The Scottish Government

Director-General Health and Chief Executive NHS Scotland
Dr Kevin Woods

T: 0131-244 2410 F: 0131-244 2162
E: dghealth@scotland.gsi.gov.uk

NHS Board Chairs

CC: Members of the Review of Executive and Senior Management Pay Arrangements

15th March 2010

Dear Colleagues

NHSScotland Review of Executive and Senior Management Pay Arrangements

I am writing to you to enclose the Report on the Review of Executive and Senior Management Pay Arrangements and to inform you of the next stage in the Review.

You will recall that the proposals for the Review were endorsed by yourselves and that Alex Smith, former Director of Health Finance and non-executive member of the Scottish Government, was subsequently appointed as independent chair of the Review Group. The final report was submitted by 31 December 2009 in accordance with the revised timetable and I am very grateful to Alex and the Group for meeting this date. Furthermore, I have now had an opportunity to discuss the report’s findings and conclusions with Alex Smith and have told him that I consider the Review Group to have performed its task well.

This letter and Report will be made available on the SHOW website and I would therefore ask you to ensure this is shared as appropriate. We intend to take forward the recommendations in discussion with interest groups and I welcome a discussion with you regarding the way forward. In that regard, I should let you know of one significant development that has taken place since the Report was finalised. This is that the First Minister has written to the Prime Minister seeking the inclusion of Scotland’s senior public sector posts within the scope of the review of senior public sector remuneration that the Prime Minister has asked the Senior Salaries Review Body to undertake. This wider scope will encompass NHSScotland’s Executive and Senior Management cohorts.
I should welcome discussion with you once you have had time to consider the content of this report and with that in mind I propose that this issue should be a substantive item on the agenda for your regular meeting.

In the meantime, if you have any queries about the report then please contact John Cowie at john.cowie@scotland.qsi.gov.uk.

Yours sincerely,

KEVIN WOODS
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Section A: Acknowledgements

1. I acknowledge the contribution made by all group members and attendees and the constructive approach which has ensured that consensus was reached. The responses from Health Boards were both extensive and helpful in identifying issues and areas for improvement. The support and advice from the Scottish Government Health Workforce Directorate was significant. I particularly appreciated the contribution from John Cowie.

Alex Smith
Independent Chair
Section B: Executive Summary

2. The pay arrangements for the Executive and Senior Management Cohorts in NHSScotland which have operated since October 2005 required to be reviewed in accordance with specific Terms of Reference approved by Scottish Ministers. The Review Group appointed to perform this task has consulted with Health Boards and other stakeholders as well as drawing on the knowledge and experience of its members. This Report demonstrates substantial achievement in relation to the strategic objectives and specific recommendations in the 2005 report from the Working Group on Executive Managers, but also identifies the need for further progress and improvement in various areas. The recommendations recognise the requirements of Scottish Government Public Sector Pay Policy and take full account of experience of operating the current pay arrangements.

- There is a need for more systematic data and qualitative analysis on recruitment and retention issues to assess the extent to which NHSScotland is able to attract, retain and motivate the leadership talent that it needs.

- The management of the interface between these pay arrangements and those for Agenda for Change staff needs to be improved and the overall number of staff subject to the Executive and Senior Management arrangements should be substantially reduced by transferring posts from the Senior Management Cohort to Agenda for Change.

- Further support is required to progress implementation of the specific recommendations in the 2005 report and consideration should be given to how best to address elements of these that fall outwith the Review Group’s remit.

- The current performance related payments are at a level which do not in themselves encourage improved performance but the principle of performance related pay for the Executive and Senior Management Cohorts should be retained. The settlement date should be moved, methods of reinstating fixed spine points should be explored within the terms of prevailing pay policy and the arrangements for performance related pay should be kept under regular review.

- There is a clear need to reduce the journey times to the pay range maxima, as well as the extent to which the pay range for each grade overlaps those of other grades. The pay range minima should be progressively raised as part of successive pay settlements.

- An advisory group should be established to provide evidence and views in support of the Director General Health/Chief Executive NHSScotland in the provision of advice to Ministers on the pay and conditions of staff in the Executive and Senior Management Cohorts.
Section C: Terms of Reference

3. The Review Group was established on the authority of Scottish Ministers with the following Terms of Reference. (Membership details are given at Appendix 1).

   The grading structure (Executive Grades A – I) and the calibration ranges based on Hay evaluations are to be retained and excluded from the scope of the review.

   Beyond that, the Working Group should consider all other elements of the current arrangements including performance related pay, length of pay ranges, weighting of pay settlements to specific grades and consultative and decision making machinery.

Specific Remit

Within the framework of current Scottish Government policy for public sector pay:

1. Review and comment on the extent to which the strategic objectives for the new pay arrangements, as set out in the 2005 Report from the Working Group on Executive Managers Pay, have been achieved;

2. Consider and comment on the effectiveness of the arrangements for performance related pay and make recommendations for any changes if considered appropriate;

3. Identify options for accelerating progress towards the pay scale maxima;

4. Consider the ways in which effective consultation with stakeholders can be achieved on an ongoing basis;

5. Submit a report on the above to the Chief Executive NHS Scotland by 31 August 2009.

4. In discussion between the Review Group Chair and the Director General Health/Chief Executive NHSScotland, the following were agreed:

   - the report to be submitted by 31 August 2009 would be in draft form, some elements in the terms of reference would benefit from consideration over a slightly longer time period, and the final report should be submitted by 31 December 2009; and,

   - the sentence in the terms of reference which states that, “The grading structure (Executive Grades A – I) and the calibration ranges based on Hay evaluations should be retained and excluded from the scope of the review,” would exclude consideration of a different grading structure or different calibration points from the work of the Review Group, but it would not prevent the Review Group from giving full consideration to issues affecting the interface between Executive and Senior Management, and Agenda for Change pay arrangements.
Section D: Context for Review

5. The current arrangements for Executive and Senior Management Pay have operated with effect from October 2005. Appendix 2 contains relevant background information on the arrangements and an assessment of the numbers of staff affected by them at the date of this Report.

6. The report submitted in 2005 by the Executive Managers Review Working Group contained a recommendation that the new arrangements should be reviewed after three full years of operation. Whilst this anniversary occurred in October 2008, it was agreed by Ministers following consultation with Health Board Chairs that the Review should commence at the beginning of the financial year 2009/10. This decision was taken for two reasons. First, to take account of the implementation period for the new arrangements, which extended for more than two years beyond their operative date of 1 October 2005; and secondly, to allow for full implementation from 1 October 2008, of the third pay settlement made under the arrangements. The arrangements themselves must also comply with prevailing Scottish Government Public Sector Pay Policy. This Policy includes a recommendation that, as part of good practice, pay systems should be regularly reviewed (see paragraph 35 for the Review Group’s recommendation in this regard).

7. Since the introduction of the current arrangements with effect from October 2005, several issues of concern have been expressed informally by various stakeholders. These are reflected in the Review Group’s Specific Remit quoted at paragraph 3 above and are addressed in Section E.

8. In approaching its task the Review Group has sought to operate to the highest standards of governance and probity. The structure of the Review Group’s business and its working practices are described in Appendix 3.

