



# *School Teachers' Review Body*

Twenty-First Report – 2012

Chair: Dame Patricia Hodgson, DBE

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# School Teachers' Review Body

## TWENTY-FIRST REPORT – 2012

*Chair:* Dame Patricia Hodgson, DBE

Presented to Parliament by the Prime Minister  
and the Secretary of State for Education  
by Command of Her Majesty  
December 2012

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## TERMS AND ABBREVIATIONS

### **Consultees**      ***Organisations which made representations and provided evidence to the STRB***

<b>ASCL</b>	Association of School and College Leaders
<b>ATL</b>	Association of Teachers and Lecturers
<b>BATOD</b>	British Association of Teachers of the Deaf
<b>DfE/the Department</b>	Department for Education
<b>four unions</b>	ATL, NUT, UCAC and Voice
<b>GW</b>	Governors Wales
<b>head teacher unions</b>	National Association of Head Teachers and Association of School and College Leaders
<b>NAHT</b>	National Association of Head Teachers
<b>NASUWT</b>	National Association of Schoolmasters Union of Women Teachers
<b>NEOST</b>	National Employers' Organisation for School Teachers
<b>NGA</b>	National Governors' Association
<b>NUT</b>	National Union of Teachers
<b>Secretary of State</b>	Secretary of State for Education
<b>six unions</b>	ASCL, ATL, NAHT, NUT, UCAC and Voice
<b>UCAC</b>	Undeb Cenedlaethol Athrawon Cymru
<b>Voice</b>	formerly the Professional Association of Teachers

### **Welsh Government**

### ***Other***

<b>AGR</b>	Association of Graduate Recruiters
<b>ASHE</b>	Annual Survey of Hours and Earnings
<b>AST</b>	Advanced Skills Teacher
<b>CIPD</b>	Chartered Institute of Personnel and Development
<b>CPD</b>	Continuing Professional Development
<b>ET</b>	Excellent Teacher
<b>HESA</b>	Higher Education Statistics Agency
<b>HMT</b>	HM Treasury
<b>HR</b>	Human Resources
<b>IDS</b>	Incomes Data Services
<b>IES</b>	Institute for Employment Studies
<b>ITT</b>	Initial Teacher Training
<b>LA</b>	Local Authority

<b>Management Allowances</b>	former allowances, providing five levels of payment for additional responsibilities
<b>MPS</b>	main scale
<b>NCSL</b>	National College for School Leadership
<b>NLE</b>	National Leader of Education
<b>NPQH</b>	National Professional Qualification for Headship
<b>NQT</b>	Newly Qualified Teacher
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>Ofsted</b>	Office for Standards in Education, Children's Services and Skills
<b>OME</b>	Office of Manpower Economics
<b>ONS</b>	Office for National Statistics
<b>ORC</b>	Infogroup/ORC International
<b>R&amp;R</b>	recruitment and retention payments
<b>'rarely cover'</b>	a condition of teachers' employment that requires them to provide cover for another class 'only rarely'
<b>RIG</b>	former Rewards and Incentives Group (which comprised: ASCL, ATL, the Department for Children, Schools and Families, NAHT, NASUWT, NEOST and Voice.)
<b>SEN</b>	Special Educational Needs
<b>STPCD/ the Document</b>	DfE (2012) <i>School Teachers' Pay and Conditions Document and Guidance on School Teachers' Pay and Conditions</i> , TSO
<b>STRB/ Review Body</b>	School Teachers' Review Body
<b>TLR</b>	Teaching and Learning Responsibility payment
<b>Unattached teacher</b>	Teacher who does not work for a particular school, is employed otherwise than at a school, or in a pupil referral unit
<b>UPS</b>	upper pay scale
<b>UQT</b>	Unqualified Teacher scale

# Contents

	<i>Page</i>
	The School Teachers' Review Body . . . . . vi
	<b>Executive Summary</b> . . . . . vii
<i>Chapter</i>	1. <b>Introduction and background to the remit.</b> . . . . . 1
	2. <b>Overview of the evidence, our broad analysis and guiding principles</b> . . . . . 5
	3. <b>Market-facing pay for local areas.</b> . . . . . 19
	4. <b>Linking pay to performance.</b> . . . . . 35
	5. <b>Other flexibilities</b> . . . . . 57
	6. <b>Our conclusions and observations on enabling pay reform</b> . . . . . 65
	7. <b>Looking ahead.</b> . . . . . 75
<i>Appendix</i>	A. <b>Remit and directions from the Secretary of State</b> . . . . . 81
	B. <b>Letter from the Chancellor of the Exchequer on market-facing pay for local areas</b> . . . . . 85
	C. <b>OME call for evidence on market-facing pay</b> . . . . . 87
	D. <b>STRB call for evidence</b> . . . . . 91
	E. <b>Conduct of the review.</b> . . . . . 95
	F. <b>Generic evidence on public-private sector pay differentials, 'crowding out' and geographical pay differentiation.</b> . . . . . 99
	G. <b>Teachers' pay scales and allowances</b> . . . . . 105
	H. <b>Last year's recommendations and the Government's response</b> . . . . . 107

## **THE SCHOOL TEACHERS' REVIEW BODY**

### ***Our role***

The School Teachers' Review Body (STRB) was established in 1991 as an independent body to examine and report on such matters relating to the statutory conditions of employment of school teachers in England and Wales as may from time to time be referred to it by the Secretary of State. STRB reports to the Prime Minister and the Secretary of State. The legal foundation for the function and work of STRB is Part Eight of the Education Act 2002. The secretariat for STRB is provided by the Office of Manpower Economics (OME).

The members of STRB are:

Dame Patricia Hodgson, DBE (Chair)

Esmond Lindop

Stella Pantelides

Jill Pullen

Dr Patricia Rice

Anne Watts, CBE

## Executive Summary

The Secretary of State asked us to consider wide-ranging changes to the teacher pay framework, focusing on three issues: market-facing pay; more effectively linking pay progression and performance; and wider reforms to support the recruitment and retention of high quality teachers.

Our recommendations need to be seen as a package, offering schools a better framework for responding to local needs, and rewarding teachers in line with their contribution. We propose:

- A pay framework that seeks to **raise the status of the profession, support professional development, and reward individuals in line with their contribution to improving pupil outcomes**, enabling the most successful teachers to progress faster than at present on the basis of annual appraisal.
- Greater **autonomy for schools to set teachers' pay** within a broad national framework, enabling schools to respond better to pupil need in the context of their local circumstances.
- Recognised career stages for teachers, alongside **increased accountability for high professional standards and contribution to pupil progress**, comparable to requirements in other graduate professions.

These changes are designed to encourage high calibre graduates and career-changers to come into teaching and to help schools facing the greatest challenges – including in areas with high levels of deprivation – to tailor pay so as to attract and retain those teachers who can make the greatest impact on pupils' progress. They are also intended to enable existing teachers to develop and improve their teaching skills.

In framing our recommendations we drew on a wide range of evidence, including international practice in successful school systems, experience from other organisations who recruit graduate professionals and the views of school leaders and the teacher unions. Our key recommendations for change are:

- **Replacement of increments based on length of service by differentiated progression** through the main scale to reward excellence and performance improvement.
- Extension to all teachers of **pay progression linked to annual appraisal** (which is already established for more senior teachers). Appraisal should be against a single set of teacher standards and individual objectives, with a strong emphasis on professional development.
- Abolition of mandatory pay points within the pay scales for classroom teachers, to enable **individual pay decisions**, but with retention at present of points for reference only in the main scale, to guide career expectations for entrants to the profession.
- **Retention of a broad national framework**, including the higher pay bands for London and fringe areas and an upper pay scale as a career path for experienced teachers who make a wider contribution in the school.
- Replacement of the unnecessarily detailed threshold test for progression from the main to the upper pay scale, with simple criteria based on one set of teacher standards. This will create a consistent progression path from graduate entry to the top of the upper pay scale and **allow schools to promote the best teachers more rapidly**.



- Local flexibility for schools to create posts paying salaries above the upper pay scale, enabling some of the **very best teachers to remain in the classroom and lead the improvement of teaching skills.**
- **More discretion for schools in the use of allowances** for recruitment and retention and freedom to pay **fixed-term responsibility allowances of up to £2,500 a year** for time-limited projects.
- Reinforcement of the responsibility of head teachers to manage staff and resources and of **governing bodies to hold school leaders to account for managing and rewarding the performance of teachers** in the interests of pupils.
- On the basis of the above, a **much simplified School Teachers' Pay and Conditions Document**, including a brief guide to the national framework and the flexibilities open to schools.

These recommendations are designed to make it easier to meet the local needs of schools, reward and promote good teachers, ensure accountability at a local level for the quality of teaching and to raise the status of teaching as a profession. The freedom to develop pay policies which take account of a school's specific circumstances should encourage school leaders to take ownership of pay as a tool for improving pupil outcomes.

Whilst these changes are being introduced, the retention of a broad national framework will help guide expectations for entrants to the profession, inform career planning and provide a framework for teachers to progress in their careers. Combined with increased autonomy to set pay, it will allow schools to respond to local needs and to reward individuals on the basis of their achievements whilst protecting against pay drift. We suggest there may be scope for further flexibility as schools gain experience of managing within a more flexible pay framework. We also emphasise the importance of keeping under review the evidence of pressure on both starting and median salaries for the profession to ensure they remain competitive as the economy recovers, so that schools can attract and retain the high quality teachers the nation needs to improve pupil outcomes.

# CHAPTER 1

## Introduction and background to the remit

### Introduction

1.1 Our role, set out in the Education Act 2002, is to consider and report to the Prime Minister and the Secretary of State on matters referred to us on teachers' pay and conditions. In his remit letter of 21 February 2012, the Secretary of State asked us to consider three issues:

- *how the pay framework should best be made more market-facing in local areas;*
- *how the pay scales, including the main and upper pay scales, should be reformed to more effectively link pay and performance, including arrangements for progression; and*
- *what other reforms should be made to teachers' pay and conditions in order to raise the status of the profession and best support the recruitment and retention of high quality teachers in all schools.*

1.2 The Secretary of State's remit letter, reproduced in Appendix A, asked us to report on these matters by 28 September, a deadline subsequently extended by a month following the delayed submission of the Government's evidence. The remit letter asked us to have particular regard to six detailed considerations when making our recommendations, and listed a further six additional factors to take into account on local pay.

1.3 The focus of our consideration has been on pay for classroom teachers as we had clear evidence on the main issues to be addressed. We have not made any recommendations on leadership pay this remit but emphasise the need for consistency across the profession. We would therefore welcome a remit to consider leadership pay in the near future and comment briefly on the issues in Chapter 7.

1.4 In this chapter, we set out the background to our remit and outline the structure of this report.

### Background to our remit

1.5 In May 2010 the Government set out its ambition to reform teachers' pay and conditions in the Coalition Agreement:

*We will reform the existing rigid national pay and conditions rules to give schools greater freedoms to pay good teachers more and deal with poor performance<sup>1</sup>.*

1.6 The Secretary of State confirmed this intention in his letter of 27 October 2010 to our previous Chair, Dr Anne Wright CBE<sup>2</sup> about the remit for our Twentieth report, and subsequently in the White Paper, *The Importance of Teaching*<sup>3</sup>. In this document he set out his priorities for school improvement.

1 HM Government (2010) *The Coalition: our programme for government* page 29

2 STRB (2011) *Twentieth Report*, TSO (Cm 8037) Appendix A

3 DfE (2010) *The Importance of Teaching The Schools White Paper 2010*, TSO (Cm 7980) paragraph 2.31

1.7 Our current remit is taking place against the background of wider Government policies impacting across the public sector, including a two-year pay freeze on pay scales (except for those earning £21,000 or less) and pension reforms, which for teachers and other workforces include substantially increased employee contributions payable from April 2012.

1.8 In the Autumn Statement last year, the Chancellor said he would *ask independent Pay Review Bodies to consider how public sector pay can be made more responsive to local labour markets*<sup>4</sup>. He subsequently wrote to the Chairs of four pay review bodies<sup>5</sup> asking them to consider how to make pay more market-facing in local areas for their respective workforces. His letter to STRB is reproduced at Appendix B. He also announced that public sector pay awards would average 1% in each of the two years following the pay freeze.

1.9 The wider context for our remit includes recognition by successive Secretaries of State of the importance of improving the quality of teaching to enable the best possible pupil outcomes; and of giving greater freedom and independence to head teachers and governing bodies, within a clear accountability framework<sup>6</sup>. The 2005 White Paper signalled the potential for Trust schools<sup>7</sup> to seek additional flexibilities on pay and conditions to help raise standards. It also stressed the importance of rewarding those who contribute most:

*we will make performance management more effective. The greatest rewards and promotion throughout a teacher's career will go to those who make the biggest impact on pupils' progress and who show commitment to the development of themselves and their colleagues*<sup>8</sup>.

1.10 We have for some time been advocating modernisation of the teachers' pay framework to bring it into line with expectations and practices of graduate professions more generally. In previous STRB reports we have commented on the need for reform of various aspects of the teachers' pay and conditions framework, including the need to establish a stronger link between performance and progression. For example, in our Sixteenth Report we recommended:

*all progression on incremental scales should follow a performance management review and determination...that the individual teacher's performance has satisfied an explicit performance-related criterion for pay progression in the STPCD*<sup>9</sup>.

1.11 We set out more fully in subsequent chapters previous STRB comments relevant to the current proposals for reform.

### **Conduct of our review**

1.12 We considered, and critically analysed, a wide body of research evidence relevant to the remit, including international studies and academic research which focused on teaching. We also considered generic studies on pay which the Office of Manpower Economics (OME) commissioned for the benefit of all

4 HM Treasury (2011) *Autumn Statement 2011*, TSO (Cm 8231) paragraph 1.110

5 Letter from the Chancellor of the Exchequer to the Chairs of NHS PRB, Prison Service PRB, Senior Salaries Review Body and School Teachers' Review Body 7 December 2011 (see Appendix B)

6 DfES (2004) *Five Year Strategy for Children and Learners*, TSO (Cm 6272)

7 Trust schools are state-funded foundation schools which receive extra support (usually non-monetary) from a charitable trust made up of partners working together for the benefit of the school

8 DfES (2005) *Higher Standards, Better Schools For All*, TSO (Cm 6677) paragraph 8.8

9 STRB (2007) *Sixteenth Report*, TSO (Cm 7007) paragraph 6.39

pay review bodies. In anticipation of a remit on freedoms and flexibilities, in 2010 we also commissioned research to explore the views of head teachers and chairs of governing bodies on a range of issues relating to the system of pay and reward.

