



Ministry
of Defence



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Our Reference:

Dear colleague

DE&S AND SDA 2019 BEST AND FINAL PAY OFFER FOR CIVILIAN LEVELS BELOW THE SLG

This final pay offer for 2019 reflects DE&S' and SDA's freedom to make a pay offer separate from the rest of the Ministry of Defence. This freedom is intended to allow DE&S and SDA to drive individual and corporate performance; enabling us to attract and retain the specialist skills we need in a competitive market place. In exercising our freedoms, we must continue to take account of the wider government pay policy, especially around the basis of pay progression and cost control. This offer applies to both DE&S and SDA staff.

The 2019 pay and performance award offer continues our approach of providing market-informed performance-based reward that is simple, fair, competitive and sustainable. However, we know that there is always room to improve and so we are planning a programme of work to review our approach with the Trade Unions and other stakeholders.

In comparing current total reward with the market, we have sought to reflect:

- a. Other organisations that do similar work to ours and have similar roles.
- b. Differences in reward structures, recognising that while basic salary levels for civil servants tend to be lower than the market, the value of the pension schemes is considerably higher. We aim to deliver competitive and fair total reward taking into account salaries, allowances and pensions.

The details of the offer are at Annex A; the main headlines are:

- a. A rise in consolidated salary for 99% of employees. Through application of the main pay award, this increase will range from 1% of salary for those whose performance was rated 4 to 3.9% of salary for those rated 1 who are the furthest from the market for their role. The majority of you will receive a salary increase of 1% to 2% given that most are currently paid at or above the market, when you factor in the pension and allowances.

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The average salary increase will be 2.0% - at a cost of circa £9.4 million for DE&S and £1.3 million for SDA. See paragraph 8.

- b. There will be no salary increase for those rated 5. As you know, there has been an unconstrained distribution of performance ratings this year, with no calibration.
- c. An additional consolidated award to address those employees whose salary is furthest from the market after the application of the main pay award. See paragraphs 9 to 14.
- d. Salary increases will be backdated to 1 April 2019, as in the past two years.
- e. Non-consolidated performance awards for over 90% of employees, for everyone rated as 1, 2 or 3. Awards will be set as a percentage of salary earned in the performance year, with adjustment for Corporate performance. This will cost circa £14.6 million (3.2% of the pay bill) in DE&S and £2.3 million (3.7% of pay bill) in SDA. See paragraphs 15 to 17.
- f. All employees outside Graduate or Apprenticeship schemes to receive at least the National Living Wage, regardless of age. See paragraph 18.

You will be informed of your end-of-year performance rating in early June. You will then have a subsequent personal and confidential Reward conversation about your salary increase and performance award.

The final offer is being provided following a period of positive and meaningful negotiations with the recognised Trade Unions. Discussions have taken place between March and May 2019 and have resulted in an offer that both organisations and the recognised Trade Unions believe better represents the interests of staff. The negotiations have resulted in improvements to the initial offer. Employees, the Trade Unions and managers will be stakeholders in the Reward Review that will commence in the near future.

We believe that this final offer is fair, extends as far as can be managed within our operating cost budget and is consistent with our Reward principles. Moving forward, we are committed to developing an approach to Reward which is easy to understand and gives clarity to everyone on what they can expect as their career at DE&S/SDA progresses.

Yours sincerely,



DE&S Head of Reward

Pay offer 2019

1. DE&S and SDA propose a one year pay award consistent with the freedoms granted to both organisations, and affordable within the operating cost budget.

Employees covered by the offer

2. The offer applies to DE&S and SDA employees in levels below the SLG, including casual staff and fixed term appointments, but does not apply to staff covered by alternative arrangements.

Summary of main points of the offer

3. A one year pay award paid from 1 April 2019 to 31 March 2020 paid in July 2019 and backdated.

4. A total spend of 2.0% of pay bill, delivering graduated consolidated salary increases across all levels from 0% up to 3.9% depending on market position and individual performance, with distribution by performance outcome as follows:

- i. Rating 1 – At least 2%
- ii. Ratings 2 & 3 – between 1.1%-3.3% based on both performance and gap to market
- iii. Rating 4 – 1%
- iv. Rating 5 – No salary increase

5. DE&S and SDA will both, this year, also provide an additional award of consolidated pay, based on distance from market. Details are provided in paragraphs 9 to 14.

6. Non-consolidated performance awards to be paid to 90% of employees, a spend of 3.2% of pay bill in DE&S and 3.7% of pay bill in SDA. Awards will be based on salary earned in the 2018/2019 performance year and the substantive level at which performance was assessed, based on a combination of Corporate and personal performance, and within the fixed pay and performance award budget.

7. Review of Total Reward strategy. We know we need to make changes and will undertake a review, working with staff, Trade Unions, managers and others. Initial content suggestions include benchmarks, salary bands, pay progression, performance awards and benefits, including recognition schemes.