9. The Review Group sought to engage fully and effectively with relevant stakeholders and with the various constituencies represented by its membership. A recurring theme throughout the Review Group’s deliberations has been the importance placed on the views of Health Boards as the employers of Executives and Senior Managers. A copy of the letter from the Review Group Chair inviting comments from Health Board Chairs is at Appendix 4. A synthesis of the comments received is given at Appendix 5 and references to them are made at appropriate sections throughout this report. A detailed breakdown of Health Board comments is also available on request to the Scottish Government Health Workforce Directorate.
Section E: Findings and Conclusions

10. The comments in this Section are organised as follows to correspond with Elements 1 to 4 in Specific Remit within the Review Group’s Terms of Reference quoted at paragraph 3 above:

- **Element 1** - Review and comment on the extent to which the strategic objectives for the new pay arrangements, as set out in the 2005 report from the Working Group on Executive Managers Pay, have been achieved - paragraphs 11 to 35

- **Element 2** – Consider and comment on the effectiveness of the current arrangements for performance related pay and make recommendations for any changes if considered appropriate - paragraphs 36 to 43

- **Element 3** – Identify options for accelerating progress towards the pay scale maxima- paragraphs 44 to 49

- **Element 4** - Consider the ways in which effective consultation with stakeholders can be achieved on an ongoing basis - paragraphs 50 to 59
Element 1 from Specific Remit

Introduction

11. Element 1 from the Specific Remit was to: **Review and comment on the extent to which the strategic objectives for the new pay arrangements, as set out in the 2005 report from the Working Group on Executive Managers Pay, have been achieved.**

The strategic objectives of the 2005 report are contained within its remit which was “To review and recommend management, development and remuneration arrangements which enable NHSScotland to attract, retain and motivate the leadership talent that it needs – arrangements which are fair and complement implementation of Agenda for change”.

12. In addressing this element of its remit the Review Group did not confine itself solely to the 2005 report but also considered relevant decisions by Ministers that followed, these being:

- the change announced in HDL(2006)59 to the original definition given in HDL(2006)23, of the posts to be included in Executive Cohort;

- the creation of the Senior Management Cohort;

- the establishment of the National Evaluation Committee as a sub committee of the National Performance Management Committee; and,

- the dissolution of the incremental spine points within each pay band announced in CEL (2007)4.

Overall Assessment

13. Comments from Health Boards convey a general view that success in achieving these strategic objectives has been less than complete. Many referred to a lack of success in attracting and retaining the leadership talent required and specific examples were given where difficulties had been experienced in recruiting and retaining executives and senior managers. This was often attributed to perceived differences in management salaries between NHSScotland and elsewhere. There was also a feeling that the strategic objectives required of the pay strategy could be clearer.

14. In reviewing achievement against these strategic objectives, the Review Group sought to assess the extent to which there were recruitment, retention or motivational difficulties within the Executive and Senior Management Cohorts, and where such difficulties were evident, the extent to which they could be attributed to the remuneration arrangements.

15. Such difficulties as there are with recruitment and retention are confined to individual examples and tend to be described in anecdotal rather than evidential terms. This is not to underestimate the serious implications that can flow from failing to recruit
to a single senior management post but it does emphasise the need for a more systematic process for monitoring and reporting on these issues.

16. The Review Group agreed that the remuneration package is only one of several factors that influence recruitment, retention and motivation and after considering the available evidence, concluded that this is more significant in relation to recruitment difficulties than it is for retention. That is to say, salary is of greater importance in seeking to attract suitable applicants for senior positions, but other elements of the employment package figure more prominently in decisions by postholders on whether or not to seek further career moves. There are certainly aspects of the pay arrangements, if not the absolute pay levels, with which there is concern and which could therefore be said to be affecting motivation. These are dealt with throughout this report.

17. The Review Group believes that there is an important requirement for an improvement in the quality and reliability of data on recruitment and retention included in pay remits presented to the Scottish Government Remuneration Group. The Review Group recommends that a systematic process be developed in association with Health Boards, for monitoring and reporting on recruitment and retention data in respect of the Executive and Senior Management Cohorts, with particular attention to collecting evidence on the influence of pay. This should be done under the auspices of the new advisory group proposed at paragraph 54.

Interface with Agenda for Change

18. The Review Group’s assessment of the extent to which the pay arrangements introduced in 2005 for the Executive and Senior Management cohorts complement implementation of Agenda for Change, is based on experience within NHSScotland of operating both pay and evaluation systems.

19. The Review Group believes that the decisions, announced in HDL(2006)59, to redefine the Executive Cohort and to create the Senior Management Cohort with the same pay arrangements as those already applying to the Executive Cohort were appropriate at the time. These measures addressed some serious anomalies and recognised the limitations of the Agenda for Change job evaluation process for measuring some key elements in all management jobs.

20. The Review Group supports the definition of ‘management jobs’ contained in HDL(2006)59 and also the principles for determining which posts should be included in the Senior Management Cohort rather than Agenda for Change. In summary, these provide for:

- all staff who were subject to the earlier senior manager pay arrangements at 1 October 2005 to transfer to the new arrangements on that date;
- any such staff whose posts were not evaluated by the National Evaluation Committee at a level high enough for inclusion in the Senior Management Cohort, to continue on personal salary protection and for their posts to become subject to Agenda for Change conditions when they become vacant;
- Health Boards to have the discretion to identify posts subject to the earlier senior manager arrangements which they consider not to meet the definition of
management jobs and exclude these from the new pay arrangements (but with the facility for individual postholders to remain on personal salary protection for as long as they remain in post), and;

- Health Boards to have the ability to submit new or existing posts to the National Evaluation Committee for evaluation and, subject to the outcome, add them to the Senior Management Cohort.

21. It is the informed judgement of the Review Group that these principles are essentially sound but that difficulties, which are of concern to the Review Group, have arisen in practice for two main reasons:

- decisions have sometimes been taken on the basis of the personal preferences of the postholders rather than judgement by the employer as to whether or not a post met the definition of a management job.

- the situation at the time of the introduction of the new arrangements contained numerous inconsistencies in that there were many clinical posts inappropriately included in the earlier senior manager arrangements, and conversely, many posts subject to Whitley grades that could more appropriately have been covered by the earlier senior manager arrangements. The consequence of this was that many posts migrated to Agenda for Change or the Senior Management Cohort, not on the basis of sound principles, but on the basis of where they were located historically. Whilst in theory this should be resolved over time, the consequences are still being experienced.

22. The Review Group’s concerns about the interface between the Executive and Senior Management pay arrangements and Agenda for Change are clearly shared by Health Boards. There is an acceptance that there is inconsistency and a view that the guidance in HDL (2006)59 should be clarified and strengthened. Some Boards accept they have been flexible over which evaluation system they have used by allowing individuals to select whichever is most advantageous. Others have taken a systematic approach to move appropriate posts to Agenda for Change in pursuit of the strategic aim of accommodating as many staff as possible under that system and reducing the numbers in the Senior Management Cohort.

23. **The Review Group recommends** that an impact assessment be undertaken of the interface with Agenda for Change to ensure that the legislative and Pay Policy requirements for equality have been satisfied, so that there is confidence in this aspect of the arrangements.