1.13 In line with our obligations under the Education Act 2002, we invited STRB's statutory consultees to submit written representations and offered a list of questions that we thought consultees might find helpful when preparing their responses, given the wide-ranging remit. These questions are set out in Appendix D and a full list of consultees is at Appendix E. We also provided consultees with an opportunity to comment on others' submissions.

1.14 We held oral representation sessions with the main teacher and head teacher unions to explore their concerns and issues raised by others' evidence. We also heard oral representations from the Department, including the Secretary of State; the Welsh Government; employer representatives (NEOST) and the National Governors' Association. We have set out in the relevant chapter key points made by consultees in written and oral representations. However, given the number of consultees involved and the comprehensive submissions offered, we do not aim in the report to give a full account of all the views and evidence. Rather, we seek to provide a fair reflection of the key thrust of points made in submissions and during oral representations.

1.15 This remit has been challenging in light of its scope and the delay in receiving evidence from the Department. Despite this, we were able to draw on work previously commissioned and to re-organise our timetable to run a robust process, and are grateful to consultees for their forbearance and co-operation.

1.16 We are also very grateful to those schools and local authorities we have visited recently. As we have noted in previous reports, such visits provide practical insights and give a greater depth to our understanding of the issues facing teachers in their working lives.

### **Structure of this report**

1.17 Our recommendations on the three remit matters need to be seen as a package which offers greater autonomy for schools to reward teachers in line with their contribution to school objectives, and to respond to local needs and conditions, within a broad national framework. Our recommendations provide in particular for:

- flexibility for schools to recruit and reward talented teachers in the context of local labour markets using the broad framework of the four existing geographic pay bands and more flexible recruitment and retention allowances;
- a closer link between pay progression and individual performance, enabling teachers to progress more quickly where their performance and contribution to the school justifies it, with an emphasis on professional development for teachers at each stage of their career; and
- a career path for those teachers who wish to stay in the classroom, as well as for those who aspire to leadership roles.

1.18 We refer throughout this report to ‘schools’. However, some 2.4%<sup>10</sup> of teachers, known as ‘unattached teachers’, are centrally employed by local authorities. All references to schools’ actions on pay and appraisal should therefore be read as including local authorities where they directly manage the pay and appraisal of unattached teachers.

1.19 Our report aims to provide a clear evidence base and rationale for our overall package of recommendations, whilst examining the specific issues on which the remit focused. The structure is as follows:

- Chapter 2 provides an **overview of the evidence**, including that from international, academic and specialist pay studies. It also summarises other evidence and consultees’ views relating to broad issues concerning the teachers’ pay system. It goes on to set out the **guiding principles** we developed on teachers’ pay which underpin our overall recommendations.
- Chapters 3, 4 and 5 deal respectively with the three elements of our remit:
  - Chapter 3 focuses on the **geographical dimension of market-facing pay** including the evidence on public and private sector pay comparisons and practice in other organisations. Our recommendations here should be read in conjunction with proposals in Chapters 4 and 5 which provide for greater local flexibility on progression and allowances.
  - Chapter 4 examines the evidence on **linking pay and performance, including progression** and sets out our recommendations for change. Our proposals here should be read in the context of our wider comments on raising the status of teaching with a strong focus on professional development for teachers at all stages of their career.
  - Chapter 5 looks at wider proposals for **increasing flexibility** in the pay system. We also emphasise the importance of simplification of the School Teachers’ Pay and Conditions Document (STPCD) to enable head teachers and governing bodies to make decisions with confidence.
- Chapter 6 draws together our overall conclusions on the case for greater autonomy on pay for schools at a local level. We make observations on **capacity** within the current system to deal with the changes proposed, including effective performance appraisal, leadership and governance.
- Chapter 7 considers the **overall teacher supply** picture, in line with our commitment in the Twentieth Report to monitor trends during the pay freeze<sup>11</sup>. We also look ahead to the next remit and comment on the scope to consider extending flexibility in other areas of the pay framework in future.

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10 OME analysis of DfE and Welsh Government statistics

11 STRB (2011) *Twentieth Report*, TSO (Cm 8037) paragraph 5.4

# CHAPTER 2

## Overview of the evidence, our broad analysis and guiding principles

2.1 In this chapter, we review the wider evidence and consultees' views on the approach to reward in teaching and other organisations. We draw on this broad evidence base to inform our analysis and set out our guiding principles for this remit.

### *The evidence base*

2.2 We have examined evidence from a wide range of sources including international evidence from OECD and others, academic research and a recent report of the House of Commons Education Committee. These sources were valuable supplements to the more focused evidence we sought for this remit which, as we set out in the previous chapter, included independent research commissioned for us by OME. In addition, we considered the Department's own proposals and substantial submissions from statutory consultees, whose views we explored in oral evidence sessions.

2.3 We have drawn on this extensive evidence base in considering the case for reform of the pay system, including seeking to understand what works best in practice in other organisations and to explore a range of possible alternative approaches. It is clear from the evidence that high quality teaching depends on a number of factors which need to be taken together. We recognise the limitations of individual pieces of evidence and that they can be open to varied interpretation. In particular, we note that international evidence needs interpreting with some care because of the country-specific cultural and economic considerations which impact on educational outcomes. We have sought to make a balanced assessment, taking account of the full range of evidence and of our wider understanding of the operational issues which face schools on the ground.

### **International, academic and policy research**

2.4 We set out below the main sources of international, academic and policy research we drew on and summarise their key findings. In reviewing these sources we observed some consistent themes:

- The quality of teaching is central to delivering pupil outcomes.
- The status of the profession is important and successful countries are able to draw their teaching recruits from the highest calibre pools of candidates.
- To attract high quality candidates pay *levels* need to be competitive against other graduate professions. While general levels of pay are important, so is the flexibility to adjust pay to address localised labour market challenges.
- Teachers' effectiveness can be assessed although this is not straightforward and clear frameworks for assessment are required.

2.5 These themes were reflected in recent studies from the OECD. Its recent report *Preparing Teachers and Developing Leaders for the 21st Century*<sup>1</sup>, based on research on its member countries, included the following important observations:

- The most successful systems provide excellent teaching for all students. In order to achieve this, they attract high quality graduates equitably across the school system.
- Policy responses are needed at two levels to ensure the supply and retention of high quality staff. The first seeks to improve the profession's general status and competitive position in the job market. The second involves more targeted responses and incentives for particular types of teacher shortage, which recognises there is not a single labour market for teachers, but a set of them, distinguished by school type and characteristics such as subject specialisation.
- Some countries are moving to open more career opportunities for teachers, spurred, in part, by the greater variety of school roles with significant decision-making responsibilities.
- To attract the most talented teachers to the most challenging classrooms, important strategies include: competitive compensation and other incentives such as career prospects, giving teachers responsibility as professionals, high quality continuing professional development, opportunity to gain experience outside schools through sabbatical leave, extended leave without pay, and job exchanges with industry.
- Many education systems have granted significantly more discretion to school heads and faculties, something that teachers often refer to as a factor contributing to the attractiveness of the teaching profession.

2.6 The OECD's *Building a High-Quality Teaching Profession – Lessons from around the World*<sup>2</sup> report made the following observations on teacher evaluation and compensation:

- Performance-based rewards imply rewarding something more than credentials and years of experience, which themselves have been shown to be weak indicators of teacher effectiveness.
- It is possible to evaluate effective teaching, linked with improved student results, thus making it possible, in principle, to include evaluations of both teacher performance and student performance as part of a teacher compensation scheme.
- Measures of teacher performance need to be valid, reliable and agreed by teachers themselves to be fair and accurate. These can include multiple observations and contributions to school specific improvement efforts.
- Surveys show that teachers welcome appraisal and feedback and many report that a good appraisal too often does not lead to any recognition or reward.

2.7 An earlier report<sup>3</sup> focused on policies that would contribute to attracting, developing and retaining effective teachers. It examined indicators of teacher quality and reported research suggesting that while there is a positive

1 OECD (2012) *Preparing Teachers and Developing School Leaders for the 21st Century Lessons from around the World*

2 OECD (2011) *Building a High-Quality Teaching Profession – Lessons from around the World*

3 OECD (2005) *Teachers Matter: Attracting, Developing and Retaining Effective Teachers – Overview*



relationship between measured teachers' characteristics (such as qualifications and experience) and student performance, it is weaker than might be expected. The report emphasised the importance of effective teacher evaluation and continuous professional development in sustaining teacher quality.

2.8 We also note that a 2012 summary document from OECD on performance-related pay<sup>4</sup> was widely quoted on publication. Comparing 37 countries at aggregate level, it found no relationship between pupil performance and the use of pay systems with performance-based elements. However, it acknowledged the difficulty inherent in such empirical analyses because data are scarce and many aspects need to be considered, including how performance is defined and measured and the scale of the reward. We note that the report cited England as using outstanding teaching performance as a criterion for decisions on a teacher's position on the base salary scale. Whilst there are established arrangements for performance-related progression to and within the upper pay scale, the current provisions to award higher starting salaries or an additional increment on the main scale are rarely used in practice. For example, data for 2008/09 show that some 98% of teachers on the main scale received a single increment<sup>5</sup>. This underlines the need for caution in interpreting this type of analysis.

2.9 A recent report on teacher impacts in the UK for the Sutton Trust<sup>6</sup> argued that teacher effectiveness was very difficult to predict without classroom observation. It proposed that pay progression should be based on improvement in classroom results, reviews by head teachers and external appraisal. The report recommended testing a policy where teachers should be able to opt out of the current system and into a more radical system of performance-based progression.

2.10 A number of consultees have noted developments in Sweden, where a system of locally determined individual based pay was introduced in 1995 to coincide with wider decentralisation reforms. The new system included provision for performance-related pay. DfE's evidence to us cited a number of observations made by the OECD in its 2011 report on Sweden<sup>7</sup>.

2.11 The report noted that Sweden's individualised pay system meant that employers and school leaders could potentially make salary decisions contingent on evidence of good performance and allowed schools to better value those competencies that best fit their needs. However, it observed that important aspects of implementation, such as the way the performance of teachers was assessed and what the system actually rewarded, raised concerns about the ability of the system to provide teachers with the incentives to improve their performance. In practice, OECD saw the system as being predominantly used as an instrument to meet recruitment needs and to reward teacher commitment and additional tasks rather than as a means to reward the performance of teachers.

2.12 The OECD concluded that the major reason school leaders in Sweden were deterred from establishing a closer linkage between pay and performance was the absence of a clear framework for evaluating the performance

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4 OECD (2012) *PISA in Focus 16: Does performance-based pay improve teaching?*

5 ORC (2009) *Survey of Teachers' Pay 2008*, OME

6 Sutton Trust (2011) *Improving the impact of teachers on pupil achievements in the UK – interim findings* page 3

7 OECD (2011) *OECD Reviews of Evaluation and Assessment in Education, Sweden*



of teachers. It specifically noted the absence of profession-wide agreed competence standards for teachers, a shared understanding of 'accomplished teaching' and agreed procedures and instruments for evaluating the performance of teachers. We note from the report that the Swedish authorities are now addressing these issues and that a new system of teacher registration will include a framework of professional standards for the teaching profession.

2.13 Research reported by McKinsey<sup>8</sup> in 2010 noted that school systems in Singapore, Finland and South Korea, which have good pupil outcomes by international standards at all levels, recruit 100% of their teachers from the top third of students, defined academically, and screen for other important characteristics, such as motivation, commitment and communications skills. Both Singapore and South Korea pay competitively, though Finland less so. The pay system in Singapore includes provision for merit-based increments and both retention and performance bonuses while South Korea has experimented with performance bonuses.

2.14 Other studies have underlined the importance of a high status for the teaching profession. According to Barber and Mourshed<sup>9</sup>, strong competition for entry into teaching is linked with high status for the profession, which, in turn, attracts high quality graduates (e.g. in Finland and South Korea). Dolton and Gutierrez<sup>10</sup> underlined the importance of relative earnings in improving the status of teaching and suggested that increasing teacher salaries (and the speed at which they can reach higher pay levels within a particular pay structure) would help schools to recruit and retain the higher ability teachers that schools need to offer all pupils a high quality education.

2.15 In a range of articles<sup>11</sup>, Eric Hanushek noted that the quality of teachers is the most important determinant of student achievement but that in the USA teacher salaries have declined dramatically in relation to the rest of the economy since 1940 and that the best graduates were not entering teaching. He contrasted this with Finland and South Korea, which both attract top graduates into teaching. He further observed that teachers' salaries are weakly related to 'productivity', noting that teachers' salaries frequently increase by degree and years of experience, but that neither is related to teacher effectiveness.

2.16 Other studies have suggested that greater benefits would be gained through a freeing up of the regulated system of pay. In a report on academy schools, Reform<sup>12</sup> suggested that despite their greater freedoms, many were being held back by the continued regulation of the rest of the school system. It suggested that national frameworks on curriculum and pay and conditions inhibited some academies from innovating in these areas and called for the Government to remove these 'cultural and regulatory barriers to autonomy and innovation'.

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8 McKinsey & Company (2011) *Closing the talent gap: Attracting and retaining top-third graduates to careers in teaching*

9 Cited in McKinsey & Company (2011) *How the world's best-performing school systems come out on top*

10 Dolton, P and Marcenaro-Gutierrez, O (2011) *Teachers' pay and pupil performance* in CentrePiece, Autumn 2011, Centre for Economic Performance at LSE

11 Hanushek (2011) *Valuing Teachers: How much is a good teacher worth* in Education Next, Summer 2011; Hanushek (2011), *The economic value of higher teacher quality* in Economics of Education Review 30 (2011) 466 – 479

12 Reform/The Schools Network (2012) *Plan A+ Unleashing the potential of academies*

2.17 In a recently published study on pay regulation and school performance, Britton and Propper conducted an analysis of the relationship between average earnings and pupil outcomes across local authorities<sup>13</sup>. They found that secondary schools located in areas with high average earnings added less value between key stage 2 and key stage 4 than those located in areas with lower average pay, and that these losses were not offset by the gains in the lower wage areas. They attribute this finding to the regulation of teachers' pay such that teachers are relatively worse-off in areas where average earnings are high and that this has an adverse effect on the educational outcomes for their pupils. We comment on this study in Chapter 3.

