

Senior Salaries Review Body

SCS Pay Market Comparability Study – Report

Tony Hughes
Kate Wilson

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© The Hay Group Management Limited

33 Grosvenor Place
London SW1X 7HG

Tel: 020 7856 7000

Fax: 020 7856 7100

Reg No: 763575

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Section 1:

Executive Summary

Hay Group was commissioned by the Senior Salaries Review Body to provide source data and commentary on the remuneration packages available to jobs at all levels within the Senior Civil Service (SCS) and their equivalents in the private sector, wider public sector and the voluntary sector.

A sample of 42 jobs from across the service were interviewed and evaluated using the Hay Guide Chart Profile System. This allowed like for like comparison of roles in other markets with jobs at the same level. It should be noted, however, that it is not a statistically significant sample.

Comparisons were drawn with the Private Sector Market (known as the 'National Service and Industry Market') and the broader public sector, including Health, Local Government and Not for Profit Markets.

Evaluations indicated a wide range of job sizes within each pay band, a lack of consistency between pay band and job size and a clustering of jobs at the bottom of pay bands.

Our analysis showed that:

- Even at the lowest level in our SCS sample base pay has fallen behind the private and broader Public Sector Market.
- Base pay of our sample becomes increasingly less competitive as job size increases.
- Comparison with the market closest to the SCS, London Local Government, shows our SCS sample at significantly lower levels.
- Comparison with total cash exacerbates the disparity between the SCS sample and the Private Sector Market.
- Unrealistic and under-funded progression target rates and a lack of an internal SCS market have stagnated progression, leaving SCS members in our sample clustered around the bottom of pay bands

and protecting SCS pay from market forces. A higher proportion of our sample were below the PTR than in Cabinet Office statistics of the SCS overall.

- SCS pensions remain competitive at lower levels; however, the annualised cash value is not competitive at higher levels compared with other defined benefit schemes due to the below-market salaries provided.
- Total remuneration is significantly below private sector figures.

Intangible benefits such as job variety and interest, maternity benefits and ability to influence were all quoted as countering benefits of working for the SCS.

Our sample indicates that SCS pay has fallen behind all comparator markets, most importantly the broader Public Sector Market in London. This situation has been exacerbated by SCS pay practice, which sees SCS members in our sample clustered at the bottom of their pay bands. Nevertheless it raises an interesting question of why the SCS pay has fallen so far behind public sector peers in recent years.

In the Local Authority, Health and Housing Sectors the introduction and publication of independent performance ratings by the Audit Commission has been the catalyst for the development of a competitive market for top level managers who can deliver the best organisational performance. Organisational performance assessment such as the Local Authority Comprehensive Performance Assessment (CPA) have been cited by the Chief Executive of the Office of Government Commerce as the single biggest driver of improvement in the sector. He has also raised the question of whether a similar review process should be applied to central government.

Elements of the public sector discount traditionally viewed as compensating lower pay and total remuneration levels in the SCS may, in part, be losing currency with reductions in job security, development of a more mixed SCS marketplace and inadequately competitive pensions, particularly at higher levels. Bonuses are insufficiently competitive or broad ranging to compensate for reduced benefits elsewhere.

Section 2:

Introduction

The Senior Salaries Review Body (SSRB) advises the Prime Minister on the pay levels for a number of senior groups, including around 3,800 Members of the Senior Civil Service (SCS) and 36 Permanent Secretaries.

The present SCS grading system is based around predominantly, 3 pay bands although there is flexibility used on a small number of departments for an intermediate pay band between 1 and 2 – pay band 1A. SCS members would progress within the minimum and maximum of the pay band to a progression target rate (PTR) depending on their performance. The broad underpinnings of the system were to use a market facing approach to pay, to reinforce messages around performance, to recruit and retain the highest quality staff and to use unconsolidated bonuses to reward successful delivery of objectives.

In 2004, a review commissioned by the Cabinet Office identified that SCS base pay had fallen behind market medians since the introduction of the pay scheme in 2002. Additionally, taking into account the occupational pension scheme available to the SCS, the total remuneration package was similarly falling behind that available elsewhere in the economy. As a consequence, the Government has asked the SSRB to review the pay levels before the beginning of the 2005/06 pay review and to examine in some detail pay and remuneration issues in the market from which the SCS would seek to recruit.

The SSRB, through its secretariat in the Office of Manpower Economics (OME) commissioned Hay Group to provide source data and commentary on the remuneration packages available to jobs at all levels within the SCS and their equivalents in the private sector, wider public sector and the voluntary sector. The specification for the review is set out in Appendix 1.

Hay Group has worked for many years on central government and SCS projects and works extensively in the private sector at levels equivalent to SCS and also with the wider public sector in local authorities, the health service, non-departmental and other public bodies and with the voluntary

sector. It has a database of jobs across all of these sectors which contains details of the base pay, bonus payments, company cars, private medical insurance and other issues such as share options. They can be broken down by sector and sub-sector, geography and job specific categories and can be aggregated or disaggregated as required.

The following sections of this report detail the methodology used to draw comparisons between a sample of SCS jobs and peers in other sectors of the economy across the range of issues set out in the specification for the SSRB's requirements.

A key element in this project was to evaluate the jobs of a representative sample of SCS posts. We would like to thank the 42 members of the SCS who took part for their flexibility in meeting a tight fieldwork timetable and their co-operation and candour in their observations both on their jobs and the wider issues of SCS remuneration.

Section 3:

Methodology

Comparisons between SCS posts and those in other sectors of the economy can only be valid if they are expressed in the common denominator of a job weight score derived from objective factor analysis job evaluation. The Hay Guide Chart Profile Method of Job Evaluation (described in more detail in Appendix 2) evaluates jobs across eight factors present in all jobs of whatever size and complexity and enables comparisons to be made between jobs on the common basis of job score irrespective of the size, complexity, sector or geography of that job, enabling comparisons to be made on a valid basis.

The Senior Civil Service has a job evaluation system – JESP – which underpins the pay band allocation for members of the SCS. However over recent years JESP has not been used consistently across all departments and many posts created in recent years have not been evaluated at all under the JESP process.

To ensure that the comparison of jobs at all levels of the SCS could be compared with jobs of equal value in the private sector, wider public sector and voluntary sector, a sample of jobs was evaluated using the Hay Guide Chart method. Hay Group has a large database of jobs in the private sector and wider public sector that have been evaluated using the same method and comparisons could then be made on the common denominator of job score.

The sample of posts for evaluation

The Senior Salaries Review Body set up a framework of benchmark jobs to represent the range and types of jobs across the SCS in departments of various sizes. A breakdown of the selection by department and pay band is given in Appendix 3 but briefly they included:

- the Cabinet Secretary and two Permanent Secretaries

- four posts at pay band 3
- ten posts at pay band 2
- five posts at pay band 1A
- twenty posts at pay band 1

The sample of jobs, though not statistically significant, was chosen by individual departments within a framework approved by the Cabinet Office and the appropriate Trade Unions to reflect and represent the blend of posts, departments and individual remuneration circumstances across the wider SCS.

The Evaluation Process

Each individual provided, where available, a description of their current posts and the key parameters, size, scope, budgets, staffing etc, of their responsibilities. Each individual was then interviewed by a senior Hay Group consultant with experience of evaluating jobs at SCS levels and above to provide context and colour to the written job descriptions and ensure robust evaluations. Some additional detail and comment was derived at each of the interviews about the personal remuneration circumstances of the postholder at the time of the interviews in June and July 2005. We sought their opinions on other elements of remuneration such as bonuses, benefits, pensions and progression and these are reflected in our commentary.

Comparative Data

The Hay Compensation database contains remuneration data on around 600,000 jobs spread over 600 or so public and private sector organisations in the UK economy. All these jobs are recorded and analysed by job weight and represent the largest database of its kind in the UK. The data is used extensively in both public and private sector organisations for benchmarking the pay of senior managers and with the benefit of the evaluation scores derived from our evaluation of the 42 sample SCS postholders, we have been able to examine the remuneration of their peers in jobs of similar weight across the private and wider public sectors. In examining salary comparisons we have used the following definitions for base salary and total cash:

Base Salary is defined as the annualised cash salary payment plus all contractually agreed bonuses and payments including regional allowance, 13th month bonus, fixed Christmas bonus, length of service payments, holiday allowance, job premia and market supplements. It excludes overtime and shift premia.

Total Cash is defined as Base Salary at the survey date plus all variable bonuses (e.g. profit share and incentive payments related to performance) paid in the previous 12 months.

In presenting market data we have split the market into quartiles, using the following definitions:

- Upper quartile separates the practice in the top 25% of organisations from the remaining 75%
- Median separates the top 50% from the bottom 50%
- Lower quartiles separates the practice in the bottom 25% of organisations from the remaining 75%

The data we have used was for the year ended 1st April 2005 and represents the base salary and total cash paid in the various sectors in the 2004-2005 financial year. It represents the most valid comparison between the SCS salaries that were being paid to the sample postholders in June/July 2005 when the outcome of their 2005-2006 pay award was still, in many cases, pending.

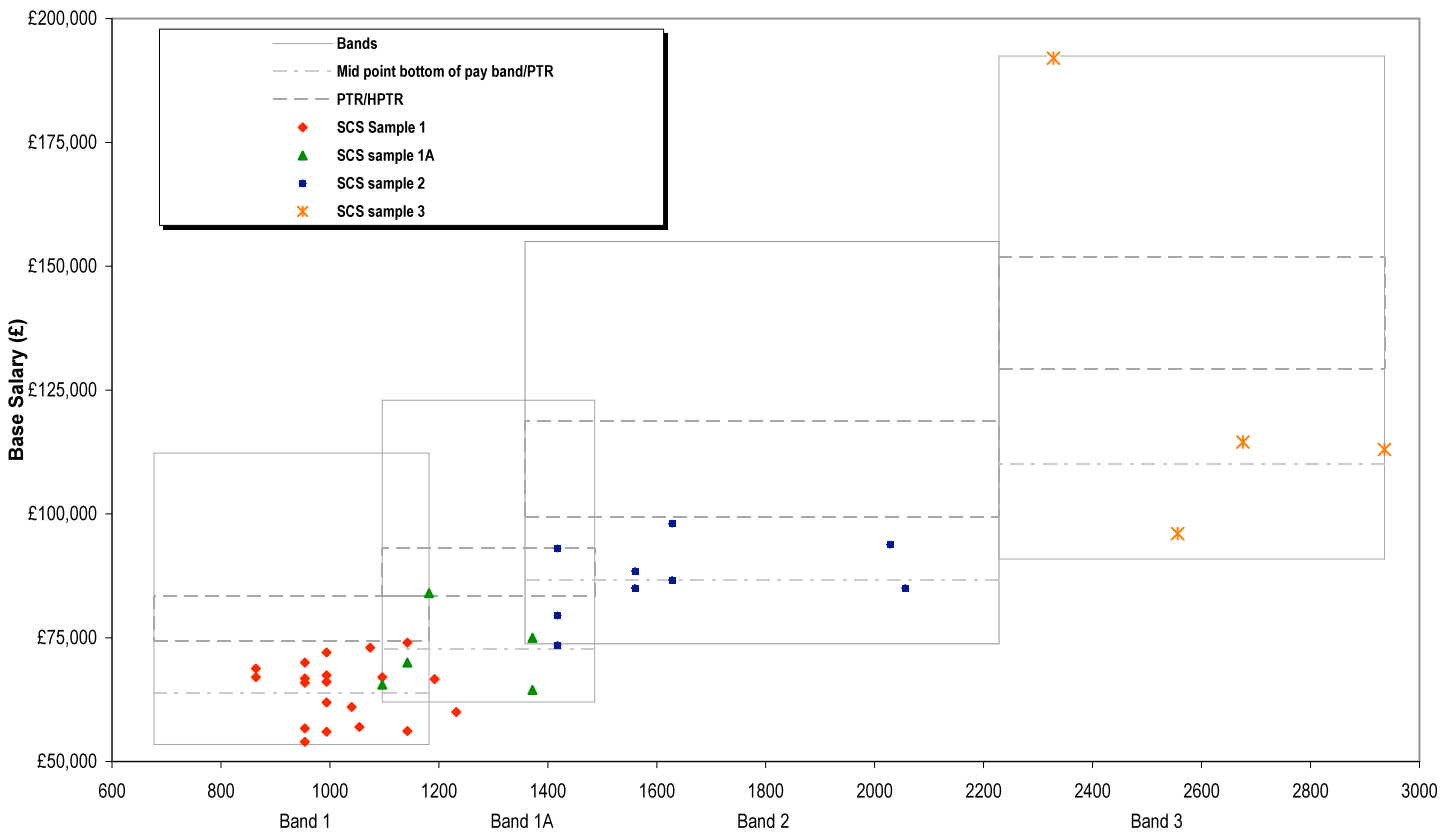
We are aware that the contents of this report may not be published widely until late 2005 or early 2006 by which time the currency of the salaries of the SCS postholders would seem dated. The postholders have provided us with details of their change in remuneration for 2005-2006 and although it would be inappropriate to compare this with the 2004-2005 salaries paid in other sectors we have for the sake of completeness included in Appendix 4 reproductions of comparisons of SCS salaries against their counterparts based on their 2005-2006 base salaries.

