Dear Finance Director

PAY REMIT APPROVAL PROCESS AND GUIDANCE (2019/20)

1. The purpose of this letter is to advise you that the flexible approach to public sector pay policy that was set out in FD (DoF) 09/18 will continue to apply in 2019/20.

2. FD (DoF) 09/18\(^1\) provided departments with guidance on the application of that policy, and the approval process which remains in place for 2019/20. This letter seeks to highlight and expand on some key aspects of the guidance for its continued application in 2019/20. Both documents should be read concurrently. In summary:

   - The flexible approach adopted by the UK Government in 2018/19 in moving away from the 1 per cent (revalorisation) limit on pay awards will continue, and pay awards should be informed by a range of factors including recruitment and retention. There is also flexibility for higher awards in return for cash release efficiency savings through improvements to public sector productivity. As before, it remains important that pay awards are balanced against the need to ensure proposals are affordable.

In determining NI Public Sector Pay Policy, and how it is to be applied locally, Northern Ireland Civil Service (NICS) Departments’ planning assumptions for Budget 2019/20 were generally predicated on a 1 per cent revalorisation increase, which when added to the pay progression many public sector employees also receive, this typically translates to around a 2% increase on the 2018/19 baseline pay position. However, some Departments will face even greater pressures in relation to higher awards as a consequence of the specific contractual arrangements different staff groups have, and where

Funding for those higher awards will have to be found from within existing departmental budgets. The 2019/20 budgetary position is already very challenging and the cost of pay awards has not been separately budgeted for, nor is funding ring-fenced. Rather Departments will have to prioritise the funding of pay awards against other pressures facing essential public services within their overall settlements.

As such, there will be a need for pay discipline in 2019/20 to ensure the affordability of public services and the sustainability of public sector employment. Pay increase must be affordable within each department’s respective budget allocation for 2019/20 or funded through efficiencies.

- FD (DoF) 09/18 outlined scope for flexibility whereby Departments may seek to address wider workforce reform beyond the specific recruitment and retention pressures. However, such proposals will only be considered where there is a clear case that workforce reforms will generate real and cashable efficiency savings, and where these are affordable within each department’s respective budget allocation, or funded through the efficiencies generated. Departments are encouraged to fully consider how the flexibility that the guidance allows for can be used to advance reform initiatives where workforce engagement could facilitate and unlock those, or speed up their delivery. Further guidance on what is meant by efficiency is provided at Annex A.

- The streamlined approval process that was put in place in 2018/19 remains in place for 2019/20 as are the roles and responsibilities for departments as described in FD (DoF) 09/18. Departmental Accounting Officers are responsible for approving pay increases, without seeking DoF approval, where staff groups have: a clearly established legal requirement, such as a contractual entitlement e.g. to a nationally agreed pay award or NICS terms and conditions; or to pay progression within established pay scales. DoF prior approval should continue to be sought where these conditions are not met; and/or the pay proposal is repercussive.

- Where there is discretion with regard to the quantum of a contractual entitlement (e.g. inflationary uplift), DoF approval should be sought.

- The need to comply with the statutory requirement for DoF approval of remuneration, where that is mandated, remains. Accounting Officers should note that this FD letter will be taken to signify DoF’s consent/approval at the outset in the limited circumstances referred to in FD (DoF) 09/18.

- Departments should ensure that when considering pay remits, they take account of the relevant policy in that year. However, the processes and responsibilities detailed in FD (DoF) 09/18 are applicable to any outstanding pay remits for previous year’s awards.

- Proposals should be supported by appropriate HR, Finance and legal advice. This should be evidenced in the business case.
It is important to reiterate that the pay remit process for civil servants in NICS departments remains separately negotiated by DoF. Public bodies that choose to follow NICS terms and conditions, but whose staff are not civil servants, must wait for the NICS determination before submitting a pay remit for any required approvals.

