

Hutton Review of **Fair Pay** in the public sector

Call for Evidence

Terms of Reference

The Government has asked Will Hutton to make recommendations to the Chancellor and Prime Minister by March 2011 on promoting pay fairness in the public sector by tackling disparities between the lowest and the highest paid in public sector organisations. The Review will produce an interim report by late autumn 2010.

This Review, which will also help to shape broader social norms in relation to pay fairness, should comprise:

- Robust, evidence based analysis of the scale of the problem;
- Recommendations on how to introduce a public sector pay multiple that would mean that no public sector manager can earn over twenty times more than the lowest paid person in their organisation.

As part of this the Review will need to consider:

- Over what timescale a cap could be applied;
- How a cap would operate in areas outside direct Ministerial control.

And will have regard to:

- The Government's wider fiscal and public sector pay policies, in particular the need for senior staff to show leadership in pay restraint, and to deliver value for money from the public sector pay-bill. Recommendations from the Review should not increase the total pay bill;
- The level of remuneration necessary to attract, retain and motivate staff of the quality required – and the opportunity cost of working in the public sector for some staff;
- The fact that organisations may need flexibility to exceed multiples to match the market rate in exceptional cases where there is a clear justification to do so;
- The Government's stringent requirements for transparency and Ministerial approval in senior pay decisions.
- The benchmarking work currently being taken forward by the Senior Salaries Pay Review Body;
- The degree to which distortions and market failures in private sector pay create pressure for unfair pay multiples in the public sector.

- The importance of rewarding productive entrepreneurship by frontline public sector staff.

The Review will examine all aspects of the public sector pay package, including base pay, variable pay, bonus and other elements, to the extent to which all can contribute to fairness across the pay range. The Review will take into account any recommendations or findings from John Hutton's review of public sector pensions and will not make independent recommendations on areas covered by the scope of that review.

The scope of the Review should include staff covered by the Senior Salaries Review Body (senior civil servants, very senior managers in NHS commissioning bodies, senior military), senior staff in non-departmental public bodies, managers in local government and the NHS, regulators which receive public funding, and senior staff in further and higher education.

Our approach

The Review will take a multi layered approach in order to understand the issues and develop practical recommendations. The Review intends to:

- Develop a definition of fairness that reflects the principal that for pay to be fair it must be proportional to the effort of the individual and the value of the work done. The Review will draw from both moral philosophy and behavioural and experimental economic evidence to develop this definition.
- Look for evidence on the relationship of fair pay to organisational performance and specifically its impact on innovation and productivity. This will include consideration of trends in pay dispersion across the private sector and any evidence connecting pay dispersion to business performance.
- Examine existing pay dispersion in the across the public sector, the process by which pay is set and the cases where a 20:1 ratio is exceeded.
- Examine the interaction between the public and private sectors with specific interest in how public sector recruitment practices are influenced by private sector conditions.
- Seek evidence for any macro economic effects of increased pay fairness.

- Produce practical recommendations on how a 20:1 pay ratio could be developed across the public sector including both time frames and flexibilities.

Timing

The deadline for responses to the call for evidence is 6 September 2010.

Response details

Representations from all interested parties are invited. Annex 1 (overleaf) contains a suggested list of questions against which representations may be made. Please address any of the questions where you feel you can make a contribution, and add further comments if you wish.

Representations should be sent, preferably via email, to fair.pay.review@hmtreasury.gsi.gov.uk, or via hard copy to Shafina Malik, Hutton Fair Pay Review, 1/E2, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ.

Information provided in response to this call for evidence will be dealt with in accordance with the access to information regimes. These are primarily the Freedom of Information Act (2000), the Data Protection Act (1998) and the Environmental Information Regulations (2004). Please note that unless confidentiality is specifically requested, each representation has the potential to be made public. A summary of responses will be published on the Review website http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm on 24 September 2010.

Hutton Fair Pay Review Team

19 July 2010

Annex 1: Questions

It would be helpful if representations could be made in response to the following questions. Please address whichever questions are relevant to your areas of experience and add additional comments or attach further documents where appropriate.

Implementing fairness

1. Do you agree that the organising principle of the Review should be that for pay to be fair it must be proportional to the effort of the individual and the value of the work done?
2. What should Government's role be in promoting fairness in public sector pay?
3. Do you agree with a pay differential between highest and lowest earners of 20:1 as a means of promoting pay fairness? If not, what is your preferred alternative?
4. How important do you consider the process by which pay is determined to delivering fairness?
5. From the perspective of your sector / area of expertise, do you have any other comments on the approach this Review is taking?

Benefits of fairness

6. Do you have any evidence that fair pay, or a perception of fair pay, has an impact on productivity or brings other benefits to organisations and their staff?
7. Do you believe that there could be negative effects of a pay ratio, or other means of promoting fair pay?
8. What relationship do you think there is between fairness in pay and innovation and entrepreneurship?

Public sector

9. In the public sector, do you know of any examples of high pay differentials, or executive pay that could otherwise be considered unfair? What is your perception of the trend in pay differentials over time?
10. Are public sector leaders able to have the impact over their organisations that would warrant high pay differentials?

11. How could a 20:1 pay ratio be enforced in the public sector?
12. Should there be exceptions to a 20:1 pay ratio within the public sector, and where and why?
13. How important is remuneration in attracting top candidates to executive positions in the public sector?

Private sector

14. Do you have any examples of high pay differentials within private sector organisations?
15. Do you think that high pay differentials (between highest and lowest earners in the organisation, and between senior management) are beneficial or detrimental to senior management behaviour and wider business performance?
16. What relationship do you think there is between executive pay in the private sector and the competitiveness of UK businesses?

Interaction between private and public sectors

17. How influenced is the public sector by private sector pay practices, and vice versa?
18. Do the public sector and private sector compete for the same people, and if so in which professions / levels of seniority / geographical areas?
19. Should pay be set differently in the public sector to the private sector?
20. Can and should the public sector compete with the private sector on executive pay? Are there other means by which it can attract top candidates?