



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

**Outcome of Senior Civil Service Pay
Review**

8 September 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O’Loan
Ms Dawn Purvis

Witnesses:

Mr Stephen Peover) Department of Finance and Personnel
Mr Derek Baker)

The Chairperson (Ms J McCann):

I welcome Mr Stephen Peover, permanent secretary, and Mr Derek Baker, director of personnel in the corporate human resources division of the Northern Ireland Civil Service. I invite you to make some opening remarks, after which I will open up the meeting for questions.

Mr Stephen Peover (Department of Finance and Personnel):

Thank you, Chairperson. We do not have all that much to say; members know the background to this issue. Concerns have been expressed about Senior Civil Service pay in a variety of forms for some considerable time; it is mentioned again in today’s ‘News Letter’. Ministers agreed to have

an independent review to provide some views on how best to handle the issue in future. We went through a number of iterations and, eventually, the sensible thing appeared to be to use the Senior Salaries Review Body (SSRB), which is the national organisation supported by the Office of Manpower Economics. We commissioned the review, the report of which members have in front of them.

The Minister has not made any decisions about that report. We received it in July, and passed it to the Committee because of its interest in the issue throughout. The Minister will be glad to receive views on the report. We have not put any views to him yet, nor has he expressed any views to us. We do not have a policy position on the report. We are genuinely in a position in which we can take on board the views of the Committee, the trade unions and anyone else who wants to comment on the report.

The report has not been released to the Senior Civil Service itself. We are having a discussion with the permanent secretaries this Friday. They have not yet had a collective discussion. We are genuinely at a very early stage in the process. All views will be gratefully received, as far as we are concerned.

Mr Derek Baker (Department of Finance and Personnel):

The report has also been sent to the two main unions, NIPSA and the FDA, for their comments and views.

Mr O'Loan:

Thank you for your introduction and the paper that you forwarded to the Committee. It is healthy that we are looking at this issue. It is very important that we get it right, because broader Civil Service pay issues are going to come under increasing focus. Clearly, the marker that is put down at the high levels is of huge significance.

In reading the broad conclusions, I see a lot of value. However, one thing that is not at all clear to me is how the proposed scales relate to existing scales. In particular, are we talking about broadly the same salary levels, or higher or lower levels?

Mr Peover:

They are broadly the same as the existing scales. The problem is that there are a number of issues of perception, and those are picked up in the report. The salary scale for my pay band runs from £98,000 to £205,000. I would have to live to be as old as Methuselah to have any prospect of getting anywhere near the maximum of my scale. In fact, there is very little progression.

Although the maxima are quoted in recruitment adverts in newspapers, they are effectively unattainable. They give the wrong impression to potential recruits and to the public. The SSRB is proposing to shorten the pay scales dramatically. The maximum of my scale would drop from £205,000 to £128,000. That sounds dramatic, but it would not make any great difference to me or my colleagues. As far as I understand, only one person at permanent secretary grade is earning more than that. The median quoted in the report is £106,000.

So, the answer to your question is a bit complicated. The scales would be dramatically shortened. Under the proposals there would be the prospect of some progression for people across the three Senior Civil Service grades towards their maxima, but they would not make a dramatic difference to the salary scales because the figures that appear in print are not real figures, they are merely theoretical.

Mr O’Loan:

Some public comfort will be obtained from the salary ranges. We are not in the arena of other salaries that are being quoted, such as that of the director general of the BBC, of £850,000. The maximum figure in the report is £128,000. Further debate may be necessary on whether that is an appropriate maximum, but we are certainly not in the arena of the hideous abuse of public funds.

I note the important comment in the report that the pay of the Northern Ireland Senior Civil Service:

“should be aligned to the local labour market and economic circumstances.”

It is now a question of what happens with the marker down through the rest of the Civil Service. If that same marker were adopted right across, that would have major implications and, frankly, open up the whole concept of regional pay. Those are very big issues. However, I do not see any connection between that statement and the pay scales that are offered on the following page of the

report. They appear without justification or connection to anything. I would guess that their derivation is very much a consolidation of existing pay levels.

Mr Peover:

It is not for me to defend the SSRB report. There is a bit more to it than that. The SSRB took evidence from a variety of interests here, including private sector interests. It also looked at salaries across the public sector, and in the annexes to the report there are comparisons between the median and basic salaries for the three Senior Civil Service grades and people in non-departmental public bodies, Invest Northern Ireland, the Strategic Investment Board, the Housing Executive and education and library boards. So, they have tried to draw up comparitors for the wider public sector.

The report comments on the lack of availability of good comparitors in the private sector. The private sector in Northern Ireland is, by and large, pretty small, and not many companies employ significant numbers of staff with whom to compare. Where such companies exist, their pay rates tend to be substantially higher than public sector rates. Therefore, it is a bit more than simply chopping off the top of existing scales.

The SSRB tried to look at whether the pay rates are broadly comparable with the wider Northern Ireland comparitors, particularly public sector comparitors. In that sense, your point about regional pay is valid. In Northern Ireland, separate negotiations take place for staff below the Senior Civil Service. If the Minister were to go through with the process and if it were accepted in due course, that would be extended into the Senior Civil Service. For the first time ever, separate negotiations and decisions in Northern Ireland about pay levels for the Senior Civil Service would take place, rather than being done on a UK-wide basis, as they have been done to date.

Mr Baker:

To pick up on Mr O'Loan's question, the report attempts to establish some kind of comparison with the private sector. That is based on information provided by PricewaterhouseCoopers (PWC) and is outlined in paragraphs 3.32 and 3.33. It attempts to establish some type of benchmark. As Stephen said, establishing benchmarks is difficult because of the lack of data

from the private sector.

