MiP evidence to the Senior Salaries Review Body on Very Senior Managers' Pay 2014

Summary

Managers in Partnership (MiP) welcomes this opportunity to provide evidence about very senior managers' pay to the Senior Salaries Review Body. We carried out a survey of those paid under the DH pay framework for very senior managers in Arms Lengths Bodies and the 2006 pay framework. Their responses have informed our evidence and our recommendations.

This past year has been challenging for managers across the health service. Very senior managers are under pressure to deliver higher quality, compassionate care to meet rising demand within tight budget constraints. The Health and Social Care Act has caused considerable upheaval for VSMs as they worked to close down the SHAs and PCTs and set up the new Arms Length Bodies while still delivering their day jobs. Our survey demonstrates the remarkable resilience that these managers show in maintaining high standards for our NHS. We feel they deserve fair recompense and recognition for the work they do. We ask the SSRB to consider the following recommendations:

- The SSRB is asked to recommend a 1% pay increase for VSMs to go some way to compensating for the increase in the cost of living , as set out in the Government's statement on public sector pay increases

- There should be further discussions about the future of the 2006 VSM pay framework

- The job evaluation scheme and pay framework for the ALBs should be reviewed to ensure they remain fit for purpose in the new NHS structures

- The application of development pay should be reviewed to ensure that it is used in accordance with the criteria set out in the pay framework

- Any performance related pay element should be clearly defined and applied fairly

- The SSRB is asked to consider the model contract of employment for the posts paid under the VSM framework to address non-pay concerns.

Introduction

MiP represents senior managers in the health service paid on a salary level equivalent to Agenda for Change band 8 and above. We have about 6,000 members, including hundreds of executive directors, working across the range of NHS organisations. About a quarter of our members work in arms length bodies, ambulance trusts and community trusts. Many of these members are paid on the Very Senior Manager Framework for executive staff and we feel we are well placed to submit evidence on their behalf to the Senior Salaries Review Body.

Since 2010 the NHS in England has gone through an unprecedented change exercise, with a total reorganisation of the commissioning, system management and public health functions. During this period, about 70,000 staff working in PCTs, SHAs, the DH and some ALBs were affected by this upheaval. Ambulance and community trusts have to build new relationships with the different commissioning bodies – CCGs, the local and regional arms of NHS England and the TDA. The changes are still bedding in, with further reorganisations already taking place in some of the new bodies causing further uncertainty for those working in these organisations. All this takes place at a time when the new bodies must deliver a further 7% cut in the ALBs' running costs by 2015, on top of the 45% cuts represented by the recent changes. This puts great strain on the very senior managers charged with making the new system work and driving up quality and efficiency.

This year we have again conducted a survey of very senior managers to test their mood and morale and to seek their views about pay and other terms and conditions, including views about how the new VSM job evaluation scheme and the pay frameworks are operating.

At the time of writing this evidence, the Secretary of State has written to the chairs of the ALBs warning them about the risk of BBC-style excessive pay and pay-offs in their organisations. We do not know the details of his warning as no official statement has been made about it, but we question the degree of risk he is alluding to.

First, on the subject of pay rates, all the salaries in the ALBs are paid in accordance with the DH's own job evaluation scheme and pay framework, so the pay of VSMs is highly regulated and determined in a fair and transparent way. Furthermore, individual salaries for VSMs have to be approved by the Chief Secretary to the Treasury.

Second, all redundancy payments are made under the occupational scheme that covers all NHS staff, using the same method for calculating redundancy pay, based on salary and length of service.

Neither approach justifies comparison with the BBC. Nor is there evidence that the level of executive pay in the NHS is running away. Finally, the Government should not blame managers for the predictable consequences of its own reforms,

in this instance the cost of their redundancies from those organisations closed down and the pay bill associated with the creation of a number of new arms length bodies.

We know that the government has imposed a 1% limit on pay increases in the public sector for 2014. In our evidence we argue that this amount should be fairly distributed across all staff groups in the NHS. This sum will still not compensate for the increase in the cost of living, or for the increase in pension contributions, increasing for the third year running as part of the Government's pension reforms.

Economic background

Retail Price Index inflation ran above 5% through almost the whole of 2011. It subsequently went through a decline but since mid 2012 has stabilised around the 3% mark.

Trade unions use RPI as a more accurate measure of inflation and its impact on household budgets than CPI, the Government's preferred measure. However, the CPI has shown a consistent trend in inflation, growing by 2.7% in the year to September 2013, unchanged from the year to August[1]. So no matter which measure is used, the gap between public sector pay awards and the rate of increase in the cost of living that opened up during 2010 has been sustained over the last year.