24. It is the responsibility of Health Boards as employers to make judgements on whether or not particular jobs meet the definition of ‘management jobs’ given in HDL(2006)59. Boards should also record their reasons for such decisions and ensure that those affected are kept fully informed. Evidence from the National Evaluation Committee suggests that these responsibilities are not always discharged. **The Review Group recommends** that a clear message should be issued, reminding Health Boards of their responsibilities in this regard and that Health Boards should be asked to demonstrate the action they have taken to ensure compliance with all of the requirements of HDL(2006)59.
25. The Review Group is firmly of the view that managing the interface with Agenda for Change is not helped by the current size of the Senior Management Cohort. The 2005 report envisaged a much smaller cohort of very senior managers, and whilst the Review Group is fully supportive of the decision at the time to create the Senior Management Cohort, it believes that the original strategy quoted at paragraph 11 above would be more readily achieved if steps were now taken to reduce the overall numbers within the Senior Management Cohort by establishing means by which a significant number of posts would move to Agenda for Change. **The Review Group recommends** that the size of the Senior Management Cohort be reduced by moving posts to Agenda for Change.

26. The recommendation at paragraph 25 is also supported by evidence from Health Boards which demonstrates a strong consensus that the numbers of staff on Executive and Senior Management pay arrangements is now much larger than was originally envisaged. There is a desire within Health Boards to see a clear and proactive strategy to reduce the numbers in this Cohort and move closer to the initial vision.

27. In considering this issue the Review Group has taken careful account of experience within NHSScotland of operating both the Agenda for Change and the Executive and Senior Management evaluation and pay arrangements and has consulted the National Evaluation Committee. The Review Group has concluded that the minimum threshold of 614 Hay units for inclusion in the Senior Management Cohort is no longer appropriate and believes that it should be raised. **The Review Group recommends** that the minimum threshold in terms of job size for inclusion in the Senior Management Cohort be raised from 614 to 735 Hay units and that appropriate transitional arrangements be introduced to allow existing postholders whose posts would then transfer to Agenda for Change, to remain on their current pay arrangements without detriment if they so wish.

28. The recommendation at paragraph 27, if accepted, would have the effect of moving all posts at Grade A to the Agenda for Change grading structure. Grade A would continue as a ‘closed’ grade to accommodate those staff who did not agree to transfer but would not be available for new posts. This would reduce the number of posts within the Senior Management Cohort by around 500. The Review Group considers that there would be benefits from reducing the numbers still further and gave consideration to recommending a new threshold at a level higher than 735 Hay units, but came to the conclusion that more evidence is required before such a recommendation can be made. **The Review Group recommends** that a benchmarking exercise be undertaken of a random sample of posts falling above the recommended new threshold of 735 Hay units in order to help inform a decision aimed at a further reduction in the size of the Senior Management Cohort.

**National Evaluation Committee**

29. The Review Group is strongly supportive of the role carried out by the National Evaluation Committee and believes that the system in NHSScotland under which all posts in the Executive and Senior Management Cohorts are subject to an independently audited job evaluation process has a distinct advantage in this respect over comparable systems such as that for Very Senior Managers in the NHS in England.
Recommendations from 2005 Report

30. In addition to considering the broad strategic objectives of the 2005 report, the Review Group has also made an assessment of, and sought views on, progress against each of its six specific recommendations.

31. Comments from Health Boards on these specific recommendations are summarised below with the numbering corresponding to that in the 2005 report.

I. Revised performance management arrangements for the new Executive Cohort. Some Boards offered comments on the performance management system, suggesting that whilst it might be improved, for example by further developing ‘behavioural’ objectives, or by a reduction in what was seen as excessive bureaucracy, it was nevertheless a useful tool in delivering better patient care and had been successful in improving local performance management.

II. A new National Performance Management Committee to ensure pay progression reflects real achievement and contribution to patient care. Most Boards have welcomed the establishment of the National Performance Management Committee and believe that it has led to greater fairness and consistency of approach but believe that there is also a danger of it being viewed as an ‘audit’ committee trying to ration the number of ‘Superior’ and ‘Outstanding’ performers. There is also a degree of scepticism as to whether it is actually ensuring pay progression which reflects real contributions to patient care and the suggestion has been made that the NPMC could play an effective role in sharing examples of good management practice that have achieved improvements in patient care.

III. Support for career development of Executives. Health Boards would welcome a clearer national strategy for the career development of Executives and Senior Managers and most have stated quite strongly that they would wish to see a coherent framework in place for delivering such a strategy.

IV. A new standard contract of employment for Executives to reflect corporate NHSScotland responsibilities while remaining employed by NHS Boards. Corporate NHSScotland responsibilities tend not to be seen by Boards as being driven by the new contract but rather as reflecting contribution through national groups. Those in the Executive and Senior Management Cohorts do expect to make a national contribution but the way in which this is organised requires to be reviewed as Health Boards do not see it as being carried out in a systematic or particularly effective manner.

V. The new Executive Cohort should include Chief Executives, other Executive Directors, and senior managers who head up major strategic or operational functions and are direct reports to the Chief Executive. Also direct reports to Chief Operating Officers, Divisional Chief Executives and equivalents where they have overall responsibility for patient services. The views of Health Boards on the size and composition of the Senior Management Cohort correspond closely with those of the Review Group as set out at paragraphs 18 to 25 above.
VI. Revised executive pay arrangements to be implemented following the introduction of revised performance management arrangements and consistent with pending development of Agenda for Change. The views of Health Boards on the interface with Agenda for Change also correspond closely with those of the Review Group which are set out at paragraphs 18 to 25 above.

32. The Review Group’s assessment of progress against each of these specific objectives is given below, together with recommendations as appropriate.

I. Revised performance management arrangements for the new Executive Cohort. The revised arrangements set out in HDL (2007)15, as amended, have been introduced throughout NHSScotland and appear to be operating satisfactorily. It is not within the Review Group’s remit to consider the arrangements themselves.

II. A new National Performance Management Committee to ensure pay progression reflects real achievement and contribution to patient care. The NPMC was established in 2006 and is clearly discharging its responsibilities. The performance management system is monitored by the NPMC which is independently chaired and carries responsibility (among other things) for ensuring the effective and consistent application of performance management arrangements; providing guidance and support to Health Boards; providing assurances to Ministers and the public on the robustness of the performance management and appraisal processes; and, ensuring fairness and consistency among Health Boards (the NPMC terms of reference are attached at Appendix 6). Considerable steps have been taken to ensure that the objective setting and appraisal process is systematic and evidence-based and that objectives relate directly to the strategic objectives that are set for the Service.

III. Support for career development of Executives. The Review Group has noted the progress that has been made since 2005 with the implementation of “Delivery through Leadership”(SEHD 2005) which has included:

- working in partnership across sectors;
- defining leadership qualities and behaviours that relate to organisational effectiveness and embedding these in recruitment, selection, development and performance management processes;
- the strategic clinical leaders programme (Delivering the Future),re-establishment of the Management Training Scheme, the Framework for Developing Boards, Framework for Chief Executive Development, the Delivering through People programme for HR and OD leads and the Frontline Leadership and Management Programmes;
- resources such as the Executive coaching Service, Executive Development Directory, OD Directory, 360 feedback tool and internet based leadership academy.

The Review Group was encouraged to note that the revised leadership strategy for NHSScotland (Delivering Quality through Leadership, published in June 2009 following a stakeholder review with chairs, chief executives and others) contains a development framework for the Executive Cohort including:
• extending the coaching service from chief executives to include all of the Executive Cohort;
• support for new appointees to executive roles through the “Raising Your Game” programme;
• piloting of a programme for the Senior Management Cohort in the north region, “Managing for the Future”;
• development centres, action learning sets and internet resources.