Mr O’Loan:

Finally, I want to ask about assimilation to the new grades. When new pay scales are introduced, it is common practice that everyone moves up to the next available point. In the present climate of huge pressure on the public finances, there is a general view that those in the public sector must accept their share of the burden. Is there nothing more to be said than that? Will the effect of the report be simply that the status quo remains?

Mr Peover:

Those are matters for the Executive to decide on locally, but the report suggests a pay freeze for the Senior Civil Service in the current year. It suggests that assimilation should begin in 2011, but for most people that would mean a pay rise of a few hundred pounds, if anything. Indeed, some people will not receive a pay rise because they are above the highest point. A decision is to be made by the Executive on what they wish to do on public sector pay. The report provides some suggestions, including a pay freeze, but it is for the Finance Minister and the Executive corporately to decide what they want to do.

I do not wish to sound like an apologist for the report, because we have not yet taken a view on it. However, the report expresses the intention that the system should be cost neutral, with no net increase to the pay bill. It sees its recommendations as not adding to the pressure on public sector pay, while achieving all the other objectives that it mentions, in trying to provide a reasonable pay system for the Senior Civil Service.

Ms Purvis:

One of the criticisms of the bonus system was that, when determining individuals’ bonuses, it failed to differentiate between organisations that were performing satisfactorily and those that were not. The review does not report on any change to that. Could it be argued that individual performance-related awards could be linked to departmental performance against PSAs?

Mr Peover:

A couple of the report’s recommendations need a lot of thought. The final recommendation is

that:

“remuneration committees consider whether, in specific circumstances, performance-related awards for members of the Northern Ireland Senior Civil Service in under-performing departments, agencies or parts of those organisations should be restricted or suspended”.

I understand that, and we will have to talk to the Minister about that.

Stepping outside the report, I, as a manager, have had to make decisions about whether to give bonuses to staff in bits of organisations that were underperforming. I agree with the report on that point: most of us did not like the system of bonuses, which were difficult to justify and to assess. One can add up ticks in a box against people at a senior level and say that the person with seven ticks deserves a bonus while the person with four ticks does not, but it is much more complicated than that. There can be staff who are struggling against the odds in organisations that are perceived as failing but who are doing a good job. The question is: does that person deserve a bonus or not? Quite often, the answer is yes, in comparison with someone who is also doing a good job in a relatively less-stressed bit of the organisation.

We had to take those decisions, which I found invidious. I did not like taking them. They were my personal responsibility; I could not take advice from colleagues such as Derek. I had to carry the decision-making role. They are divisive and demotivating. I found that, by and large, the bonus system did not motivate staff at senior level because they are motivated by things other than bonuses. The bonuses were not even large enough to motivate anyone, and the people who did not get them were demotivated by their failure to get them.

Personally, I did not like the previous system and I welcome the view expressed in the SSRB report that the bonus system did not work and did not achieve its objectives. The previous bonus system cost money; £1.1 million was saved when it was scrapped in 2009. It also had an impact on my and my colleagues’ substantive pay, as the money was put into a separate bonus pot and was used for unsatisfactory purposes. The Minister must make a decision on the matter, but that conclusion was a positive aspect of the report.

Ms Purvis:

Another criticism of the bonus system was that it tended to reward average performers and did not differentiate the top performers. Are you satisfied that the review will allow for change in

that area? The report is not very clear in its recommendations on the way forward for bonuses and performance-related pay.

Mr Peover:

Those issues are very tricky and there is no easy answer. Most of our work is done in teams; rarely will there be someone locked in a darkened room on their own, producing a brilliant piece of work that is worthy of a wonderful bonus. All work across the Senior Civil Service, and the levels below it, is done in teams. The reward given is for the outcome of that work.

It is genuinely difficult to differentiate between the people who are involved and decide that, for example, Derek is worth a level one bonus and someone else is not worth a bonus at all. Under the previous system, we tended to separate the two elements — base pay and bonus pay — and tried to find ways of mixing and matching. If someone was involved in a one-off, short-term, important piece of work, such as a review lasting three months, that was considered under the bonus element. If someone was doing a good steady job and delivered against their objectives, that would be recognised through a decent base pay award, as it was evidence of sustained good performance. There was an advantage in having the two components, but that advantage was outweighed by the disadvantages of the system.

The SSRB has proposed that there should be some enforced distribution and norms. That would mean that only a certain amount of people could achieve a two-step progression, others would receive a one-step progression and a large number of people — some 40% — would receive no progression. That would be difficult, as we would have to tell people that although they had done a good job, we could not give them a pay award. We would have to explain that that decision had been based on a relative assessment of performance across a number of staff, which would also be a difficult message to convey.

Under the proposed new system there would not be guaranteed progression for everyone. Progression would have to be earned, and that would provide an incentive.

Mr Baker:

Ms Purvis raised a very valid point. I fully understand the perception that it appeared odd under

the old, so-called bonus system that three quarters of staff were eligible for a bonus, as our common perception is that bonuses only target a very small number of people.

The report attempts to explain the origins of the performance-related pay system; I suppose that it would, because the SSRB invented that system. The previous system was not a bonus system as we might understand it in the context of the private or financial sectors. Rather, it was an integral part of the pay system, and it was always assumed that even average performers would benefit from it, with moneys being carved out from the pay pot and given back to staff in a different way. However, over time, that understanding was lost and I can understand how the focus then moved to question why so many staff members were getting bonuses on top of their salaries. I can also understand the public and political concern that that caused.

Mr McNarry:

The report is important and highlights some big issues in the general scheme of things. My questions are intended to help me explain matters to my constituents.