Section 4: Job Evaluation Scores

The evaluation of the sample of 42 SCS postholders, using the Hay Guide Chart Profile Method of Job Evaluation, produced a job score for each of the 42 posts. The chart below shows the spread of these scores within each of the pay bands and their relative positions within the parameters of the pay ranges appropriate to each pay band. It does not indicate those jobs which are graded above pay band 3 (permanent secretaries). These jobs are extremely large and terms and conditions would be agreed with them as individuals in the private sector.

It should be noted that the number of our sample below the PTR is not in line with statistics held by the Cabinet Office based on the whole SCS. These show a higher proportion of the SCS achieving or above the PTR.

Chart 1 – Sample Job Scores



The inclusion of such a wide spread of job scores within each pay band is unusual when compared with practice in the private sector, where jobs are generally priced by job weight. Similarly, in the wider public sector grades are more highly differentiated by job weight than within the SCS system.

This makes comparisons with the market for the wide SCS pay bands problematic and, rather than taking some notional job weight value, we have presented our salary comparison data showing all of the evaluated jobs and our data on other remuneration elements by the reference levels that are used in the Hay Compensation Database. Table 1 below shows the reference levels within which the various groupings of SCS pay band scores would fall on the basis of the typical Hay score at each JESP level.

Table 1 – Typical Jobs by Hay Reference Level

Hay Reference Level	Most Typical Hay Points	SCS Pay Band	Private Sector Example	Health Example	Local Government Example
20	805	1	Line role responsible for resources in sales/production; or account/ brand manager in marketing	Head of a large GPs practice	Assistant Director of small unitary
21	954	1	Board role in substantial UK enterprise	Major Director of a district general hospital	Assistant Director of large unitary or county
22	1142	1 / 1A	GM/Country Manager of small subsidiary operation	Major Director of a large hospital trusts	Chief Executive of many small districts
23	1372	1A / 2	GM/Country Manager of c. £50 million subsidiary	Chief Executive of a district general hospital	Director of Social Services in big cities
24	1628	2	Key Director, e.g. Finance, of a £1 Billion company or subsidiary	Chief Executive of a trust with regional services	Director of Children's Service in unitary or counties.
25	1960	2	GM/Country Manager of c. £200m subsidiary	Chief Executive of a major regional teaching hospital	Chief Executive small or median city unitary
26	2328	2 / 3	MD of subsidiary of major international, international regional head	Chief Executive of a major complex trust.	Chief Executive Major city unitary
27	2812	3	Main Board Director of major plcs		

Section 5:

Comparisons of Pay Data

Private Sector

The principal private sector market we have used for making comparisons is a very broad market (“National Industrial and Service” hereafter called the Private NIS Market), as follows:

Ownership	All except public sector
Sub-Sectors	All except finance
Roles	All except main board directors of UK listed companies
Geography	All UK

This is a very wide market, which ensures appropriately robust comparisons. It is a benchmark that many private sector employers would use, often in conjunction with more specific information for their own sector (e.g. retail, consumer). The rationale for the exclusions is as follows.

- We have excluded the finance sector (i.e. banking, insurance and investment) because very few civil servants work in directly related areas and because the finance market typically pays a premium over the rest of the private sector.
- We have excluded main board directors in UK listed companies because these roles have a unique status which is not replicated in the public sector and are typically paid a premium over other roles of comparable job weight.

A list of participating organisations is provided in Appendix 5.

Comparisons are drawn with the principal Private Sector Market, through comparing jobs of equal size, as measured by Hay Points, in the SCS and the NIS Market.

Chart 2 below shows base salary data for the NIS Market against the SCS sample at different job sizes. The parameters of the different pay bands

are also represented, to indicate the positioning of the sample within pay bands.

Chart 2 – Private Sector Base Salaries

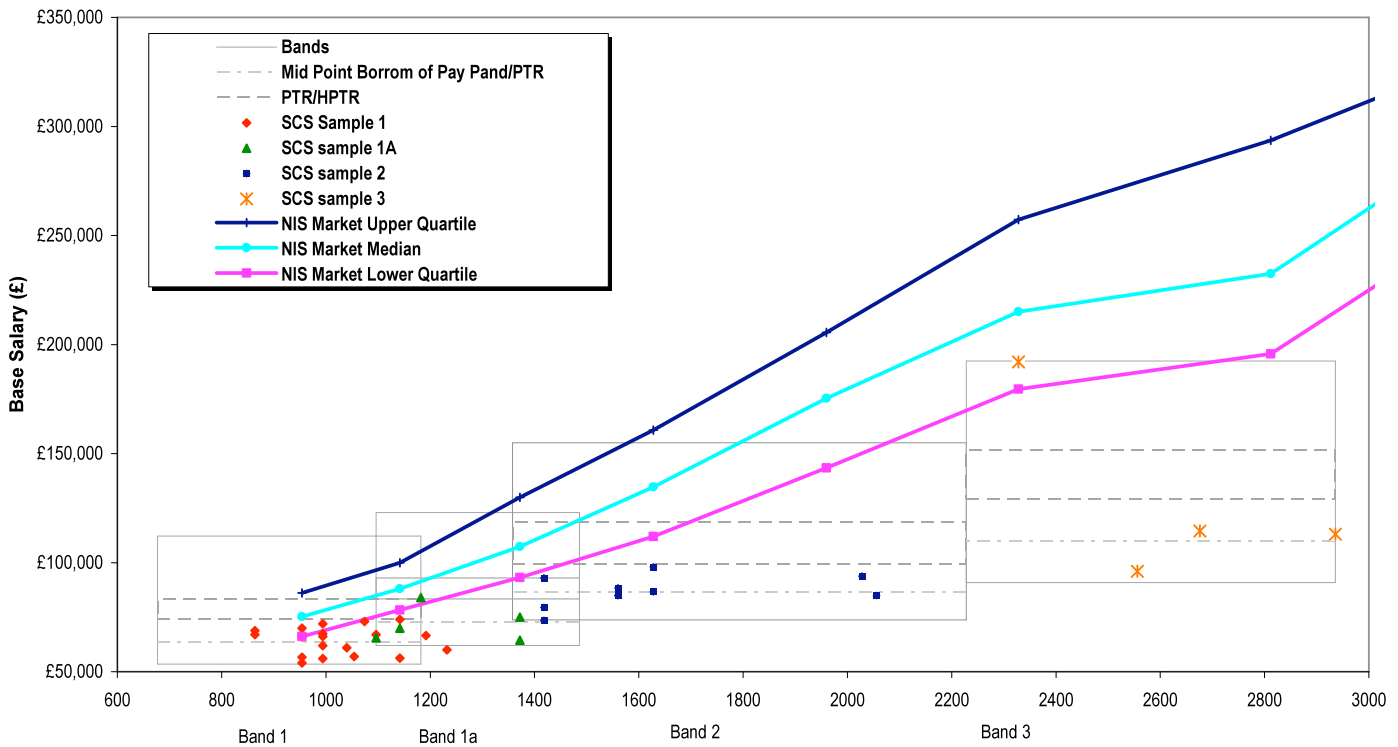
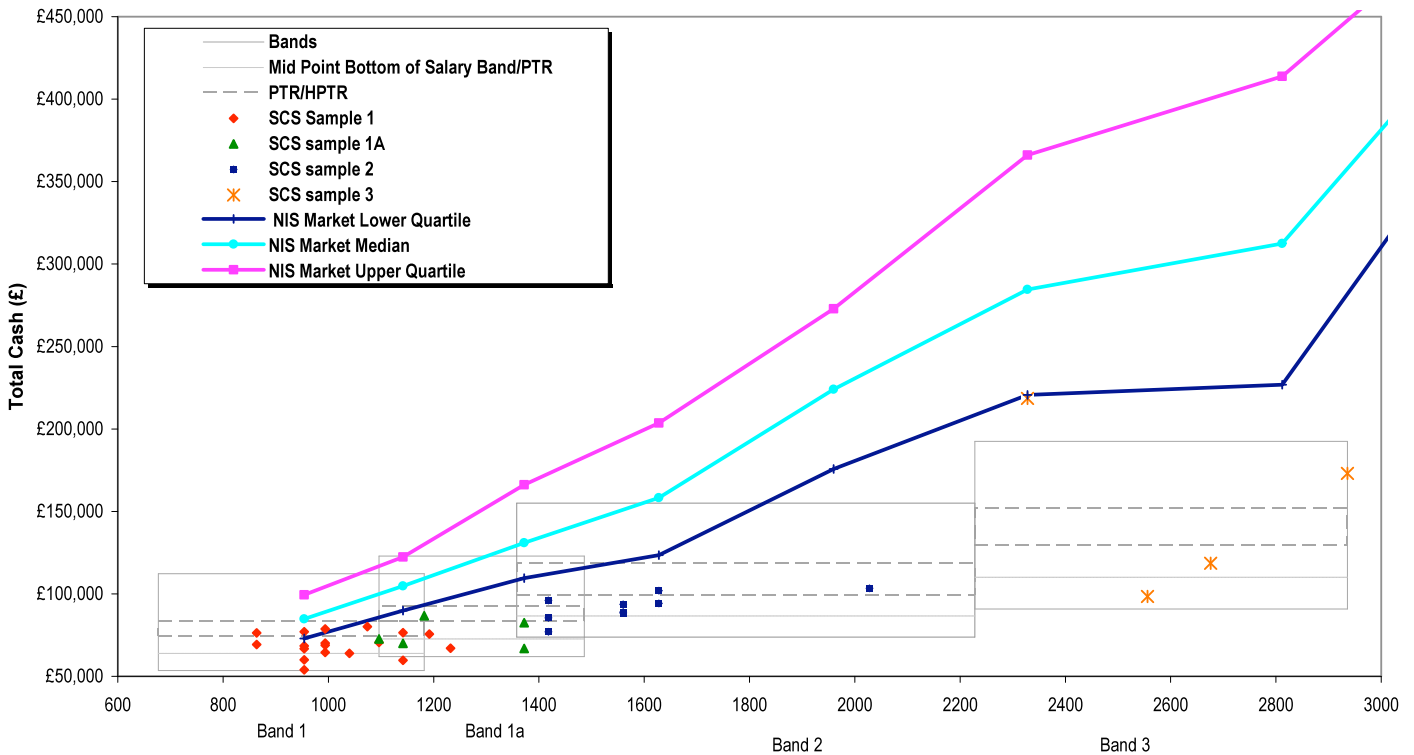


Chart 2 indicates that the salaries of the SCS sample are, in the main, below the lower quartile of the NIS Market. However, the progression target rate is consistent with the median NIS Market level at pay band 1 and, the lower quartile market up until around 1500 Hay Points. Pay becomes increasingly less competitive as job size increases, with large gaps opening up at around 1600 Hay Points. Competitiveness in this sample is, in fact, reduced further by difficulties in attaining the progression target rate, as indicated by the clustering of the sample at the bottom of the pay bands.

The equivalent data for Total Cash (Base Salary plus actual bonus) is shown in Chart 3. Senior Civil Service total cash is calculated on the basis of the actual bonus received by the sample group in 2005.

Chart 3 – Private Sector Total Cash



The discrepancy between the SCS sample pay and the NIS Market is exacerbated for total cash. In the SCS as a whole, bonuses, for those who received them, were equivalent to around 8% of base salary. In addition, bonuses were received by only 58.6% of the SCS in 2004. By comparison in the NIS Market the median total cash ranges from between 13% of base salary at smaller job sizes to more than 50% for the most senior roles and in excess of 90% of employees receive a bonus. As a result, the SCS total cash position is less competitive than base salary.

The Broader Public Sector

This section makes comparisons between SCS pay and the broader public sector. In particular, we have analysed data for senior executives in:

- Local Government
- Health

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- The trading public sector. This includes government owned businesses and a few organisations with similar characteristics – see the list in Appendix 6.
- Not for profit. This includes a variety of organisations in the voluntary and housing sectors and some public sector bodies not covered elsewhere – see the list in Appendix 7.

The comparative base salary data is shown in Chart 4.