These plans will now be taken forward by the National Leadership Team under the auspices of the new Leadership Programme Board. There has been some lack of clarity around what should be understood by the references in the 2005 report to “career development”, “career management” and “talent management” and there is also scope for differing understanding around what was meant in the 2005 report by a ‘national mechanism’ for linking leadership development to career development. However the Review Group believes that this comment from the 2005 report is now less relevant in the light of subsequent decisions affecting the size of the Executive and Senior Management Cohorts and the advent of the Leadership Programme Board. The Review Group recommends that implementation of the development framework published in June 2009 under the auspices of the Leadership Programme Board be encouraged and supported as the most appropriate and effective means of progressing this work and that Health Board Chairs be asked to ensure that it is effectively communicated.

IV. A new standard contract of employment for Executives to reflect corporate NHSScotland responsibilities while remaining employed by NHS Boards. The standard form contract of employment for the Executive Cohort introduced by HDL (2006)23 has been successfully implemented. The wording of paragraph 6 of that contract, relating to national and regional responsibilities, is rather too general to constitute a specific contractual obligation. There is no corresponding standard contract for the Senior Management Cohort, these being prepared and issued locally, with consequent differences between Health Boards. The National Performance Management Committee now plays an important role in seeking to ensure consistency and robustness in the performance management process, including corporate NHSScotland responsibilities, and the Review Group has concluded that this type of approach is more effective than the use of a legal instrument such as a contract of employment. The Review Group recommends that contributions from members of the Executive Cohort to national or regional working should be supported and encouraged through their performance management and personal development plans, rather than by any further changes to their contractual obligations.

V. The new Executive Cohort should include Chief Executives, other Executive Directors, and senior managers who head up major strategic or operational functions and are direct reports to the Chief Executive. Also direct reports to Chief Operating Officers, Divisional Chief Executives and equivalents where they have overall responsibility for patient services. The Executive Cohort was initially created according to this definition but was subsequently re-defined. The Review Group’s views on this are given at paragraphs 18 to 21 above.
VI. Revised executive pay arrangements to be implemented following the introduction of revised performance management arrangements and consistent with pending development of Agenda for Change. The revised pay arrangements were introduced by HDL(2006)23 issued in April 2006, but did not in fact ‘follow’ the revised performance management arrangements which were not introduced until February 2007 by HDL(2007)15. The arrangements themselves were also subject to a material change when the fixed incremental points were dissolved by the Direction issued with CEL(2007)4. The 2005 report recommended that pay levels should be more closely aligned with appropriate public sector comparators. Closer alignment was achieved by setting the maxima of the ranges payable from October 2005 at the median of the rate for the ‘not for profit sector outside London’ based on externally audited pay data. However subsequent increases have been determined in accordance with prevailing Pay Policy rather than by direct reference to this market comparator. Therefore the maxima for most of the pay ranges are now less closely aligned than they were immediately following introduction of the current pay arrangements.

33. On the basis of paragraphs 31 and 32, it is the Review Group’s conclusion that progress with some of these specific recommendations from the 2005 report has fallen short of expectations. The observations on these 2005 report recommendations have informed the recommendations for further work at appropriate points in this report.

34. Comments from Health Boards, together with the Review Group’s assessment indicate that further work is required in two specific areas falling outwith the Review Group’s Terms of Reference. These are: the degree of bureaucracy involved in the performance management process; and, the ongoing development of the National Performance Management Committee. The Review Group recommends that the Scottish Government Health Directorates should consider how such further work might be progressed in the light of comments from Health Boards.

**Review of Pay Systems**

35. The Review Group has noted that Scottish Public Sector Pay Policy recommends that pay systems should be reviewed on an annual basis, or after each pay award has been implemented, and that a full equality impact assessment of reward policies and practices should be carried out every three years. The Review Group recommends that these requirements be addressed in future by the advisory group recommended at paragraph 54.
**Element 2 from Specific Remit**

**36.** Element 2 from the Specific Remit was to: *Consider and comment on the effectiveness of the current arrangements for performance related pay and make recommendations for any changes if considered appropriate.*

**37.** The Review Group was particularly aware of the significance of Public Sector Pay Policy for this element of its remit.

**38.** For the purpose of considering this element the Review Group understood ‘performance related pay’ to mean the consolidated and non consolidated payments for specific performance ratings which are approved annually by Ministers. If the ‘effectiveness’ of these payments is taken to mean the extent to which they can be regarded as having encouraged improved performance, it is the view of the Review Group that they are largely ineffective. There are three reasons for arriving at this conclusion. First, the value of the payments in relation to overall salary levels is too low to have any discernable motivational effect; secondly, the payments are not made until well after the end of the performance period to which they relate; and thirdly, the actual value of the payments is unknown until after performance has been delivered. It is not possible to address the first of these issues within the constraints of prevailing pay policy but recommendations in respect of the other two are made at paragraphs 41 and 42 below.

**39.** The Review Group’s assessment of the effectiveness of the current arrangements for performance related pay is broadly in line with that of Health Boards. There is a consistently strong view among Health Boards that the current arrangements are ineffective as a motivational tool and concern with the relatively small amounts involved. However Health Boards expressed a wide variety of views in relation to possible changes to the arrangements. The removal of fixed incremental points is seen as having had a negative impact and most Health Boards wish to see them reinstated. Several Health Boards are supportive of the principles of the system and believe that recognition of performance in the pay arrangements is important There is also a clear desire on the part of Health Boards to see the settlement date moved from 1 October to 1 April.

**40.** The Review Group acknowledges the value of performance related payments for the purposes of recognition, if not for motivation. There is now a robust system of performance management in operation. The Review Group has concluded that appraisal outcomes from this system should be recognised in a tangible way and that the marginal, but still significant, differences in performance related payments succeed in achieving this. It is the informed judgement of the Review Group that any change which resulted in all staff receiving the same level of pay progression regardless of performance would not be welcomed. For reasons of public accountability the Review Group also acknowledges the importance in certain contexts of pointing to the fact that all pay progression for members of the Executive and Senior Management Cohorts is performance based. For these qualified reasons the Review Group does not support abandonment of the principle of performance related pay as has been suggested by some Health Boards.

**41.** The current pay arrangements include an implementation date of 1 October and all of the elements of pay progression are performance based. Whilst this date can theoretically allow for the performance management process to be completed before any
increases are paid, the Review Group believes that it presents practical difficulties in respect of staff that leave the Service or retire, problems with timing within the financial year and also perceptual difficulties in comparison with other staff in the public sector. The Review Group recommends that the settlement date be moved from 1 October to 1 April.

42. The Review Group is satisfied that considerable disappointment and uncertainty has resulted from the decision to remove fixed increments from the pay arrangements originally proposed in the 2005 report. The Review Group recommends that methods of reinstating fixed spine points within the terms of prevailing Scottish Government Public Sector Pay Policy should be explored.

