

To: Chairs of Strategic Health Authorities
Special Health Authorities
Primary Care Trusts
Ambulance Trusts

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Copy to: Chief Executives of the same
Chairs and Chief Executives of Executive
Non-Departmental Public Bodies

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Dear colleague

Performance related pay awards for staff covered by the Pay Framework for Very Senior Managers (VSMs)

I am writing to you to confirm the performance payments will continue to be restricted to the top 25% of performers for 2011/12. As I explained last year, there is an absolute requirement that no more than 25% of all VSMs on the VSM pay framework receive an award. Applying this at individual organisational level prevents some organisations - those with three VSMs or fewer - proposing any VSMs for an award. The requirement will be, therefore that the 25% limit should be applied to each of a number of groups, as follows:

- a 25% limit for each PCT cluster, comprising all the eligible¹ VSMs in the primary care trusts in that cluster (one group per PCT cluster)
- a 25% limit for each SHA cluster, comprising all the eligible VSMs in the SHAs in that cluster (one group per SHA cluster)
- a 25% limit for all eligible VSMs in ambulance trusts (one group)
- a 25% limit for all eligible VSMs in special health authorities (one group)

Process

The process will be almost identical to that used in 2010/11. The first phase will be for individual Remuneration Committees, operating in line with the Guidance to Remuneration Committees, to make recommendations for no more than 25% of staff to receive an award. The second phase will be the submission of these recommendations to the grandparent organisation for consideration and approval.

Three VSMs or fewer

The exception will be organisations with three VSMs or fewer, in which case the Remuneration Committee will be able to recommend one VSM for an award, where it feels that this is merited by performance. These proposals

will then be forwarded to the to the grandparent organisation for consideration of approval.

If more than 25% of staff are proposed for a performance award

Where the process results in more than 25% of staff being proposed for a performance award, the Chairs of the Remuneration Committees in the group (the proposing organisations) must convene a Pay Committee to consider the proposals and agree a final set of recommendations within the 25% quota.

Convening a Pay Committee

The Chairs of Remuneration Committees in the proposing organisations may also - if they wish and agree collectively - convene a Pay Committee if the total number of awards proposed is below 25%, to agree a final set of recommendations within the 25% quota.

I recognise that there is no existing mechanism for comparing the performance of staff in different organisations. I will look to each Pay Committee, where these need to be convened, to agree the most appropriate method locally of arriving at their final recommendations.

As recognised in the Guidance to Remuneration Committees, the grandparent organisation does not have a formal role in the objective setting and performance appraisal process, but it is best practice that performance objectives should be informed by discussions between Remuneration Committees and the grandparent organisation. Where it is necessary for a Pay Committee to be convened, the Chair and members of that Committee may wish to engage with the grandparent organisation in arriving at their final recommendations.

For primary care trusts, where a Pay Committee needs to be convened, the relevant SHA will nominate one Remuneration Committee Chair, from among those organisations, to chair the Pay Committee.

For ambulance trusts, if a Pay Committee needs to be convened, I will ask London SHA to nominate one Remuneration Committee Chair from amongst the ambulance trust chairs to chair the Pay Committee.

For strategic health authority clusters, I will ask the Chair of SHA cluster Chairs to chair the Pay Committee, if one is needed.

For special health authorities, the Department will identify a chair, if a Pay Committee is needed.

Levels of awards

In line with the public sector pay freeze for staff earning above £21,000, there will be no change to the ceiling on performance awards, with the upper limit on individual awards remaining at 5% of reckonable pay. I expect Remuneration Committees to continue to make a distinction between the levels of awards for A and B performers.

In line with the Pay Framework, awards cannot be proposed for those VSMS marked as C or D performers, or for any VSMS in organisations that fail to meet their financial control target.

Timetable

It is vital that appraisals are completed promptly after the end of the reporting year on 31 March 2012, and **no later than mid-May**. This will allow time for local consideration of whether a Pay Committee needs to be convened.

I am asking organisations to ensure that, whatever the process locally, recommendations to pay awards to no more than 25% of staff in each group are **submitted to the grandparent organisation no later than the end of June**. To this end, I am asking SHA chairs to liaise with PCTs and ambulance trusts as early as possible – and by **the end of May at the latest** – to determine whether a Pay Committee needs to be convened. The Department, as grandparent, will liaise accordingly with strategic and special health authorities.

Any queries relating to the grandparenting arrangements for SHAs should be directed to Ed Keelty (edward.keelty@dh.gsi.gov.uk) and any in relation to SpHAs directed to Greg Gleeson (greg.gleeson@dh.gsi.gov.uk). In the meantime, I attach at Annex A a brief summary of the most commonly asked Q&As about the performance-related pay awards for 2011/12 reporting year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Nicholson', with a long horizontal flourish extending to the right.

Sir David Nicholson KCB CBE
NHS Chief Executive

Annex A

Pay Framework for Very Senior Managers

Q & A: Performance-related pay awards for 2011/12 reporting year

Q1. Who is eligible to be considered for an award?

A. Those employees and secondees paid under the arrangements in the Pay Framework for Very Senior Managers who (during the period 1 April 2011 to 31 March 2012) were in post for three months or more, provided:

- individual performance is marked as A = outstanding or B = exceeds expectations; and
- the organisation has met its financial control target.