Chart 4 – Public Sector Base Salaries

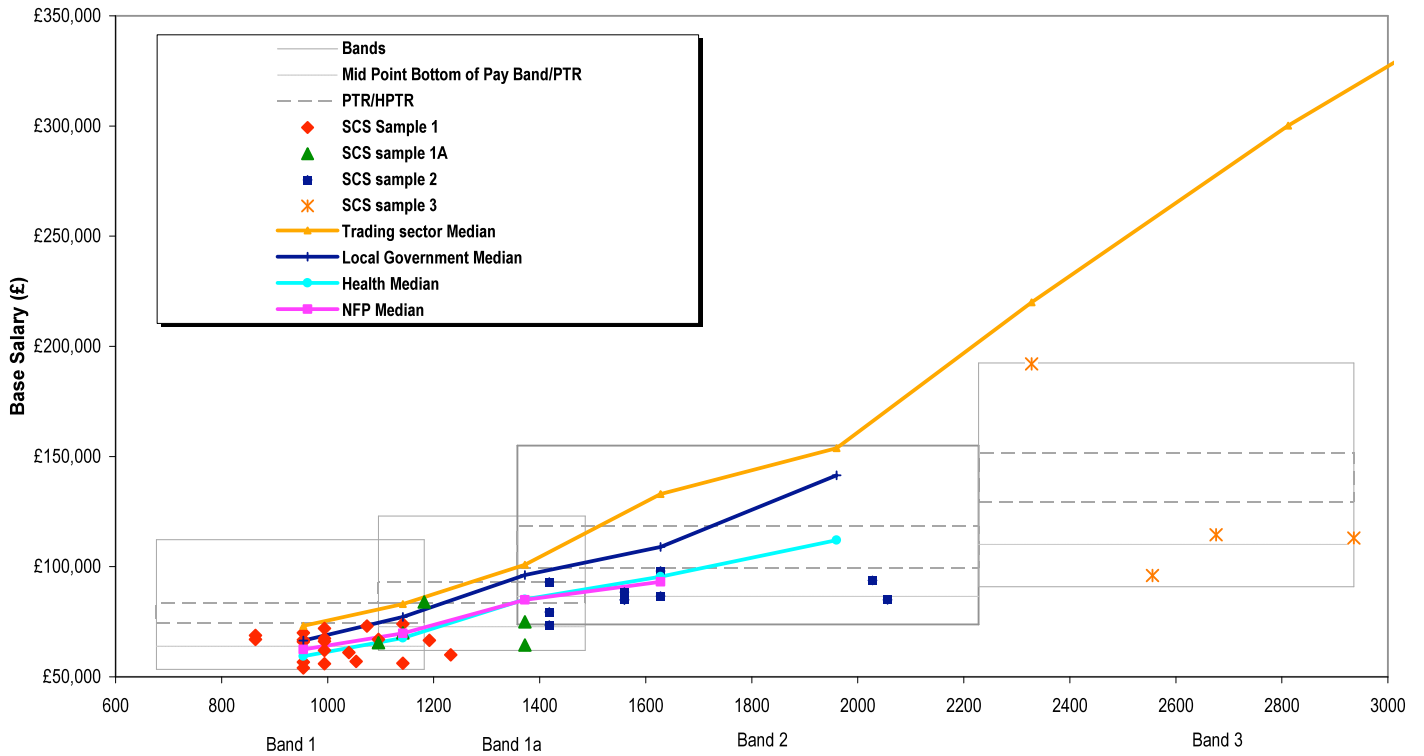
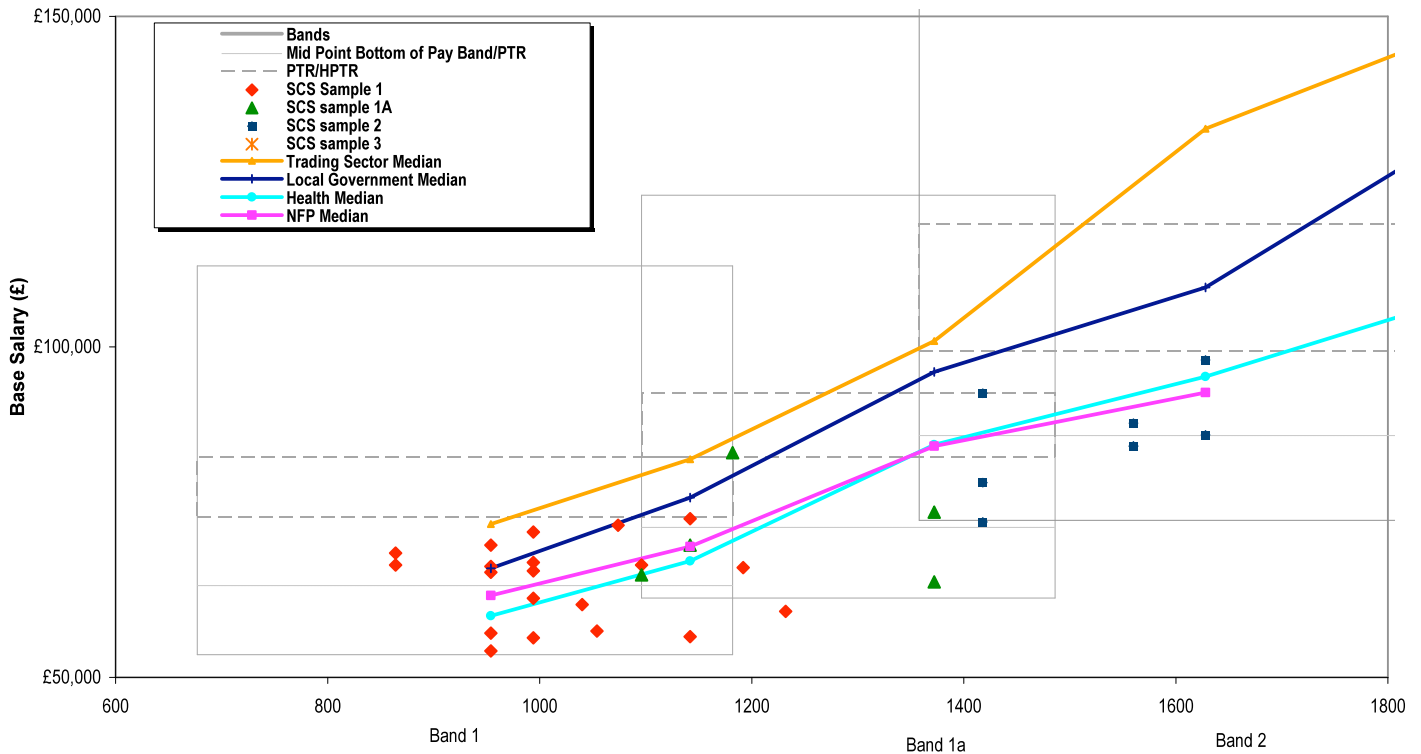


Chart 4A – Public Sector Base Salaries up to 1800 Hay Points

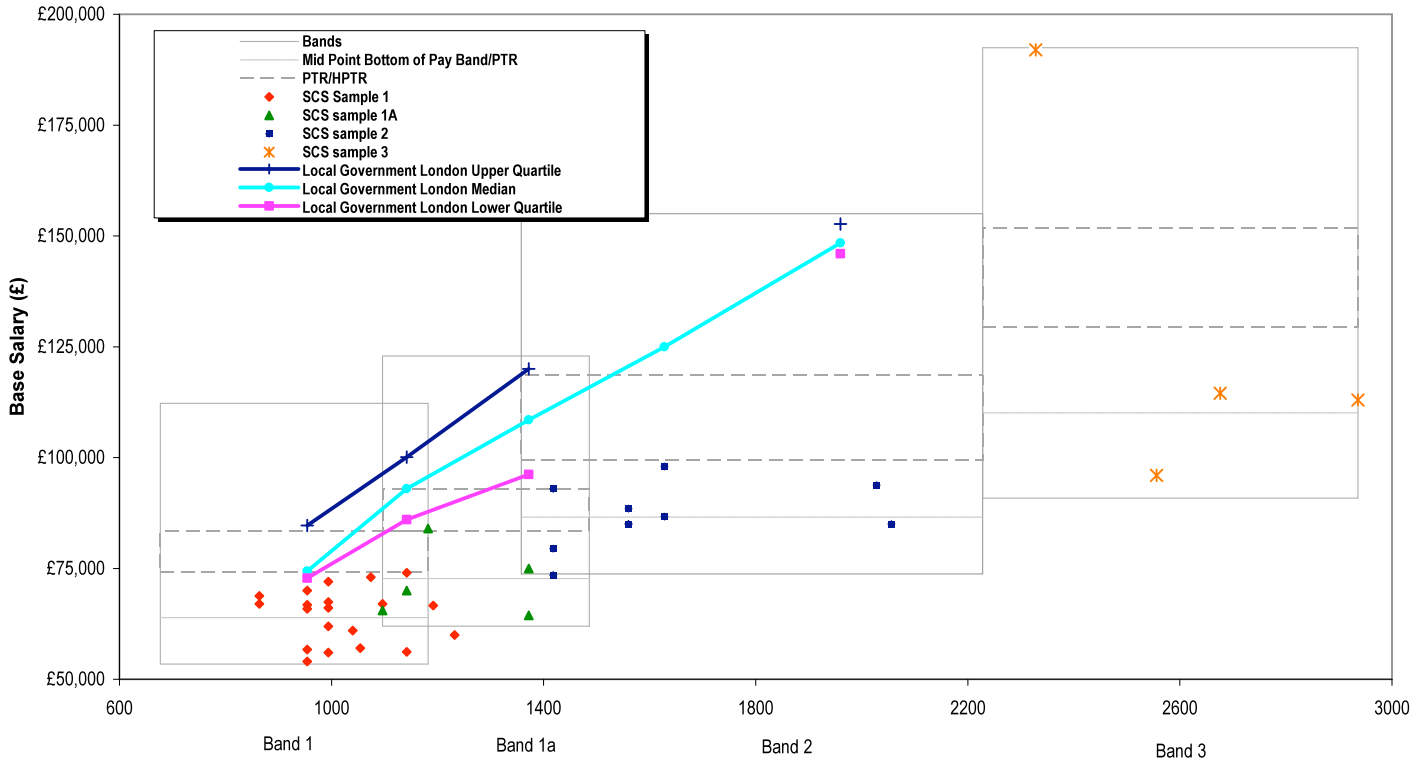


For Local Government, Health and Not for Profit the base salaries are below the lower quartile of the NIS Market. SCS base salaries are more competitive when compared to these markets and the progression target rate is broadly in line with median levels at bands 1, 1A and 2. However, Chart 4 indicates that, on the whole, SCS pay is below the median levels in the broader public sector, particularly in local government.

The Trading Public Sector Market is closer to the median of the NIS Market. As such, SCS salaries are significantly below this market.

Chart 5 draws a more specific comparison with London Local Government base salary, perhaps the most similar market for comparison for the SCS, the majority of whom are based in London.

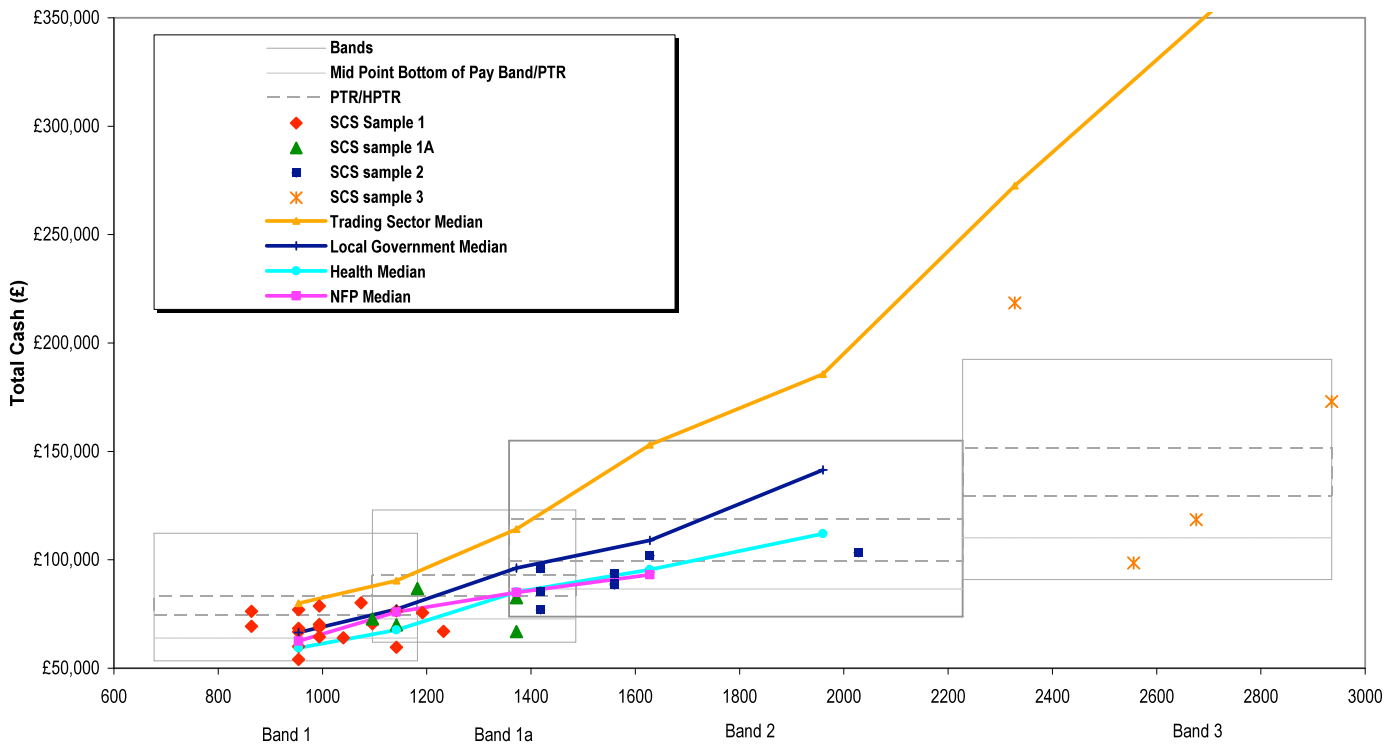
Chart 5 – Base Salary Local Government London



As Chart 5 indicates, although the progression target rate is broadly in line with the median and lower quartile at pay band 1 and 1A respectively, most of our sample falls significantly below the market. This is particularly so within band 2, where pay differences in excess of £60,000 are seen for jobs of the same job weight.