43. The Review Group recommends that, in accordance with recognised good practice, these arrangements for performance related pay be kept under regular review including an impact assessment of the recommendations at paragraphs 41 and 42.
Element 3 from Specific Remit

44. Element 3 from the Specific Remit was to: **Identify options for accelerating progress towards the pay scale maxima.**

45. The Review Group agreed that progress with this element of its remit is a matter of some urgency given that the pay range maxima are regarded as the ‘rate for the job’. The unpredictability of pay progression in the absence of fixed increments means that the current structure cannot guarantee progression through the ranges in an acceptable time period. It is impossible under the current arrangements to accurately predict journey times to the pay range maxima but this is estimated to be at least 14 years. The maxima are 36% higher than the minima, compared with approximately 20% in the Agenda for Change pay scales. This raises issues of age and possibly, gender discrimination and may affect motivation and morale. The ranges themselves also have excessively large overlaps between bands, in some cases overlapping two other bands.

46. To begin to reduce the extent of this problem, the Review Group recommends that the pay range minima be progressively raised in successive years as part of the pay settlement for the Executive and Senior Management Cohorts, and that a start to this process should be made immediately. This recommendation would have to be achieved within the parameters of prevailing Pay Policy and arrangements would have to be put in place to prevent any ‘leapfrogging’ of longer serving employees by those with shorter service.

47. It is a strategic aim of Public Sector Pay Policy that the time taken to progress to the maxima of pay scales or ranges should be of the order of five years. On the basis that acceptance and implementation of the recommendation at paragraph 46 would significantly reduce the length of pay ranges, the Review Group is satisfied that achievement of this strategic objective would be possible over a period of three to five years, particularly if the recommendation at paragraph 42 on the reinstatement of fixed increments is also accepted. The Review Group recommends that it should be a requirement of future pay remits that they specifically demonstrate reductions in journey times to the pay range maxima.

48. The Review Group noted that “reducing the width of pay ranges, where possible, to work towards shorter progression journeys for staff and sustainable progression costs for public bodies” is one of the key pay policy priorities within the Public Sector Pay Policy. Raising the minima of the ranges would reduce the degree of overlap between grades, which the Review Group believes is necessary to create a more transparent and understandable pay system for this group of staff.

49. The Review Group believes that no pay range should be overlapped by more than one other pay range at each end. The Review Group recommends that it should be a requirement of future pay remits that they specifically demonstrate reductions in the extent to which pay ranges overlap each other.
Element 4 from Specific Remit

50. Element 4 of the Specific Remit was to: **Consider the ways in which effective consultation with stakeholders can be achieved on an ongoing basis.**

51. In considering this element of its remit the Review Group noted that, since the decision in 1999 to bring the then pay and conditions of service for senior managers in NHS Scotland under Ministerial control, they have not been subject to negotiation and there has been no formal recognition of any interest group for consultation. The Review Group does not believe that the somewhat ad hoc approach to consultation which has been taken in recent years has been particularly effective and the following proposal is therefore designed to address this.

52. Stakeholders, in this context are taken to include the employers (Health Boards), the Scottish Government Health Directorates, trade unions and professional bodies.

53. The Review Group recognises that the Director General Health/Chief Executive NHSScotland is responsible for providing Ministers with advice on the pay and conditions of staff in both the Executive and Senior Management Cohorts and the proposals at paragraphs 54 to 59 below are designed to provide evidence and views to support this responsibility.

54. The Review Group has identified a need for improvement in the consultative and communication channels, and considers that this should be addressed within the existing governance arrangements led by Health Board Chairs. The **Review Group recommends** the formation of an advisory group with the working title of ‘Scottish Advisory Group on Executive Managers’ (SAGE). The main functions would be:-

- to conduct ongoing research and analysis of issues affecting the employment of staff in the Executive and Senior Management Cohorts and, in particular, to produce data on recruitment and retention, morale, motivation and relevant pay market comparators.

- to contribute to the development of proposed SGHD pay remits and their presentation to the Scottish Government Remuneration Group by providing comments on these in the context of prevailing pay policy.

55. Performance of the first of the functions in paragraph 54 would consolidate and build upon work of this type that is currently undertaken within the Scottish Government Health Directorates, and informally within the Service. It would also address a concern expressed by some Health Boards by providing transparency and reassurance on the extent of this activity.

56. SAGE would also be well placed to serve as required as a source of information and views on matters relevant to the employment of senior managers in NHSScotland.

57. SAGE would operate on the principles of partnership working, with each party reserving its right to maintain an individual position in the event of consensus not being reached. The key participants would be appropriate non executive members of Health Boards as employers of Executives and Senior Managers, and representatives nominated by the Staff Side of the Scottish Partnership Forum.
58. As part of the process of developing pay remits for presentation to the Scottish Government Remuneration Group, and in accordance with relevant timetables, Health Boards as employers would be responsible for conveying the views of SAGE to the Director General Health/Chief Executive NHSScotland, who would undertake to consider these before making any recommendations to Ministers on changes to pay or conditions.

59. SAGE would determine its own systems for conducting business and would make appropriate arrangements for the appointment of a chair or joint chairs, administrative support, access to specialist advice and communications. It would also agree arrangements for attendance by Chief Executive and functional Executive Director representatives from Health Boards, representatives from relevant professional bodies, and officials from the Scottish Government Health Workforce Directorate.
Section F: Summary of Recommendations

60. A systematic process for monitoring and reporting on recruitment and retention data be developed in association with Health Boards (paragraph 17).

61. An equality impact assessment of the interface with Agenda for Change should be undertaken (paragraph 23).

62. Health Boards should be reminded of their responsibility for making judgements on which jobs are ‘management’ jobs, and asked to demonstrate action taken to comply with HDL(2006)59 (paragraph 24).

63. The size of the Senior Management Cohort should be reduced (paragraph 25).

64. The minimum threshold in terms of Hay job size for inclusion in the Senior Management Cohort should be raised (paragraph 27).

65. A benchmarking exercise should be undertaken to help inform a further decision on the size of the Senior Management Cohort (paragraph 28).

66. A development framework for the Executive and Senior management Cohorts should be supported and progressed under the auspices of the Leadership Programme Board (paragraph 32 III).

67. Contributions to national and regional working should be supported by performance management and personal development plans (paragraph 32 IV).

68. Scottish Government Health Directorates to consider whether work in areas falling outwith the Review Group’s terms of reference is required in the light of the specific comments from Health Boards (paragraph 34).

69. Regular reviews of the pay arrangements including equality impact assessment to be addressed in future by the advisory group proposed by the Review Group (paragraph 35).

70. The pay settlement date should be moved to 1 April (paragraph 41).

71. Methods of reinstating fixed spine points should be explored within the parameters of prevailing Pay Policy (paragraph 42).