May I ask you how much you are paid?

Mr Peover:

I am happy to tell you that. I am paid £106,000.

Mr McNarry:

How much is the Minister paid?

Mr Peover:

I do not know.

Mr McNarry:

You do not know how much the Minister is paid?

Mr Peover:

No. It is quoted in the accounts, but I do not have it in front of me.

Mr McNarry:

OK.

Mr Peover:

The Minister has a salary as an MP and so on.

Mr McNarry:

I was asking how much the Minister is paid, as a Minister.

Mr Peover:

I am not sure of that. I would need to check the accounts. All the figures are published in the accounts; there is nothing hidden.

Mr McNarry:

I understand that. How would you respond to cuts in salaries for senior civil servants?

Mr Peover:

The report makes clear that we have had a 5% cut in salaries.

Mr McNarry:

I asked how you would respond to it.

Mr Peover:

It was enforced. I did not have to respond to it; it just happened.

Mr McNarry:

How would you respond to a proposal that there be cuts in the salaries of senior civil servants?

Mr Peover:

Are you asking me personally, or are you asking the Civil Service generally?

Mr McNarry:

I am asking you in your capacity as the senior civil servant in charge of this Department.

Mr Peover:

Are you asking whether I, personally, would take a pay cut?

Mr McNarry:

No. How would you respond to cuts?

Mr Peover:

You are asking me whether I think that there should be a cut in Senior Civil Service pay.

Mr McNarry:

No. If the proposal was that there be cuts, and that came down the line to you, how would you respond to it? That is all that I am asking.

Mr Peover:

How I would respond is not the matter; Civil Service pay is a matter for the Minister and the Executive to decide. My advice to the Minister is my advice to the Minister.

Mr McNarry:

What advice would you give to the Minister?

Mr Peover:

I cannot comment on that, obviously.

Mr McNarry:

I see. Would I get the same answer if I asked you how you would respond to a freeze in salaries?

Mr Peover:

The report recommends a freeze in salaries. The national Government have decided on a public sector freeze for two years. What is the point in me having a view on that? The Government

have made a policy decision. The Executive are yet to make a decision, but may do so.

Mr McNarry:

I am only asking you whether you have a view and whether you are prepared to offer it to me. Whether there is a point in you having a view is a matter for yourself. With regard to your relationship with the Minister, you obviously cannot tell me what advice you would give to him, and I accept that. I am merely trying to ascertain the view of the permanent secretary of DFP. How would you respond to those two points?

Mr Peover:

I am not sure that I have a view as the permanent secretary. I have a view as a human being. I will put advice to the Minister. Derek and I will put what, hopefully, will be balanced advice to the Minister and advise him of the pros and cons on both sides, and he will decide. It is not for me to decide.

Mr McNarry:

I understand that you are a human being.

Mr Peover:

It would look odd if I were to recommend to the Minister that he should not cut Senior Civil Service pay.

Mr McNarry:

You are missing the point. I am merely asking how you would respond to the proposals on the freeze or on the cuts.

Mr Peover:

I would put advice to the Minister and let him decide.

Mr McNarry:

Will you tell us what that advice would be?

Mr Peover:

No. I cannot do that.

Mr McNarry:

Therefore, we have to wait to ask the Minister what advice you gave him.

Mr Peover:

I assume that he would not answer that either. He will tell you what the Executive have decided.

Mr McNarry:

We have no damned idea about how policies are arrived at if it is a closed shop.

Mr Peover:

Until a policy is decided, we tend not to discuss the issues. Ultimately, the Minister will decide. We are not trying to create tension between civil servants and Ministers. Ministers make decisions, and civil servants provide advice. I hope that we will provide the Minister with balanced and unbiased advice. The point of having an independent report is that it does not come from us; it comes from an outside group that has no interest in the outcome of the issue.

Mr McNarry:

I thought that you said at the outset that, as yet, you had not taken a policy position.

Mr Peover:

We have not.

Mr McNarry:

You said that you hoped that the Committee would contribute and, perhaps, give you some ideas to help to achieve that. At the end of the day, you will take a policy position.

Mr Peover:

No. The Minister will take a policy position.

Mr McNarry:

OK. If senior posts are subjected to scrutiny scoping, is the likelihood that there will be or could be redundancies? If that were to be an outcome, would it be subject to there being no recruitment to fill those posts until times are more appropriate?

Mr Peover:

There are two conditionals in your question: might there be redundancies and might we fill the posts. We have a general policy of trying to avoid redundancies, because they are expensive. Our first approach is to seek to not fill vacancies unless there is a very strong reason to do so. The number of people in the Senior Civil Service in Northern Ireland has fallen in recent years, when it has grown in the rest of the UK. So, we have been seeking to constrain numbers. In DFP, we have reduced staff numbers by about 10%, and we expect to reduce them further as we rationalise posts.

The answer to the second part of your question is that we will scrutinise each vacancy that comes up and decide whether it needs to be filled, with the presumption being that we will try not to fill it unless we have to.

Mr McNarry:

That is the policy for senior posts.

Mr Peover:

The same applies to other posts. There is a recruitment freeze at the moment.

Mr McNarry:

I realise that.

Mr Baker:

I do not know whether I understood the question fully, but the only point that I would add is that, if we were to get into a redundancy situation in which any post was subject to redundancy, it is highly unlikely that we would subsequently fill that post. The whole point would be that the post had been suppressed and that people had been let go.

Mr McNarry:

That is helpful. I am just trying to get a handle on whether, due to efficiencies, there may be reductions that cause a redundancy situation. I am trying to find out how you would handle that situation. If there was a redundancy in a post, I take it that somebody would not be recruited into that position until things had got better, which would hopefully not be too long away.