The equivalent data for Total Cash (Base Salary plus actual bonus) is shown in Chart 6.

Chart 6 – Public Sector Total Cash



Although there has been some movement towards introducing bonuses in the public sector it is still not typical practice to offer annual bonuses and as yet, is not statistically significant. However, it is an increasing trend in Local Authorities to offer bonuses. The exception to this is, once again, the Trading Public Sector Market. As a result the total cash markets for Local Government, Health and Not for Profit are very similar to the base salary markets. The bonuses in the Trading Public Sector are less aggressive than the private sector but still significant, with total cash being 10% above base salaries at the smaller job sizes in the study rising to 30% above for the more senior roles.

The SCS total cash, if we consider average bonuses, is within 10% of the median of the Local Government, Health and Not for Profit markets. It is more than 20% below the median of the Trading Public Sector Market.

Section 6:

Total Remuneration Package

In this section we analyse private and public sector provision of the major tangible employee benefits and the value of the Total Remuneration package.

Annual Incentives

The annual bonuses paid in the Senior Civil Service last year vary by pay band, with the overall average bonus ranging from £4,510 in band 1 to £7,379 in Band 3. For the top tranche of employees these averages range from £5,480 to £8,606 – i.e. around 8% of base salary.

In the private sector, annual incentives are a very significant part of the package for senior executives.

Table 2 shows maximum bonuses, bonuses for “on-target” performance and actual payments for the NIS market, excluding main board directors in UK listed companies. Please note that the difficulty of achieving “on-target” or maximum performance can vary considerably from company to company. Therefore the data for actual payments is the most useful.

Table 2 – Private Sector Bonuses

Hay Reference Level	SCS Bands	Annual Bonus		
		Maximum Bonus Available	Bonus for On-Target Performance	Average Actual Bonus Received
21	1	30%	20%	11.7%
22	1/1A	30%	23%	20.9%
23	1A/2	45%	30%	24.9%
24	2	45%	35%	20.0%

Hay Reference Level	SCS Bands	Annual Bonus		
		Maximum Bonus Available	Bonus for On-Target Performance	Average Actual Bonus Received
25	2	50%	40%	26.8%
26	2/3	60%	40%	37.5%
27	3	60%	42%	30.0%
28	3232	75%	50%	50.9%
29	4056	100%	60%	56.7%
30	4656	100%	60%	42.0%

For the most senior cadres of executive in the largest listed companies (i.e. the FT-SE100) it is increasingly the norm for part of the bonus to be deferred for three years in the form of shares. The deferral may be optional or compulsory and the deferred shares are normally matched by the company subject to performance conditions and continued employment. Deferred bonuses are included in the data above while matching payments are included under long-term incentives.

Longer-Term Incentives

Longer-term incentives are extremely common for jobs of this weight in the private sector although the delivery mechanism varies. There have also been moves to adopt longer-term incentives in some larger government-owned businesses (e.g. Royal Mail, QinetiQ).

The type and design of longer-term incentives varies widely. Traditionally, share options have been the most common approach for senior jobs in listed companies. However firms are reconsidering their practice in this area due to the introduction of a new accounting standard which will, for the first time, make it necessary to account for the cost of share options.

In the largest companies (FT-SE100) it is the norm to operate more than one long-term incentive. Typically this involves a combination of share

options and a conditional award of free shares. In both cases performance conditions must be met for the plan shares or share options to vest.

Table 3 shows median long-term incentive values for the NIS Market, excluding main board directors in UK listed companies. These values include all long-term plans (including bonus matching arrangements). They are based on statistical calculations of expected value, taking account of performance conditions, the probability of forfeiture and the time-value of money. They should not be confused with the maximum upside opportunity, the face value of a plan award or the actual proceeds received.

Table 3 – Private Sector Long Term Incentive Values

Hay Reference Level	SCS Pay Bands	Median Long-Term Incentive Value
21	1	15%
22	1/1A	25%
23	1A/2	30%
24	2	35%
25	2	50%
26	2/3	60%
27	3	60%
28	3232	70%
29	4056	75%
30	4656	75%

Pension Benefits

Many private sector organisations have cut back on executive pension provision, and there has been a polarisation of the market between high provision from legacy defined benefit pension schemes and lower provision from defined contribution schemes. This has led to a bimodal

market and we therefore show separate data for defined contribution and final salary plans.

We have analysed pension provision in two ways:

- pension provision as a percentage of base salary – this shows the design value of the pension provision;
- annualised cash value of pension provision – this shows the impact of combining the pension design value and salary practice.

Traditionally, pension provision for Senior Civil Servants has been well regarded. However the annualised cash value is not competitive at higher levels compared with other defined benefit schemes due to the below-market salaries provided. In addition a typical defined benefit scheme for more senior roles in the private sector will have a 45th or even 30th accrual rate.

However, at the smaller SCS job sizes the pension value is competitive when compared with the value of defined contribution schemes – i.e. the basis of pension provision for most new entrants in the market.

Table 4 shows pension data for the public, private sector and SCS pensions on the basis of pension provision as a percentage of base salary. In general most large private sector firms have provided top-up unapproved pension for individuals affected by the (soon-to-be-replaced) Earnings Cap. However we also show the impact for capped individuals where no top up is provided. Most public sector pension provision is on a similar basis to the “Classic” section of the PCSPS. No account has been taken of future proposed changes to provision.

Table 4 – Public, Private and SCS Sector Pensions

Hay Reference Level	SCS Pay Bands	Private (DB)	Private (DC)	Local Gov	Health	PSCPS: Classic		PSCPS: Premium	
						Uncapped	Capped	Uncapped	Capped
21	1	29%	12%	19%	22%	27%	23%	29%	25%
22	1/1A	29%	12%	18%	20%	27%	23%	29%	25%
23	1A/2	29%	12%	15%	17%	27%	21%	29%	22%
24	2	29%	15%	15%	16%	27%	20%	29%	21%
25	2	34%	15%	14%	15%	27%	20%	29%	21%
26	2/3	34%	15%			27%	16%	29%	18%
27	3	34%	23%			27%	18%	29%	19%
28	3232	42%	23%						
29	4056	42%	23%			27%	16%	29%	18%
30	4656	42%	23%			27%	16%	29%	17%

Chart 7 – Annualised Value of Pensions SCS Against Private Sector and Broader Public Sector, Capped

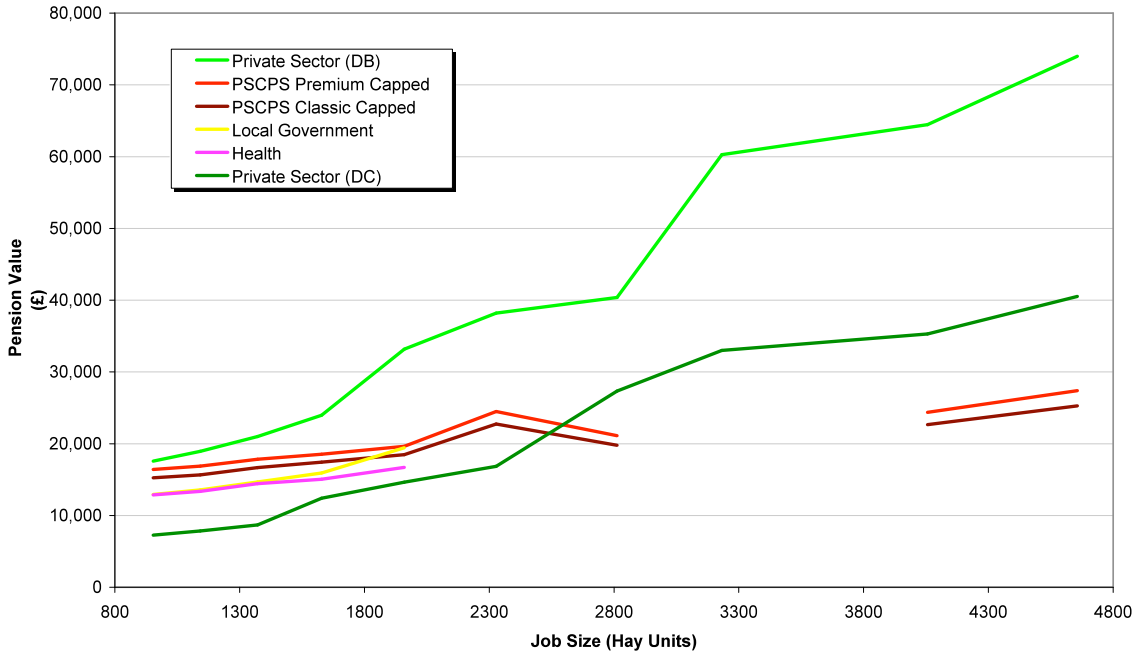
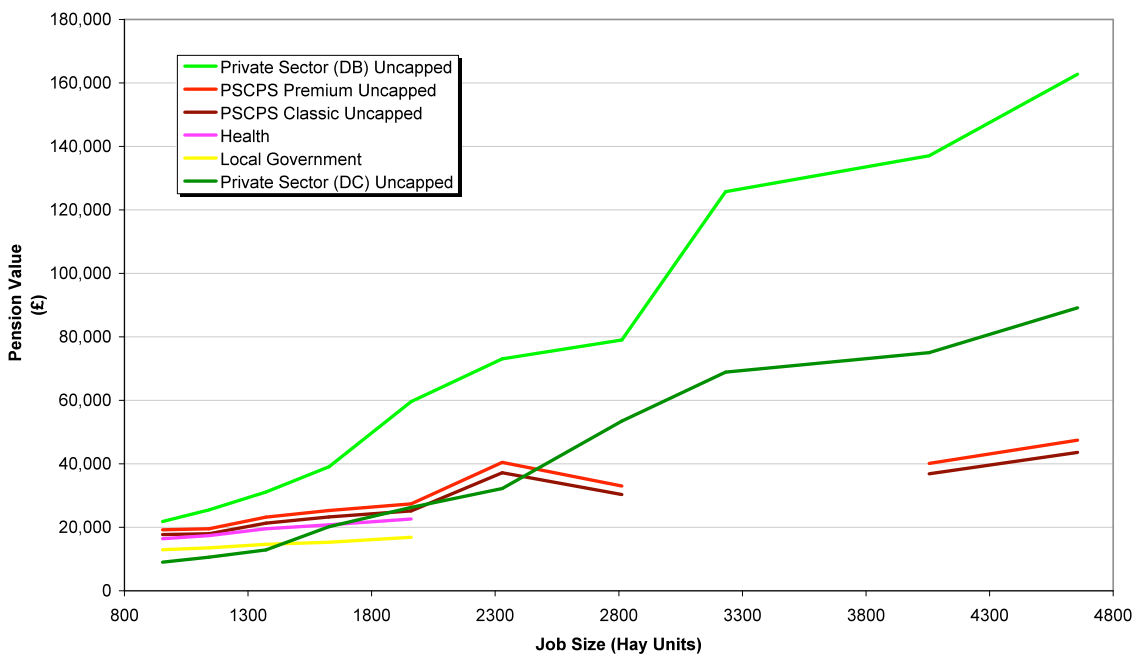


Chart 8 - Annualised Value of Pensions SCS Against Private Sector and Broader Public Sector, Uncapped



Two further points to note about public sector pensions are as follows.

- Pension transfers are a significant – if under appreciated – benefit. In the private sector, even if a job mover were able to find a new employer with a final salary plan, he/she would lose the link to final salary in the plan of the former employer.
- The enhanced pension benefits available to civil servants on immediate retirement following redundancy now significantly outstrip what is available in the private sector. In the past, private sector companies with well-funded final salary plans also offered favourable terms on redundancy/retirement. However the introduction of defined contribution plans and the poor funding of most final salary schemes have vastly reduced the incidence of such arrangements.

Company Cars

In the private sector, provision of a car (or car allowance) is near universal for jobs of comparable size to those in the SCS. Over the last few years there have been changes to the way cars are provided with greater use of cash allowances instead of cars, or as an alternative option.

Some organisations have moved towards using “Car Ownership Schemes” which allow employees to lease cars themselves funded by a combination of allowances, mileage rates and benefit-in-kind tax savings – these plans can offer cost efficiency without losing the conveniences associated with company car ownership.