Salary increases

8. Salary increases will be paid to all eligible employees based on their individual performance outcome for the 2018/19 performance year in accordance with our Performance Management Policy, and their salary in relation to the market position for their role profile at the substantive level at which their performance was assessed. The salary increases will range from 0% for the lowest performance outcomes to up to 3.9% for the best performers furthest from the market position for their Role Profile. It will be graduated for those with Rating 3 or above. The distribution matrix that will be used to determine individual salary increase outcomes within the fixed pay award budget, is shown in the following table:

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Total Fixed Pay Gap Relative to Benchmark	Performance Rating				
	5	4	3	2	1
-0.20	0.0%	1.0%	2.6%	3.3%	3.9%
-0.15	0.0%	1.0%	2.3%	3.0%	3.6%
-0.10	0.0%	1.0%	2.2%	2.8%	3.3%
0.00	0.0%	1.0%	2.0%	2.5%	3.0%
0.10	0.0%	1.0%	1.3%	1.5%	2.0%
0.15	0.0%	1.0%	1.2%	1.3%	2.0%
0.20	0.0%	1.0%	1.1%	1.2%	2.0%

- The amount of award will vary between these levels. For example, an individual that receives a Rating 3 performance outcome, and is 12% below benchmark, will receive a percentage increase between 2.2% and 2.3%.

Additional award

9. For this year only both DE&S and SDA propose additional consolidated pay as an uplift in 2019 to address the position of those whose pay is notably lower than the market. There will, however, be a difference in approach to the application, owing to the different context in which both organisations operate.

DE&S

10. DE&S will apply a further 0.9% of pay bill, amounting to £4.2m, specifically to address those furthest from the benchmark. The additional funds would be applied only to those whose pay sits below the market after the main pay award, with more being allocated to those furthest from it. Allocation will not be based on performance, except that those with Rating 5 will be excluded. The table illustrates the distribution of this additional funding in DE&S.

Total Fixed Pay Gap Relative to Benchmark	Additional Award
-0.20	4.0%
-0.15	3.0%
-0.10	2.0%
-	0.0%

- The amount of additional award will vary between these levels. For example, an individual whose salary is 12% below benchmark after the main pay award, will receive a percentage increase between 2.0% and 3.0%.

11. We undertook to review the impact of a change in our policy on those who were promoted between April 2017 and October 2018. We concluded it would represent a fairer and more equitable outcome to address the whole population who find themselves furthest from the market. As a result, we have undertaken a wider review to move staff closer to their market position, including those affected by the change in policy. Our Reward review will include our approach to pay progression. Whilst it is too early to say what the outcome of this will be, it is our intention to

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provide greater transparency, so that employees can understand how their pay will move through their salary range.

SDA

12. SDA will apply up to a further 2% of pay bill, amounting to £1.3m, specifically to address those whose salary is notably lower than their peers in the Defence nuclear enterprise. This is expected to apply to approximately a third of SDA employees. The salary used for the calculation of the additional award will not include allowances.

a. This is an exceptional adjustment for this year only, without prejudice to future settlements, to address the position of staff paid notably less than comparable roles in the wider Defence nuclear enterprise.

b. The benchmarks already include some of our key suppliers, but to create a more complete picture, we need to take account of defence nuclear roles in government. In making our assessment:

1. The SDA Level and Role Profile will be the principal determining factor.
2. We have identified an acceleration point for each Role Profile, up to which salaries will be increased. All acceleration points sit within the ranges of the below table.

13. The additional funds would be applied only to those whose pay currently sits below the acceleration point for their Role Profile, with more being allocated to those furthest from it. This will not be based on performance, except that Rating 5 will be excluded.

14. In order to achieve this, we have determined that our acceleration points will be at least 7.5% above the existing band minimums and that our lower levels compare with a broad range of roles in the Defence nuclear enterprise. The table shows the ranges within which the acceleration points sit, with the greatest range at those lower levels. The precise impact of this will be discussed with you in your Reward discussion, if you are eligible for the additional payment.

SDA Level	Acceleration Point Range
L5	£60,200 - £62,000
L4	£45,150 - £52,500
L3	£32,250 - £39,000
L2	£20,425 - £32,000
L1	£16,981 - £26,000

Performance awards

15. Non-consolidated, non-pensionable performance awards will be paid to those with a performance Rating 1, 2 or 3, in accordance with our Performance Management Policy. Three factors determine the final outcome:

- An adjustment for Corporate performance (measured by OGSM in DE&S and informed by Corporate Key Performance Indicators in SDA).

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- Reducing the impact of Corporate performance to a specified percentage of the award, such that lower Levels see a smaller reduction in their award. The impact of this is shown in the table.
- Finally, in order to ensure the overall cost remains within the fixed pay and performance award budget established at the start of the year, an adjustment has been applied to all awards to account for the impact of the distribution of performance ratings.