Mr Baker:

Yes. The only other comment to add to that is that all Departments, as you are aware, will be working through the impact of decisions on Budget 2010 for the full range of their staffing complements. The likelihood is that the number of Civil Service posts will reduce very significantly over the next four years, and we will have to factor that into our overall workforce planning. I am not going to say now that that will result in redundancies, but we will have to look very carefully at whether we can accommodate any staff surpluses through natural wastage, a recruitment freeze, a promotion freeze, redeployments and so forth.

So, there is a lot of very difficult number crunching to be done over the next few months to see what happens in workforce terms. At this stage, we are not talking about redundancies, but who knows what might come down the track? We have a range of measures in place to avoid redundancies. After that, we would have to move to voluntary redundancies. Only as a last resort would we move to compulsory redundancies, which would apply to the whole workforce.

Mr McNarry:

I appreciate your straightness; what you have said is very significant. That is the type of thing that MLAs are alert to, because there is general nervousness about the future in all households throughout Northern Ireland, regardless of whether they contain civil servants or simply people who are fortunate enough to be holding down a job. There is a lot of unwarranted gossip between the public sector and the private sector, of which we will see a lot more. Members will be confronted with that, so what you have said is extremely significant and is a major position to have taken.

Recommendation 2 of the report says, more or less, that, for those senior civil servants who

are below the maximum of the pay scale, the top 10% of performers should be moved up two steps on the scale and the next 50% of performers be moved up one step on the scale. Am I right in saying that that poses certain risks? I know that you do not have a policy position, but perhaps you could just give me a view. That recommendation would appear to create a risk of upward pay drift in the public sector pay bill, which we are all conscious about. If it was enacted, how would the Department propose to deal with it? Might it result in lower future increments to other civil servants? Would lower increments be required elsewhere to offset the risk of upward pay pressures? That is the type of question that many of my constituents are anxious about.

Mr Peover:

The report is saying that the recommendation has been framed on the basis that it would not create upward pay pressure for the Senior Civil Service. The movement through the Senior Civil Service of those at the upper end of the scales who are moving on or retiring and being replaced by people further down the scales would be enough to off-balance any flow through the progression system. Recommendation 11 states explicitly that:

“the new pay system be monitored carefully to ensure that it is not creating unintended upward pay drift and that it remains affordable.”

Again, I will talk to the Minister about that. The report is framed on the basis that it is not proposing any overall increase in the Senior Civil Service pay bill.

Mr McNarry:

I understand that. I am fully aware that that may be what is implied. However, the contrary to that is that it could happen, even though the report said that it would not. Do you share that view? If the proposal were to be taken on board, would you simply say that the report says that it is not going to happen? Do you take the contrary view, which is that it could happen and which would involve stating the way to prevent it happening?

Mr Peover:

The review body says that it should be monitored carefully. Again, we have not taken a view, but I think that that is a sensible recommendation. If the decision that the Executive make in due course is based on the report, for example, and the report is based on an expectation that there

will not be an upward pay pressure, it is incumbent on the system to ensure that there is not an upward pay pressure.

Mr McNarry:

Can I take it that you are likely to accept that recommendation if the monitoring vehicle is OK to you?

Mr Peover:

I am not unpicking the package. The package is based on a set of recommendations that the review body has come forward with. One of those recommendations is that, if the package is accepted, it will need to be monitored to ensure that there is not an unintended consequence. The review body has given a set of suggestions — as you said, the 10% and 50% and the one-step and two-step progression. The Executive could play with all those variables in due course and say that, if it is creating pay pressure, we cannot have 50% moving up one step but can have only 40% or that we cannot have 10% moving up two steps so it will be only 5%. There are variables that would allow the Executive to control the pay mechanism if they wanted to.

This is all set in the context that no policy decision has been taken. The Minister and the Executive have not considered it. However, if they accepted the package or something like it, there are ways in which it can be controlled if the monitoring is carried out, and the monitoring is explicitly recommended in the report.

Mr McNarry:

OK.

Mr Baker:

I do not know whether Mr McNarry is aware that, in coming to the conclusion that the overall scheme should be cost neutral over time, the SSRB did a fair bit of number crunching. It got a lot of data about our staff, salaries, age profiles and who would be retiring, although we cannot predict with any certainty who will retire as we do not have an age retirement policy. The SSRB looked at all that, and it estimated the effect of the recyclables — people moving off the top and moving out and being replaced by cheaper people. The SSRB reached its conclusion following a

pretty detailed piece of analysis.

Mr McNarry:

I appreciate that. In summary, as you do not have a policy position and as the Executive, the Minister and various people will have to take decisions, will the Minister come back to the Committee to tell us where he is going with the report? Or would it be valuable to have a return meeting with you when you might be able to tell us what input you made with regard to any anxieties or preferences that you might have? Or is this the end of it today, and we will have to wait for the Minister? Is that how we are going to leave it?

Mr Peover:

There are two things. The Minister will want more than our input. He is inviting the Committee and others to give him views. His decision will be based on our views, the views he receives from others and his discussions with Executive colleagues. The Executive will, hopefully, arrive at an agreed recommendation on Senior Civil Service pay. I can talk about our bit of it, but, at the end of the day, it is the Executive's decision. At that point, if you wanted to talk about it, it would be sensible to talk to the Minister.

On the other hand, you may want to explore issues during the process and as we move along. I cannot see this matter being signed off after a single discussion with the Minister. It will take a while to evolve a policy. So, if there are issues that the Committee wants to reflect back to us as part of the process or if members want to engage with us, I am very happy to come back. The difficulty that I have is that the decision is the Minister's decision.