Table 5 on the following page shows private sector car and car allowance provision.

Table 5 – Private Sector Company Cars

Hay Reference Level	SCS Pay Band	Car Price			Car Allowance			Public Sector Car Price Median	Public Sector Car Allowance
		Upper Quartile	Median	Lower Quartile	Upper Quartile	Median	Lower Quartile		
21	1	26,900	24,600	24,000	8,900	7,300	6,000	19,200	5,100
22	1/1A	32,900	30,000	27,500	9,200	7,600	6,500	20,100	5,300
23	1A/2	35,800	34,300	32,500	10,900	7,200	7,000	21,300	5,400
24	2	45,000	36,000	33,100	14,900	8,400	7,500	22,500	
25	2	38,800	35,000	33,900	13,300	9,900	7,500		
26	2/3	46,000	37,800	35,000	13,500	11,500	9,000		
27	3	50,000	45,000	33,500	17,100	14,400	12,400		
28	3232	50,000	43,000	35,000	20,000	12,500	11,700		
29	4056	50,000	45,000	33,500	15,200	13,300	11,400		
30	4656		45,000			13,200			

In the public sector, car provision is much less prevalent than the private sector, being typically provided on a job need basis only. In addition, where a status car is provided the car or the cash allowance is typically of a lower value than that provided in the private sector.

Private Medical Insurance

It is normal for private sector jobs of this size to be entitled to employer-funded private medical insurance. Median practice is for cover to include the executive's spouse and/or children while cover for the employee only would be lower quartile practice.

In the public sector there are political difficulties with providing this sort of cover. However many large government-owned businesses also provide such cover to their executives (e.g. BBC, BNFL, Channel Four, Network Rail, Qinetiq and Royal Mail). In the public sector organisations providing data to our 2005 benefit survey 37% provide private medical insurance

paid for by the employer. Where provided, the typical level of cover is for the employee only.

At least part of the rationale for providing such cover is to ensure that executives are not delayed from returning to work by hospital waiting lists.

Holidays

Table 6 below shows typical holiday provision in the private and public sectors. The number of days shown includes all days off other than statutory bank holidays. As you can see holiday in the public sector is typically more generous than in the private sector, with in particular a higher proportion of organisations providing more than 30 days holiday.

Table 6 – Holiday Provision

(Holidays per Year)	1 years service		5 years service		10 years service		Maximum	
	Private	Public	Private	Public	Private	Public	Private	Public
25	44%	33%	34%	22%	34%	22%	34%	11%
26 - 29	34%	33%	44%	33%	41%	22%	34%	33%
30	19%	11%	19%	11%	22%	22%	28%	22%
More than 30	3%	22%	3%	33%	3%	33%	3%	33%
Median	26	27	27	28	28	30	28	30

Maternity provision

Relatively generous maternity provisions are available in the civil service and this is an attractive benefit to many women. In particular, the possibility to take a career break of up to five years is not replicated in the private sector.

Provision in the wider market is shown in Table 7. This data is primarily from the private sector but includes a few local authorities.

48% of comparators that gave details grant maternity leave in excess of the statutory requirements. Practice in these organisations is as shown below (several organisations use more than one approach).

Table 7 – Private Sector excess maternity leave granted

Partially paid leave	60% (where better than statutory) 29% (all organisations)
Fully paid leave	46% (where better than statutory) 22% (all organisations)
Unpaid leave	30% (where better than statutory) 14% (all organisations)
Discretionary	9% (where better than statutory) 4% (all organisations)

Unpaid leave ranges from 13 weeks to 52 weeks (median 24 weeks). Partially paid leave ranges from four weeks to 52 weeks (median 20 weeks). Fully paid leave ranges from six weeks to 40 weeks (median 18 weeks).

As a sample of practice in the rest of the public sector, provision in a London local authority is:

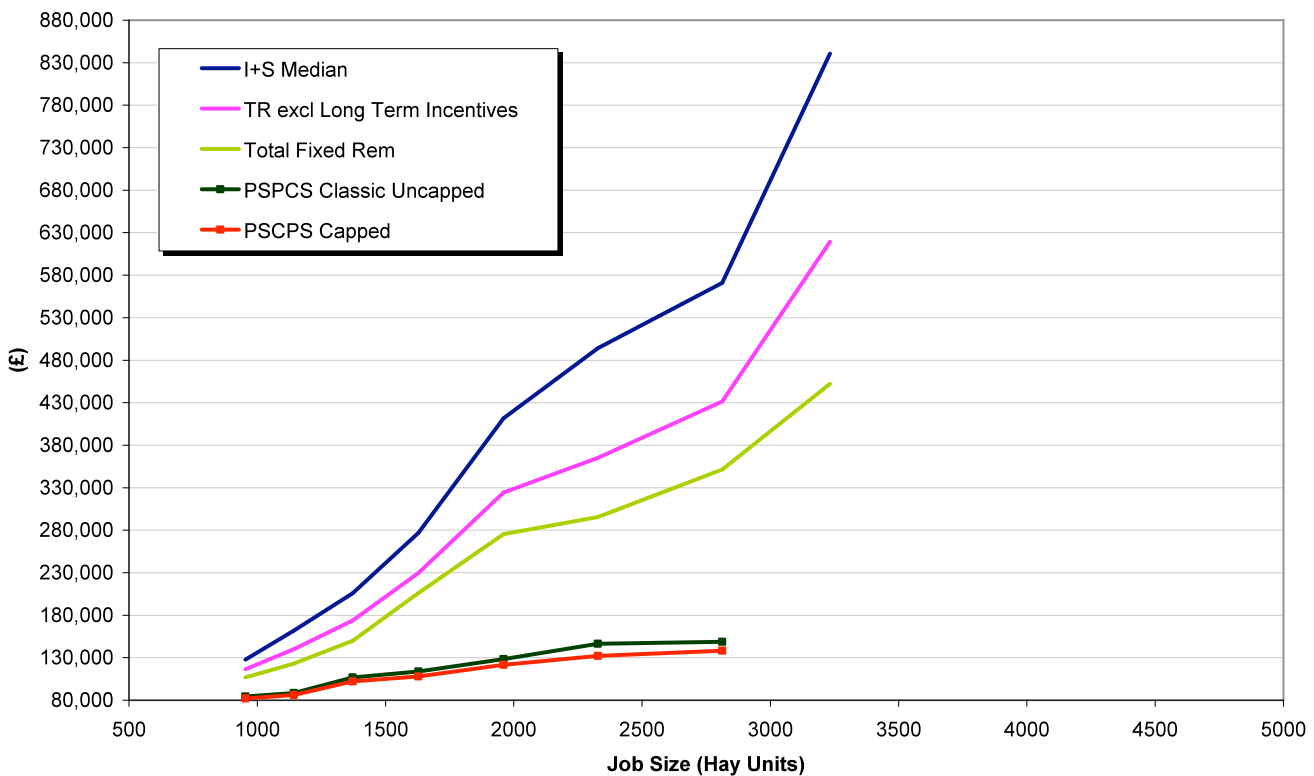
- pre-1993 employees – 28 weeks at full pay
- other employees (subject to one year's service) - 14 weeks at full pay
- in either case, it is possible to have half pay for a longer period

Total Remuneration Comparisons

Total remuneration is calculated as the sum of total cash and the annualised cash value of long term incentives and benefits. In calculating total remuneration for executives we exclude the value of holidays from this calculation.

Chart 9 below shows total remuneration data for the private sector excluding the financial services sector and main board.

Chart 9 – Private Sector Total Remuneration against SCS



As can be seen from the above table the total remuneration for the Senior Civil Service is significantly below the lower quartile of the National Industrial & Service market. This can be explained by several factors:

- Base salary competitiveness is below lower quartile, becoming increasingly less competitive as job size increases.

- Annual bonus provision is below the levels of payment typically seen in the private sector.
- There is no long term incentive in the Senior Civil Service. Jobs of this size in the private sector would typically have access to some form of share based long term incentive
- As outlined earlier in this section, benefit provision in the Senior Civil Service is below that provided by typical private sector organisations, namely:
 - The cash value of pension provision, caused by below market salaries and increased accrual rates at more senior roles in the private sector.
 - The lack of company car and private medical insurance provision by SCS is below the market

The net effect of combining these factors is a total remuneration package that is below the market. However, this should be balanced against other less tangible benefits which also make up total reward and which may make up some of this shortfall. These include elements such as quality of work, flexible working, job security, etc and are discussed in more detail in the next section.

Total Remuneration in the Broader Public Sector

Our analyses in this section of the report have concentrated on the differences between the SCS total remuneration package and that available in the private sector for the jobs of equivalent weight. Pensions aside, the public sector has traditionally laid less emphasis on other benefits in kind in the remuneration packages that it offers. Few, for instance, offer health care packages. Nevertheless, the level of provision of the other benefits, particularly company cars, is generally higher than within the SCS.

In the trading public sector, provision of cars or car allowances broadly follows that of the private sector. Most Local Authorities offer an essential car user allowance for those who exceed certain mileage levels (3-5000 pa). Local Authorities in our database, around 30% offer status cars or allowances (between £3,000 - £7,500 pa) to Senior Managers at SCS equivalent levels. Around 60% of Housing Associations offer similar arrangements.

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In the health sector, there is car provision or allowances for essential users but very rare provision of status cars.

The public sector generally gives greater emphasis than the private sector to childcare provision, holiday play schemes, and season ticket loans.

Section 7:

Intangible Benefits

Inevitably any comments around the differences between the public and private sectors are generalisations and exceptions will exist. These comments are based on our own observation and are not intended as value judgements.

Private Sector

Some of the key intangible (or semi-tangible) advantages of the private sector are as follows.

- The private sector is further along the road of allowing individuals more control over the form in which their packages are delivered. This can take any or all of:
 - flexibility within a particular benefit (e.g. choosing a cheaper car and receiving cash in lieu of the saving);
 - flexible benefits plans in which individuals can choose which benefits and at what levels they receive;
 - voluntary benefits plans whereby employees can access a variety of discounted products, typically via the company intranet.
- The private sector is significantly better at communicating the value of reward packages. It is now quite common for private sector businesses to provide individualised paper or online statements detailing total reward including salary, allowances, incentives, pensions and other benefits.
- Accommodation is, as a rule, a little better in the private sector, although some newer public sector facilities are of very high quality. Some private sector companies have been very imaginative about accommodation - for example an out-of-town insurer has a “street” inside its office which includes a Starbucks, a WH Smith, a travel agent and even a job centre (for its own jobs).

- The use of one-off or informal rewards (e.g. a bottle of champagne or some vouchers) is more widespread in the private sector. However this is perhaps less relevant at senior levels.
- The general level of pampering is higher in the private sector. A company-funded lunch or away-day for a team or an individual would not be seen a waste of resources but rather wise expenditure on securing employee engagement.

SCS Intangible Benefits

The SSRB has asked us to make an assessment of how the range of intangible benefits might trade off against other parts of the remuneration package. The gap in tangible benefits between the SCS and the private sector is considerable; there seem to be more intangible benefits in the SCS than its private sector comparators. The question is do they compensate for the “loss” in terms of remuneration.

Staff turnover from the SCS is comparatively low and may indicate that there is little market pressure for people to move from the SCS to other sectors. In our sample for evaluation, there was certainly a widespread notion of “public sector ethos”. Many of the individuals interviewed had entered the civil service as a long-term career choice and although a number of the individuals had considered transferring to the private sector throughout their career, they had not done so on a number of counts:

- The quality of work, being at the centre of things and having the ability to influence national/international decisions was highly prized. Individuals who had been headhunted for private sector jobs believed that they had been sought on the basis of some special experience/contacts/skill set and that the jobs on offer would in the long term be very limiting compared with the variety that might be available to them within the SCS. Most evidence the variety of past postings covering a variety of types of job and disciplines and felt that the jobs that they were offered in the private sector were too limited in scope and carried with them the danger of undertaking the same task in broad terms for the remainder of their career.

- There is a perception that accountabilities within the SCS were less pointed than they were within the private sector and that internal competition for posts, particularly pressure from below was less. Of those interviewed who came from the private sector, a number reported that they had felt less vulnerable in the civil service than they had in their previous occupations and that this gave them a feeling of comfort around job security. It is too early to say yet whether the 'four year posting rule' will have an impact on job security.
- The general perception of job security, amongst career SCS staff was not as strong as it was. The latest round of efficiency reviews in departments have in some cases led to large numbers of SCS posts being retrenched and although many of these were on a voluntary basis, the general perception amongst our sample was that job security had been much reduced and would further reduce.
- There was a further lack of awareness of the remuneration packages outside of the civil service. The comparative data in this report will come as something of a surprise to a number in our SCS sample who believed that their salary was around 20%-30% below market equivalents. Few had any real feel for the quantum of private sector bonus payments. Similarly, there is little understanding of the value of other benefits and particularly pension, which most thought was worth around 8% of salary.
- Significantly, the perception of relative remuneration for most of our sample was internally focussed. They compared their package, not with other sectors, but with other more junior groups within the Civil Service.