3. For next year we will be agreeing pay policy much earlier and will align the setting of pay policy with the publication of the Budget. This would mean that Pay Policy for 2020/21 could be set before the end of this calendar year and might also enable some employers to consider a multi-year deal covering both 2019/20 and 2020/21.

4. Any queries in relation to the pay policy detail of this FD letter should be addressed to DoF Strategic Policy Division (Payqueries@finance-ni.gov.uk); any queries on the pay remit approval process should be addressed to your relevant DoF Supply Officer.

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Annex A - What are considered efficiency savings?

Efficiency savings represent a key mechanism to enable public bodies to protect services/functions and outcomes in the face of tightened budgets.

A simplified definition of efficiency saving is as follows:

‘Efficiency is relevant to the entire process of turning public money into desired outcomes, i.e. to improve efficiency is to improve economy\(^2\) and/or productivity\(^3\) and/or effectiveness\(^4\)’

**Source:** UK Government Economic Service: ‘Value Maps – Understanding and driving efficiency’

In line with this definition, efficiency savings can for example be achieved by either reducing input costs or by redesigning services to achieve the same or better outcomes with less resource. The crucial point is that genuine efficiency savings must be delivered whilst maintaining or improving both the **quality** and **availability** of public services/functions/outputs/outcomes. This requirement will need to be evidenced in section F of the business case.

**Efficiency savings, affordability and pay awards**

Affordability is a key consideration, and public bodies must agree a pay settlement that is affordable. However, the identification of savings that merely enable public bodies to live within allocated budgets will not, of themselves, represent efficiencies for the purpose of justifying higher pay awards. Rather, pay awards greater than those budgeted for must be funded within allocated budgets and generate deliverable cashable efficiency savings.

A very clear example would be where an award involves changes to employee terms and conditions, e.g. removal of allowances and/or changes resulting in a sustainable reduced overtime requirement.

It is also recognised that public bodies will seek to identify opportunities for efficiency savings more broadly, for example through:

i. **Process Reforms:** Introducing new technologies that improve the efficiency of a process/staff utilisation levels,

ii. **Service Redesign:** Redesigning service provision or adopting an alternative delivery mechanism that reduces the cost of service delivery.

iii. **Volume/Scope Reduction:** Reducing the volume/scope delivered from a supplier (e.g. number of software licences), where the reduction does not materially impact the core outcome or benefits derived.

iv. **De-scoping:** De-scoping a service requirement from a supplier, where the outcomes or benefits and quality of the deliverable is not adversely affected.

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\(^2\) Economy considers how cheaply inputs are purchased, holding quality constant

\(^3\) Productivity considers how much output is produced for each unit of input

\(^4\) Effectiveness considers how outputs affect desired outcomes
v. **Shared Services**: Adopting a collaborative approach to sharing services through engaging in a joint support service arrangement.

vi. **Procurement Savings**: Achieving better purchase prices through: using alternative suppliers/securing margin reductions from existing suppliers/collaborative purchasing contracts with other bodies.

vii. **Asset Management**: Identifying opportunities for better asset management through for example sharing the use of assets with other organisations, facilitating the relinquishing of a lease.

Many such initiatives / reforms, and the efficiencies generated, will be distinct and totally separate for the management of public sector workforces – and as such, not relevant in the consideration of, and justification for potential pay awards.

However, it is recognised that in some instances, workforce engagement will be required to facilitate / unlock efficiency initiatives and / or the pace of the delivery of these. Where a higher pay award is to be justified on that basis, the case for that must clearly set out the role of the workforce in this regard. The fact that workforces will be involved in delivering redesigned services will not of itself justify a higher award unless it can be demonstrated that staff engagement will unlock and / or increase the scale / pace of efficiencies realised. This element of the initiative must be separately identified and double-counting of savings must be avoided.

As above, where efficiency savings impact on the workforce, proposals should be cleared by the appropriate HR, Legal and Finance Directors. Evidence of this should be provided in the business case.