DE&S

16. For 2018/19 achievement against OGSM measures has been endorsed as 79% by the DE&S Executive Committee. In order to remain within the fixed performance award budget and as a result of unconstrained performance outcomes, a further adjustment of 74.7% has been applied. The table shows performance award outcomes by Level and performance rating.

Level	Performance Outcome									
	Maximum award			% of award abated	OGSM Impact			Final award with adjustment for skew		
	3	2	1		3	2	1	3	2	1
L1	3.0%	4.5%	6.0%	20%	2.9%	4.3%	5.7%	2.1%	3.2%	4.3%
L2	3.0%	4.5%	6.0%	20%	2.9%	4.3%	5.7%	2.1%	3.2%	4.3%
L3	5.0%	7.5%	10.0%	30%	4.7%	7.0%	9.4%	3.5%	5.2%	7.0%
L4	7.0%	10.5%	14.0%	40%	6.4%	9.6%	12.8%	4.8%	7.2%	9.6%
L5	10.0%	15.0%	20.0%	50%	9.0%	13.4%	17.9%	6.7%	10.0%	13.4%

For example:

L3 at Rating 2: Example salary £40,000

1. Establish the maximum award = 7.5% = £3,000
2. Determine what portion of the award will be abated for OGSM = £3,000 x 30% = £900
3. Calculate the abatement for OGSM = £900 x 79% = £711
4. Add abated award to unabated award = £2,100 + £711 = £2,811 = 7.0%
5. Adjust for performance rating skew = £2,811 x 74.7% = £2,099 = 5.2% of salary

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SDA

17. For 2018/19 achievement against Corporate performance measures has been endorsed as 83% by the SDA Remuneration Committee, a Sub Committee of the SDA Board. In order to remain within the fixed performance award budget and as a result of unconstrained performance outcomes, a further adjustment of 79.6% has been applied. The table shows performance award outcomes by Level and performance rating.

Level	Performance Award Outcome									
	Maximum award			% of max award abated	Corporate Performance impact			Final award with adjustment for performance skew		
	3	2	1		3	2	1	3	2	1
L1	3.0%	4.5%	6.0%	20%	2.9%	4.3%	5.8%	2.3%	3.5%	4.6%
L2	3.0%	4.5%	6.0%	20%	2.9%	4.3%	5.8%	2.3%	3.5%	4.6%
L3	5.0%	7.5%	10.0%	30%	4.7%	7.0%	9.4%	3.8%	5.7%	7.5%
L4	7.0%	10.5%	14.0%	40%	6.4%	9.6%	12.8%	5.2%	7.8%	10.4%
L5	10.0%	15.0%	20.0%	50%	9.0%	13.4%	17.9%	7.3%	10.9%	14.6%

For example:

L3 at Rating 2: Example salary £40,000

1. Establish the maximum award = 7.5% = £3,000
2. Determine what portion of the award will be abated for Corporate performance = £3,000 x 30% = £900
3. Calculate the abatement Corporate performance = £900 x 83% = £747
4. Add abated award to unabated award = £2,100 + £747 = £2,847 = 7.1%
5. Adjust for performance rating skew = £2,847 x 79.6% = £2,266 = 5.7% of salary

National Living Wage

18. It is our intent that all employees outside our graduate and apprenticeship programmes will continue to be paid at or above the National Living Wage, regardless of age. The National Living Wage from 1 April 2019 is £8.21 per hour. We therefore propose that following the application of the 2019 pay award, we will uplift salaries for any employees who have not achieved this rate through their individual salary increase.

Salary band minima and maxima increases

19. We propose no change to salary band minima or maxima, with the exception of Administrator / Specialist level, which will be uplifted to £15,796 (full time equivalent) to reflect the change in National Living Wage for phase 1 Industrial apprentices contracted to work 37 hours net.

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20. The minimum and maximum of the salary bands by level are as follows:

Level	Min	Max
L5 (Senior Professional)	£56,000	£120,000
L4 (Professional I)	£42,000	£95,000
L3 (Professional II)	£30,000	£70,000
L2 (Senior Administrator / Senior Specialist)	£19,000	£50,000
L1 (Administrator / Specialist)	£15,796	£35,000

Apprentices

21. For Apprentices on schemes which do not provide for participation in the performance management process, we propose a 2% uplift on their current salary. For Phase 1 Engineering/Technical apprentices contracted to work 37 hours per, this 2% uplift will bring them in line with the uplifted band minima.

Graduates

22. For Graduate Engineers and Business and Finance Graduates, whose schemes do not provide for participation in the performance management process, we propose a 2% uplift on their current salary.

Allowances

23. We propose no changes in respect to allowances recognised and in payment within our organisations.