### **Pay and progression practice in other organisations**

2.18 Most private and many public sector organisations operate pay systems that include provision for pay progression that is linked to some measure of performance. The 2012 Chartered Institute of Personnel and Development Survey of Reward Management showed that individual performance-related pay was being used by almost three times as many organisations as length of service, including around 90% of private sector and over half of public sector employers. By contrast, length of service as a factor in determining pay was much more prevalent in the public sector and only used by a minority of private sector employers<sup>14</sup>.

2.19 The OME commissioned research last year on behalf of all pay review bodies to examine approaches to pay progression used in the wider economy<sup>15</sup>. The report observed that private sector companies had generally made changes away from time-served incremental systems earlier than the public sector and tended to be more radical in their approach. The scale of the changes varied by sector and size of organisation, and by occupation and seniority of employment. Professional and senior roles were most likely to progress according to their performance.

2.20 The research took the form of case-studies in a range of organisations making changes to their systems and was intended to illuminate the practical issues and learning from their experiences. The case-study organisations included several with significant numbers of graduate level posts, whose pay and progression systems had undergone significant transition in recent years.

2.21 The studies evidenced a range of reasons for changing progression arrangements and some common objectives were:

- Appropriately recognising the highest performers.
- Offering continued scope for pay progression to boost motivation and retention.
- Recognising through pay progression achievement towards organisational objectives.
- Achieving transparency and equality in pay progression systems.

2.22 The case-study organisations had moved away from time-served incremental scales to performance, contribution-related or market-related pay systems which provided scope for differential levels of pay. The authors identified the following key issues from the studies:

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13 CMPO (2012) *Does Wage Regulation Harm Kids? Evidence from English Schools*

14 CIPD (2012) *Reward Management: Annual Survey Report 2012*

15 IES (2012) *Case Studies on Pay Progression*

- The increased use of *contribution*-based pay and progression, measuring staff on a broader combination of achievement of objectives, competence, skills and behaviour.
- The need for effective appraisal systems and suitably trained line-managers robustly to underpin new arrangements.
- The use of ‘pay zones’ within a wider scale which control progression by the means of ‘gates’ or ‘bars’ and which permit progress once a competency is acquired, a test is passed or a responsibility is added.
- The importance of aligning systems to wider organisational culture.
- The importance of simplicity of design and communication in successfully transitioning from one system to another.
- The need to assess risks relating to the costs of pay progression.

### **The teachers’ pay system – views of head teachers and governing body chairs**

2.23 In autumn 2010 we commissioned research seeking the views and experiences of head teachers and chairs of school governing bodies on various aspects of the pay system<sup>16</sup>. This included both their experience of using the existing pay provisions and their views on perceived areas of constraint. While about two-thirds of respondents were satisfied that the pay system as a whole met their needs, a significant proportion sought greater flexibility within a national framework. The research found that:

- Over 60% of head teachers indicated that there were forms of reward or recognition that they would like to use but were unable to, including one-off payments.
- The main features of the pay system which provide for local discretion were widely used, for example Teaching and Learning Responsibility payments (TLRs) (by 81%), Special Education Needs (SEN) allowances (40%) and recruitment and retention benefits/incentives (22%). The use of the latter was higher in London and the South East than elsewhere, and payments were made to teachers with specific responsibilities, teachers of specific subjects and to senior teachers.
- Many respondents thought the current provisions could be made more flexible. Between a quarter and a third of head teachers said that the main allowances were not sufficiently flexible and suggested changes, including time-limited payments and greater flexibility on size of award.
- There was a significant body of opinion in favour of pay better reflecting performance with 52% of head teachers (60% in secondary schools) stating that the present system offered insufficient scope to reward high performance.

### **House of Commons Education Committee**

2.24 Earlier this year, the House of Commons Education Committee published its report on attracting, training and retaining the best teachers<sup>17</sup>. We noted that the report included a number of recommendations relevant to our work:

- It commented directly on the importance of pay and recommended a pay system *which rewards those teachers who add most value to pupil performance*. The Committee acknowledged the potential difficulties in

<sup>16</sup> Infogroup/ORC International (2011) *Teachers’ Pay Issues: research findings 2010*

<sup>17</sup> House of Commons Education Committee (2012) *Great teachers: attracting, training and retaining the best. Ninth Report of Session 2010-12*

introducing such a system, but considered that the comparative impact of outstanding teachers was so great that such difficulties must be overcome.

- In this context, the Committee also noted the crucial role of governing bodies in overseeing performance management in schools, encouraging bodies to be rigorous in their scrutiny of the arrangements and in properly holding head teachers to account.
- The report also recommended that the Government introduce *new, formal and flexible career ladders for teachers, with different pathways for those who wish to remain as a classroom teacher or teaching specialist, linked to pay and conditions and professional development*. The Committee's view was that the introduction of such a structure would bring significant advantages to the recruitment and retention of high-quality teachers, and bring teaching into line with other graduate professions in this regard.
- The Committee expressed concern that continuous professional development for teachers currently lacked coherence and focus, and proposed that the Government produce a high-level strategy, including proposals for accreditation and an entitlement for all teaching staff.

### **Evidence from our visits**

2.25 Each year, STRB members make several visits to schools and local authorities to hear the views and experiences of a range of staff. School visits take the form of confidential discussions with small groups of staff, typically grouped by career stage (e.g. classroom teachers, middle leaders etc). A list of our most recent visits can be found in Appendix E. The following were recurring themes relevant to this remit that arose during visits over the last two years:

- There was some appetite for more flexible pay and allowances, including more flexible TLRs and bonuses. This was strongest among more experienced head teachers. Where greater flexibility was opposed, the primary concerns related to the additional burden of managing the pay system and a risk of subjectivity in awarding discretionary payments.
- Schools and local authorities adopted a variety of approaches to address recruitment and retention challenges, reward good performance and/or temporary additional responsibilities.
- There was a range of views on the operation of the upper pay scale (UPS). These included mixed views on perceived automaticity of access, a lack of clarity in some areas about the precise purpose of the UPS and inconsistency in what was expected of UPS teachers.
- There were mixed views on the clarity and consistency of performance management, with some calling for greater training for managers.
- Performance-related pay was frequently supported in principle but felt to be difficult in practice, with particular concerns about ensuring consistency. Newer recruits to the profession tended to be more open to the principle of performance-related reward and aware of other organisations' practice from their own or their peer groups' experience.

### **Themes emerging from the broad evidence base**

2.26 Having examined a wide range of evidence on the broad approach to teachers' and others' pay and career expectations, we have identified some consistent themes:

- The status of the teaching profession is key in attracting and retaining high quality teachers. This is a characteristic of some of the most successful countries. In this context, it is important that levels of pay are competitive with other graduate professions.
- The current range of discretionary pay allowances (e.g. for Teaching and Learning Responsibilities) is extensively used in schools in England and Wales. Levels of use vary by region, suggesting these provisions are partly being deployed to address local labour market challenges.
- Whilst most of those who manage the current system of pay for teachers are largely satisfied that it meets their needs, many identified areas for improvement. These included making it easier to use certain pay allowances and improving the scope to reward performance. The latter point is also a concern of many commentators and policy makers who believe the pay system should do more to reward those who make the greatest contributions.
- There are important lessons to be drawn from the experiences of other organisations, including on implementing systems that provide for pay progression that better reflects an employee's contribution, assessed against both detailed objectives, behaviours and organisational contribution.

### ***The Department's and consultees' views and evidence***

#### **The Department's evidence**

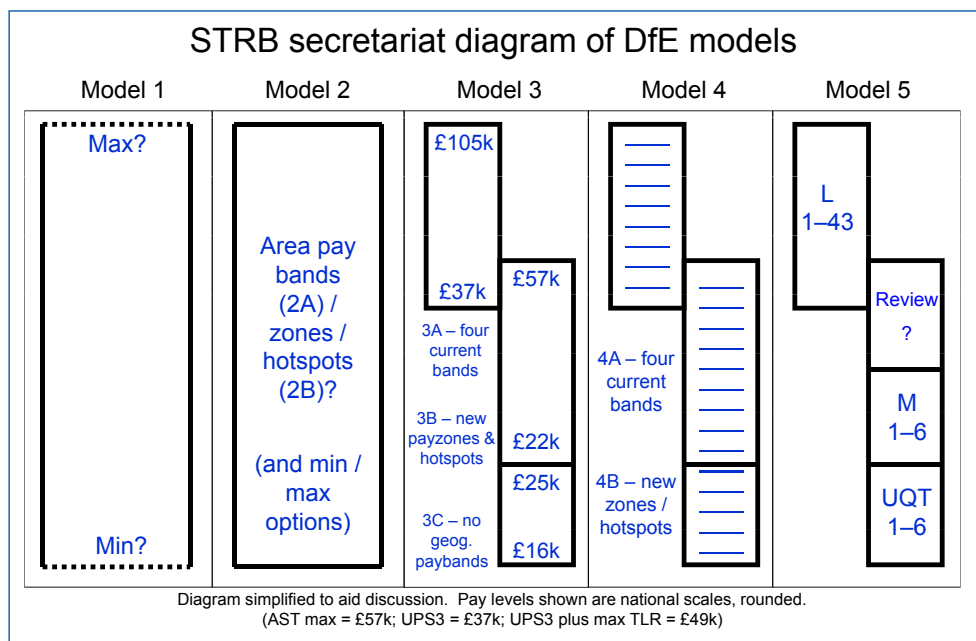
2.27 The Department's evidence set out the Secretary of State's objectives for reform:

- *To develop arrangements for teachers' pay which reward good performance and attract the highest performing graduates and professionals into the profession.*
- *To give schools as much freedom as possible to spend their money as they see fit to meet their pupils' needs.*
- *To ensure the best teachers are incentivised to work in the most challenging schools.*
- *To provide the best value for money for the tax payer and to ensure that the individual decisions of head teachers and governing bodies do not result in overall cost inflation in the system and that there are arrangements to maintain propriety in these decisions.*

2.28 Against this background, the Department's evidence set out five potential models for teacher pay with varying levels of prescription. They ranged from complete deregulation, which included the removal of all pay scales and allowances (including any distinction between qualified and unqualified teachers) to a 'minimal change' model which retained the three current pay scales (and spine points within them), but anticipated reform of some aspects of the pay framework such as performance-related progression and post-threshold standards. Between these extremes, an alternative provided for three pay scales but with deregulation within each. The Department posed some fundamental questions in relation to the models, including whether there should be minima and maxima and whether any form of geographical pay differentiation should be maintained.

2.29 To facilitate a common understanding and discussion of the Department's models, we circulated a simplified diagram to all consultees (see Figure 2.1). Greater detail is available in the Department's evidence<sup>18</sup>. We set out in Chapters 3 and 4 respectively the Department's specific evidence on market-facing pay and on strengthening the link between pay and performance.

**Figure 2.1**



2.30 In oral evidence the Secretary of State set out how his vision of teachers' pay was linked to his broader policy aims of recruiting and retaining high quality professionals and giving head teachers' maximum autonomy, with accountability, for shaping and managing their schools. He believed that the current system constrained head teachers and that a more flexible pay system would make the profession more attractive.

2.31 On the questions of speed and scale of reform, he said he wished to maximise local autonomy and that, while schools might not exercise all their freedoms immediately, this was not a reason for not providing them now. He did not want to deny that autonomy to creative and innovative head teachers.

### Consultees' views and evidence

2.32 Consultees' initial written evidence was submitted in advance of seeing the Department's models and focused chiefly on the issues set out in the remit. On market-facing pay (which we examine in the next chapter) teacher unions were unanimous in considering that the present framework offered sufficient flexibility already for recruitment and retention purposes but believed the provisions were underused for a number of reasons.

2.33 Opinion varied on the matter of pay progression. The teacher unions noted the links between pay and performance in the current system, including the performance-related progression in the UPS which is widely accepted. Most

<sup>18</sup> DfE (2012) <<http://www.education.gov.uk/inthenews/inthenews/a00209099/government-sets-out-case-for-reforming-teachers-pay>>

argued that there should be no extension of performance-related pay, while NAHT, NEOST and NGA said there was a case for strengthening the link between pay and performance. We probed these issues in oral evidence and set out further details of the evidence from consultees on these matters in Chapter 4.

2.34 On other changes to the pay and conditions framework to raise the status of the teaching profession, all the teacher unions and NGA considered that overall pay levels, comparable to those of other all-graduate professions, were important to make teaching a profession of choice. In relation to other flexibilities, there was some appetite for greater flexibility (including from ASCL, NAHT, NEOST and NGA). Some unions had concerns about the existing flexibilities, including that discretions reduced transparency and were based on subjective judgements. We set out in Chapter 5 union evidence on specific flexibilities in relation to TLRs and recruitment and retention payments.

#### *The Department's models*

2.35 Following sight of the Department's evidence, some consultees provided supplementary submissions and we probed consultees on the issues posed by the Department's models in oral evidence sessions. In discussion, NAHT, NEOST, the NGA and the Welsh Government said they saw some advantages in greater flexibility but did not support the most deregulated models.

- NEOST noted that an approach which retained three pay scales with spine points for reference most closely resembled private sector practice in national organisations.
- NAHT acknowledged that deregulation could present opportunities. It said a salary minimum was important and that it was not uncomfortable with an approach to reform that retained separate scales (with progression points) for unqualified teachers, classroom teachers and leadership.
- The Welsh Government noted that some elements of the DfE's proposals would reduce the complexity of the existing system, a principle which it supported. It also agreed with enabling faster progression through the pay scales for very able teachers.

2.36 Whilst noting some potential advantages, these consultees also said that the more radical options on deregulation would pose considerable challenges:

- NEOST expressed concerns about the effective management of pay if there was increased local determination. It was also concerned that some of the proposed models could result in equal pay or other litigation challenges. It believed that the proposal for complete deregulation would generate too much turbulence.
- The Welsh Government questioned whether a link between pay and performance was necessary.
- NAHT and NGA were also concerned that schools lacked the capacity and expertise to manage pay decisions that would be required by the most radical models.
- NAHT said that total deregulation was potentially inflationary and risked increasing localised industrial disputes. It also believed that reform to school funding was a necessary pre-requisite to any significant reform of the pay system.