The Treasury reports that the forecast for CPI for 2014 is an average of 2.4% inflation[2]. So even with a 1% pay settlement, the real value of VSM pay will continue to fall.

Pay settlements and earnings

Median pay settlements across the UK economy have been oscillating between the 2% and 2.5% mark over the last year[3]. In April 2010 public and private growth was equal at 1%, but public and private settlements then began moving in opposite directions and by mid 2011 the public sector rate had dropped to zero while the private rate was heading toward 2.5%. This position was maintained throughout 2012 and though the gap has narrowed slightly in 2013, private sector pay settlements are still double those of the public sector[4]. This deterioration in the competitive position of public sector pay rates is likely to continue given forecasts of private sector pay settlements that predict the private sector rate will grow at 2.0% over the coming year[5].

[1] ONS October 2013
[2] Forecasts for the UK economy: a comparison of independent forecasts, HM Treasury Oct 2013
[3] Industrial Relation Service xperthr.co.uk
[4] IDS estimated that pay awards in not-for-profit organisations were running at 2% in the three months to June 2013
[5] XpertHR, Pay trends July 2013

Private sector earnings growth is currently running at more than double the public sector rate[6] and forecasts of average earnings predict that average earnings growth will settle around the 1.5% mark over the remainder of 2013 before growing over 2014 to 2.5%[7].

MiP survey of Very Senior Managers

MiP carried out a survey of the four hundred or so very senior managers covered by the VSM pay framework during September. We received 126 responses from a wide range of the organisations covered by the old and new frameworks. Eleven of our respondents were covered by the old VSM pay framework (9%). Eight per cent worked for organisations not listed in the survey. These respondents all worked for CCGs; a few were paid according to the 2006 pay framework and some according to guidance for CCGs issued by the NHS Commissioning Board in 2012.

Over half of the respondents (56%) worked for NHS England (which employs about half of the VSMs in the ALBs), and 14% worked in commissioning support units. The rest were fairly evenly spread over the other organisations, although it was notable that we received no responses from the Trust Development Agency.

The majority of respondents were executive directors (34%). The second largest group (15%) were area directors in NHS England. 7% of respondents were chief executives and the same number were regional directors.

With the exception of the TDA we feel that the responses are a good representative sample of senior managers employed on the 2006 and 2012 pay frameworks and provide some useful comments on the operation of the frameworks and on the morale of very senior managers.

The operation of the 2006 VSM pay framework for ambulance and community trusts

We wish to highlight concerns about the continued use of the 2006 framework for ambulance and community trusts. Although it is expected that fewer and fewer trusts will be covered by this framework as they move to foundation status, the timescale for that move is constantly being revised. We reiterate our concerns about the shortcomings in this framework, in particular the fact that it does not fairly measure the knowledge, skills and experience needed for the different posts covered, and uses a simple percentage of the CEO's salary to determine directors' pay. This means that in some circumstances recruitment and retention premia have been used to pay an appropriate salary. One of our respondents, from a community trust, stated: 'My agreed salary when recruited is being paid as basic plus RRP. I understand this is required as my salary exceeds a set proportion of the pay rate for the chief executive.' Another stated: 'It needs a complete revision. The current framework is 7 years old and needs to reflect the changed environment in which executives in the NHS operate.

[6] Office of National Statistics, Labour Market Statistics, September 2013
[7] HM Treasury Forecasts for the UK economy

Community services are seen to be the most risky, but the pay is capped in these organisations.'

MiP would welcome the opportunity for further discussion about the future of the 2006 VSM framework, the deficiencies of which led to the creation of the new framework.

The new VSM job evaluation scheme and pay framework

The new job evaluation and pay framework have been introduced at a very challenging time. Most of the organisations covered by the new scheme have come into being through a painful transitional process generated by the Health and Social Care Act. The new organisations have had to rush through the process of developing job descriptions and person specifications for all roles in these organisations to meet a nearly impossible timetable to be up and running by 1 April 2013. In addition they have had to deal with the political pressures to keep the pay bill down and not to allow individuals to receive pay increases as a result of the reorganisation.

A substantial number of staff have transferred into the new organisations on existing terms and conditions. Others will have applied for posts and been appointed in extremely pressured circumstances.

