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HM TREASURY

**Guidance for approval of senior pay in public corporations
within the Shareholder Executive portfolio**

Applicable from April 2013.

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Guidance for approval of senior pay in public corporations within the Shareholder Executive portfolio

Background

1. The Government confirmed on 24 May 2010 that the Chief Secretary to the Treasury (CST) will continue to approve pay and remuneration levels of £142,500 per annum and above for all civil service appointments and appointments to public sector bodies which are subject to Ministerial approval.¹ CST approval is also required for all bonus payments of £17,500 and above that are subject to Ministerial sign-off. The reference point for the level of award at which CST approval is required is subject to revision in guidance from the Cabinet Office.
2. The purpose of this guidance is to clarify how appointments in public corporations in the Shareholder Executive portfolio will be covered by the arrangements and set out the process for securing approval. A separate guidance document has been issued by the Cabinet Office which clarifies how appointments in other parts of the public sector (such as Civil Service or NDPB posts) will be covered by the arrangements².
3. This guidance deals only with remuneration in public corporations which are within the Shareholder Executive portfolio, where the remuneration is for an appointment that is subject to Ministerial approval. Such appointments will include those that are Ministerial appointments, but also those where Ministers have an approval right over an appointment made by the corporation, for example under relevant legislation or as shareholder. It does not cover appointments within the corporation where the Secretary of State's approval is not required. Any departure from these guidelines by public corporations should be agreed in advance with the Shareholder Executive or relevant parent department (as appropriate).

¹ This process applies only to appointments requiring the approval of UK ministers. It does not apply to appointments made by Ministers in Devolved Administrations.

² Guidance for approval of senior pay: Version 3 – applicable from April 2013 (<http://resources.civilservice.gov.uk/wp-content/uploads/2011/07/CST-approval-process-version-3-Final.pdf>)

Types of appointment where pay level requires CST approval

4. Public corporations fall within the public sector, and are therefore covered by the requirement to gain CST approval. However, there are significant differences in the governance arrangements for public corporations, which mean that the related procedures on senior pay need to be handled differently to organisations such as the civil service or other public bodies. Each corporation performs a different role; has different reasons for being in the public sector and may be subject to different objectives. They also vary considerably in terms of their relationship to government - some of the bodies are at arm's length from central government or completely separate from Government and political influence.

5. CST approval is required for the remuneration arrangements for all appointments made or approved by Ministers to public bodies which exceed the remuneration threshold. This includes appointments made or approved by Ministers, made by The Queen on the advice of Ministers or made or approved by officials on behalf of Ministers. The CST as well as the relevant Secretary of State has a role in approving the remuneration arrangements relating to these appointments where remuneration would exceed £142,500, or where bonus payments above £17,500 are envisaged.

6. Public corporations should proactively seek the CST's approval where they envisage:

- Conducting a recruitment exercise to fill a new post or vacancy;
- Negotiating to extend a fixed-term contract; or
- Re-negotiating significant changes to the remuneration package of a current appointee

if the aim of this is to offer a remuneration package which exceeds the thresholds set out in this guidance and the relevant appointment (or re-negotiated package, as applicable) is subject to Ministerial approval. The Company Secretary or equivalent officer should complete the attached proforma(s) and obtain the CST's approval before any advertisement specifying a remuneration package or range in excess of the relevant thresholds is published regarding the post.

Application to Existing Staff

7. The approval process applies to any appointment or re-appointment, or any adjustment of a serving office-holder's terms and conditions, that takes an individual's total remuneration to £142,500 per annum or above – or to a pro-rata equivalent (see below) – provided these are subject to Ministerial approval. This includes a situation where an individual is offered a temporary or permanent promotion (for example, from Deputy Chair to Chair) where it is proposed to pay the office holder, in their new role, £142,500 per annum or above. CST approval is not required where someone's remuneration moves to £142,500 or above following a standard pay award agreed by the Government. However, if someone reaches the £142,500 threshold through the exercise of discretion (other than through the implementation of such a pay award), CST approval is required.

8. CST approval is also required if someone passes or reaches £142,500 on promotion, through accelerated payments or from new allowances.

9. CST approval is required if someone is to be paid at or over £142,500 on contract renewal, even if previously paid at or over £142,500.

What counts towards £142,500 threshold

10. For the purposes of deciding whether the remuneration package for a particular appointment meets the £142,500 threshold, the total level of remuneration should be calculated. This should include all elements of salary, fees and allowances (including guaranteed bonus payments), plus the cost to the employer of any additional benefits and pensions not generally available to the staff of the organisation.