2.37 ASCL said that complete deregulation would be damaging, have significant practical problems, lead to upward pay drift, result in inconsistent approaches to pay, and be very time-consuming for leaders. It believed those DfE models which did not distinguish qualified teachers would be detrimental to the status of the profession and that some of the models would prevent teachers from having a framework to plan their careers. It said that a system which retained spine points would allow leaders to better forecast budgets with resulting stability.

2.38 ATL believed deregulation would damage the professionalism of teaching with negative consequences for recruitment. It rejected the proposed models as they incorporated local and performance-related pay. It said the model which removed the distinction between unqualified and qualified teachers would seriously undermine the standing of the profession. It considered those models with greater structure for different career stages were relatively more acceptable. ATL supported salary minima for recruitment purposes and believed maxima were needed as well.

2.39 NASUWT said there was no evidence to support any of the proposed models. It considered 'no change' should be an option as it believed the current system was not broken and had a number of benefits. It rejected DfE's deregulated models on the following grounds:

- They would be inconsistent with wider best practice. Other examples of deregulation of pay had failed.
- There was a lack of management capacity or expertise for them.
- They would lead to inconsistent practice and inequality.
- There was no appetite amongst school leaders for such change (including in the independent sector, where 80% of schools based their pay structures on STPCD).
- They would distract head teachers from focusing on teaching and learning.
- They would remove the structure for career and pay progression arrangements which would affect recruitment, retention and motivation.
- They would encourage greater use of unqualified teachers.

2.40 NUT rejected the deregulated models and said that one option for consideration must be 'no change'. It was concerned about the capacity of schools to manage a deregulated system and said it would distract heads and governing bodies from raising standards. NUT said DfE's commentary on the models had missed several key disadvantages and had misidentified some factors as advantages. It believed that minima, maxima and certainty around progression were key features of the pay system.

2.41 UCAC said the current system should be retained and that there was no evidence to support complete deregulation. It believed deregulation would be time-consuming and lead to disputes. UCAC believed that removing progression points would negatively affect morale, and lead to recruitment and retention and equal pay issues.

2.42 Voice had no appetite for any of the deregulated models. It believed that managing a deregulated system would be burdensome for schools and risked pay becoming artificially inflated or depressed. It said that greater deregulation would result in pay becoming less transparent, making career planning more difficult. These issues would negatively affect recruitment and mobility.



### *STPCD simplification*

2.43 The detail of the current pay system is set out in the School Teachers' Pay and Conditions Document (STPCD), a statutory document, including guidance, of almost 200 pages, which references a number of other documents. We have observed that few people find the STPCD user-friendly and many have pointed to a need for significant simplification.

2.44 We specifically sought evidence from consultees on simplification in the light of evidence we had already received that the STPCD was complex and opaque and that this could hinder effective local decisions on pay. Some consultees shared our concern about complexity although others stressed the importance of retaining detailed provisions and guidance. We return to the issue in Chapter 5.

### **Themes emerging from consultees' views**

2.45 The key themes arising from consultees' submissions and oral evidence were:

- The need for an overarching national pay framework to provide a fair and consistent basis for pay decisions and so sustain confidence that the teaching profession was valued.
- Significant concerns about deregulation along the lines proposed by the Secretary of State, particularly the more radical options. Consultees were concerned that the evidence base was lacking; about the pace of change envisaged; and about the capacity of school leaders and governing bodies to manage such change well.
- A range of opinion on the extent to which performance is already reflected in pay.
- Recognition of the desirability of simplification of the STPCD.
- The importance of professionalism and a public perception of teaching as a high status profession.

### ***Our broad analysis of the issues, and our guiding principles***

2.46 International and academic evidence suggests it is of fundamental importance that the pay framework supports improved educational outcomes by enabling **recruitment and retention of high quality teachers** across all schools, including the most challenging. In doing so, we believe it should both **offer teachers reward commensurate with their contribution**, consistent with most other graduate professions; and **incentivise performance improvement** at all stages of teachers' careers, including by offering a **range of possible career paths**. Such an approach would build on the recommendations of the House of Commons Education Committee and, we believe, would resonate with many in the profession.

2.47 The framework must also be operable and meet the needs of those accountable for school performance. Many school leaders seek improvements to the current system they have to manage, and want flexibility better to meet local needs and to reward performance. We believe the pay framework should be **simple and transparent** so head teachers can use it with confidence to meet local needs and teachers are confident that decisions based on it are **robust and defensible**. Greater autonomy at local level would be consistent with the wish of successive Secretaries of State to give school leaders more freedom, allied to accountability, to determine how best to secure improved outcomes.

2.48 We have rooted our analysis in the evidence base with the intention of identifying some guiding principles (set out below) which can command wide support, from policy makers and the profession, and be sustainable over time, as this report charts a path towards longer-term reform. We believe much of our analysis, and the retention of a broad national framework, will be supported by statutory consultees, whose contribution to this remit has helped shape our deliberations and reflected the concerns of many in the profession. Inevitably, however, there will be some important differences of emphasis and approach, including in relation to detailed design of the framework and the pace of change. We return in Chapter 6 to the need to stage reform and comment on the importance of capacity building, including the role of governing bodies and school leadership teams as enablers of change.

2.49 We recognise that professionals' career expectations extend well beyond a modern, competitive pay and conditions framework. They include challenging work and substantial autonomy, early responsibility and the possibility of rapid progression on a career path. Professionals expect to work with high calibre colleagues and to manage their own careers, with opportunities for structured professional development and regular high quality appraisal. We comment further on performance appraisal and the importance of a strong focus on professional development in Chapter 6.

### **Our guiding principles**

2.50 To ensure our proposals are consistent with our ambitions for the pay framework, as set out above, we developed the following guiding principles on what a pay framework should offer:

- reward excellence in the teaching profession and so support improved educational outcomes for pupils;
- offer appropriate reward, allied to accountability, for good classroom teachers at all stages in their careers;
- ensure progression reflects improvements in performance and contribution to the school;
- raise the professional status of teachers, including by appropriate reward and support for professional development;
- provide greater autonomy for head teachers and governing bodies to match resources to the particular needs of their schools;
- simplify the existing pay system so head teachers and governing bodies can use it with confidence to make robust and defensible decisions.

2.51 In subsequent chapters, we examine in detail the three remit items, drawing on relevant parts of the evidence base and keeping these guiding principles in mind. In developing our recommendations for changes to the national pay framework, we have also had regard to the particular considerations annexed to the remit letter and make some observations as necessary on issues including school funding and responsibilities in relation to equal pay.

2.52 In the course of the remit, we have reviewed the main elements of the classroom teacher pay framework and we propose a substantial package of reform. It will give schools greater flexibility to recruit, reward and retain teachers in the context of their specific circumstances; reform progression arrangements to secure a better link with performance; and remove prescription and bureaucracy in the framework, making it easier for schools to meet local needs and offer able teachers a choice of career paths.

# CHAPTER 3

## Market-facing pay for local areas

### Introduction

3.1 The Secretary of State asked us to consider for recommendation:

*how the pay framework for teachers could best be made more market-facing in local areas.*

3.2 In this chapter we summarise the evidence provided to us on this issue, and present our analysis of this and of other relevant data and considerations. We then set out our conclusions, including the links between this part of the remit and the other issues which the Secretary of State has asked us to consider.

3.3 The current pay system for England and Wales includes four geographic pay bands (Inner London, Outer London, the London Fringe and the rest of England and Wales). These provide for differential levels of pay at all stages of a teacher's career with, for example, starting salaries in Inner London 25% higher than nationally and more modest enhancements in Outer London and the Fringe. Current minima and maxima for classroom teachers are set out in Appendix G. In addition schools have discretion locally to award recruitment and retention allowances.

### The wider debate and evidence base on market-facing pay

3.4 The Government set out its high-level thinking on market-facing pay well ahead of our receiving a formal remit from the Secretary of State for Education and published its generic evidence on the case for more market-facing pay in March 2012. Several review bodies received such remits and on their behalf the Office of Manpower Economics (OME):

- issued a call for evidence<sup>1</sup> for any organisation or interested party to submit evidence relevant to these remits;
- commissioned independent research from IDS on wider approaches to geographical pay differentiation, to provide an up-to-date review of practice among private sector employers.

3.5 We summarise briefly below the generic evidence we received from the Government and others and provide a fuller account in Appendix F. As we explain, some of the generic evidence is of limited relevance to the teaching profession as it covers both graduate and non-graduate professions. For the remainder of this chapter we focus on the issues most relevant to a graduate professional workforce. This includes detailed evidence from the Department and our own consultees, submitted in the light of our wider-ranging remit from the Secretary of State on reform of the teacher pay system; and our examination of the teacher labour market.

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<sup>1</sup> See call to evidence letter at Appendix C. Responses to OME's call for wider evidence referred to in this Appendix can be found on the OME website ([www.ome.uk.com](http://www.ome.uk.com)).

## **Generic evidence on public-private sector pay differentials and geographical pay differentiation<sup>2</sup>**

3.6 The Government and several consultees referred in their evidence to recent studies of **public-private sector pay differentials**. Work by the Office of National Statistics (ONS) and the Institute of Fiscal Studies (IFS), which controlled for observed differences in workforce characteristics, estimated differentials of around 8% in favour of the public sector across all occupations. While these estimates provide an economy-wide measure of relative earnings, they are not representative of specific occupations. Teaching is a graduate profession and in this context both IFS and ONS noted important differences in the magnitude of public-private pay differentials across the earnings distribution. IFS found that the pay differential for the top 10% of earners was around zero while ONS reported that graduates in the public sector earned less on average than their counterparts in the private sector.

3.7 The Government argued that in places where private sector firms had to compete for workers with public sector employers offering a pay premium, the introduction of more local, market-facing pay could help private businesses become more competitive. OME's wider call for evidence sought examples of where private sector employers have had difficulty in recruiting or retaining staff because of competition from employers of Pay Review Body remit groups. OME received limited evidence on this and none on '**crowding out**' associated with the teaching profession.

3.8 Research commissioned by OME into **private sector practice in geographical pay differentiation<sup>3</sup>** found that organisations typically used a small number of geographical zones for differentiating pay and these were most commonly related to London and its environs. The research also found that local pay tended to be set centrally; that geographical differences were highest for the most junior staff and that the recent trend, due to diminishing labour market pressures, was away from locational pay differentiation.

## ***Views and evidence from the Department and consultees***

3.9 The Department argued in its written evidence that the current pay system did not support schools in recruiting and retaining high quality teachers, and that pay reform was critical to raising educational standards, given the evidence on the importance of high quality teaching. As we noted in Chapter 2 it set out five potential models (with variants) for reform of the pay structure.

3.10 The models incorporated two distinct (though not mutually exclusive) options for addressing local market-facing challenges. The first would involve greater autonomy for individual schools resulting from deregulation of the pay system, providing for flexible pay which was locally adaptable and able to take account of a range of factors impacting on recruitment and retention. These might include the degree of challenge facing a school and shortages of particular subject teachers, as well as conditions in the local labour market. The second option would incorporate a centrally determined structure of local or regional pay where pay levels for geographical areas were prescribed but potentially offering greater differentiation than at present through use of

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<sup>2</sup> A fuller summary of the generic evidence is provided in Appendix F

<sup>3</sup> IDS (2012) *Case studies on Geographically-Differentiated Pay*

additional pay bands/zones. It would rely on the identification of appropriate criteria to define the bands/zones and pay levels would then apply to all teachers in the geographical location.

3.11 In oral evidence, the Secretary of State was clear that he sought maximum deregulation of the pay system but acknowledged this might not be accomplished immediately. He placed particular emphasis on the need to incentivise talented teachers to work in challenging schools in lower pay areas. He also stressed he was keen to avoid anomalies, for example through the creation of more 'cliff-edges'<sup>4</sup>.

3.12 In support of a more flexible approach, the Department said the current pay system did not allow for local circumstances, either those of the school or the local labour market, to influence rates of pay. It referred to HMT's generic evidence which suggested that the public sector sometimes pays more than is necessary to recruit, retain and motivate staff in some areas. It also noted that a competitive salary against other graduate professions was critical to ensuring teaching could attract and retain high quality graduates, including to schools in challenging circumstances.

3.13 In relation to the teacher labour market it said that the current system of national pay scales and four pay bands had resulted in the under and oversupply of teachers. This varied across (and within) regions with, for example, vacancies being higher in areas where pay was low relative to the private sector or where the cost of living (house prices) was high. The Department believed these issues could be addressed by a more flexible, local-facing pay structure. It set out a number of analyses to support its arguments for local market-facing pay. These included data which demonstrated the variation in teacher vacancies, differences in the regional cost of living, and in teachers' earnings relative to private sector professions.

3.14 In its written evidence, the Welsh Government supported the retention of a national framework. It said that this was a better, fairer and more cost-effective way of setting pay. The Welsh Government rejected market-facing pay on the following grounds:

- it would adversely impact on the low paid and women;
- it would create recruitment and retention problems, particularly for schools in deprived and rural areas;
- it was not supported by the profession and the private sector did not operate such systems.

3.15 The Welsh Government questioned HMT's analyses of public sector pay premia in Wales, noting that the reported estimates were uncertain due to small sample sizes and did not account for several important factors. The Welsh Government said HMT's submission had provided no evidence demonstrating that public sector salaries were crowding out the private sector.

3.16 NEOST said it supported the retention of a national framework and considered the current pay bands to be broadly correct. It believed sufficient flexibilities existed to manage recruitment problems (e.g. maths and science

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<sup>4</sup> 'Cliff edge' refers here to the pay differentials (and their possible impact on recruitment and retention) that occur either side of pay band boundaries, for example the boundary between Inner London and Outer London.

teachers, leadership group in small primaries) but that they could be simplified to further their use. It noted that equal pay issues and the impact on local economies would need consideration if local pay was introduced, and that any changes would need to be accompanied by a review of the funding formula for schools.

3.17 The teacher unions unanimously rejected the introduction of local pay and supported the retention of a national pay and conditions framework. They noted that other national employers used national frameworks with little variation outside London and the South East. NUT and ATL viewed the existing pay bands as addressing 'cost compensation' and noted the importance of stability in the pay bands.