It is perhaps not surprising that a significant number of the respondents to our survey did not know how their pay is determined (31%). They will have either transferred on existing pay or applied for a post in the new bodies under ringfenced competition. The mechanism for pay determination would not have been their main concern at the time. But still 62% of those who knew they were on the VSM framework did not know how their salary point was determined. As one respondent put it: 'I was given a VSM contract on promotion to my present role in 2009. The pay (in cash terms) has not changed since. I had no idea that there was any process for its review or uprating, but have not pushed the matter as government policy has latterly frozen pay for highly paid staff.' Another respondent stated: 'I think VSM is not applied consistently throughout the NHS - tends to be more about how much the individual is wanted and pay is manipulated to suit.'

A significant number of respondents highlighted the political interference in pay determination in the NHS, and the way that has affected pay for new roles in the new bodies: 'My feel is that the current NHS England salaries bear little relation to either an objectively assessed rate or comparison with other NHS organisations. Seems to be more about a 'Daily Mail' obsession with demonstrating that nobody can earn more than the Prime Minister which is, of course, a totally artificial and facile measure.' Another stated: 'Salaries on the new framework have been based at too low a level without similar reductions in other parts of the health sector (eg FTs).'

A major principle of the new pay framework is that remuneration should be determined through a fair and transparent process. In our view it would be helpful to produce some joint briefings about the pay system to ensure that VSMs have a clear understanding of how their pay is determined. It would also be useful to review the job evaluation scheme and the framework to ensure they

are still fit for purpose in the new NHS structure. For example, the framework was developed primarily for board level posts; it was not envisaged that there would be some national bodies with three or four tiers of very senior managers.

Pay comparisons with other employers

We asked respondents to our survey whether their take home pay had increased or decreased over the past year. Just 36% said their pay had increased, while 33% reported that it had decreased and 31% said it had stayed the same. This shows that VSM pay has failed to keep pace with inflation over the past year. One respondent commented: 'Although paid well relatively speaking my actual take home pay has been eroded by tax increases and pension contributions and with no inflationary increase in previous years has caused an effective reduction in pay.' And another said: 'Pay increase of 1% was wiped out by pensions and NI increases following a pay freeze so in real terms I take home £400 per month less than 3 years ago.'

We asked respondents to our survey how they felt their pay compared to others in a similar labour market. Sixty-five per cent felt they were fairly paid compared to colleagues in their own organisation, but this dropped to just 38% in comparison to managers in other healthcare organisations. This is significantly lower than responses in surveys in previous years; as one respondent stated: 'It is getting harder and harder to recruit VSMs into ALBs from FTs in particular, due to hugely different pay rates.' And another said: 'Within this organisation the pay scales reflect reasonable differentiation for responsibilities etc, but are generally underpaid when compared to other NHS bodies, such as Trusts, FT and non FT, and other parts of the public sector.'

There were a significant number of comments saying that the pay levels for those on the VSM framework are not fair. One respondent stated: 'Salary level is not comparable to Senior Civil Service roles. The salary is also not comparable to complex provider organisations within the NHS.' A number felt that commissioning jobs are undervalued compared to provider organisations which have greater freedom in setting pay rates: 'Disparity between NHS England bodies and FTs (and, potentially, CCGs) is increasing.'

In comparison to similar roles in other public sector organisations, a similar number (34%) felt their pay compared favourably, but just 9% felt their pay compared favourably to the private sector. For some, this disparity is acceptable as they have a commitment to the ethos of the NHS: 'I had to take a substantial pay cut to join the NHS from the Private Sector. I did this as I wanted to use my skills for what I believed to be a great cause.' Another respondent stated: 'I have a bigger and more complicated job than a Trust director but rates are less. Working in London, the City comparison makes our senior jobs way off scale.'

Respondents to our survey felt that there is an imbalance between their own pay and that in the private sector. This reflects views expressed in previous years. What is more worrying is the perception that there is a growing divide between those on VSM pay and their counterparts in foundation trusts, which as the respondent above pointed out, is going to make it increasingly difficult to recruit those with experience in provider organisations into the commissioning bodies.

That divide would undermine the Government's policy aim of strong commissioners able to go head-to-head with powerful providers of healthcare.

Development pay

Many members have raised concerns about the way in which development pay has been used as a device to keep pay rates for new appointees down as opposed to its original intention to encourage and support new talent into leadership roles.

In our survey, 10 respondents (9% of the total) were on development pay, but just two of those respondents had action plans to enable them to achieve the full rate of pay for their role. One respondent said: 'I [receive] "development pay" which is below that of my colleagues but I am expected to perform at the same level as them but for less reward. I do not receive additional support during this development year.'