Mr McNarry:

I understand your position.

Mr Peover:

Derek and I have an interest in the outcome of this. Therefore, we have to be careful about how we deal with it. It is important that it is handled correctly.

Mr McNarry:

I would like to think that you would be far above that. At £106,000 a year, I do not think that it should make much difference to you. I respect the fact that you are not able to take a policy position at present. Is it the protocol that, when you are able to take such a position, you can inform this Committee of it?

Mr Peover:

Do you mean when the Minister makes a decision?

Mr McNarry:

No. You said that you, as the permanent secretary, are unable to take a policy position. That is more or less what you began by telling us.

Mr Peover:

What I mean is that the Department does not have a policy position, because the Minister is the decision-maker, and he will make the policy decision. I can come back and tell you what the Minister's decision is, and he can explain it. It is fine if you want to ask me what issues were raised as part of that discussion. However, at the end of the day, the Minister must justify his decision, not me.

Mr McNarry:

OK. Thank you very much.

Dr Farry:

I go back slightly to what David was saying towards the end of his questioning. Derek, you made the point that this should, hopefully, be cost neutral in the long run. Does that imply that, if it was introduced — all other things being equal — from 1 April 2011, there would be an uplift in the resourcing required for senior salaries?

Mr Baker:

The report concludes that just over 1% would be required. That would be the uplift in the total Senior Civil Service pay bill required to assimilate staff from their current salaries to the new pay

scales. After that, the pay progression element would be cost neutral, but any annual revalorisation — as we call it — or cost-of-living increase in the pay points, the pay maxima or pay minima would have a cost. However, it would be for the Executive to decide what the annual pay awards should be: 1%, 2%, 3%, 0% or whatever.

By way of background, it is interesting to note that the Senior Civil Service pay bill over recent years has stayed roughly the same, even though there have been pay awards every year, precisely because of the effect of more expensive staff at the top of the pay bands leaving and being replaced by more junior staff, combined with a gradual reduction in the number of senior civil servants. I do not have the figures in front of me, but the pay bill has stayed about the same.

Dr Farry:

I appreciate the distinction between a permanent secretary and a Minister in the Executive. However, in the event that the recommendation from the SSRB is introduced from 1 April, how might that interact with other decisions that the Executive may take? We have the unfortunate situation that the reforms are being recommended at the same time as there is pressure to control costs right across the system. With those two things overlying each other, there may not be a clear understanding of how things are changing come 1 April. How can that process be effectively managed?

Mr Peover:

A number of decisions must be made. We have not yet had a decision on the pay award for 2009-2010. The first decision that the Executive must arrive at is whether to go for a pay freeze. For the 2008-09 pay award, there was a phased pay increase but no bonus. The second decision to be taken is whether this package is acceptable and what modifications may have to be made. Even if it is acceptable as a set of principles for Senior Civil Service pay, there is a third decision about when we start implementing it. Do we have a pay freeze in the current 2010-11 year and start assimilating from April 2011? Or will there be a pay freeze in that year as well? There are lots of decisions to be made yet.

It may prove quite difficult to do so, but the process can be managed. We will have to communicate with our staff about the outcome, because they have a degree of uncertainty about

how this will pan out for them.

Dr Farry:

Do you see the situation arising of a partial implementation or of cost-neutral recommendations going ahead on 1 April 2011 in the context of a pay freeze, whereas others may have to wait for a different financial situation?

Mr Peover:

The review suggests only the assimilation from 1 April. If we take a step back from all of this, we see that it is quite a radically different approach from our present one, which involves a pay range for senior civil servants. As I mentioned to Mr O'Loan, the upper end of that range is completely theoretical. However, even if it did not contain hugely unachievable salaries, it is a pay range with a minimum and a maximum; there are no points in between. People's progression — if they have any — between the minimum and the maximum is by virtue of the year-on-year pay awards that Derek mentioned.

One of the criticisms of that system is that there has been, in effect, no progression. Someone can go into a Senior Civil Service grade at a certain salary point and because the revalorisation of the minima proceeds year on year, more or less in line with inflation, someone appointed five years later to the same grade will be earning the same as the person who was appointed five years earlier. There will have been no upward movement on the range. All that will have happened is that the movement in salary will be the same as the revalorisation of the base. For example, under the current system, somebody who starts as a permanent secretary on a £98,000 salary now could, in five years' time, find themselves on essentially the same salary as someone who is appointed five years hence. That is a source of concern about our system; people see no progression.

The proposed system would have real progression: it is very different. It is like the system that exists for staff below the level of the Senior Civil Service, which has incremental scales. Those scales may be too long and so on, but those staff progress up the salary scale. Because the system is so different, the Executive have a big decision to make about when they would implement something like this. People could be assimilated to the new points on the scale

without any major movement, which would be a separate decision.

Dr Farry:

Are we moving, in effect, to the regionalisation of Senior Civil Service pay in Northern Ireland?

Mr Peover:

That is what this system would mean. In effect, it has already happened, because comparators show that median salaries in Great Britain are much higher at the moment than ours. So, in practice, that has happened.

Dr Farry:

Would the changes make that official?

Mr Peover:

They would. We would have a completely different system, unless, of course, the Government adopted it nationally. The SSRB obviously likes it — it recommended it — and may want to recommend it for government nationally. As it stands, the proposals would put us on a different form of pay system altogether from our colleagues in Scotland, Wales and England.