3.18 All of the unions said the existing framework, with its four pay bands and further discretionary provisions, was adequate for recruitment and retention purposes but that the available flexibilities were underused. A number of reasons were suggested to explain this:

- funding constraints;
- cultural reasons including in relation to equity and collegiality;
- the rigidities of the provisions as set out in the STPCD;
- a lack of awareness of the provisions;
- a lack of confidence in applying the provisions;
- local authorities discouraging their use.

3.19 To encourage greater use of existing provisions, NASUWT said that clarification of the STPCD (without removing guidance) and the inclusion of examples would help. ATL believed school leaders required more support and better guidance to use existing flexibilities. UCAC said governors needed more training on recruitment and retention payments and believed that knowledge of the STPCD should be included in the NPQH qualification for aspiring head teachers.

3.20 The unions also commented on the Government's evidence on public and private sector pay differentials and pointed to its failure to acknowledge a number of methodological criticisms relating to the figures cited. They noted a lack of evidence on public sector salaries 'crowding out' the private sector. Several questioned the credibility of the Department's analyses of local pay and said that it had not properly recognised existing pay allowances and the four pay band system. Some unions also argued that the economic crisis had masked long-term recruitment and retention problems which were attributable to teachers' pay falling relative to other professions.

3.21 The unions saw a number of risks with local pay. These included increasing recruitment and retention problems (including in deprived areas), reducing teacher mobility, increasing equal pay issues and widening the gender pay gap in teaching. Several believed that local pay would result in upward pay drift to prevent teachers from being poached by other schools.

3.22 Several unions said that managing local pay would detract from the core task of teaching and learning. UCAC considered local pay would have devastating consequences for the Welsh economy. NAHT made the point that a

more complex centralised system of local or regional pay was incompatible with increased deregulation.

3.23 NASUWT submitted research on local pay<sup>5</sup> which concluded that there were good reasons for retaining the current four band structure and little evidence to support further pay differentiation. Six unions<sup>6</sup> had also jointly commissioned two pieces of research. The first<sup>7</sup> questioned the evidence for greater variation in public sector pay. The second<sup>8</sup> suggested that local pay would impact negatively on teacher mobility.

3.24 The NGA and Governors Wales supported the retention of a national pay framework and rejected local pay on the basis that it would create further recruitment problems, including more 'cliff-edge' issues. NGA rejected the Department's argument that the private sector operated local pay scales and believed centrally determined pay bands or hotspots would be inconsistent with the Government's desire for greater devolution in schools. It said teacher supply issues were not always linked to location and cited difficulties recruiting shortage subject teachers and head teachers in small, rural and Catholic schools. Governors Wales said local pay would create disharmony and be costly to implement.

### ***Our analysis***

3.25 We set out in Chapter 2 our guiding principles for pay reform. Of particular relevance are the principles of providing greater autonomy for schools to match resources to the particular needs of their schools; and of simplifying the pay system so head teachers and governing bodies can use it with confidence. We have commented repeatedly on geographical pay issues in past reports and have made a series of recommendations for reform, in response to specific recruitment and retention challenges, the last of which were implemented in 2008. Our recommendations included a number of differentially higher pay awards for London. As a result, there is now a marked difference in the levels of basic pay at different stages of a teacher's career with starting salaries in Inner London 25% higher than nationally. This variation continues, albeit at more modest levels, as teachers progress through the system (15% at M6 and 22% at U3).

3.26 The four geographical bands are supplemented by other flexibilities for local use, notably discretion to pay more for recruitment and retention purposes and the ability to start above the minimum of the pay scale. However, we heard from many consultees that head teachers and governing bodies are often reluctant to make full use of these flexibilities. We return to this in Chapter 5.

#### *The pay premia comparisons*

3.27 There has been considerable debate among commentators and our consultees on the validity and limitations of analyses of pay premia. We note that great care is needed in their interpretation. In particular:

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5 IDS (2012) *Regional or local pay and its implications for the teaching profession*

6 ASCL, ATL, NAHT, NUT, UCAC and Voice

7 IDS (2012) *Regional variations in pay for UK graduates and graduate comparator occupations – the regional pay debate*

8 LRD (2012) *Teachers' mobility and local pay*



- They are subject to cyclical variation. It is important to consider the time period of the analyses in relation to the economic cycle. In addition, there is evidence of significant movement in the differentials over the longer term.
- Most data sources do not reflect all elements of remuneration (e.g. bonuses, pensions and other benefits). We were not presented with evidence that attempted to make comparisons on a *Total Reward* basis and note that any such comparisons require robust data and can be methodologically complex<sup>9</sup>.
- The level of premia varies considerably across the earnings distribution. Any differentials found at lower levels of the earnings distribution may not apply at more senior levels.
- The relevance of comparisons across all occupational groups is of very limited value in examining the appropriateness of pay levels of particular public sector professions, including teachers.

3.28 Recognising these caveats, there seems to be some consistency between the sources in suggesting that there is an *overall* positive pay differential across all occupations between the public and private sectors in the UK, especially for women. This gap has widened recently; it varies geographically; it is much greater for those at the lower end of the pay distribution but close to zero at the top end. As we noted earlier, much of the analysis presented covers *all* occupations, so tells us little about the relative position of *teachers' pay*.

**3.29 Teachers are clearly part of the graduate labour market and we note that the analyses of both IFS and ONS suggest that at the top end of the earnings distribution the pay premia is removed – or reversed.** Key questions for consideration in relation to the teacher workforce are:

- How does pay compare with that of other professionals, including whether any significant differentials are geographically widespread or localised? We consider this in paragraphs 3.30 - 3.36 below.
- To what extent do the flexibilities in the teacher pay system enable employing bodies to be responsive where differentials lead to problems of recruitment and retention? We consider this from paragraph 3.48 onwards.

#### *Teachers' earnings compared to other professional occupations*

3.30 Our own analysis of median earnings estimates<sup>10</sup> suggests that teachers' earnings are broadly similar to those of other *professional occupations* in some regions but lag in others (see paragraph 3.35 below for more detail). Our analysis of detailed earnings data also suggests some variation *within* regions<sup>11</sup>. One important influence is that the composition of the private sector comparators can vary significantly between local labour markets.

<sup>9</sup> We noted but did not examine in detail for this remit a study which compared Total Reward at more senior levels in the public and private sectors, over a career lifetime: Labour Economics 19(4): 584-94 (August 2012) *Total Reward and Pensions in the UK in the Public and Private Sectors* (Alexander Danzer and Peter Dolton).

<sup>10</sup> OME analysis of ONS ASHE and DfE School Workforce Census data. Data for other *professional occupations* from ASHE are sample-based so estimates are associated with a margin of error.

<sup>11</sup> Sub-regional analyses of the non-teaching workforce require considerable caution due to small sample sizes and consequently larger margins of error.

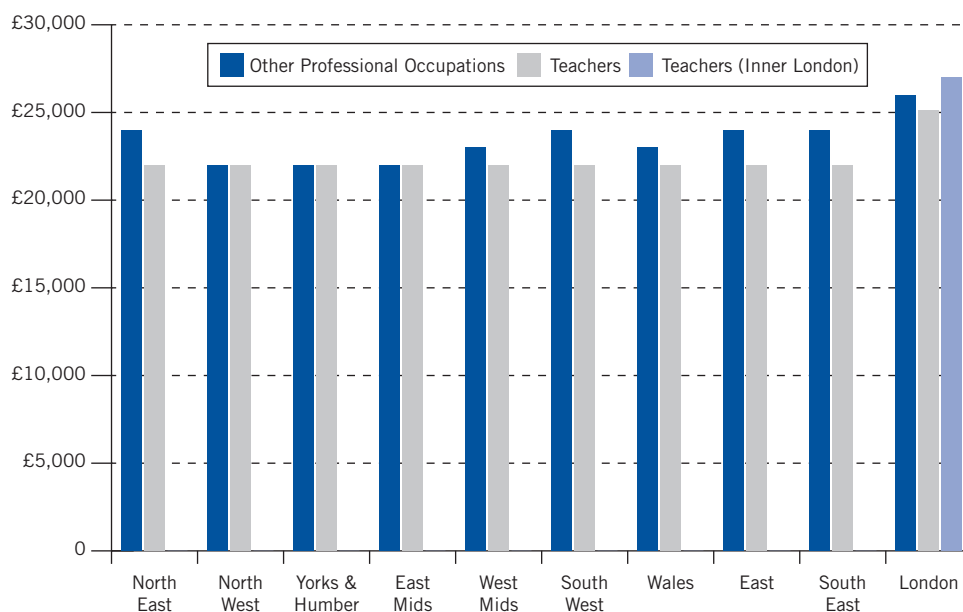


3.31 We have undertaken a range of analyses of teachers' earnings, comparing both the starting pay and the profession-wide earnings with those of other professions. Teaching is a professional occupation which should aim to attract the highest performing graduates, in line with the objectives set out in the Secretary of State's evidence. As such we believe it right to compare teachers' earnings with those of other *professional occupations* as described by the Standard Occupational Classification. Other analyses using different definitions for comparator groups are possible. While we were able to draw on comprehensive data on teachers' earnings, data relating to other professions are drawn from sample-based surveys, so all earnings figures for these groups should be treated as estimates with some margin of error.

3.32 Our analysis<sup>12</sup> suggests that in 2011 teachers' *starting* pay was broadly equal to that for other *professional occupations* in a number of regions (North West, East Midlands and Yorkshire and Humberside). **In other regions, accounting for over half of all teachers, the estimated median starting pay of other professional occupations exceeded that of teachers.** Regions where the gap was greatest were the South East, North East, East and South West (see Figure 3.1 below). Our analysis of 2010 data showed similar results.

**Figure 3.1**

**Teachers' starting salaries compared to 2011 graduates entering other professional occupations**



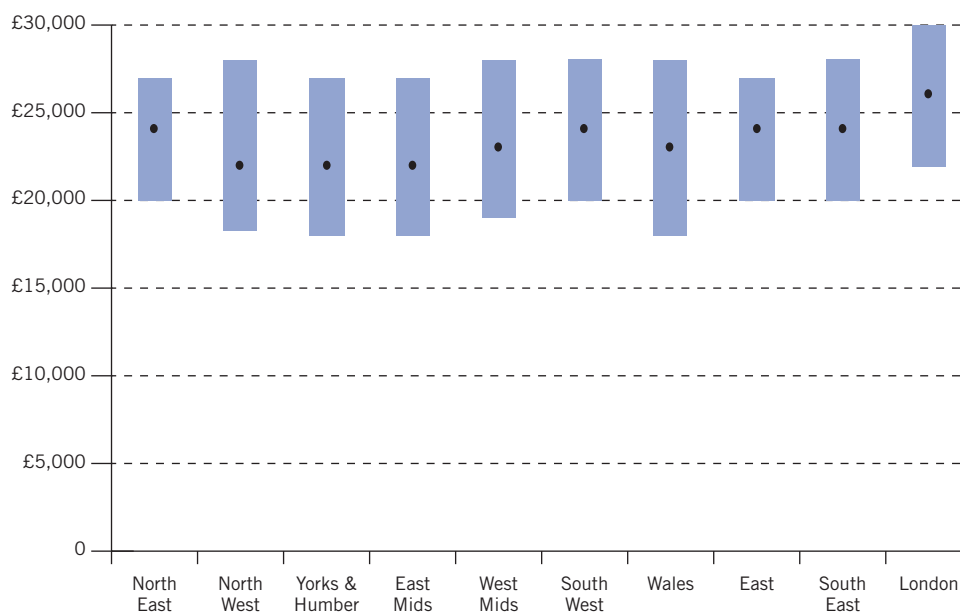
3.33 There is considerable variation in starting salaries around the median for other *professional occupations*; for example, the middle 50% of starting salaries (the inter-quartile range) typically spanned a range of some £8,000-£9,000 around the headline median value (see Figure 3.2 below)<sup>13</sup>.

12 OME analysis of HESA Destination of Leavers from Higher Education (DLHE) survey data (2010/11). Data are sample-based so estimates are associated with a margin of error.

13 OME analysis of HESA Destination of Leavers from Higher Education (DLHE) survey data (2010/11). Data are sample-based so estimates are associated with a margin of error.

**Figure 3.2**

**Starting salaries of 2011 graduates entering other *professional occupations* (median and inter-quartile ranges)**



3.34 We note that in Inner London starting pay for teachers is broadly competitive at the current time. This follows previous differential increases to Inner London starting pay to address its particular recruitment and retention challenges. However, our analysis of detailed data (from HESA and AGR<sup>14</sup>) suggests that some of the sectors that target high calibre graduates do pay significantly higher starting salaries, both in London and elsewhere. These include branches of engineering and medical professions (with median starting salaries ranging from £25,000 to £30,000)<sup>15</sup>, as well as those sectors which offer the highest starting salaries (with medians in excess of £37,000) such as investment banking and law<sup>16</sup>. It will be important to ensure that starting pay remains competitive with most graduate professions (recognising that there will be some that pay significantly higher) to attract good quality graduates. We will need to monitor this carefully if improvements in the economy lead to increases in starting pay elsewhere, impacting on the quality of teacher recruits.

3.35 Our wider analysis of median earnings for classroom teachers<sup>17</sup> in 2010/11 suggests they are broadly similar to other *professional occupations* in a number of regions (North East, South West, North West, Yorkshire and Humberside, West Midlands). **In London, South East, East of England and East Midlands, which account for around half of all classroom teachers, estimated median earnings are lagging other *professional occupations*** (see Figure 3.3 below).