72. Arrangements for performance related pay should be kept under regular review (paragraph 43).

73. The pay range minima should be progressively raised (paragraph 46).

74. Pay remits should demonstrate progress towards reduction in journey times to the pay range maxima (paragraph 47).

75. Pay range overlap between grades should be reduced (paragraph 49).

76. An advisory group (SAGE) should be established (paragraph 54).
Appendix 1 - Review Group Membership

Independent Chair of Review Group
Alex Smith

NHS Board Chairs
Bill Matthews (NHS National Services Scotland)
Andrew Robertson (NHS Greater Glasgow & Clyde)
Charles Winstanley (NHS Lothian)

Chair of Scottish Government Health and Wellbeing Audit Committee
Martin Cheyne

Convenor of NHS Health Board Chief Executives Group
Fiona Mackenzie (NHS Forth Valley)

Chair of NHS Health Board Human Resources Directors Group
Rona King (NHS Fife)

NHS Health Board Director of Finance
Derek Lindsay (NHS Ayrshire & Arran)

Scottish Government Deputy Director Finance
Alistair Brown

NHS Health Board Employee Director
Hugh M. Sweeney (NHS Lanarkshire)

Two nominees from the Staff Side of the NHS Scottish Partnership Forum
Norman Provan (Royal College of Nursing)
Sarah Duncan (Unison)

Attendees
John Cowie

Scottish Government Deputy Director Health Workforce
Lesley Docherty

Representative from Scottish Government Finance Pay Policy Unit
Robert MacKinnon (NHS Tayside)

NHSScotland Pay Systems/Financial Accounting Specialist
Garrick Wagner

Scottish Government Health Workforce Directorate
David McCracken

Project Management to 31 August 2009
Appendix 2 - Background to Current Pay Arrangements

Pay and conditions of service for senior managers in NHSScotland have been subject to Ministerial Direction since 1999. In 2004 the Chief Executive of NHSScotland commissioned an Executive Managers' Review Working Group with a remit to:

“Review and recommend management, development and remuneration arrangements for Executives, which will enable NHSScotland to attract, retain and motivate the leadership talent that it needs – arrangements which are fair and complement implementation of Agenda for Change.”

This Group reported in September 2005 and concluded that:

- The performance management process was not serving NHSScotland well;
- There was no national co-ordination, direction or resource for attracting, assessing and developing the leadership talent NHSScotland needs to deliver services;
- The arrangements did not reflect the increasingly corporate nature of NHSScotland or provide for management and deployment of Executives, to get the best from the whole organisation for the people of Scotland;
- The pay of Senior Executives was not competitive, below general levels in the public sector and perceptibly below practice prevailing in the NHS in England;
- The interface between Executive Pay and the application of Agenda for Change required to be determined.

The Group made a series of specific recommendations which are summarised below:

(i) Revised performance management arrangements for the new Executive Cohort.

(ii) A new National Performance Management Committee to ensure pay progression reflects real achievement and contribution to patient care.

(iii) Support for career development of Executives.

(iv) A new standard contract of employment for Executives to reflect corporate NHSScotland responsibilities while remaining employed by NHS Health Boards.

(v) The new Executive Cohort should include Chief Executives, other Executive Directors, and senior managers who head up major strategic or operational functions and are direct reports to the Chief Executive. Also direct reports to Chief Operating Officers, Divisional Chief executives and equivalents where they have overall responsibility for patient services.

(vi) Revised executive pay arrangements to be implemented following the introduction of revised performance management arrangements and consistent with pending development of Agenda for Change.

These recommendations were accepted and implemented in respect of the Executive Cohort of just under 300 staff. This represented around a quarter of the total population of senior
managers whose pay was subject to Ministerial direction. It was recognised that the remaining thousand or so senior managers would either transfer to Agenda for Change conditions or become subject to similar pay and grading arrangements to the Executive Cohort.

Whilst the Agenda for Change Job Evaluation System was theoretically designed to apply to all NHS employees, separate arrangements were made for medical and dental staff and it was always recognised that there were some management jobs, which could not be properly measured by the Agenda for Change System. An extensive benchmarking exercise was conducted in 2006 to determine the effect on management jobs of applying the Agenda for Change System (no similar exercise was carried out in England, Wales or Northern Ireland). This provided conclusive evidence of the limitations of the Agenda for Change Job Evaluation System for measuring management jobs and established that, having transferred around 300 staff from the previous management pay arrangements to the Executive Cohort, there would be serious anomalies if the remaining managers were transferred to Agenda for Change. These anomalies included recruitment and retention difficulties, disaffection, low morale and likely effects on service delivery and equal pay issues. It had been decided that posts under Ministerial direction which had been evaluated at a level below 614 Hay units should be identified as ‘Transitional Grades’ in the expectation that they would transfer to Agenda for Change. Following the benchmarking exercise referred to above it was decided that all posts at or above this level should transfer to pay arrangements similar to those already introduced for the Executive Cohort to form the Senior Management Cohort, but with different arrangements for their performance management.

The arrangements for the remuneration of management posts within the NHS in other parts of the UK are very different. The relevant differences in the NHS in England (excluding Trusts and Foundation Hospitals who determine their own arrangements) are that there is no requirement for job evaluation, there are spot salaries rather than pay bands, which are higher than the maxima of the grades for equivalent jobs in organisations of comparable size in Scotland, and provision for various additional payments on top of spot salaries, including recruitment and retention premia.

The numbers of staff in each grade at the date of the Review Group’s Report are as given below with a total of 1,294. It is not possible to make a direct comparison with the numbers at 1 October 2005 because of changes in management structures and the implementation period over which posts were evaluated by the National Evaluation Committee.

<table>
<thead>
<tr>
<th>Hay Job Units</th>
<th>Grade</th>
<th>number in post</th>
</tr>
</thead>
<tbody>
<tr>
<td>2584+</td>
<td>I</td>
<td>2</td>
</tr>
<tr>
<td>2245 - 2584</td>
<td>H</td>
<td>5</td>
</tr>
<tr>
<td>1801 - 2244</td>
<td>G</td>
<td>16</td>
</tr>
<tr>
<td>1508 - 1800</td>
<td>F</td>
<td>29</td>
</tr>
<tr>
<td>1261 - 1507</td>
<td>E</td>
<td>66</td>
</tr>
<tr>
<td>1056 - 1260</td>
<td>D</td>
<td>87</td>
</tr>
<tr>
<td>880 - 1055</td>
<td>C</td>
<td>206</td>
</tr>
<tr>
<td>735 - 879</td>
<td>B</td>
<td>316</td>
</tr>
<tr>
<td>614 - 734</td>
<td>A</td>
<td>501</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1228</td>
</tr>
<tr>
<td><strong>Total (including 66 staff on Former Grades)</strong></td>
<td></td>
<td><strong>1294</strong></td>
</tr>
</tbody>
</table>
Appendix 3 - Business Structure and Working Practices

A Project Plan was drawn up at the beginning of the Project using the Scottish Government Business Planning Tool and this was updated on a regular basis. The Review Group received a project progress report at each meeting.

The Review group met on nine occasions. Agenda and papers were issued seven days in advance of each meeting.

The Review Group initially identified four central workstreams which were taken forward as appropriate by sub groups:

- Strategic Review;
- Consultation and Engagement;
- Pay Ranges, and;
- Performance Related Pay.

Other key issues including:

- Interface with Agenda for Change.
- Recruitment and retention issues, and
- Leadership and development,

were progressed within the individual workstreams, by the full Review Group and at a series of seminar discussions with access to relevant expertise from outwith the Review group as appropriate.

1. Strategic Review.

The Review Group was remitted to review and comment on the extent to which the strategic objectives for the new pay arrangements as set out in the 2005 report from the Working Group on Executive Managers Pay have been achieved.