11. Discretionary arrangements which are genuinely intended to incentivise excellent performance (and to which there is no contractual entitlement) need not be considered in assessing whether or not the appointment pays £142,500 or above (though see below regarding bonus requirements).

Bonuses and performance pay

12. Approval of the CST is also required before the payment of any discretionary bonus or performance payment of £17,500 or above - regardless of the level of the basic salary. Non-discretionary bonus payments should be considered as part of an individual's basic

salary package. This provision applies to existing, as well as new, appointments. All discretionary performance payments paid in respect of a financial year must be aggregated for the purposes of assessing whether a bonus reaches £17,500 or above. The approval of the CST is required before entering into a commitment which might create a legal entitlement to a discretionary bonus of £17,500 or more in a financial year.

13. For the avoidance of doubt, where the CST has approved a bonus framework allowing for the potential payment of discretionary bonuses above £17,500 for any public corporation, then provided subsequent bonuses have been awarded in accordance with the agreed framework there is no need for the actual payments to be subject to a further approval.

14. The CST should though be notified of any contractual performance payments worth £50,000 and above that are subject to Ministerial approval.

Pro-rata equivalent

15. Where a remuneration package relates to a public corporation's Chair or other non-executives, who would work part-time, the £142,500 threshold must be applied on a pro-rata basis. This means, for example, that any remuneration package offering £28,500 or above for working 1 day a week would need to be approved by CST.

16. For the purposes of referring bonuses and performance pay for CST approval, similar provisions apply – so, for instance, if someone works one day per week, CST approval would be required if it were proposed to make a bonus payment of £3,500 or above.

17. As a de minimis threshold, there is no need for any remuneration package below £28,500 or any bonus payment below £10,000, to be approved by the CST, irrespective of whether the recipient works less than 1 day a week.

THE PROCESS FOR APPROVAL

18. Requests for approval must in the first instance be submitted by the Company Secretary (or another equivalent person inside the public corporation) to one of two people:

- Where the Shareholder Executive's agreed remit for the public corporation covers the approval of senior pay and incentives, the relevant Director at the Shareholder Executive; or

- Where the Shareholder Executive's agreed remit for the public corporation does not cover the approval of senior pay and incentives, the relevant contact within that public corporation's parent Department.

The Shareholder Executive or parent Department (as applicable) should be contacted as soon as there appears to be a possibility that the reward package might reach or exceed the threshold. Early engagement (before going out to advertise) offers the greatest opportunity to gain agreement in good time and hence avoid delays and potential embarrassment when dealing with potential candidates. It is important that submissions are constructed on a realistic basis, recognising any likely need for scope in negotiation with potential appointees. This is particularly important given that where subsequent negotiations with the preferred candidate exceed the remit already agreed by the CST, a further application would need to be submitted before an appointment can be made.

19. The approval process operates as follows:

1. Public corporation recognises the need to recruit/fill post or wishes to adjust existing remuneration package.
2. Nomination/Remuneration Committee gathers data and evidence on appropriate salary and remuneration levels. If this points towards a figure of £142,500 or more (or pro-rata equivalent), informally consults Shareholder Executive or parent Department as appropriate.
3. Nomination/Remuneration Committee gains approval of the appointing Minister for the proposed package.
4. Public corporation formally submits their case to the Shareholder Executive or parent Department using the attached template.
5. Shareholder Executive or parent Department may liaise with the corporation to obtain further information on the justification for the proposed package.
6. Shareholder Executive/parent Department submits the case, together with their recommendation, to the CST.
7. The CST approves/rejects the proposed package. Shareholder Executive/parent Department informs the Nomination/Remuneration Committee and provides

appropriate feedback. If a package is rejected by the CST, the Nomination/Remuneration Committee of the public corporation may produce a revised proposal for approval.

8. Completion of recruitment process.
9. Nomination/Remuneration Committee informs Shareholder Executive/parent Department of the package paid to the successful candidate (within the remit agreed).
20. Public corporations should bear in mind throughout the recruitment process that authority to recruit to a certain salary level does not mean that the appointee must be paid that salary. The approved figure is simply just that; it is the maximum that is available.