14 AGR (2012) *The AGR Graduate Recruitment Survey, Winter Review*

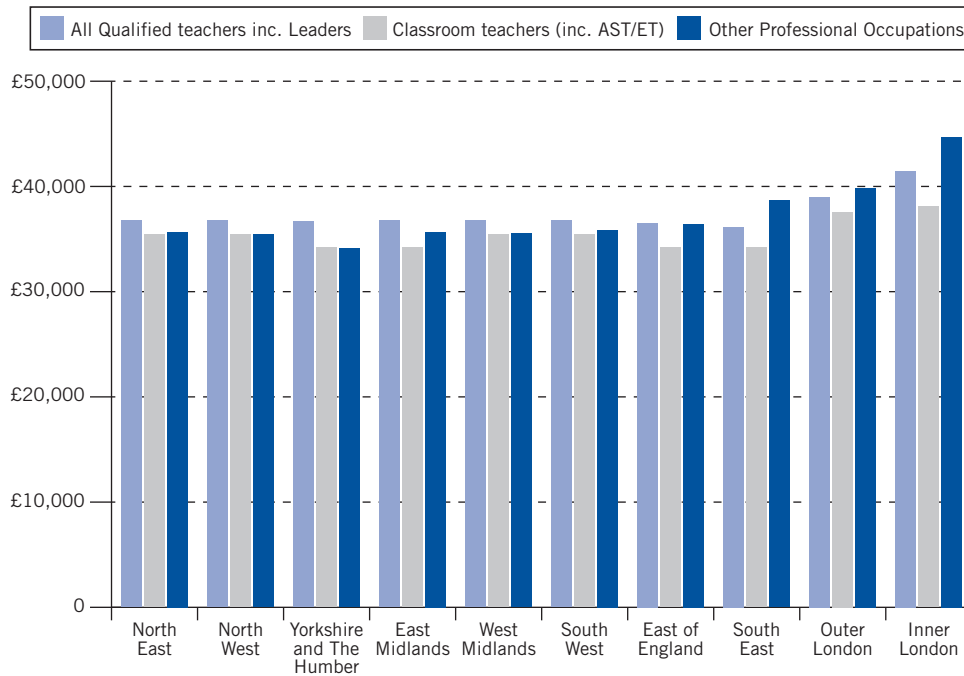
15 OME analysis of HESA Destination of Leavers from Higher Education (DLHE) survey data (2010/11). Data are sample-based so estimates are associated with a margin of error

16 OME analysis of AGR/High Fliers reports; High Fliers Research (2012), *The graduate market in 2012*

17 OME analysis of ONS ASHE and DfE School Workforce Census data. Our analysis focuses on the comparison between full-time classroom teachers (including ASTs and Excellent Teachers) and other *professional occupations*. Data for other *professional occupations* from ASHE are sample-based so estimates are associated with a margin of error

**Figure 3.3**

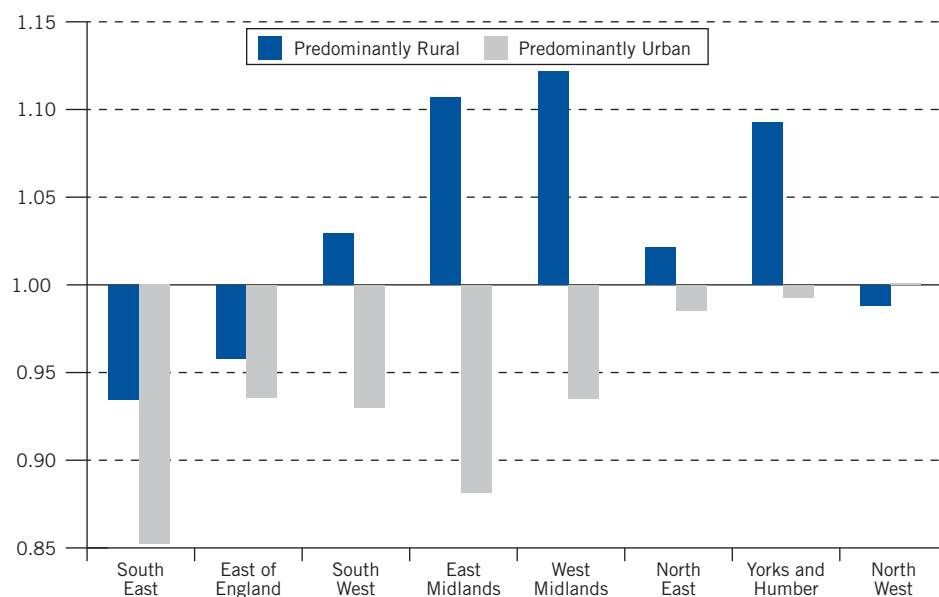
**Teachers' median earnings compared to those of other *professional occupations*, 2010/11**



3.36 Our data analysis extended to exploration of within-region earnings comparisons with other professionals. Sample size limitations make meaningful comparisons difficult, especially at very local levels (such as travel to work areas). However we did examine estimates of the earnings of teachers and other *professional occupations* in predominantly urban and rural areas within regions. We found that while teachers' median earnings were relatively flat across regions, the estimated median earnings of other *professional occupations* tended to be higher in urban than in rural areas in several regions. As a result we observed that **teachers' earnings were more likely to trail those of other professionals in urban areas**. This pattern was somewhat reversed in predominantly rural areas in some regions, with teachers' pay tending to be higher (see Figure 3.4 below). While still requiring a degree of caution because of sample sizes, these findings provide some evidence of the localised nature of the labour markets in which schools compete for teachers. The finding that teachers' median earnings tend to trail those of other professionals in urban areas reinforces the need to monitor competitive pay levels carefully, especially as economic conditions change and recruitment and retention in these areas may become more difficult.

**Figure 3.4**

**Ratio of classroom teachers' median earnings to those of other *professional occupations*, by region and urban/rural location<sup>18 19</sup>**



*The evidence on wider impact/crowding out*

3.37 On the specific issue of the impact of public-private sector pay differentials on local economies there appears to be little hard evidence available. Wages that are too high in relation to the private sector could clearly have the potential to hurt private sector businesses, but we have not been presented with any substantive evidence that crowding out by the teaching profession is in fact causing any specific problems.

3.38 On the impact of local pay differentials on educational standards, we noted in Chapter 2 recently published research by Britton and Propper which suggested a relationship between value added by secondary schools and the level of average wages in the local labour market<sup>20</sup>. While the authors attribute this to the regulation of teachers' pay, the complex range of influences on school performance suggests some caution is needed in interpreting such studies. As we note below, recruitment and retention can vary markedly within local areas, and persistent problems may be at the level of individual schools or subjects. This suggests highly targeted approaches to tackling problems need to be part of the pay framework to support school improvement.

18 Local authorities are defined as 'Predominantly Urban' where at least 74% of the population live in urban areas, and 'Predominantly Rural' where at least 50% of the population live in rural settlements and large market towns. All London local authorities were classified as 'Predominantly Urban'.

19 OME analysis of ONS ASHE and DfE School Workforce Census data for full-time employees. All estimates for other professional occupations are associated with a margin of error, but where sample sizes are small the margins of error will be wider as a consequence. Similar patterns in the earnings of 'other professionals occupations' were observed in repeating the analysis with 2010 ASHE data.

20 CMPO (2012) *Does Wage Regulation Harm Kids? Evidence from English Schools*

### *The evidence on wider practice*

3.39 The research on wider practice indicated that where the private sector used pay differentiation it typically used a small number of geographical bands, including a national scale and specific rates for London and the South East. We also note from those organisations included in the research that the recent trend was towards simpler geographical pay differentiation reflecting current labour market circumstances. Private sector organisations operating nationally generally favoured central control over local pay differentiation because this provided simplicity, avoided duplication and enabled employers to control costs.

3.40 The current framework for teachers' pay, with four geographically defined pay bands and provisions for discretionary payments to support recruitment and retention, broadly resembles this wider practice.

### *Patterns of recruitment and retention*

3.41 In paragraphs 3.30 to 3.36 above we set out the evidence on how teachers' pay compares with other professionals on a regional and sub-regional basis. Before setting out our conclusions, we also considered up-to-date evidence on the teacher labour market overall and the local dimension to recruitment and retention problems.

3.42 Recruitment and retention, as measured by official vacancy figures, appears healthy. Headline vacancy rates<sup>21</sup> in England fell from 0.8% in 2000 to 0.4% in 2010. Using a new collection methodology, the latest reported rate (for November 2011) is 0.1%. Within the headline figures, the previously high vacancy rates in London have fallen significantly and there have also been reductions in the rates for 'shortage' secondary subjects. While the economic cycle will have benefited recruitment to the profession, we believe the bolstering of the London pay scales in recent years will also have played an important role. The headline vacancy rate in Wales has been stable over recent years and was 0.4% in 2012<sup>22</sup>.

3.43 We welcome the improved vacancy figures but believe they should be treated with caution. We are aware of the change in collection methodology which has contributed to some of the reported decrease in England and the fact that the statistics cover advertised vacancies and mask schools' coping strategies, such as the use of non-specialist subject teachers and recruitment of some teachers on temporary contracts because of the difficulty making an appropriate permanent appointment. We are also mindful that the recruitment climate could become more challenging as the economic cycle evolves, and demand for teachers increases in line with forecast increases in pupil numbers.

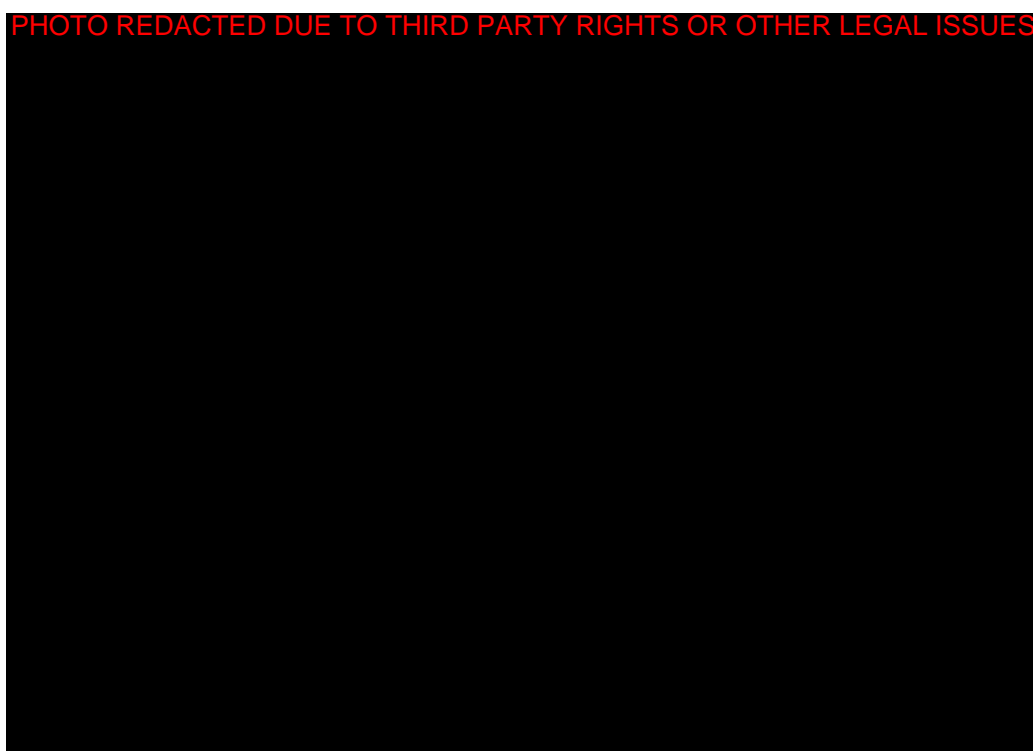
3.44 As we have noted in past reports, persistent recruitment and retention problems tend to be very localised, and are therefore masked by the aggregate-level vacancy figures. These **more localised challenges are focused on individual schools or groups of schools, and can be clustered in pockets within a broader area**. They may arise for a variety of reasons, such as competition from alternative employers or the socio-economic character of the immediate area, and resultant challenge.

<sup>21</sup> OME analysis of DfE vacancy statistics. Vacancies defined as: Advertised vacancies for full-time permanent appointments (or appointments of at least one term's duration). Includes vacancies being filled on a temporary basis of less than one term.

<sup>22</sup> Welsh Government (2012) *Teachers in Service, Vacancies and Sickness Absence, January 2012*

3.45 Our analysis of the distributional patterns of deprivation<sup>23</sup> highlighted the fact that even within a single local authority area, a wide range of contextual circumstances can co-exist with small areas of high deprivation frequently located alongside areas of significantly lower challenge. This is illustrated in the map of Leeds below, which contains small areas which range across the spectrum of deprivation, including several among both the 10% most and the 10% least deprived in England<sup>24</sup>.

**Figure 3.5 Index of Multiple Deprivation (IMD) 2010, Leeds**



3.46 Recruitment and retention problems are often related to specific subject shortages. Although conventional wisdom suggests these are most likely to occur in high-cost areas, this is not always the case. For example, the maps below highlight above average concentrations of commercially advertised vacancies for teachers of maths and physics<sup>25</sup>, suggesting possible shortages in these subjects across a range of areas (shaded red). We have also heard anecdotal evidence on our visits, and from the teacher unions, of localised problems relating to schools on the edges of the existing pay bands.

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23 The Index of Multiple Deprivation 2010 combines a number of indicators, chosen to cover a range of economic, social and housing issues, into a single deprivation score for each small area in England. This allows each area to be ranked relative to one another according to their level of deprivation.

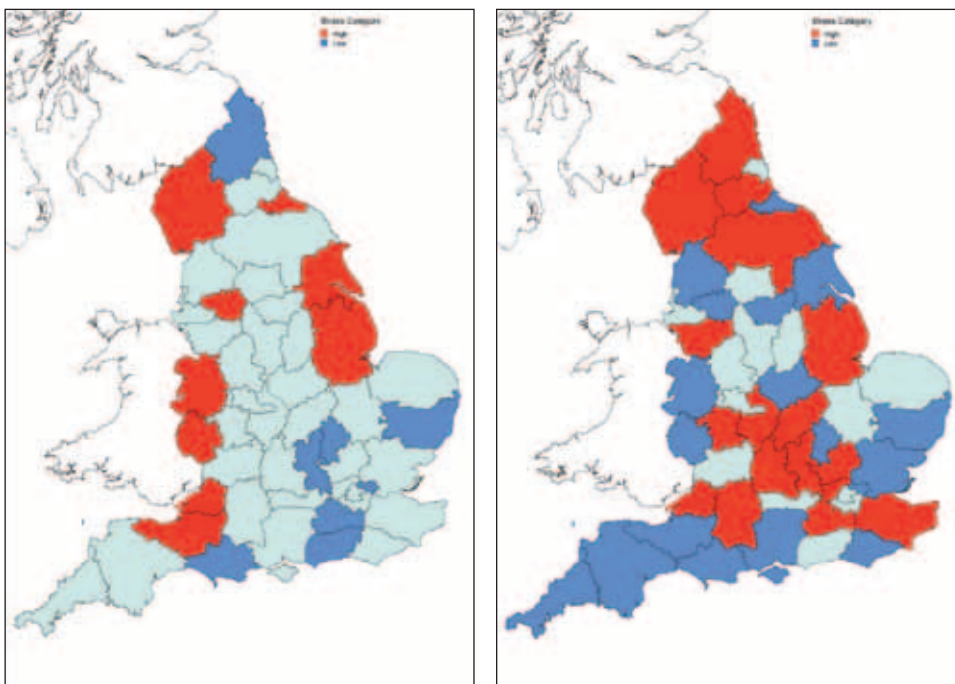
24 DCLG (2010) *Indices of deprivation*.