Dr Farry:

My final point concerns comparators between the public and private sectors. Does the report fully reflect the differences? There are two aspects that probably need to be borne out. The first relates to the nature of the risk that employers are willing to take in the private sector. I appreciate that the Civil Service is now in a different context than has historically been the case in Northern Ireland. However, is it fair to say that there is a sense that the risks are greater in the private sector? If a company underperforms, there are problems and, in extreme cases, it goes out of business, whereas in the Civil Service the continuity of a job is linked less to the system's overall performance. Is there also an issue about the flexibility expected of people in the private sector versus the public sector's much more structured process in which there is less movement and people have clearly defined roles? Should those two factors be taken into account to emphasise the difference between the two sectors?

Mr Peover:

I am not sure about the second point. Certainly, there appears to be more risk in the private sector than in the public sector. I do not think that my Department is going to go out of business entirely, so, unless I do something drastic, my job is reasonably secure.

Dr Farry:

Unless David gets you.

Mr Peover:

Yes. Therefore, in that sense, there is more risk in the private sector. It could be said that the significantly higher salaries generated at senior level reflect that risk, and that is fine.

On the second point, it is sometimes easy to underestimate the change that there has been in our system. People in senior jobs have changed quite radically and are having to behave in different ways, and that will happen increasingly in the years to come as, as Mr McNarry said, we slim down the Civil Service and people are asked to do more with less and, for example, to deal with pay freezes and pressure to cover vacant posts. So it is going to be quite difficult for our staff, and I do not underestimate that level of difficulty. It is not different in kind from the pressure in the private sector, although there might be a bit more edge to it in the private sector; there is a bottom line, and if a company does not have a plus sign below that line, it will go under.

Dr Farry:

I will put it in a different context, though I do not want to personalise things. Compared to an equivalent-level senior manager in the private sector, to what extent is it regular practice for a senior civil servant to work outside of nine-to-five hours or at weekends? My impression is that people in the private sector often find themselves in such situations.

Mr Peover:

It is pretty common. There are very few of my colleagues who do not work regularly in the evenings or at weekends. It is just part of the job. We do not have conditioned hours any more. I think that the job is quite pressurised for senior staff. The FDA — the trade union — carries out annual national surveys on working hours for the Senior Civil Service, and 50 to 55 hours a week

is the norm. Some people work longer hours. I get e-mails at all hours of the night — it could be at midnight or 3.00 am — but I try to discourage that.

Dr Farry:

People can pre-programme their computers to send e-mails at 3.00 am.

Mr Peover:

To be fair, I do not think that they do that. A work-life balance is important for everybody, whether in the private, public or, for that matter, voluntary sector, and I do not want staff to spend every waking hour working. Nevertheless, I recognise that people work long hours and that they have functions and meetings to go to in the evenings. It is just a fact of life. I do not have enough experience of the local private sector to know what it is like here, but I am confident that my staff put in many more than the conditioned hours.

Mr Baker:

I will add one small point about cost. It is a small point, and we have not got our heads around it, but the report's recommendations would have an additional administrative cost. I cannot quantify it, but if we were to break the link with Great Britain, we would have to develop a local capability and capacity to give evidence to whatever body, whether the SSRB or someone else, is making determinations. We do not do that currently, so it is a bit of an unknown cost; we do not know how significant it is, and we have not worked it through.

Mr McLaughlin:

A number of points occurred to me as a result of David's line of questioning. Of course, a range of things for which we might seek answers from you, Stephen, may come to the Committee's attention. You explained carefully the difficulty in indicating precisely your advice to the Minister, and you explained the process by which the Minister, if he accepts your advice, has to bring the recommendation to the Executive for agreement. That makes sense. However, given the transparency and scrutiny processes with which the Committee must concern itself, and without going into the detail of the advice, is it within your remit to indicate whether the Minister accepted your advice?

Mr Peover:

I am not sure. At the end of the day, it is for him to make a decision. I am not trying to be unnecessarily coy. On a personal level, I am quite happy to say that the report is a cleverly put together package. The people who thought it through put a lot of effort into it, and it contains important recommendations that deserve careful consideration. I think that it is quite a good package. That is a personal view, and the Minister may not take that view. We will have to tease that out ourselves and to listen to the views that come back from the Committee, the trade unions and so on. As I said to Dr Farry, this set of proposals is radically different from the current arrangements. It would break the link with Great Britain.

Mr McLaughlin:

I want to talk about the report, but I am talking now about a general issue. You have been before us with respect to different matters to do with the Department, and circumstances can arise in which we must try to establish why particular things were done or, for that matter, not done.

e, as the scrutiny Committee, might have to ask you, as the senior accounting officer, whether the Minister had accepted your advice on this matter or whether he had set it aside, as he is entitled to do.

Mr Peover:

I would find it difficult, Mr McLaughlin, to say that I had given advice A to the Minister but that he had taken view B.

Mr McLaughlin:

Why would that be?

Mr Peover:

It would be on the public record in due course, when the process is settled. But he is my Minister; I am just an official. I am not trying to be coy about it; that is the position. I give advice and he makes decisions. If he accepts my advice, that is fine; if he does not, it is his decision. It is not for me to say that I would have done X but the Minister decided to do Y, with the implication that he had made a mistake. I cannot get into that position; my Minister's

decision is my Minister's decision. I will explain it and say what it is but, at the end of the day, I cannot justify that decision. I certainly cannot unjustify it by saying that I would not have made that decision and that my advice was different.

Mr McLaughlin:

The issue is straightforward enough.

Mr Peover:

It is.

Mr McLaughlin:

The Minister has the authority in this matter; everyone recognises that. It may be that he will have a view on the advice that you offer and that everything can be done without anyone being sacked over it. He can say that he hears what you say, but he is not inclined to accept that. This is a hypothetical situation, but why would you have difficulty sharing that information with the Committee, given our responsibility?