The Chair of the Review Group wrote to Health Board Chairs (copied to Directors of Finance/ Human Resources and Chief Executives) (Appendix 4) asking for views from Health Boards on a number of issues. Essentially these were:

a) the extent to which it was considered the recommendations that were set out in the 2005 report were achieved;

b) whether the current Performance Related Pay arrangements had been successful and were perceived as a fair reward system, which acted as a motivator to improve performance; and,

c) whether the interface with AfC had caused inconsistencies and asking for examples reflecting Health Boards experience in this regard.

Each Health Board was asked to use its Remuneration Committee as a point of reference.
The Scottish Partnership Forum’s views were expressed through the staff side representation on the Review Group. In addition the views of the IHM as a relevant professional organisation were sought.

The views of Health Boards, trade unions and professional organisations are reflected throughout the Report.

2. Consultation and Engagement.

Part of the Review Group’s remit was to consider ways in which effective consultation with stakeholders can be achieved on an ongoing basis.

A sub group was established to consider the issues and report back to the Review Group. The sub group comprised:

- Fiona Mackenzie (on behalf of NHS Scotland Chief Executives)—Lead
- Charles Winstanley (on behalf of NHS Scotland Chairs)
- Hugh Sweeney (on behalf of the Employee Directors group)
- Clair Pullar (MiP)
- John Cowie (SGHD-Deputy Director of Health Workforce)
- David McCracken - Project Manager

The sub group met on two occasions and made recommendations to the Review Group.


The Review group in examining options for accelerating progress towards the pay scale maxima established a sub group to explore four key issues.

- journey times through the pay ranges
- pay range overlaps
- particular issues regarding the interface with Agenda for Change
- in the longer term research comparisons with other public sector pay systems

The sub group comprised:

- Rona King (on behalf of NHS Scotland Directors of Human Resources)- Lead
- Derek Lindsay (on behalf of NHS Scotland Directors of Finance)
- Sarah Duncan (on behalf of NHS Trades Unions/Professional Organisations)
- Robert MacKinnon-Pay systems / financial accounting specialist
- Garrick Wagner-Health Workforce
- Lesley Docherty-Finance Pay Policy representative
- David McCracken-Project Manager

The sub group met on two occasions and made recommendations to the Review Group.

The Review Group received the minutes of all the sub group meetings.
4. Performance Related Pay.

The Review group considered the effectiveness of the current arrangements for Performance Related Pay.

Much of the evidence was drawn from feedback from Health Boards. It is recognised that in the longer term there is some further work to be carried out beyond 31st August and discussions are ongoing with the Scottish Government Analytical Services Division to this end.
Dear Colleague

Review of NHS Scotland Executive and Senior Management Pay Arrangements

You will be aware from Dr Wood’s letter to you dated 17th June 2009 that a Group, chaired by myself, has been established to review current Executive and Senior Management pay arrangements in NHS Scotland. The Terms of Reference and specific remit of the Review were outlined in that letter.

The Group has now met and agreed to adopt an inclusive approach to information gathering and analysis from a wide a range of stakeholders. In light of this, I would very much appreciate the views of your Board on three strands of work which the Review is currently carrying out. These are detailed below.


I am seeking views on the extent to which you consider the recommendations that were set out in 2005 to have been achieved. Your HRD will be able to provide you with a copy of the Review.

By way of reminder, the central objective of the group which reported in 2005 was to make recommendations that would enable NHSScotland; ‘to attract, retain, and motivate the leadership talent it needs, thereby creating arrangements which are fair and complement implementation of Agenda for Change’.

The recommendations of the 2005 Review can be summarised as follows:
1. creation of Performance Management arrangements to ensure effective and consistent appraisal and planning to reflect performance for NHS Board, Regional and National contributions;
2. establishment of a new National Performance Management Committee to ensure pay progression reflects real achievement and contribution to patient care;
3. support for career development of Executives and Senior Management by the creation of a National Mechanism for co-ordinating and supporting the development of senior staff;
4. introduction of a new standard contract to reflect corporate NHS Scotland responsibilities;
5. the creation of the new cohort for a limited group of highly motivated and trained staff as their performance is so critical to the performance of the service;
6. Creation of new pay ranges which would be more closely aligned to appropriate public sector comparators which would resolve recruitment and retention problems of senior Executives in the NHS.

2. Current Performance Related Pay (PRP) arrangements

The Review Group has been considering the efficacy of the current PRP arrangements. In particular, whether they have been successful and are perceived as a fair reward system which acts as a motivator to improve performance. Your views, suggestions and evidence on these issues would be welcome. Your Remuneration Committee would be an important point of reference.

3. Interface with Agenda for Change (AfC)

The principles which govern whether posts should be included in the Senior management Cohort or within Agenda for Change are set out in Schedule 2 of Annex A to HDL(2006)59. It has been suggested there may be inconsistencies in applying these principles and that decisions are being taken solely on the basis of whether individuals would be advantaged or disadvantaged. The Group would be interested to know whether this is an issue within your Board and would welcome examples reflecting your experience in this regard.

To enable us to feed your comments into the final report I would welcome your response by mid August. It is my intention that recommendations arising from the Review will be evidenced based. Therefore I would appreciate supporting evidence where possible

Thank you very much in anticipation. Please send your responses to David.Mccracken2@scotland.gsi.gov.uk

Alex Smith
Chair- Review of NHS Scotland Executive and Senior Management Pay Arrangements
Appendix 5 – Synthesis Of Comments From Health Boards

Twenty Health Boards responded to the Chair's letter of 21st July 2009, which invited comments on the work of the Review Group (Appendix 4). This paper provides a summary of these comments. A more detailed breakdown of the comments is available on request to the Scottish Government Workforce Directorate.

Respondents were as follows:-

NHS Greater Glasgow and Clyde
NHS Lothian
NHS Lanarkshire
NHS Grampian
NHS Tayside
NHS Ayrshire and Arran
NHS Fife
NHS Highland
NHS Forth Valley
NHS Dumfries and Galloway
NHS Borders
NHS Shetland
NHS Orkney
NHS Education for Scotland
NHS National Services Scotland
Scottish Ambulance Service
NHS 24
State Hospital
NHS Health Scotland
National Waiting Times Centre

In formulating their responses Health Boards had clearly consulted widely within their local systems, with particular reference to Remuneration Committees. Health Boards welcomed the opportunity to comment on the current pay arrangements and to provide an input into the work of the Review. Responses were of a high quality and greatly assisted the Review Group in considering the relevant issues and arriving at conclusions. The Scottish Partnership Forum’s views were expressed through the staff side representation on the Review Group.

1/ the objectives and recommendations of the 2005 Report of the Executive Managers Review Working Group

There is consensus that the central objective, which was to make recommendations that would enable NHS Scotland ‘to attract, retain, and motivate the leadership talent it needs, thereby creating arrangements which are fair and complement implementation of Agenda for Change’ has only been partially met. Comments can be summarised as follows;

- Recruitment difficulties are being experienced by a number of Health Boards in Scotland. Most Health Boards highlighted this as an issue, attributing the main factor as being the variances in the pay ranges between the Scottish NHS, other Public Sector organisations and NHS England in particular. The view is that the
envisaged alignment of pay ranges to appropriate Public sector comparators has not been realised.

- Strong views were expressed that there is little evidence of structured career development for the cohorts. The approach has been ad hoc and Health Boards views indicate that this is an issue that clearly requires to be addressed. It was anticipated that career development and succession planning for this group of staff would be more fully developed and this has not happened.