25 EDS Vactrack database under license to the Teaching Agency. Data cover the period 2005/06-2010/11. The stress maps are derived from a combination of commercially advertised teacher vacancy information and the distribution of (secondary) teachers. A region is defined as being under stress when the proportion of advertised vacancies for main scale classroom teachers in that region, say in Maths, is substantially greater than the proportion of in-service teachers within the region (areas marked in red on the map).

**Figure 3.6 Maths and Physics vacancies**

**Maths**

**Physics**



3.47 **These problems cannot be addressed through a structure of centrally determined pay zones.** Rather, they require targeted responses, tailored to the needs of individual schools such that they are able to deploy pay provisions as flexibly as possible to address recruitment and retention problems as they arise.

*Patterns in the use of existing flexibilities*

3.48 Many consultees have referred to the existing provisions for discretionary pay in the STPCD. Our analysis of earnings extended to an examination of the use of the key payments outside of basic pay that are available to classroom teachers.

3.49 Using DfE's School Workforce Census data, we found that some 27% of primary and 56% of secondary full-time classroom teachers<sup>26</sup> received some form of payment in addition to their basic pay in 2010/11. Within these figures, 21% of primary teachers and 44% of secondary teachers received TLRs. Other allowances received were SEN, recruitment and retention payments and 'other' (unspecified in the data) payments.

3.50 The proportion of teachers in receipt of additional payments varied by region: for primary schools from 21% (North East and Yorkshire and Humberside) to 41% (Inner London); for secondary schools from 49% (Yorkshire and Humberside) to 62% (Inner London). Within these figures we noted higher than average use of TLRs in London – despite these payments not being designed as a recruitment and retention tool. Use of designated recruitment and retention payments also varied across regions but was notably heavier in Inner London than elsewhere.

<sup>26</sup> Teachers on the main or upper pay scale.

3.51 We also note from our wider research the appetite from some for the existing allowances to be deployed with greater flexibility. We further note that several of our consultees have commented on the perceived under-use of these provisions.

### **Our conclusions**

3.52 We have carefully examined the wider generic evidence on market-facing pay. We note the data presented on public-private pay differentials and in particular that where there are significant differentials, these are shown to be towards the lower end of the income distribution and that the gap is removed at the higher end. Indeed, the ONS analysis suggested that the average earnings of graduates in the public sector were lower than those of their counterparts in the private sector. This is key in the context of teaching which is a graduate profession, and is supported by our own comparative analysis which demonstrated that teachers' median earnings lagged those of other professional occupations in several regions. We saw no evidence of crowding out of the private sector by the teaching profession.

3.53 We have noted the evidence of wider geographical pay practice which tends to focus any differentials on London and the South East. The existing pay system for teachers, with its four pay bands, broadly resembles this wider practice. Given the marked differences in base pay between Inner London and national bands (with graduated differences in Outer London and the Fringe) and the potential for local discretion on recruitment and retention allowances, we consider that the Department's evidence underplays the extent to which the teachers' pay framework allows for local circumstances to be accounted for.

3.54 However, there is evidence that the available provisions to address market-facing challenges are not always used to their full potential, partly because of a cultural reluctance and partly because the complexity of the pay document militates against understanding. There is also some appetite for making some of the current discretions less rigid, which may ease understanding and further encourage their use (we return to this in Chapter 5).

3.55 Against the background of evidence on wider practice and the Department's invitation to consider the issues, we looked critically at the proposition that additional zones or hotspots would help in relation to the teaching workforce. Our view is that this would risk introducing significant complexities:

- Basing a system on the type of detailed data presented in the Department's evidence could lead to the development of a very large number of local zones/bands.
- This would create additional 'cliff-edge' issues, with the associated impact on recruitment and teacher mobility.
- There are significant data challenges in defining the zones, including the need to consider how they would be updated on a timely basis as local economies changed.
- There would undoubtedly be increased bureaucracy and cost in managing a more complex system.
- A zonal system would have inherent inefficiencies as zones would not be optimal in targeting very localised recruitment and retention issues.



3.56 We consider the potential problems outweigh any potential benefits. Although STRB has in the past outlined a possible model for 'hotspots' (in the form of schools making the case to be put in a higher pay band<sup>27</sup>) the environment has since changed significantly. Our predecessors envisaged a role for local authorities in assessing business cases, which would not be appropriate in the context of much greater autonomy for schools. Our wider recommendations in this report on pay flexibility at school level offer a potentially more efficient and targeted way of tackling local recruitment and retention problems, with less bureaucracy.

3.57 In the medium term there may be a case for review of the existing geographic pay bands although we note that other organisations seek relative stability in their framework of local pay to avoid triggering unnecessary change. However, we would welcome a future remit if analysis of teachers' pay, or recruitment and retention evidence, suggests significant overall imbalances in the differentials they offer; or if progress in using broader pay flexibilities in schools suggests some or all of the bands are becoming redundant.

3.58 In summary, our view, reinforced by our analysis, is that **the real need is for the pay system to have the flexibility to target school-level recruitment and retention problems**, recognising that schools within the same area can often be working in very different circumstances and require the flexibility to react accordingly. The Secretary of State emphasised the importance of using the pay system flexibly to incentivise the most able teachers to work in the most challenging schools. In our view, **these situations cannot be addressed effectively through the further refinement of a centrally determined structure of geographic pay bands or zones.**

### Recommendations

3.59 Our recommendations are part of a wider package set out later in this report to increase flexibility in the pay framework and so give schools freedom to make local decisions. On the specific issue of geographical differentiation, we recommend:

- **the retention, for now, of the four geographic pay bands as the starting point for recognising broad labour market differences which bear widely on recruitment and retention.**

3.60 This, combined with other current provisions, means the pay system offers schools a range of mechanisms which assist in the recruitment and retention of teachers:

- **The four pay bands, which address broad geographic labour market differences.**
- **Recruitment and retention payments and incentives to address local problems.**
- **The freedom to appoint staff above the designated minimum, taking account of experience.**

3.61 Our wider recommendations in Chapters 4 and 5 will offer the following *additional* support to schools in recruiting and retaining teachers whilst making most effective use of their resource:

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<sup>27</sup> STRB (2004) *Thirteenth Report – Part 2*, TSO (Cm 6146)

- **The freedom to offer more rapid progression to the most able teachers.**
- **The flexibility to award time-limited responsibility allowances.**
- **Increased flexibility in the use of recruitment and retention payments and incentives.**
- **The option to design higher paid posts which reward some of the very best teachers for leading the improvement of teaching skills.**

3.62 We consider that, taken together, these changes will enable schools to respond more effectively to local market conditions, including by attracting high quality graduates overall; by targeting pay to recruit and retain teachers of shortage subjects; and by providing incentives for those with the skills needed to work in the most challenging schools.

3.63 We will continue to monitor recruitment and retention overall to assess how far the combination of these flexibilities for schools and the geographic pay bands remain effective in addressing the specific issues associated with London and its fringe areas, including difficulties with retention of experienced teachers when family and financial obligations may make London less attractive.

3.64 Finally, we note the importance of funding reform to enable all schools to make effective use of local pay flexibilities. Funding issues go well beyond our remit, but given their importance in relation to pay we make the following **observation**. To secure the full benefits of greater autonomy and discretion, it will be important that funding for individual schools appropriately reflects their different conditions, including the particular challenges which impact on teacher recruitment and retention. We therefore attach particular importance to the Government's intention to implement in the next spending review period a National Funding Formula to ensure similar schools and pupils, wherever they are, attract similar levels of funding.

# CHAPTER 4

## Linking pay to performance

### *Background to the remit*

4.1 The Secretary of State asked us to consider for recommendation:

*how the pay scales, including the main and upper pay scales, should be reformed to more effectively link pay and performance, including arrangements for progression.*

### **Current pay arrangements for classroom teachers**

4.2 Classroom teachers are paid on one of three pay scales (unqualified teachers, main and upper pay scales) or on the Advanced Skills Teacher (AST) pay spine or the Excellent Teacher (ET) pay range. As noted in Chapter 3, all pay is organised into four geographic pay bands. Current rates are shown at Appendix G.

#### *Main scale*

4.3 Qualified classroom teachers on the main scale (MPS) progress through a six point incremental scale unless they have been notified that their performance is not satisfactory<sup>1</sup>. All teachers are required to have an annual performance appraisal where:

- the teacher's performance is assessed against standards<sup>2</sup> and objectives; and
- the teacher's professional development needs are assessed and action identified to address them.

4.4 In practice, almost all teachers below the maximum of the MPS (M6) progress annually. The value of each increment is 8% of pay<sup>3</sup>. Schools can award additional points for excellent performance but rarely do so in practice.

#### *Upper pay scale*

4.5 Teachers must make an application and demonstrate to their head teacher that they meet a separate set of standards<sup>4</sup> to pass the threshold to the upper pay scale (UPS), a three-point incremental scale. The value of each of these increments is 4%<sup>5</sup>. Progression to the next point on the upper pay scale is only possible after two years, other than in exceptional circumstances, based on appraisal including against the post-threshold standards<sup>6</sup>.

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1 DfE (2012) *School Teachers' Pay and Conditions Document 2012*, paragraph 18.1.1(b)

2 Ibid. Annex 2

3 This figure applies to the England and Wales pay band; slightly different percentages apply elsewhere.

4 The post-threshold standards are set out in STPCD Annex 1

5 This figure applies to the England and Wales pay band; slightly different percentages apply elsewhere

6 Op. Cit. STPCD 2012

**Figure 4.1**

***Progression on the main and upper pay scales***

Estimates from the 2008/09 Survey of Teachers' Pay (OME) showed:

- Over 98% of full-time teachers on M1-M5 received an annual increment.
- Around 45% of full-time teachers at the top of the main scale advanced from M6 to the UPS (over 90% of those applying were successful).
- Around 40% of full-time teachers on U1 progressed that year to U2 and one-third of teachers on U2 progressed to U3.

*Advanced Skills Teachers and Excellent Teachers*

4.6 There are two further opportunities for higher pay for excellent teachers who wish to stay in the classroom. The Advanced Skills Teacher (AST) scheme provides higher salaries on a five point incremental spine for teachers who are appointed to specific posts involving improving the teaching skills of other classroom teachers, including 20% of time spent in outreach work. Progression on the spine is performance-related. The five points are selected by the governing body from the first 18 points of the leadership pay spine. AST teachers are subject to the same working time provisions as members of the leadership group, i.e. they are not subject to the limit of 1265 hours that applies to classroom teachers. The Excellent Teacher scheme (ET) provides a similar post-based role for teachers demonstrating long and broad pedagogic excellence within a school. ETs are paid a spot salary within a range (with no progression) and are subject to the same working time conditions as other classroom teachers.

4.7 Applications for both schemes are subject to external assessment against the relevant standards (post-threshold, advanced skills or excellent teachers' standards<sup>7</sup>). There are just fewer than 4,000 ASTs in England, of whom 27% work in primary schools, 69% in secondary schools<sup>8</sup>, 3% in special schools and 2% are centrally employed by local authorities. There are 166 ETs in England, of whom 35% work in primary schools, 60% in secondary schools, 3% in special schools and 2% are centrally employed by local authorities. There are no ETs in Welsh schools (figures on ASTs in Wales are not available).

*Pay at selected career points*

4.8 About one quarter of full-time primary teachers and over half of full-time secondary teachers receive some form of payment (e.g. a Teaching and Learning Responsibility payment (TLR) or a Special Educational Needs (SEN) allowance for taking on an additional responsibility) in addition to their basic salary. The earnings of individual teachers vary significantly according to geographic pay band, level of progression and whether they have been awarded an allowance. However, it is possible to illustrate the current potential for progression for a new recruit as follows (England and Wales figures – London equivalents would be higher):

<sup>7</sup> Op. Cit. STPCD 2012

<sup>8</sup> Figures include secondary academies. Figures relate to November 2010

- Newly Qualified Teacher (NQT): £21,588
- After 5 years teaching: £31,552
- Substantial and sustained achievement as classroom teacher (around 10 years experience) plus line management responsibilities (U3 plus a TLR of, say, £9,000): £45,756
- Advanced Skills Teacher (e.g. leading the teaching of numeracy): in the range £37,461 to £56,950).

4.9 All pay and progression arrangements for teachers (and the leadership group) are set out in the statutory School Teachers' Pay and Conditions Document (STPCD). They include detailed provisions on eligibility, arrangements for starting pay, progression and assessment against the relevant standards. In our view, the level of detail, prescription and complexity results in an opaque document that is not easily accessible for teachers, head teachers and governing bodies or potential new recruits.

#### *Teacher standards and performance appraisal*

4.10 Current arrangements for performance-based progression on the upper pay scale rely on effective performance appraisal, linked to objectives and standards. There have been recent changes to both standards and appraisal.

4.11 Earlier this year the Department accepted proposals following an independent review<sup>9</sup> for a new set of *Teachers' Standards* in England, which were introduced from September 2012. The Department also welcomed the proposed Master Teacher standard, noting the Review Group's observation that it should be an aspirational standard that should not be linked to pay. The Welsh Government has its own standards for teachers in Wales<sup>10</sup>. The existing standards for post-threshold, Excellent Teachers and Advanced Skills Teachers remain in place for teachers in both England and Wales for pay purposes. However, the Department invited us in this remit to consider the removal of these standards<sup>11</sup>.

