HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dr Peter Knight CBE, Chair
Prison Service Pay Review Body
Office of Manpower Economics
Victoria House, Southampton Row
London WC1B 4AD

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Dear Peter

PUBLIC SECTOR PAY 2015-16

I would like to thank you for your work on the 2014-15 pay round. I am strongly convinced of the role of the pay review bodies in determining national pay awards in the public sector and appreciate the important part the pay review bodies have played over the last four years. For a number of review bodies this has included providing expert advice and oversight of wider reforms to pay policy and systems of allowances, in addition to the annual award. I am confident the changes brought about by the pay review body recommendations in these areas are making a significant contribution to the improvement and delivery of public services.

2. You will have seen that for the 2014-15 pay round there were some review body recommendations which, after careful consideration, the Government decided were unaffordable at this time. I hope you will appreciate this was a difficult decision and that the Government continues to greatly value the contribution of the pay review bodies in delivering robust, evidence-based pay outcomes for public sector workers.

3. The Autumn Statement of 2013 highlighted the important role in consolidation that public sector pay restraint has played. The fiscal forecast shows the public finances returning to a more sustainable position. However, the fiscal challenge remains and the Government believes that the case for continued pay restraint across the public sector remains strong. Detailed evidence will be provided during pay review process, but at the highest level, reasons for this include:

a. Recruitment and retention: While recognising some variation between remit groups, the evidence so far is that, given the current labour market position, there are unlikely to be significant recruitment and retention issues for the majority of public sector workforces over the next year.

b. Affordability: Pay restraint remains a crucial part of the consolidation plans that are continuing to help put the UK back on to the path of fiscal sustainability – and continued restraint in relation to public sector pay will help to protect jobs in the public sector and support the quality of public services.

4. In the 2013 Budget the Government announced its policy that public sector pay awards would be an average of up to 1 per cent in 2015-16.

5. The pay review bodies will want to consider the evidence carefully in producing their reports. In particular, what award is justified within the bounds of pay restraint and whether there is a case for a higher award to particular groups of staff, relative to the rest of the workforce, due to particular recruitment and retention difficulties.

6. Pay awards should be applied to the basic salary based on the normal interpretation of basic salary in each workforce. This definition does not include overtime or any regular payments such as London weighting, recruitment or retention premia or other allowances.

7. Following the Government's announcement in the 2013 Spending Review, substantial reforms to progression pay have been taken forward or are already underway across the public sector. As in the 2014-15 pay round, the Government also asks the pay review bodies to again consider the impact of their remit group's progression structure and its distribution among staff in recommending annual pay awards.

8. I look forward to your recommendations, and reiterate my thanks for the invaluable contribution made by the Prison Service Pay Review Body during the course of this Parliament.

Best wishes,

DANNY ALEXANDER