- The Performance Management arrangements are welcome and have been developed within many Health Boards to meet specific requirements. However, the view is that these now need to be reviewed, particularly the paperwork which is regarded as bureaucratic and onerous. Also there needs to be a strengthening of ‘behavioural’ objectives which concentrate on how targets are achieved and the leadership behaviours displayed.

- The positive role of the NPMC is generally recognised and this needs to be developed further, in dialogue with Health Boards. One Health Board suggested that its role should be expanded to include sharing of examples of best practice from other Health Boards. However some Health Boards expressed doubt that the NPMC ensures pay progression reflects real contribution and achievement to patient care, viewing it more as an ‘Audit’ committee which limits the number of high ratings. This is an issue that may require future consideration.

- Corporate NHS responsibilities are viewed as being ineffective. The proposed arrangements are not co-ordinated as originally envisaged. Contributions to national working are not driven by the standard contract but rather reflect contribution through national groups and therefore the approach is inconsistent.

- The original vision that there would be a small cohort of senior staff falling into this category has not been achieved. The cohort is now much greater in numbers than originally planned and this was commented on by a number of Health Boards. The strategic direction for these cohorts requires to be reconsidered.

- Several Health Boards recognised the importance of taking steps to avoid the risk of exposure to Equal Pay and Discrimination claims due to the length of the pay scales, the scale overlaps and discrepancies in starting salaries. This has been debated by the Pay Ranges sub group and the Review Group.

- There is consensus that progression to the maxima of pay scales should be much quicker and that the overlaps in the scales have led to a number of inconsistencies which the Review Group should address.

- There is also a consistent view that the pay year for the cohorts should revert to 1st April and the PRP awards should be aligned accordingly.

- There was strong support for the work carried out by the National Evaluation Committee, although some Health Boards made suggestions aimed at improving the effectiveness of communications between the NEC and employers.
2/ Current Performance Related Pay (PRP) arrangements

Views on the current PRP arrangements were consistent. The current system is not regarded as being effective and is not seen as the motivational tool originally envisaged mainly for the following reasons;

- Due to financial constraints it is difficult to reward high performers.
- The time delay for payment is unreasonable and the settlement date should revert back to 1\textsuperscript{st} April. The current timetable is viewed as being contrary to the message of valuing key individuals.
- The levels of performance related pay progression are unknown until after the performance period.

Comments were also made on the following;

- Suggestions for restructuring the pay ranges in the absence of fixed increments.
- Suggestions for redesigning the scoring system.
- Consideration of system of ‘spot’ salaries similar to that used for Very Senior Managers in the NHS in England.

It is very clear from the range of views expressed that Health Boards welcomed the inclusion of this element within the Review Group’s Terms of Reference.

3 /Interface with Agenda for Change

A variety of views were expressed and evidence shared on this issue. It is however clear that there have been inconsistencies in the application of HDL (2006)\textsuperscript{59} across Scotland;

- There has not always been a clear rationale in allocating staff to the senior manager management cohort or AfC.
- Evidence suggests that in some Health Boards, decisions on which system to use are based on individual benefits rather than the needs of the service.
- There is a consistent view that the provisions contained in HDL (2006)\textsuperscript{59} should be revisited and the guidance should be clearer.
- Suggestions were made that the lower senior manager pay ranges might be adjusted.

It is clear that Health Boards see this as an issue that requires attention and that there is support for the Review Group addressing it.
Pay Determination

Not all Health Boards are fully supportive of the current system under which pay for the Executive and Senior management Cohorts is determined by Ministerial Direction.
Appendix 6 - National Performance Management Committee Terms Of Reference

NATIONAL PERFORMANCE MANAGEMENT COMMITTEE (NPMC)

Terms of Reference (consolidated December 2007)  
Agreed at  
14 August 2009 Meeting

Background

1. HDL(2002)62 introduced arrangements for the Appraisal of staff on Executive and Senior Managers pay ranges and gave guidance on governance arrangements and the importance of having evidence-based audit-proof systems in place. By 2005 there was concern that these arrangements had not been applied fully and consistently across all NHS employing authorities.

2. The creation of NPMC was recommended in a report from the Executive Managers Working Group in September 2005 which was accepted by Ministers. HDL 2006(54) described the overall role of NPMC and that role was further clarified at a series of seminars for Remuneration Committee members in November and December 2006.

3. The NPMC will have an independent chair plus four members nominated by the Scottish NHS Employers Chairs Group. A quorum for any meeting should be at least three members*1. In the absence of the Independent Chair, members present will agree a Chair for the meeting. No follow-up action will follow any such meeting until the proposals minuted have been agreed by the Independent Chair. The NHSScotland Chief Executive and Director of Workforce will attend meetings.

4. The National Evaluation Committee (NEC) will be a standing sub-committee of the NPMC. The Chair of the NEC will be a member of the NPMC and the NEC will report on a regular basis to the NPMC.

Role of the NPMC

5. The role of the NPMC is:
   - to ensure, on behalf of SGHD, the effective and consistent application of performance management arrangements and rewards for those in the Executive Managers Cohort and to generate effective delivery of health services to meet the needs of the people of Scotland. (Separate arrangements will be put in place, outside NPMC, in relation to members of the Executive Cohort who are on secondment from Boards and whose performance is not ultimately assessed there);
   - to provide guidance, support and process. It should not be to assess performance of individuals;
   - to provide consistency in processing and assessing performance to provide reassurance to Boards.

*1 This would include any member participating via either a teleconferencing or videoconferencing set-up.

34/35
6. Other specific responsibilities are:

- to monitor and advise the Department on the effectiveness of the arrangements for the Executive Managers Cohort;
- to assure Ministers, and the public, on the robustness of the performance management and appraisal processes across Scotland and ensure that increases in pay are merited and made only on evidence-based performance;
- to determine and oversee the performance management assessment process for the Executive Managers Cohort;
- to obtain feedback on the performance of NHS Board from e.g., the outcome of delivery plans, the broader conclusions from annual reviews and periodic reports from Boards;
- to apply moderation where necessary in order to ensure fairness and consistency among Boards and an acceptable degree of correlation between Boards' overall performance and their assessment of individuals' performance;
- to examine all Outstanding ratings for those on the Executive cohort;
- to agree payment of performance-based pay increases for staff in the Executive Managers Cohort, subject to Ministerial Pay Directives;
- on completion of the annual review exercise, the Independent Chair will be required to send a letter of assurance to the Cabinet Secretary (Health & Wellbeing) confirming that the practices and processes set out in the relevant NHSScotland circulars have been robustly followed by NHS Board Remuneration Committees.

Performance appraisals of staff within the Executive Cohort must be regarded as provisional until NPMC has considered and reported on the overall pattern of performance assessments for all staff within that cohort.

Any initial action or dialogue considered necessary by NPMC following receipt of the provisional annual appraisals will be carried out on its behalf by NHS officials. This will leave NPMC members free to be involved in any matters that cannot be resolved by officials. If, after direct NPMC intervention, agreement cannot be reached, the Chair of the Remuneration Committee will be advised that the Board will be excluded from the formal assurance required by Ministers from NPMC and the matter will be passed to the NHSScotland Chief Executive.

Relevant papers:

| HDL(2007)15 |

- Report of the Executive Managers Review Group, September 2005
- Remuneration Committee Self Assessment Pack (2007)