Those who have been in post for the majority of the reporting period (over six months) are eligible to be considered for a full year performance-related payment. Those who have been in post for three to six months are eligible to be considered for 50% of the recommended performance-related payment.

Q.2 How do individual organisations identify the top 25% of performers?

- A. The performance of individual VSMS should be assessed as usual, in line with the organisation's objective setting and performance appraisal process; and the individual should be marked as an A, B, C or D performer in line with the categories in the VSM Pay Framework.

Within each organisation, eligible VSMS should then be ranked on an assessment of relative performance, and the top 25% should be identified.

The Remuneration Committee may then propose awards for no more than the top 25% of performers. The exception to this is organisations with three VSMS or fewer, where the Remuneration Committee will be able to propose one VSM for an award.

Where, across a group (see the groups listed in the letter), the total number of VSMS proposed for an award is 25% or less of the total number of eligible VSMS in the group, each of the organisations in the group may submit their proposals to the grandparent organisation.

Where, across a group, – due to the exception noted above – the total number of VSMS proposed for an award is higher than 25% of the total number of eligible VSMS, a Pay Committee must be convened.

DH will contact SHAs during May to ascertain whether SHA award

recommendations (in total) are likely to be within the 25% limit. DH will also ask SHAs for early intelligence about Ambulance Trusts. In both cases, DH will determine whether a Pay Committee is needed.

For SHAs, the ideal timing for a Pay Committee, should one be needed, would be to take this as business at the SHA Chairs meeting in June 2012. It would be helpful, therefore, if SHAs could provide information about the (anticipated) number of awards in their own organisations in advance of this date.

Q.3 Who is counted for the purposes of the baseline for the 25% quota?

A. All employees and secondees who were in post for three months or more during the reporting period, including those who have left by/before the end of the reporting year.

Q.4 Do vacant posts count towards the baseline?

A. Posts that have been vacant throughout the reporting year cannot be counted in the baseline. Counting vacant posts would inflate the baseline and risk breaching the 25% cap of eligible staff receiving awards.

Posts that have been vacant for part of the year would not necessarily be 'discounted' as the staff who were employed in those posts may be eligible for an award provided they were in post for three months or more. Moreover, in some cases, more than one person may have been employed in a post during the reporting year, and both could be eligible.

Q.5 What about staff who are on secondment?

Some VSMs may be on secondment from their parent organisation to a host organisation. Each individual who satisfies the eligibility criteria at Q1 and Q3 has a right to be considered for the award of a bonus.

Where the secondment has lasted less than 3 months, the parent organisation should retain the individual in its baseline and decide if a bonus is justified (taking account of the individual's work for the whole year).

Where the secondment has lasted more than 3 months, the host organisation should include the person in their baseline and make the recommendation whether the individual merits an award.

Staff who have been seconded out for over 3 months of the year should therefore not appear in the baseline of their parent organisation.

Where the host organisation is meeting the cost of the pay, if

seconded staff are awarded a PRP award, the cost should be met by the host organisation.

Q.6 What if a VSM opts not to take his/her award – can the organisation propose to award it to the next VSM in the ranking?

A. No. The Prime Minister stated that awards would be restricted to “the *top 25%* of performers” [emphasis added], not to 25% of staff. Only those who rank in the top 25% can be recommended for, and receive, an award.

Q.7 How is the award calculated?

A. The upper limit on individual awards is 5% of reckonable pay; Remuneration Committees may recommend variable awards within this limit. As set out in the Pay Framework, reckonable pay includes:

- basic pay
- long-term recruitment and retention premia
- additional pay for additional responsibilities paid where individuals have taken on additional responsibilities as part of their core role (usually referred to as broad portfolio or broad remit roles)

Reckonable pay does not include:

- short-term recruitment and retention premia
- additional pay for significant responsibilities outside the core role

Awards, whether payable for the full year or at 50% (see answer to Q.1), payable to staff who work part-time should be paid pro-rata according to the hours worked.

Q.8 Will the DH be issuing an amended version of the VSM Pay Framework and/or a letter confirming that the pay freeze applies to VSMs and non-executives?

Yes, DH will issue a revised version of the VSM Pay Framework to include the pay arrangements for VSMs in SHA Clusters. There will be no further amendments from the current 2009 version of the VSM Pay Framework, including information on performance related pay.

The Coalition Government announced a two-year pay freeze for all public sector staff earning over £21,000, to apply from 2011/12 with the exception of any staff groups subject to a multi-year deal (in which case the two-year freeze will apply from the end of such deals). For VSMs employed on the VSM Pay Framework, as was the case in 2011/12, this means that spot rate values continue to be frozen for 2012/13 which is the second year of this freeze. Remuneration rates for non-executive board members were also

frozen for two years from April 2011.

Q9. What happens to VSMs in SHAs or PCTs who are either in a transitional role or do not form part of the Executive Team in a SHA or PCT?

All individuals on the VSM Pay Framework are entitled to be considered for an award (subject to eligibility criteria in Q1 and Q3). This includes those in transitional roles whether in the parent organisation or on secondment to a host organisation.