Section 8: Pay Variations

Regional comparisons

The impact of local/regional factors decreases with increasing job size. This reflects a greater willingness to travel as responsibility (and pay) increases.

For the smaller jobs in the SCS it is reasonable to look at regional data. However it would not be appropriate to break-down the data further – for example most individuals working in the Manchester private sector at this level would also consider jobs in Liverpool or other parts of the North West.

Ultimately, for jobs of comparable weight to the largest Civil Service jobs the market is national.

Table 8 below shows percentage differences to the NIS Market median for different regions using the same data set as used previously.

Table 8 – Regional Private Sector Salaries

Hay Reference Level	SCS Pay Bands	Inner London	Outer London	South East excluding London	East Midlands	West Midlands	Wales & Shrewsbury
21	1	119%	106%	102%	98%	95%	87%
22	1/ 1A	107%	99%	101%	95%	100%	87%
23	2	110%	102%	101%	91%	93%	
24	2	113%	106%	102%	92%	86%	78%
25	2	106%	114%	101%	96%	100%	
26	2/ 3	101%	111%	114%		96%	

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Hay Reference Level	SCS Pay Bands	Yorkshire & Humberside	North West	North East	Scotland	South West	East Anglia
21	1	93%	98%	99%	105%	100%	93%
22	1/ 1A	89%	91%	85%	101%	89%	96%
23	2	92%	90%	88%	99%	88%	
24	2		83%	82%		81%	
25	2	95%	69%				
26	2/ 3	81%	83%			82%	

Key:

	65-70%		96-1100%
	71-75%		101-105%
	81-85%		126-130%
	86-90%		141-145%
	91-95%		

Specialisms

It is common for certain roles in the private sector to attract a premium over the market for other jobs of the same size. Such premia typically arise due to a shortage of good and experienced candidates. Premia often vary over time as the market corrects imbalances in supply or as a result of changes in demand (e.g. the lower demand for some categories of IT staff after January 2000).

In some cases, premia may apply to entire functions. In others, certain roles may be particularly highly paid – for example compensation and benefits professionals typically attract higher pay than other HR specialists.

It should also be noted that, in general, the significance of specialisms decreases with increasing job weight as the relative importance of the managerial and/or strategic impact of the role increases.

We have been asked to identify pay premia for three key specialisms – finance, legal and IT. Table 9 shows the percentage difference between the nation NIS Market median and particular specialisms.

Table 9 – Private Sector IT, Finance, Legal, HR Salaries

Hay Reference Level	SCS Pay Bands	Finance	Legal	IT	HR
21	1	101%	98%	107%	96%
22	1/ 1A	102%	101%	99%	90%
23	2	99%	98%	122%	94%
24	2	94%	99%	116%	99%
25	2	103%	123%	124%	99%
26	2/ 3	99%			88%
27	3	122%			104%
28	3232	101%			87%
29	4056				
30	4656				

I.T. is the only specialism that receives a consistent premium, whilst finance receives a premium at higher levels. Our sample did not have sufficient specialist staff within it to allow us to make a general comment on practice in the SCS.

Sub-Sector

We have already referred to the premium enjoyed by the financial services sector (primarily banking and insurance). As requested we have also provided data in Table 10 to show sub-sector variations within the Industrial and Service sector. It shows percentage differences for sub sectors against the NIS Market median.

Table 10 – Private Sub-Sector Salaries

Hay Reference Level	SCS Pay Bands	Financial Services	Banking	Insurance	Retail
21	1	104%	96%	121%	100%
22	1/1A	111%	109%	124%	110%
23	2	117%	120%	126%	118%
24	2	122%	128%	128%	124%
25	2	126%	135%		130%
26	2/3	129%	140%		134%
27	3	131%	145%		138%
28	3232	133%	148%		140%
29	4056	135%			
30	4656	136%			

Hay Reference Level	SCS Pay Bands	Oil	Chemical/Pharmaceutical	Engineering	Consumer
21	1	114%	101%	90%	104%
22	1/ 1A	115%	99%	93%	104%
23	2	116%	98%	95%	104%
24	2	116%	97%	97%	104%
25	2	117%	96%	99%	104%
26	2/ 3	117%	96%	100%	103%
27	3		95%	101%	103%
28	3232		95%		103%
29	4056				103%
30	4656				103%

Section 9:

Year on year movements

Private Sector

Table 11 shows how the NIS Market salaries (excluding public sector and main board directors in UK listed companies as before) has progressed from April 2000 to April 2005.

It should be noted that these comparisons are job size to job size and therefore do not include the impact of promotions.

These increases may be compared to the increases in inflation and national average earnings of over the same period.

- RPI 13% (2.4% pa)
- RPIX 12% (2.3% pa)
- NAE total (National Average Earnings) 22% (4.0% pa)
- NAE excl bonus 23% (4.3% pa)

Table 11 – Increase in Private Sector Salaries

Hay Level	Reference	SCS Pay Bands	2000	2005	Cumulative Increase	Annualised increase
21		1	58,792	72,926	24%	4.4%
22		1/ 1A	72,185	90,035	25%	4.5%
23		2	88,570	110,968	25%	4.6%
24		2	106,808	134,266	26%	4.7%
25		2	130,459	164,482	26%	4.7%
26		2/ 3	156,676	197,973	26%	4.8%
27		3	191,156	242,022	27%	4.8%
28		3232	221,077	280,246	27%	4.9%
29		4056	279,778	355,239	27%	4.9%

Overall, the average cumulative increase is 26% and the average annualised increase 4.7%. In fact, the increases in total cash pay (salary plus actual bonus) were higher than for base salary. This reflects increases in bonus payments on average 6.3% a year, with a cumulative increase of 36%.

Public Sector

The average annual increase for the SCS over 2002-04 has been 4%, and increases have been, in the main, relatively higher at higher levels. These increases have not matched increases at a senior level within Local Government, which have been nearly three times larger than those in the SCS. This provides an explanation for the increasing gap between SCS and Local Government pay.

Table 12 – SCS Salary Increases 2002-2004

SCS Base Salary							
		Market Median (£) SCS			Annual Increases SCS		
SCS Pay Band	Ref Levels	2002	2003	2004	02-03	03-04	Annualised increase 02-04
19- 22	1	63,757	65,708	67,254	3.1%	2.4%	2.7%
22-23	1A	71,628	77,076	79,050	7.6%	2.6%	5.1%
22-26	2	85,000	89,223	91,509	5.0%	2.6%	3.6%
26-27	3	109,634	113,565	117,946	4.5%	3.0%	3.7%

Table 13 – Local Government Salary Increases 2002-2004

Base Salary							
		Market Median (£) Local Gov			Annual Increases Local Gov		
Ref Level	SCS Pay Bands	2002	2003	2004	02-03	03-04	Annualised Increase 02-04
21	1	58,195	60,084	63,000	3.2%	4.9%	4.0%
22	1/ 1A	66,807	71,750	74,000	7.4%	3.1%	5.2%
23	2	76,097	80,499	82,500	5.8%	2.5%	4.1%
24	2	90,925	92,683	101,961	1.9%	10.0%	5.9%
25	2	115,928	120,444	137,686	3.9%	14.3%	9.0%
26	2/3	129,009	157,197	161,000	21.8%	2.4%	11.7%

Section 10: Pay Progression

In the public sector pay progression is generally a lot more mechanistic than in the private sector.

Private sector organisations typically manage salaries on an individual basis, within defined salary ranges for the particular grade or job size. These salary ranges are typically spread from 80% to 120% of a defined mid-point. In this way an individual's salary can be managed through the range based on factors such as length of service and performance.

Within the public sector, pay progression is typically on a less individualised basis, with salaries being calculated based a spine of, usually, 5 points.

Table 14 and 15 below show that for both SCS and the private sector increase in salary by age is generally less significant than increases brought around by differentiation in the pay and grading system. The greater differentiation in the private sector is a stronger explanation for pay progression than age.

In general, salaries are slightly higher at the higher age ranges, although this does not necessarily reflect a practice of individual companies paying for experience as various sectors and companies have different age profiles. It may also be noted that in some reference levels all medians are above the market medians in our main analysis – this is due to not all of our clients being able to supply information on the age of staff.

Table 14 – Private Sector Base Salaries Split by Age

Hay Reference Level	SCS Pay Bands	Overall Median	Age Range	Age-related median
21	1	75,200	31-35	69,300
			36-40	74,400
			41-50	77,700
			51-60	79,400
			61+	80,300
22	1/ 1A	88,000	31-35	85,200
			36-40	89,400
			41-50	92,700
			51-60	92,800
			61+	91,700
23	2	107,300	31-35	112,000
			36-40	114,600
			41-50	115,300
			51-60	114,800
			61+	112,700
24	2	134,700	31-35	94,000
			36-40	118,700
			41-50	141,800
			51-60	141,800
			61+	142,700
25	2	175,300	31-35	195,500
			36-40	184,700
			41-50	175,100
			51-60	196,300
			61+	213,200

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Hay Reference Level	SCS Bands	Overall Median	Age Range	Age-related median
26	2/3	215,000	31-35	
			36-40	238,600
			41-50	213,200
			51-60	218,500
			61+	211,100
27	3	232,500	31-35	
			36-40	237,800
			41-50	271,100
			51-60	314,700
			61+	224,300
28	3232	299,400	31-35	
			36-40	
			41-50	327,600
			51-60	352,500
			61+	382,500
29	4056	326,300	31-35	
			36-40	
			41-50	385,100
			51-60	390,200
			61+	331,500

Table 15 shows comparative data for the SCS. However, a full comparison can not be drawn as the SCS data does not provide a comparison by job size or reference level

Table 15 - Average SCS Salary by Age Bands, as at 1st April 2004

Age Band	Average salary £'s
<30	61,452
30-34	61,184
35-39	65,232
40-44	70,258
45-49	74,501
50-54	77,803
55-59	78,471
60-64	88,835
65 and over	78,992
All age groups	74,685

Source: SCS database, Personnel Statistics, Cabinet Office

RESEARCH SPECIFICATION

MARKET COMPARABILITY STUDY FOR THE UK SENIOR CIVIL SERVICE

BACKGROUND

1. The Office of Manpower Economics (OME) was set up as a non-statutory body in November 1970 to provide secretariat support to the independent pay review bodies. OME currently provides secretariat services to four¹ non-statutory and two² statutory independent pay review bodies. Secretariat support is also provided to the Chairman and Deputy Chairman of the Police Negotiating Board (PNB) and the Police Advisory Board (England and Wales) (PABEW). Overall, these bodies cover around 1.4 million public servants and a paybill approaching £50bn per annum. More information about the OME, and in particular the operation of the pay bodies it supports, may be found on the OME website <http://www.ome.uk.com>.

2. In supporting the pay bodies, one of OME's key functions is to provide high quality research-based technical advice drawing, as appropriate, on economic, pay, labour market, statistical and other technical data as necessary. As part of this role the Office is looking to commission consultancy advice for and on behalf of the Senior Salaries Review Body (SSRB) to assist it in a forthcoming review of

¹ The Senior Salaries' Review Body (SSRB), the Armed Forces' Pay Review body (AFPRB), the Doctors' and Dentists' Review Body (DDRB) and the Review Body for Nursing and Other Health Professions (NOHPRB).

² The School Teachers' Review Body (STRB) and the Prison Service Pay Review Body (PSPRB).

pay levels applicable to 3,800 members of the Senior Civil Service (SCS) and 36 Permanent Secretaries.

3. The current pay system for the SCS was introduced from 1 April 2002. All members of the SCS below Permanent Secretary level are allocated to three pay bands 1 (lowest) to 3 (highest)³. Initially the pay bands were to consist of a minimum, maximum and target rate. The pay levels that applied to the bands and their target rates were recommended to the Prime Minister by SSRB following a market pricing exercise carried out by Towers Perrin. However, whilst the Government accepted the proposed band minima and maxima, it rejected the recommended target rates. Instead, the Government implemented somewhat lower target rates (the Progression Target Rate, PTR). It was anticipated that SCS members would progress to the PTR within an agreed length of time depending on their performance – three to four years for consistently top performers and around ten years for other fully effective performers. Upon making a case to the Cabinet Office based on sound market data, Departments can appoint individual staff recruited externally who have scarce skills at rates above the PTR.

4. Members of the SCS are also eligible for annual unconsolidated bonuses if they deliver on stretching priority business objectives. These are determined and funded by individual Departments within a ceiling of 4 per cent of their SCS paybills (2004-05).

5. Details of the new pay system, and its first three years of operation, are contained in the reports of the Senior Salaries Review

³ There is an optional pay band 1a that overlaps pay bands 1 and 2 and is used in some Departments to provide additional pay flexibility.

Body which are available on the OME's website www.ome.uk.com.

Attention is drawn in particular to:

- Twenty Fourth Report (February 2002), chapter 2, paragraphs 2.35 to 2.72
- Twenty Fifth Report (February 2003), chapter 2
- Twenty Sixth Report (February 2004), chapter 2
- Twenty Seventh Report (February 2005), chapter 2.