Mr Peover:

There is a decision to be made. It is a matter for the Minister to make the decision and justify it. It is not for me to, in a sense, potentially undermine his decision by drawing attention to my view.

Mr McLaughlin:

OK, but if you were answering questions from us, and a particular outcome emerged that had been signed off by the Minister, does that mean that you are obliged to leave us with the impression that that was, in fact, the position that you had presented? The Committee might find that in its own interest and in doing its job, it should know whether there was a conflict that was resolved by the Minister, using his authority.

Mr Peover:

Knowing my Minister, he would not have any difficulty telling you that he had ignored my advice.

Mr McLaughlin:

That ministry has changed hands a number of times and it could change again.

Mr Peover:

You are putting me in a very difficult position when you ask whether I could come to the Committee and say that I gave advice X to the Minister, but he took a different view. That would place me in an awkward position.

Mr McLaughlin:

I can see that, but I am going to suggest that we explore it further, because there is an issue here that might well be fundamental, not just to this Committee but to others. I will move on.

Will you say some more about revalorisation? Is that a process of calculating the regional cost of living and applying that? Does it indicate a generally upward recalculation? Does it ever go downwards? Is it negatively affected by, for instance, the current economic circumstances?

Mr Peover:

In the past, the SSRB has made recommendations to the UK Government about the level of revalorisation of salary scales for the Senior Civil Service. The SSRB has taken into account pay and price movements and so on. I am not aware of there ever having been a downward recommendation, but there have been varying levels of increase, from 2% upwards.

We have always piggybacked on the national process. We have never engaged in that level of detail with the SSRB, because we were part of a UK-wide pay system. To return to Derek's last point to Mr Farry, if we go down the route of effectively having the equivalent of a regional pay system, we would have to engage every year with the SSRB and provide evidence to it of pay and price movements in Northern Ireland. The SSRB would have to bring a recommendation to the Executive, who would then have to decide whether there would be any revalorisation. In the year before last, there was no revalorisation of some of our scales; there was certainly no revalorisation of the maximum scales.

Revalorisation can affect cost. It is another variable that the Executive would have to take into

account in looking at the affordability of any pay proposals for either the Senior Civil Service or the rest of the Civil Service. It is not a given that if the RPI is 2.5%, civil servants will get that increase. It is not like that; it is more complicated.

Mr Baker:

It tends to be a product of a range of variables that go into the mix. As Stephen says, the decision-makers, who will always be the Government, look at the retail price index, the consumer price index, labour market movements and, importantly, affordability. The Government then decide what the revalorisation — or cost-of-living increase, to use the vernacular — should be for public sector pay generally, or Civil Service pay specifically, if there is to be any revalorisation. The Executive locally agreed some years ago that they would generally operate within public sector pay policy determined by the Government.

Mr McLaughlin:

That is helpful, although it does not answer the query that I want to move on to. Recommendation 10 of the report is fairly powerful. As you just said, Stephen, the review has been quite creative and imaginative, although I am not convinced that it addresses the issue in every circumstance. There is a strong perception that there were issues that could have done with a fundamental re-examination, and it seems to me that the review has failed to deal with an inherent conflict.

There is the position of the Varney Review, based on Treasury figures and advice and, I think, subsequent endorsement. There is then the PWC view. Because that conflict was not resolved, we cannot address satisfactorily as a result of this report the question of whether those in the Senior Civil Service are, as has been claimed, earning substantially more than they would get in the equivalent private sector job here.

I absolutely recognise the application of the revalorisation. However, there was no attempt to establish a regional baseline against which to defend or address the differential. The report has not dealt with that issue. Its authors seem to have tended to accept the PWC view, and that does not come across as a substantive statement from which I can take assurance. It certainly does not explain the Treasury view. We have many disagreements with the Treasury view and had many

disagreements with Varney, so I am not quoting that as an exemplar. Nonetheless, there are two authoritative views that are in direct conflict.

Recommendation 10, because of its all-encompassing approach, appears to ignore that conflict. That concerns me, because it contradicts the reason why the Committee felt so strongly that a substantial, root-and-branch review should be conducted.

Mr Peover:

The SSRB has done a fair bit of comparison across the sector, but the comparisons that are possible are limited because the private sector is relatively small here and does not have many large organisations with many senior staff. The 22% figure that Varney quoted was a public sector/private sector differential. That figure is dubious. If you look at the figures, as we have done, they seem to sway about quite a lot; they are quite volatile. In some years, therefore, you may find a private sector lead on public sector pay, and in other years you may find a public sector lead.

Some of the things that are done in calculations here are a bit odd. This has nothing to do with pay. Derek and I met Lord Hutton last Friday as part of the review of public sector pensions, and in that context I mentioned to him a report produced by the Reform think tank. It quoted a figure of something like £28,000 a year for the average public sector pension after tax. In a footnote, they referred to another publication in which that was justified. I was intrigued. Our figures show that the average pension for a civil servant is £6,900 a year, so it is four times as much as we had thought. I had a look at the reference, but it referred me to another publication, by PWC, called ‘The Tortoise and the Hare’.

In that publication, examples were used of two possible — not real — human beings, of whom one had started his or her career in the private sector and one who had started his or her career in the public sector. PWC made assumptions about how each person’s career might have panned out. The private sector person might have had some periods of unemployment, and the public sector person progressed majestically through his or her career to end up at a reasonably senior level. It was concluded that the private sector person’s pension would be £11,000, and the public sector person’s pension would be £28,000. That is possible, but to quote that in a document

saying that average public sector pensions are £28,000 after tax gives the impression to the public and to anyone who reads the document that it is an authoritative examination of an issue and that it has arrived at a conclusion, and that is wholly false.