The process of approval for bonuses in excess of £17,500

21. Requests for approval will again be submitted via Shareholder Executive/parent Department (as appropriate). The process will be similar to that for approval for remuneration packages but note that the process applies to staff and office-holders in post. The expected process would be:

1. Remuneration Committee proposes a performance related payment (bonus) of £17,500 or more based on evaluation of performance against objectives and contractual terms (or a framework under which future such bonuses could be payable).
2. Remuneration Committee submits proposed level of payment or bonus framework to the Shareholder Executive/parent Department for approval, using the attached proforma. Note that the case must include a solid justification for the proposed level of bonus or potential bonus and must be supported by the relevant Minister.
3. Shareholder Executive/parent Department put the case, together with their recommendation, direct to the CST.
4. The CST approves/rejects the proposed payment. Shareholder Executive/parent Department informs the Remuneration Committee and provides appropriate feedback. If a package is rejected by the CST the Nomination/Remuneration Committee of the public corporation may produce a revised proposal for approval.

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Contact details

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**PROFORMA FOR CST APPROVAL OF SALARIES/REMUNERATION IN PUBLIC CORPORATIONS
WITHIN THE SHAREHOLDER EXECUTIVE PORTFOLIO AT OR ABOVE £142,500 PER ANNUM**

General Context	
Post.	
Name of post holder (if applicable).	
Employer .	
Background on employer, including detail on policy function (as appropriate), degree of commercial operation and competition with private sector.	
Context of the recruitment/retention, to include background on recent company performance).	
The Role	
Brief description of the role, including objectives for prospective post holder. Please provide any job brief as supplied to (or intended for supply to) candidates.	
Type of appointment (Fixed Term or Permanent). If a public appointment, specify the time-commitment and period of appointment.	
Experience and/or past performance of the candidate.	
Value of the package of the former post holder (unless it is a newly created post).	
For re-appointments: <ul style="list-style-type: none"> • An assessment of the risk to company objectives of not retaining the post holder. • Expected value of package that would be offered if advertising externally. 	
Salary and Benchmarking	
Please provide details of proposed base salary or salary range. For public appointments this should include all proposed non-discretionary remuneration.	

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Please provide appropriate information on benchmarking of proposed remuneration (where possible against posts in companies of similar sector/size/industry, and against public sector equivalents).	
Taxable benefits proposed.	
Proposed performance related pay arrangements.	
Detail link between performance related pay and company objectives.	
Proposed pension arrangements.	
Please provide confirmation that tax and NICs are deducted at source.	
Timing	
Is this application being made before or after advertising? If the post has already been advertised, please provide details of where you currently are in the process of sourcing a suitable candidate. If the post has not yet been advertised, please provide details of your proposed timetable.	
Justification	
Additional information justifying proposed package.	
Name of Chair of Nominations Committee supporting the proposal.	
View of Minister in parent Department.	
Administration	
Name and post of person submitting this application.	
Contact telephone and e-mail.	
Date of application.	

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**PROFORMA FOR APPLICATION FOR CST APPROVAL OF PERFORMANCE RELATED
PAYMENTS (PRPs) IN PUBLIC CORPORATIONS WITHIN THE SHAREHOLDER EXECUTIVE
PORTFOLIO AT OR ABOVE £17,500**

General context	
Post.	
Employer.	
Background on employer, including detail on policy function (as appropriate), degree of commercial operation and competition with private sector.	
The Role	
Name of post holder.	
Brief description of the role including objectives for prospective post holder.	
Level of payment	
Relevant financial year (ie the year in which the PRP was/will be earned).	
Proposed level of PRP payment (or potential range where a framework is proposed) and proposed date of payment.	
Contractual terms (if any) of performance pay.	
Post holder's base salary in the relevant financial year.	
Allowances and special pension contributions paid to or in respect of the post holder in the relevant financial year.	
Other PRP payments made in respect of the relevant financial year, with dates of payment.	
Post holder's total package (base pay, allowances, special pension contributions, PRP) in the previous financial year.	
Please provide confirmation that tax and NICs are deducted at source.	
Justification and benchmarking	
Justification for proposed PRP	

payment, or relevant metrics where a framework is proposed, including detail on the link between key metrics and company objectives.	
Please provide appropriate information on benchmarking of proposed PRPs (where possible against posts in companies of similar sector/size/industry, and against public sector equivalents).	
Name of Chair of Remuneration Committee supporting the justification set out above.	
View of Minister in parent Department.	
Administration	
Name and role of person submitting this application.	
Contact telephone and e-mail.	
Date of application.	