6. In its evidence to the Review Body for the 2004-05 round, the Government emphasised its commitment to a strategic and sustainable market-facing approach to SCS pay and progression. In particular, it wanted to:

- Use the pay system as a means of reinforcing important messages about performance
- Meet the challenges of recruiting and retaining high quality staff as the SCS moved to a more highly skilled and permeable structure
- Make unconsolidated bonuses the primary means of rewarding the successful delivery of objectives.

7. During 2004 the Cabinet Office commissioned Towers Perrin to 'revisit' its 2002 work for SSRB and to study the trends in SCS reward packages and those in comparable private sector occupations. The main conclusion was that SCS base pay was below market medians and had fallen further behind since 2002. Median SCS pay levels had increased faster than the PTRs, that is, progression towards target was occurring, but the increases were lower than the rate of increase in the private sector. SCS salaries were not keeping pace with some private sector roles, or with the market position set out when the scheme was introduced and the PTRs were set at between 80% and 90% of median base pay for

comparable roles in the private and wider public sector. There was also a gap when comparing total remuneration packages, notwithstanding the comparatively generous occupational pension scheme available to SCS members.

8. Consequently, the Government said that it was developing its thinking on a reward strategy for the SCS so that the remuneration package would support business goals, continuous improvement, and competitiveness in the labour market for best talent. As part of this process, the Government asked SSRB to carry out a review of pay levels before the start of the 2005-06 round in order to map the pay markets from which the SCS was increasingly recruiting, and to establish benchmarking data to inform the reward strategy.

9. In their evidence, the Trade Unions also drew attention to the higher pay levels available in the private sector and elsewhere in the public sector and urged SSRB to conduct a further market survey to collect comparable pay data. They also expressed growing dissatisfaction with pay progression rates within the SCS and the emergence of what they saw as a two-tier pay system covering those members of the SCS drawn from the civil service in the usual way and those recruited from outside.

10. The Review Body's conclusions are included in paragraphs 2.57 to 2.62 inclusive in its Twenty Seventh report, which was published in February 2005. Broadly, In light of the evidence received during the 2004-05 round, the SSRB has announced its intention to carry out a review of SCS pay against market rates over the summer of 2005 to inform its recommendations for 2006-07. The Review Body has established a sub-committee of four members to oversee this work.

WHAT WE WOULD WANT THE CONTRACTOR TO DO

11. In order to take forward this project, the OME wishes to appoint a consultant to conduct a market comparability study for the Senior Civil Service. This study will take account of a number of parameters as follows:

- It must be able to compare a range of jobs at all levels in the SCS with jobs of equal value in the private sector, wider public sector, and the voluntary sector
- It must provide separate data covering particular functional specialisms within the SCS
- It must provide comparative data covering base salary, bonus payments and key benefits
- It must provide data separately by sector and also in aggregated form (see Para 13)
- It must be able to indicate variations in reward on a London and wider UK basis.

These parameters are discussed below.

Comparing Jobs At All Levels in the SCS

12. A selection of benchmark jobs will be chosen from SCS Pay Bands 1, 1A, 2 and 3, and from the Permanent Secretaries' structure (these must include the Cabinet Secretary as the most senior post holder). Post holders will be interviewed by the consultants to enable them to make valid comparisons with jobs of equal value outside the service. We expect the interviews to be broken down as follows: one Cabinet Secretary plus two other Permanent Secretaries, five jobs at Pay Band 3, ten at Pay Band 2, five at Pay Band 1A, and twenty at Pay Band 1. The consultants will work with the Cabinet Office and the Trade Unions to identify the types of the posts to be interviewed and the Government

Departments from which they should be drawn (probably between six and eight representing small, medium and large Departments).

13. Pay data for comparative jobs outside the SCS will be drawn from the private sector, the wider public sector and the voluntary sector. In the case of the private sector the consultants will be expected to give advice on which sub-sectors should be included in the comparison to give a realistic representation of the private sector, together with a rationale for this choice. In the case of the wider public sector, disaggregated data will be required for local authorities, health service and other public sector bodies.

Specialisms within the SCS

14. Many functional specialists within the SCS are employed in Pay Band 1A and it will be important to bear this in mind when identifying suitable Departments to approach as not all use this Band. There is general agreement that the key specialist areas where specific pay data will be required are IT, Finance and Legal. It has also been suggested that comparative data should be collected in respect of staff with exceptional delivery, change management or leadership skills, who could set up a new enterprise or deliver a major change programme. We would wish the consultants to provide a commentary on this issue, (e.g. if pay data are not available, an indication of how salaries are determined for such posts would be helpful). We would also want a commentary on other specialist areas that are attracting a premium payment now or are likely to do so in the future.

Basis for Comparisons

15. Comparative data must be provided in respect of base pay, annual bonus payments and key benefits such as occupational

pensions, company cars and private medical insurance. The consultants will indicate the levels at which share options are typically available in the private sector, and whether and how they should be taken into account in making comparisons. They will also outline differences in employment contract terms in the different sectors and the extent to which they should have a bearing on the comparisons.

16. In terms of the total reward package, the Review Body wishes the consultants to set out the list of the 'intangible' benefits available in the different sectors (e.g. job security, flexible working, job interest, and career opportunities). The consultants are not required to value these benefits, although they should indicate how differences in the range of intangible benefits might trade off against other parts of the remuneration package. (For example, in the 2001-02 exercise SSRB concluded that better intangible benefits in the SCS broadly equated to the value of long term incentives in the private sector. The consultants would be expected to give views on the current validity of this conclusion). We expect the consultants to explore the value of intangible benefits with the SCS interviewees.

Aggregated and Disaggregated Data

17. The Review Body wishes the data to be delineated by base salary, bonus payments and benefits. It wants the data to be presented in aggregate form and disaggregated by sector and sub-sector. If possible, the consultants should give data by average age at each level.

Geographical Pay Differences

18. Regional pay is not an issue in the SCS. However, the consultants should be able to provide comparable data for London

and for the wider UK (excluding London), along with a commentary on the extent to which pay differences between these areas exist elsewhere for comparable jobs, and the levels of differentiation.

Pay Progression

19. Pay progression is an important feature of the SCS structure. The consultants will prepare a commentary on how progression operates at comparable job levels in other organisations.

NECESSARY EXPERTISE AND EXPERIENCE

20. The contractor will be expected to demonstrate:

- A sound in-depth knowledge of the theory and practice of market pricing for senior jobs
- Ownership of, or access to, an appropriate analytical job evaluation scheme and to a comprehensive pay database(s). Where there are gaps in the data needed for this exercise, the consultant must be able to show how these would be addressed
- An awareness of present and future influences on the structure and make up of the SCS and how these could impact on existing relative pay levels
- A clear command of the issues and the ability to appear credible and authoritative to the Chairman and members of the SSRB, and to relevant stakeholders.

HOW THE PROJECT WOULD BE MANAGED

21. Steve Palmer, OME Remuneration Specialist, will centrally manage the project, assisted by members of the SSRB secretariat⁴. The contractor will be expected to nominate a particular individual to

⁴ At its discretion OME may appoint a separate managing consultant to provide advice throughout the period of this contract.

act as the primary contact. It is expected that the contractor will meet with the OME project team at the outset of the project and at key decision points throughout its duration.

TIMETABLE

22. The OME will consider all the proposals submitted by those invited to tender (the evaluation criteria is likely to include quality, price, nature of services, relevant experience and expertise) and should your submission be short-listed, you will be invited to present your proposal to the Review Body's SCS Sub-Committee meeting during the morning of Wednesday 4 May 2005. This will allow the Review Body and the Secretariat to meet representatives of the team who would be involved in the exercise. We will inform you on 27 April whether or not your proposal has been short-listed for this stage.

23. We expect to let the contract during the week beginning 9 May 2005. The successful consultancy will be required to meet with OME staff during that week. Initial findings should be presented to the sub-committee on 4 July 2005, with a final report to the sub-committee on 20 September 2005.

DELIVERABLES

24. The contractor will produce the following outputs:

- An initial presentation to the SCS sub-committee on **Monday 4 July 2005**
- By **Wednesday, August 31 2005** a draft report comparing SCS pay levels with appropriate comparators in the private, wider public and voluntary sectors, along with related commentaries and observations set out above.

- A final presentation to the SCS sub-committee on **Tuesday, 20 September 2005**
- By **Friday, 30 September 2005** a final report.

OWNERSHIP

25. The research output resulting from this contract will belong to OME to do with as it wishes; this is likely to include publication of the consultants' report on the OME web-site. OME lays no claim to pre-existing property rights pre-dating the contract.

OFFICE OF MANPOWER ECONOMICS

APPENDIX 2

THE HAY GROUP GUIDE CHART PROFILE METHOD OF JOB EVALUATION©

The Hay Group Guide Chart and Profile Method has a number of key features:

- (a) the three elements common to all jobs which facilitate comparison;
- (b) the step difference principle, which is the tool of comparison;
- (c) the numerical scale for relating different levels of jobs;
- (d) the profiling technique for checking the consistency of each evaluation.

The Common Elements

There are a number of different methods of job evaluation. Some compare whole jobs, the majority look at factors or elements which are common between jobs such as knowledge, skills, experience, mental effort and responsibility. The Hay Group scheme is based on the analysis of three common elements, each element being measured on a separate guide chart which is set out like a grid. The elements are:-

KNOW-HOW The knowledge, skills and experience required for fully acceptable job performance.

PROBLEM SOLVING The span, complexity, and level of analytical, evaluative and innovative thought required in the job - expressed as a utilisation of Know-How.

ACCOUNTABILITY The discretion given to the job holder either to direct resources of all kinds or to influence or determine the course of events, and his/her answerability for the consequences of his/her decisions and actions.

The Step Difference Principle

Some job evaluation schemes compare job factors against pre-determined scales. These are known as points rating schemes. The Hay Group scheme compares jobs against jobs using the step difference principle which works as follows:

- if the difference between an element in two jobs is immediately evident, and requires no consideration at all, then it is probably three steps or more;
- if, after some consideration, the difference is reasonably clear, it is probably two steps;
- if, after very careful consideration and scrutiny, a difference can just be discerned, then the difference is one step;
- if, after very careful scrutiny and consideration, no difference can be detected between the elements in the jobs, then they are, for evaluation purposes, identical.

The Numerical Scale

Each intersect on the grid contains two or three numbers which overlap other intersects in order to provide the finest of tuning in evaluation judgements. The numbers themselves are directly proportional to each other in a geometric progression e.g. 100, 115, 132, 152. This avoids the difficulty that in an ordinary progression e.g. 1, 2, 3, 4 the numbers are in a constantly diminishing relationship to each other. The Hay Group scale of progression is 15% and means that each judgement is given this constant relativity wherever it falls on the scale.

Profiling

The Hay Group scheme also has a facility for checking the soundness of an evaluation by considering the shape or profile of the job. This is accomplished by testing the distribution of the three elements of Know-How, Problem Solving and Accountability in the evaluation of each job to see if it makes sense.

General Use of the Hay Group Scheme

The nature of job evaluation schemes is such that only those schemes that compare jobs against jobs are universally applicable at any level in an organisation or in any type of organisation. The Hay Group scheme has found widespread acceptance because it:

- is based on the step difference principle;
- measures any job from the shop-floor to the Chairman;
- will relate different cultures and styles of organisation;
- is effective in both the private and public sectors.

Consequently it is now used by more organisations on a world-wide basis than any other single type of evaluation scheme. Hay Group has 5,000 clients in 30 countries with schemes covering several million jobs. Wherever it is used it employs a number of well tried procedures and rules.

Procedures

- 1 Jobs must be properly understood before they can be evaluated hence good quality information is required in the shape of job descriptions which make the content and the context of the job clear.
- 2 Job evaluation is a judgmental, not a scientific, process thus every effort must be made to minimise subjectivity. This is achieved by having a number of judges (the evaluation panel) and a number of factors to make judgements about.
- 3 The task of the evaluation panel is to make consistent judgements and the use of the evaluation method is the tool which enables this to happen.
- 4 Each evaluation is checked using the profiling techniques.
- 5 As patterns of relativities begin to emerge they are reviewed on the basis of reason and fairness using the step difference and profile techniques to clarify judgements.
- 6 Each decision is properly recorded in order that the reasoning is documented for future use in maintaining the scheme as jobs change, or dealing with appeals when job holders consider the evaluators are at fault.