These matters are very difficult. The evidence on the differential between public and private sector salaries is volatile. It changes from year to year, and it depends on what the comparators are. One of the challenges that we face is that there are not many Senior Civil Service comparators in the private sector. The SSRB appears to be saying that those in the private sector are better paid than us, and that may be for the reasons that Mr Farry mentioned. Perhaps they deserve that for the risks that they face; that is a matter of judgement. I do not have a lot of time for the Varney figure of 22%.

Mr McLaughlin:

I am not asking you to defend it, and I am not defending it. However, the question is unresolved, yet we have a review and recommendations that leave that on the table. I am interested in how we can, authoritatively and independently, establish whether there is a differential and what the basis of that differential is. To simply say that there is no data for one and to cite a PWC report as the basis for moving on leaves me with a considerable sense of dissatisfaction.

Mr Peover:

This is the SSRB's job; in its daily grind, this is what it does for all senior public servants, on behalf of the Government. It has to draw comparisons with pay rates elsewhere and recommend ways forward on the basis of what it thinks is necessary to recruit and retain staff in the public sector. That is its day job.

Mr McLaughlin:

Since its establishment, the SSRB's recommendations for the Senior Civil Service have been adopted here and carried forward, even though they may have been based on data and costs associated with, say, the south-east of England. The SSRB's own approach is due a review.

Mr Peover:

That is right; that is what it was asked to do. In a sense, the decision here was to adopt the SSRB

recommendations, not in their entirety, but in the general quantum. We implemented them differently here. The linkage between the pay system in Great Britain and Northern Ireland was always there. It is not unique to the Civil Service; it is the same in the Health Service and the education service. Those linkages have always been there. Implementing this recommendation would break that linkage, and it would involve us engaging separately with the SSRB — annually or whenever is decided necessary — to get its recommendations, based on its assessment of the Northern Ireland labour market and what is required to recruit and retain senior staff in Northern Ireland.

Mr McLaughlin:

That is the final point. How will the regional equivalence be calculated, if we are told that the data does not exist?

Mr Peover:

There is limited data. The SSRB has tried to use whatever data it has. The data is what it is; the SSRB cannot manufacture data. It can only look to the comparators that exist in the sector, because that is the process that it adopts. Anybody can give evidence to the SSRB. Every year, it takes evidence from a variety of people, including the Confederation of British Industry and the Institute of Directors, who represent the private sector position. There are mechanisms by which it can take evidence.

Mr McLaughlin:

If the Committee were to request the detail of the annual review and how it is calculated to establish the regional baseline, would it be made available to us?

Mr Peover:

The SSRB does not do that at present. It would do that as part of the process, and there is no reason why the Committee could not ask the SSRB to provide or explain the data on which it bases its recommendations to the Executive. I would expect the SSRB to be willing to respond to that. It has nothing to hide.

Mr McLaughlin:

I should think so too.

Mr Peover:

I assume that you are referring to the last clause in recommendation 10 and the SSRB expectation that:

“the Northern Ireland Executive undertake to accept its independent recommendations in all but the most exceptional circumstances.”

I would be somewhat surprised if the Executive signed up to that recommendation. *[Laughter.]*

Mr McLaughlin:

That is why I want to know what advice you would give.

Mr McNarry:

We got an opinion, there.

The Chairperson:

There have been some very important discussions today. Some members have alluded to the report’s recommendation that local pay policy should be tailored to the local labour market and economic circumstances. The SSRB has suggested that it should be the independent body to do that annually, but do you feel that a local body would be better placed to do that?

Mr Peover:

Such a body does not exist. It would have to be created and the expertise that exists in the SSRB — which brings together private and public sector members and is supported by an independent, non-departmental public body, the Office of Manpower Economics — would have to be replicated. That would be quite expensive, and you would want to be satisfied that there is merit in doing so. It would not be impossible to create such a body, but the SSRB has a great deal of experience and is a broadly based organisation that draws on a variety of sources of experience and advice. It is well established and has channels of communication with all the major groupings across the private and public sectors.

The Chairperson:

Do you agree that it did not make any firm suggestions on how it would bring that issue forward?

Mr Peover:

You must bear in mind that the review was fairly short and sharp. The SSRB did not make detailed recommendations on what should happen year-on-year. However, if the proposal or something like it were accepted and the SSRB were asked to review Senior Civil Service pay in Northern Ireland on a yearly basis, it would want to draw on all the sources available to it and present a detailed set of recommendations based on the factual data gathered and its analysis. It would then be a matter for the Executive to accept those recommendations or not. That is a slightly different process, which the SSRB was not asked to carry out. Indeed, it has never been asked to provide a specific set of recommendations for Senior Civil Service pay in Northern Ireland; it has ever only provided the UK-wide position.

Pay rates vary across the UK; what is required to recruit and retain people in Scotland or the north-east or north-west of England may be different from that for the south-west of England. Therefore, there is scope for regional variation in Great Britain, as well as between it and Northern Ireland.

Mr Baker:

The SSRB currently has a role in deciding senior health sector pay in Northern Ireland. It has an arrangement with the Department of Health, Social Services and Public Safety and makes annual recommendations on the very top tiers of Health Service management pay.

The Chairperson:

I am conscious of the fact that the SSRB promoted the failed bonus system.

Mr Peover:

To be fair to the SSRB, the Government at that time were keen on bonuses and they asked the SSRB to provide recommendations based on that system, so they got what they asked for.

The Chairperson:

There are no more questions from Committee members. I thank the witnesses for their time.