The development pay provision has, in our view, been used to artificially hold down pay rates for individuals based on their previous rates of pay, rather than the rate for the job, or their ability to fulfil all the requirements of the job. The responses to our survey clearly illustrate the problem: 'For me it was implemented retrospectively, I was offered the spot rate and then subsequently told about this policy. How can that be legal or fair? So much for the NHS constitution.' Another said: 'I am not entirely certain, but am aware that my current pay is limited to a figure below the correct level because of my previous remuneration level. I understand that I can move to the correct level after 12 months, although am still unsure as to the validity of linking salary to the salary earned in a previous, different role.'

Some challenged the decision to put them on development pay, rightly pointing out the potential for discrimination in the inappropriate application of development pay: 'I believe development pay has some unintended sex discrimination consequences. Women at the same level in the NHS are paid less than their male counterparts which means they are more likely to end up on development pay when applying for the same post.'

Even where it may have been appropriately used, there are still questions about how the process operates: 'Although I negotiated the timescale, which is clear, and my immediate manager has been very supportive of my seeking appropriate development, there has been no clear organisational or national process or development support provided. The information that I was to be on development pay was received by me less than two weeks before the transfer to new organisations.'

We would like to see an urgent review of the development pay provision. The current criteria for placing managers on the development pay rate are clear and specific. Sadly, it appears that these criteria are not being adhered to, and we agree with respondents to our survey that this could lead to discrimination in breach of equal pay and other equality legislation. We would welcome a statement from the SSRB on this matter.

Pay premia – recruitment and retention and additional responsibilities

Fifteen per cent of respondents were in receipt of a recruitment and retention premium. We know that at least one of those was because of the rigidity of the 2006 VSM framework which limits pay to a percentage of the chief executive's.

Nine per cent of respondents received an enhancement for additional responsibilities.

Several respondents raised concerns about the limitations on the scope for pay additions such as on call: 'I do think there should be some recognition of being on call, we have a 1:6 on call rota which is a reasonable commitment. Recognising that somehow would help enhance the significance and importance of being on call, rather than just being in your job, but not in some one else's.'

Several also mentioned the lack of a high cost area living addition, particularly in the London area.

The VSM performance pay system

Sixty per cent of respondents agreed that very senior managers should receive performance related pay; as one respondent put it: 'I have fond memories of it - really small amounts of money, especially net after tax and deductions, but at least it felt like someone actually cared about your performance and how you did. It felt like the only acknowledgement you got that your role and work mattered to patients and taxpayers.'

The overwhelming majority of those who agreed that VSMs should receive performance pay felt that it should be clearly linked to the achievement of organisational and personal objectives: 'It should operate fairly on how the organisation delivers and performs.'

However, a number feared that the current political scrutiny of managers' pay threatens the fair distribution of performance pay: 'It works when the NHS managers' pay is not under scrutiny otherwise everyone gets too nervous to think about paying it.'

The method of determining the distribution of PRP should also be fair and transparent; as one respondent said of the current system: 'I am not aware of any [criteria], and have not had a performance related payment for at least 3 and possibly 4 years that I can recall (despite receiving the highest performance rating). I have no idea what current arrangements are and no one ever communicates formally with us to tell us so it's hard to tell.'

Another respondent said: 'I am open to a fair reward for achieving a specified performance, however the appraisal system and any process for assessing performance across the organisation is not established, therefore, I know if it was implemented it would not be implemented fairly.'

Most felt it should be applied to the executive team as a whole rather than to individuals; for example: 'It should not be on a quota system - that is very

divisive. It should be based on team performance.' Another respondent said: 'It is too rigid to help me develop my team without jumping through hoops.' And another said: 'It is not transparent or fair. Performance at Exec level is a team effort.'

And the majority felt that the current quota system is unfair and undermines morale; as one respondent put it: '[It should be calculated] as it used to be under VSM - annual appraisal and individual awards or introduce team based awards. Just don't say only X% of any team can receive it - this is invidious and not helpful.' Another respondent pointed out: 'Should not have a false cap for each organisation where only 25% can achieve. In an organisation like ours, where we only have 4 VSM staff, that equates to 1 person and is divisive.' Another said: 'It is inequitable to limit payments to a small percentage of the best performers. Payments should be made to all VSMs who have met their performance targets.'

There were major problems with the payment of PRP for last year, which the DH has acknowledged. One respondent commented: 'I am still awaiting last year's outcome as a previous Cluster CEO my board put me forward but the outcome has not been concluded.' Another said: 'Didn't get paid mine when moved to NHS England from legacy PCT.' VSMs fully understand the problems and limitations with the current regime (especially the PRP quota) but they do expect the system to be honourable. Integrity should be at the heart of pay decisions.

Health and wellbeing of VSMs

The NHS Constitution makes it clear that NHS organisations should support the health and well being of their staff. Evidence also shows a correlation between staff health and well being and organisational performance.