Rules

- 1 It is JOBS which are evaluated **not JOB HOLDERS.**
- 2 The evaluation is based on a **FULLY ACCEPTABLE** level of performance by occupants of the job.
- 3 The job is evaluated as it exists **TODAY.**
- 4 Present pay, status or grading is not **RELEVANT.**
- 5 Jobs can only be evaluated if they are **UNDERSTOOD.**

APPENDIX 3

BREAKDOWN OF JOBS

<u>Department</u>	<u>Pay Band</u>
Cabinet Office	Cabinet Secretary
Department for Culture, Media & Sport Ministry of Defence	Permanent Secretary Permanent Secretary
HM Treasury	1 @ Pay Band 2 2 @ Pay Band 1
Export Credits Guarantee Department	1 @ Pay Band 3 1 @ Pay Band 2 2 @ Pay Band 1
HM Revenue & Customs	1 @ Pay Band 2 1 @ Pay Band 1A 3 @ Pay Band 1
Department for Work and Pensions	1 @ Pay Band 3 1 @ Pay Band 2 2 @ Pay Band 1
Department for Constitutional Affairs	1 @ Pay Band 2 1 @ Pay Band 1A 2 @ Pay Band 1
Department of Trade & Industry	1 @ Pay Band 3 1 @ Pay Band 2 2 @ Pay Band 1
Office of Fair Trading	1 @ Pay Band 2 1 @ Pay Band 1A 2 @ Pay Band 1
Scottish Executive	1 @ Pay Band 2 1 @ Pay Band 1A 2 @ Pay Band 1
Department for International Development	1 @ Pay Band 3 1 @ Pay Band 2 2 @ Pay Band 1
Crown Prosecution Service	1 @ Pay Band 2 1 @ Pay Band 1A 1 @ Pay Band 1

SCS SALARY INCREASES 2005-06

Chart 10 – SCS Salary Increases 2005-06

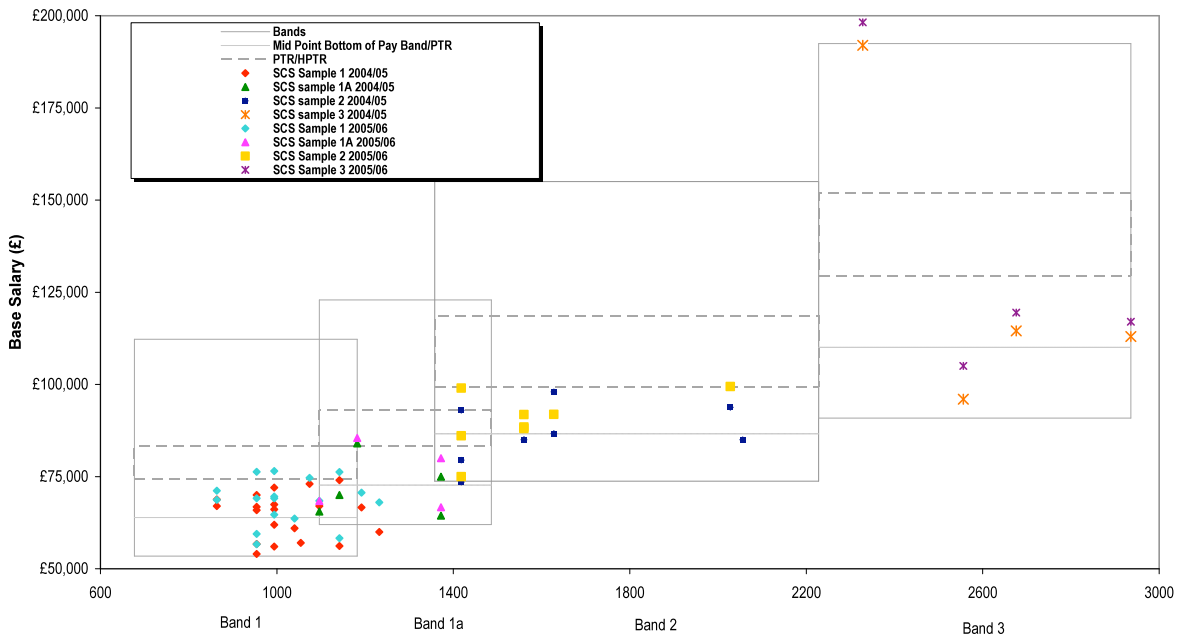
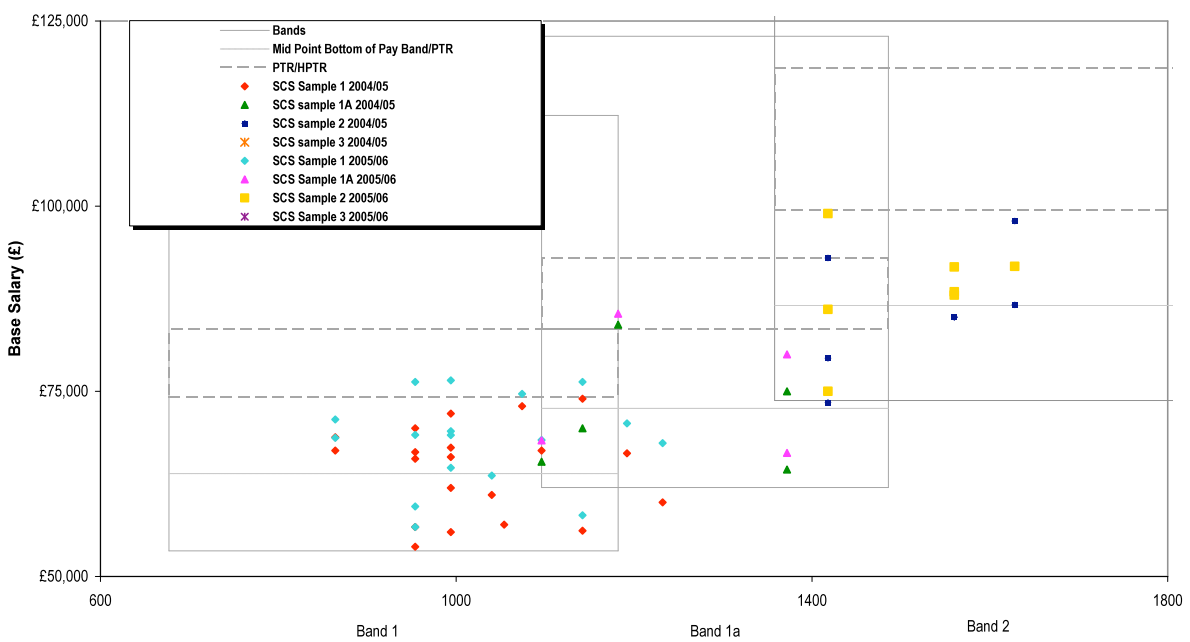


Chart 11 – SCS Salary Increase 2005-06 up to 1800 Hay Points



PRIVATE SECTOR COMPARATORS

Listed below are the comparator organisations for the private sector market. The market specifications are as follows.

Ownership All except public sector
Sub-Sectors All except finance
Roles All except main board directors of UK listed companies
Geography All UK

Number of organisations 247
Number of roles 6557

Participant List

3M Healthcare
3M UK
A G Barr
A H Marks
Acco UK
Accor
Acordis
Advansa (UK)
Advantica Technologies
Aggregates Industries
Aggreko
Air Miles Travel Promotions
Air Products

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Akzo Nobel Coatings
Akzo Nobel UK
Alcoa Europe
Alenia Marconi Systems
Amerada Hess
AOG Advisory Services
Argos
Arjo Wiggins Appleton
Armstrong World Industries
Arval
Asahi Glass Fluoropolymers UK
Associated Octel Co
AstraZeneca
Atofina UK
B A A
B A S F
B H P Billiton Petroleum
BACS
BAE Systems
Basell Polyolefins UK
BAX Global
Baxenden Chemicals
BAYER
Beiersdorf UK
BG
BMW (GB)
BOC (UK Gases)
BOC Edwards Vacuum Technology Group
BP
BPB
British Airways

British-American Tobacco Company

Britvic Soft Drinks

BUPA

C E Electric

C N R International (U.K.)

Cadbury

Cadbury Schweppes

Cairn Energy

Campina

Cargill UK

Carlsberg UK

Caterpillar (UK)

Caterpillar Articulated Trucks

Centrica

ChevronTexaco

Coca-Cola Enterprises

Colgate Palmolive

Compass Group UK

Cooper Bussmann (UK)

Co-operative Retail Society

Coors Brewers

Corning Cable Systems

Corus

Costain Group

Coty UK

CSM

Cytec Industries

DAF Trucks

Del Monte Foods International

Devro (Scotland)

DHL International (UK)

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DHL Systems
Diageo
Dixons Group
Dow Chemical
Dow Corning
DuPont
Dupontsa
Eastman Chemical Europe
Easyjet Airline Co
EDF Energy
Elementis
Emap
Eurostar (UK)
Eurotherm
EVC (UK)
Experian
Federal Express Europe
FG Wilson Engineering
Field Group
Focus (DIY)
Ford Motor Co
G E Healthcare
Gap
Geest
Georgia-Pacific Europe
GKN
GlaxoSmithKline
Great Lakes Manufacturing (UK)
Great North Eastern Railway
Groupe SEB UK
H J Heinz Company

Hanson
Hasbro UK
Henkel
Howden Power
ICI
ICI Paints
IHS Energy
IMCD UK
IMI
Ineos Chlor
Ineos Fluor
Ineos Silicos
Infineum International
Innovia Films
InterContinental Hotels Group
International Fragrances and Flavours
Ivax Pharmaceuticals UK
J Wedgwood & Sons
Johnson Matthey
Johnson Matthey Research
Kalon
Kellogg Co of Great Britain
Kia Motors UK
Kimberly-Clark
Knightsbridge Petroleum UK
Kraft Foods UK
Kraton Polymers
Lafarge UK
Linde Heavy Truck Division
Littlewoods Retail
L'Oreal

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Louis Vuitton UK
Lucite International
Makro Self Service Wholesalers
Marathon Oil
Masterfoods
Mazda Motors UK
McCormick (UK)
MCPS-PRS Alliance
MetroNet Rail BCV
MetroNet Rail SSL
MFI Furniture Group
Michelin Tyre
Milk Link
Millenium Inorganic Chemicals
Mitchells & Butlers
MultiServ
Murco Petroleum
N R G Group
NAAFI
Nacco Materials Handling
National Air Traffic Services
National Grid Transco
Nestle Purina Pet Care
Nestle UK
Newell
Nirex
Northern Foods
Npower
Orange
Ove Arup Partnership
Owens-Corning Fiberglass (GB)

P&O Ports
Pandrol International
PDV (UK)
Peacock Group, The
PepsiCo International
PepsiCo UK
Perkins Engines Company
Peugeot Citroen Automobiles UK
Philip Morris
PIC International Group
Pilkington
Pitney Bowes
Polimeri Europa UK
PowerGen
PPG Industries (UK)
Princes Group
Procter & Gamble
Provident International
Q-Park
Racecourse Holdings Trust
Randstad Holding
Reckitt Benckiser
Reebok UK
Renaissance South Yorkshire
Rhodia
Rio Tinto
Rohm & Haas (UK)
Rolls-Royce
Royal Numico
Royal Scottish Academy of Music & Drama
RWE Npower

Sabancı Holdings
SABMiller
Sabre Holdings
Safeway
Saint-Gobain Solaglas
Sasol UK
Saudi Petroleum Overseas
SCA Hygiene Products (UK)
SCA Packaging
Schlumberger Oilfield Service
Schneider Electric (UK)
Scott Bader
Scottish Power
Screen Yorkshire
Severn Trent
Shell UK
SITA
Smith & Nephew
Somerfield Stores
St Mungo's
St Regis Paper Co
Statoil (UK)
Tait Electronics
Tesco Stores
The Barden Corporation (UK)
The Boots Company
The Tetley Group
The Wrigley Company
TK Maxx
T-Mobile
Total E&P

Senior Salaries Review Body – SCS Pay Market Comparability Study

Travis Perkins

UCB Pharma

Unilever

United Biscuits

Urenco

Vanderlande Industries

Vauxhall Motors

Vertex Data Science

Vodafone Group

Voith Fabrics Stubbins

Volkswagon Group

Weetabix

Whirlpool Europe

Wickes Building Supplies

Woolworths Group

Yamanouchi UK

Yorkshire Water

PUBLIC SECTOR COMPARATORS

We have used the following public sector comparators:

- Local Government – based on 75 of organisations
- Health – based on 92 organisations
- Trading Public Sector - based on 17 organisations (see list below)
- Not-for-profit - based on 15 organisations (see list below)

Trading Public Sector (and related organisations)

British Broadcasting Corporation

British Energy

British Film Institute, The

British Nuclear Fuels

Civil Aviation Authority

European Bank for Reconstruction and Development

Forensic Science Service

London Development Agency

Network Rail Infrastructure

Oxford University Press

Port of London Authority

Royal Mail Group

Royal Pharmaceutical Society of Great Britain

Scottish Water

Sea Fish Industry Authority

Transport for London

United Kingdom Atomic Energy Authority

NOT-FOR-PROFIT COMPARATORS

Age Concern
Arena Housing Association
Barnardos
British Film Institute, The
Central Services Agency
Ealing Family Housing Association
Guardian and Litem Agency
Home Grown Cereals Authority
National Trust for Scotland
Sea Fish Industry Authority
The British Library
The National Trust
The Places For People Group
Visit Britain
Visit Scotland