single online portal for advertisements and applications for public service management roles, and work with major public service employers to establish a passport scheme for middle and senior managers across public services.

The online portal should include a repository for potential applicants to upload CVs.

The passport scheme should be designed to encourage employers to look more widely when recruiting, and feature organisations from a range of sectors – public and private – making commitments to:

- supplying adequate induction and support to entrants from other sectors;
- arranging joint training and development schemes focused on leadership and transferable skills;
- relying upon greater use of secondments and employee exchange schemes (minimising personal financial barriers to movement);
- advancing the use of existing professional groups; and
- hosting regular cross-sector networks.

Recommendation 10b – Opening up opportunities for future generations of public service leaders

The Government should drive and prioritise the ongoing collaboration between public sector graduate recruitment and development schemes. Important elements where greater collaboration could lead to real benefits are:

- integrating recruitment and selection processes;
- emphasising transferable skills within induction programmes;
- developing a common core competency profile that will equip graduates with genuine generalist skills for careers spanning public services;
- promoting opportunities for rotations across different workforces as part of the graduate package;
- supporting the Local Government scheme in developing internship opportunities - along the lines of existing NHS and Civil Service schemes; and
- reducing the barriers to greater rotation between schemes created by differences in employment conditions.

Recommendation 11 – A Fair Pay Code

To embed fairness principles and ensure fair process in executive remuneration, all public service organisations should adopt the Fair Pay Code proposed by this Review. Government departments should by July 2011 bring forward proposals for the application of this Code to all bodies and sectors in which they have an interest.

Recommendation 12 – Tracking pay multiples across the economy

To make tracking pay multiples normal practice across the economy, as part of its commitment to improve corporate reporting, the Government should require listed companies to publish top to median pay multiples in their annual reporting from January 2012.

The Senior Salaries Review Body should collate and publish the multiples in a similar format to the one used for public sector leaders.

In reviewing corporate accountability and transparency requirements, the Government should also consider how clearer explanation of executive pay by private companies can be achieved.

The government, including local government, should use their influence as a major procurer with all major private sector contractors and suppliers to see that they observe the Fair Pay Code.