Only 45% of our respondents felt they had a good work-life balance, with 69% reporting that they work more than 48 hours per week, the limit set by the European working time directive. One respondent complained about the long hours culture in the NHS stating: 'Long hours = stress! Possibly no different to many other VSMs, but the NHS has a cultural view that higher salary means more hours are both acceptable and expected.' Another said: 'These jobs are not doable in normal hours, I have to work weekends to catch up and most evenings.' Another stated: 'When attempting to work a 45 hour week, I find I cannot do all of the work within my role, so end up working most Sundays for at least a few hours on top of a 50 hour week.'

In addition, 40% of respondents stated that they did not take all of their annual leave entitlement.

One respondent highlighted the contradiction between the commitment to health and well being and the expectation that VSMs will work long hours: 'I was annoyed by the clause which required me, effectively, to opt in to the provisions of the working time directive, as I considered this to be bordering on the illegal….'

Several commented that statements in support of staff health and well being are not followed through in action, for example: 'I don't think this is well supported currently - lots of good intentions but not much action yet.'

A significant number of respondents commented about the excessive travelling they now have to do, with a number commenting that lack of appropriate systems, such as video conferencing, results in them having to travel excessive distances to fulfil their roles: 'Lack of agile working practices places huge physical demands on me and my colleagues. I drive more than 2000 miles a month with weekly train travel and evening meetings the norm. I work / drive on average 60 - 65 hours a week.'

IT systems can, however, also increase stress levels by extending VSMs working time, as one respondent put it: 'We are increasingly expected to do more and connectivity means you are always contactable so you never really turn off - except while physically out of the country on holiday.'

We ask that the SSRB consider the model contract of employment for the posts paid under the VSM framework. We believe that a better written contract may go a long way to address some of these non-pay concerns.

Job satisfaction for VSMs

Despite the concerns about the way that pay has been determined in the new organisations, most respondents reported positive experiences within their role. Eighty-four per cent stated that their role was clearly defined and 88% said that they had clear objectives, with 85% of those saying that these objectives are achievable.

Seventy-eight per cent of respondents had had an appraisal in the past twelve months and 84% of those said that their appraisal was effective.

Eighty-one per cent said that their training and development needs were being met and 87% said that they received good support from their line manager. As one respondent stated: 'I have been self directed in my own development and have set up coaching and started the Top Leaders programme, I have had good support from colleagues and my line manager.'

Recruitment and retention of high calibre individuals into VSM posts in NHS

Eighty-four per cent of our respondents had worked in healthcare for ten years or more, showing the commitment they have to this area of work. However, there is considerable anxiety within the new organisations about their long term viability and anticipation of imminent restructuring. It is no surprise, therefore, that just 33% of our respondents expect to be still working in the same organisation in three years' time. But another 33% expect to be working in another NHS organisation. A significant number of respondents commented that their future position was unknown, subject to government decision.

Despite the positive responses regarding job design and personal development, many respondents warn that there is still a great deal of uncertainty in the new structures which needs to be addressed in order to attract and retain skilled senior managers. One respondent said: 'Arms length body and matrix working are still settling down, major uncertainty about the organisation as a whole.' Another commented: 'New organisation and therefore issues re role definition across the wider system are still being worked through. Current senior managers will be disenchanted and leave if responsibilities are not adequately defined or appropriate to skill set and experience.'

Respondents to our survey show remarkable stoicism in the face of adversity. One stated: 'It remains to be seen how this role develops. I am able to influence what I do, and there are some promising signs that the organisation may become more receptive to what I am trying to achieve, so there is hope!'

The NHS needs to reward these managers for their dedication and commitment to the NHS in general and to these new organisations. There is still much work to be done to establish these organisations and to clarify roles and responsibilities. Any loss of momentum will have an adverse impact on morale and therefore retention.

Despite the upheaval experienced by our respondents due to the massive reorganisation and the uncertainty that still hangs over the current organisations, it is notable that 76% of our respondents would still recommend a career in healthcare to family or friends. This says a lot about the commitment of healthcare managers to the NHS and the public service ethos.

Conclusion

In conclusion, we would ask that the SSRB recognise this commitment by healthcare managers to the NHS and acknowledge the pressures that all VSMs have been under during the restructuring, which is still carrying on in some areas, and compensate them as far as possible for the erosion of the value of their take home pay by recommending that VSMs should receive a 1% pay increase across the board. We would also welcome a clear recommendation on performance related pay from the SSRB.

30 October 2013

Jon Restell
MiP chief executive

020 7121 5145
07908 209484