4.12 New *Appraisal Regulations* came into effect in September 2012<sup>12</sup>. The Department told us the changes would better enable schools to make decisions about rewarding performance as teachers would have to be assessed each year against the relevant standards and their objectives. Consultees stressed, and we endorse, the importance of a positive performance management culture in schools. Our view is that appraisal works best when it involves a two-way professional dialogue with a strong focus on self-evaluation and professional development.

4.13 Both teacher and head teacher unions emphasised the need for a clear and consistently applied framework and a clear understanding on both sides on setting objectives and targets, including for development. We heard concerns from consultees that the new standards could be open to inconsistent interpretation and that greater clarity was needed on expected levels of competence at a particular level of seniority. Several consultees also

9 Letter from Michael Gove to Sally Coates 12 December 2011 at: <<http://www.education.gov.uk/schools/teachingandlearning/reviewofstandards/a00192172/review-of-teachers-standards-first-report>>

10 *Practising Teacher Standards and Practising Teacher Standards for Newly Qualified Teachers*. Available at: <http://wales.gov.uk/docs/dcells/publications/110830profstandardsen.pdf>

11 Post-threshold, ET and AST standards

12 S.I. 2012/115, The Education (School Teachers' Appraisal) (England) Regulations 2012

commented on the need for training and/or support to help schools undertake performance management. We take account of these important considerations in framing our recommendations and in our observations in Chapter 6 on enabling more effective use of pay flexibilities.

### Relevant research evidence

4.14 We set out the broader evidence base in Chapter 2. Of particular relevance to this chapter are the ORC research<sup>13</sup> findings that both head teachers and chairs of governing bodies sought greater flexibility to enable appropriate reward for high performing teachers. Some commented on the need for closer links between pay and performance and for greater rigour in access to, and progress through, the upper pay scale.

4.15 We also noted the IES case studies<sup>14</sup> on different approaches to pay progression in other sectors and professions, which informed our thinking on pay progression for teachers. Most of the case study organisations sought to provide a stronger link between pay and performance, with reward for contribution or performance rather than time served. Most had introduced pay systems providing scope for differential levels of pay. The report illustrated pay stages<sup>15</sup>: broadly an entry stage where staff were developing their skills and capabilities; a contribution stage, where staff were fully contributing; and a high value stage, where staff were rewarded for exceptional skill. We see value in such an approach.

4.16 International evidence also offers some insights which we reported in Chapter 2. This included OECD commentary<sup>16</sup> which found that credentials and years of experience themselves were weak indicators of teacher effectiveness and effective evaluation and professional development were also needed. The OECD also noted that most countries which offer an additional payment for outstanding performance *base decisions on the nuanced judgments of professional colleagues who, in turn, base their opinions on multiple sources of data, only some of which are measured in any formal way*, although it acknowledged difficulty in distinguishing the impact made by an individual teacher.

4.17 The House of Commons Education Committee has recently commented that the comparative impact of outstanding teachers is so great (in terms of improved pupil outcomes) that the potential difficulties in introducing a pay system which rewards those teachers who add most value must be overcome<sup>17</sup>. A 2011 study for the Sutton Trust showed that improving the effectiveness of teachers would have a major impact on the performance of the country's schools<sup>18</sup>. It concluded that *a more flexible promotion and pay system.... would have the potential to attract and retain more high quality applicants into the profession*<sup>19</sup>.

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13 Infogroup/ORC International (2011) *Teachers' Pay Issues: research findings 2010*

14 IES (2012) *Case Studies on Pay Progression*

15 Pay stages are sometimes known as pay zones, but we use the former term to avoid confusion with geographically defined pay zones

16 OECD (2011) *Building a High-Quality Teaching Profession – Lessons from around the World* Chapter 3

17 House of Commons Education Committee (2012) *Great teachers: attracting, training and retaining the best Ninth Report of Session 2010-12* paragraph 121

18 Sutton Trust (2011) *Improving the impact of teachers on pupil achievements in the UK – interim findings* page 2

19 Ibid. page 12

## ***Views and evidence from the Department and consultees***

4.18 In paragraphs 4.19 to 4.40 below we set out the positions expressed by the Department and by consultees on strengthening the link between pay and performance, including progression. We cover their respective evidence on the detailed aspects we considered, including progression on the main and upper pay scales, reward beyond the upper pay scale and performance management.

### **The Department's views on linking teachers' pay to performance**

4.19 One of the Secretary of State's objectives for teachers' pay reform is to develop arrangements which reward good performance and attract the highest performing graduates and professionals into teaching, given the evidence that high quality teachers drive up pupils' achievement. The Department said there was a need to improve the quality of both new and existing teachers and that it was crucial that the pay system enabled head teachers to reward the best teachers who can have the biggest impact on pupil outcomes, particularly for pupils from disadvantaged backgrounds.

4.20 The Department argued that the current link between performance and reward was weak and the present system primarily rewarded time served. It cited research<sup>20</sup> which found that virtually all full-time teachers on the main scale progressed to the next point. It said the current arrangements for pay progression limited the ability of schools to use their pay budgets to reward good teacher performance and raise standards. The Secretary of State said that new graduates had an expectation of initial pay progression in the early years and acknowledged a need for a minimum starting salary and reassurance of progression.

4.21 The Department did not make a detailed proposal for strengthening the link between pay and performance, but its five models illustrated a range of options, all of which would give head teachers greater or complete discretion on pay, including progression.

4.22 The Department also noted there was an urgent need to address the recruitment and retention of high-quality school leaders, citing research suggesting that school leadership was second only to classroom teaching as an influence on pupil learning, although it did not provide any separate evidence on leadership pay. We comment in Chapter 7 on the desirability of a further remit on this.

### **Consultees' views and evidence**

#### *Performance and progression – general comments*

4.23 Some consultees sought changes to the current arrangements. NAHT said there was too much automaticity of progression. NEOST similarly sought a stronger link between pay and performance, arguing that under current arrangements progression was virtually automatic for main scale teachers unless they were subject to capability procedures. It argued there should be incremental pay increases based on performance, although it saw a case for automatic pay progression for new teachers for the first three years. It also sought more scope to reward and incentivise exceptional performance.

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<sup>20</sup> ORC(2009) *Survey of Teachers' Pay 2008*



4.24 NGA said that progression should not be automatic and stressed the need for robust performance appraisal, with appropriate training for all those involved in appraisal, although it acknowledged that some governors did not support performance-related pay. NGA said an additional pay scale for middle/line managers would be helpful as line management was often undervalued in schools.

4.25 All the teacher unions noted there were links between pay and performance in the current system, but views differed on the extent to which they needed strengthening. ASCL thought the existing system generally worked successfully. Several of the classroom teacher unions said the existing links between performance and pay were sufficient, citing the ability to pay double increments, the ability to withhold progression, access to the UPS and the ability to award increments early on the UPS.

4.26 Four unions (ATL, NUT, UCAC, Voice) provided a joint submission setting out their fundamental opposition to the extension of performance-related pay, citing recent OECD evidence<sup>21</sup> which suggested no relationship between performance pay and pupil outcomes. They also noted OECD evidence that level of pay was key. They said differential reward for individual performance would undermine the importance of collaborative working and it was impossible to differentiate the impact of individual teachers on pupils. They noted there were already sufficient flexibilities, e.g. to award double increments.

4.27 Some classroom teacher unions argued that devolution of pay and progression arrangements to individual schools risked inconsistent and unfair application and potential discrimination. NUT went further, arguing that the existing arrangements for performance-based pay progression were complex, created inequity and discrimination and should be removed. NUT was opposed in principle to the concept of linking pay to performance and considered any denial of progression would be seen as a punishment. It saw speed of progression as the key competing characteristic of other graduate professions. ATL, NASUWT and NUT all pointed to a lack of evidence on the benefits of performance-related pay and cited various pieces of research suggesting that it did not have a strong motivational impact.

4.28 ASCL noted the current system contained sufficient discretion and argued that structural changes to the pay system would be a distraction, a point also made by NASUWT. During oral evidence ASCL said it took a pragmatic approach, believing that more explicit linking of pay and performance was unlikely to be feasible given current budget constraints and the possible negative impact on already fragile teacher morale. It raised concerns that pay-related decisions would be open to challenge and would lead to greater bureaucracy.

4.29 NASUWT said the current arrangements for pay progression helped to secure recruitment, retention and motivation and held the view that any failure to link progression to performance was due to ineffective performance management practice. It rejected the view that high-performing systems elsewhere were successful due to performance pay. It said teachers improved with experience and should be rewarded accordingly. Although it accepted

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21 OECD (2012) *PISA in Focus 16: Does performance-based pay improve teaching?*



in principle there was differential performance, it considered the current arrangements lacked the rigour to ensure well-based decisions and said financial constraints would be a barrier to effectiveness.

4.30 UCAC commented on the potential confusion between the Master Teacher standard and the Master Teacher Qualification in Wales.

4.31 The Welsh Government said there was currently little or no link between pay and performance in Wales and was not convinced that one would be productive. It said the integrated system of professional standards, professional development and performance management in Wales would develop teachers and maintain their ability to progress, without needing to link pay and performance. During oral evidence the Welsh Government supported faster progression for very competent teachers but said this would need to be allied to robust performance management.

#### *Performance and progression on the Main Scale*

4.32 Several teacher unions commented on the need for new entrants to have clarity and certainty on pay prospects. Some of the teacher unions and the Welsh Government recognised that teachers developed at different rates, and most considered teachers were generally fully competent after five to six years, suggesting M6 was the market rate for a teacher. ATL argued that progression on the main scale recognised competencies gained and said that extending performance-related progression to the main scale would deter graduates from joining the profession. ASCL viewed the incremental scale as useful in motivating and rewarding teachers. NUT proposed the main scale and UPS should be merged and extended.

4.33 NAHT proposed a unified nine point scale, with no threshold for UPS, as it considered full performance-related progression at every stage would make a threshold redundant. It suggested progression could be based on satisfactory performance for teachers in their early years and good performance for more experienced teachers. It took the view that accelerated progression for excellent performance would aid recruitment.

#### *Access to, and expectations of, teachers on the Upper Pay Scale*

4.34 NEOST commented that the process for accessing UPS needed simplification and greater rigour. It sought the ability to move teachers from the UPS to the main pay scale where performance fell short, with appropriate safeguards (to ensure any such downgrading was related to performance and not, for example, due to budgetary pressures), a proposal rejected by some of the classroom teacher unions. It said the permanency of pay points made it difficult for experienced teachers re-entering the profession to get supply teacher posts.

4.35 The classroom teacher unions were unanimous in disagreeing with other consultees' perceptions of automaticity around the UPS and voiced concerns that some teachers eligible for the UPS were prevented from accessing it due to funding constraints in schools, which undermined teacher morale. NASUWT pointed out that over 50% of eligible teachers did not progress to the UPS.

4.36 NASUWT proposed automatic assessment for teachers at the threshold and Voice suggested the UPS should be available to all teachers who met the criteria as it considered pay progression was relatively slow compared with some other professions. It said UPS points should remain permanent and portable.

4.37 The teacher unions observed a distinction between UPS teachers and those on the main scale. They suggested that UPS teachers made a wider contribution to the school through responsibilities for pedagogy, shared their experiences with colleagues and coached and mentored other teachers. ATL, UCAC and Voice saw the UPS as a career path for experienced teachers wishing to remain in the classroom. BATOD supported the current system of UPS progression and proposed quality assuring teachers of the deaf to ensure the continuation of high quality teaching.

4.38 ASCL said teachers on the UPS should contribute more widely to the school. Both ASCL and NAHT acknowledged that access to, and progress on, the UPS had sometimes lacked rigour but ASCL said the new performance management and capability procedures would support school leaders in addressing this. It proposed there should be greater recognition for teachers on the UPS, similar to chartered status in other professions.

#### *Views on Advanced Skills Teachers and Excellent Teachers*

4.39 There was general support for retention of the AST scheme, although NAHT proposed combining AST and ET roles into a 'lead practitioner' role (a proposal supported by ASCL but which NASUWT explicitly rejected) and commented on the need for such roles to be available in primary schools. NAHT envisaged the pay scale being extended to 13/15 points to accommodate this. NUT suggested the local authority 'advisory teacher' model as an alternative as it considered some mechanism for sharing expertise between schools should be retained, given fragmentation of local authority support which was affecting the use of AST posts, a point echoed by both ATL and Voice. Voice suggested the role could be rewarded through TLRs or by extending the UPS.

4.40 The Welsh Government said the UPS scale was useful and wanted the ability to reward high-performing teachers without management responsibilities through an extended pay scale, noting that ASTs were seldom used and there were no Excellent Teacher posts in Wales.

## ***Our analysis and recommendations***

### ***Our overarching approach***

#### *(i) the case for strengthening the link between performance and pay*

4.41 STRB has been asked on several occasions to consider how teachers' pay might be more closely related to their performance. It first expressed a view supporting performance-related pay arrangements in 1992<sup>22</sup> and has regularly made recommendations accordingly – most recently, in the Sixteenth Report<sup>23</sup>. We note this has also been the view of successive Governments (see Chapter 1) and that more recently the House of Commons Education Committee recommended a pay system *which rewards those teachers who add most value to pupil performance*. As we noted earlier, the Committee acknowledged

22 STRB(1992) *First Report*, HMSO (Cm 1806) paragraph 62

23 STRB (2007) *Sixteenth Report*, TSO (Cm 7007) paragraph 6.39

potential difficulties, but considered the comparative impact of outstanding teachers was so great the difficulties must be overcome. It is our firm view that as well as higher reward for the very best teachers, there should be incentives in the pay system for all teachers to improve their teaching skills.

4.42 Looking at wider organisational practice, we noted that performance-based pay and progression arrangements are a feature in over 85% of private sector organisations, with a Chartered Institute of Personnel and Development (CIPD) survey suggesting 77% of management /professional staff were subject to performance-related pay<sup>24</sup>. A significant proportion of public sector organisations are also using performance-related pay.

4.43 The challenge is how in practice to ensure pay and performance are linked more effectively for teachers. The principle of performance-related progression is already established in all parts of the framework above the main scale and we heard from some consultees that earlier concerns about lack of rigour on the upper pay scale are now being addressed within schools.

4.44 We acknowledge that simplistic, results-based systems do not fully reflect an individual's contribution to the school. We accept the collegiate nature of teaching, but do not see this as a barrier to recognition of individual performance based on appraisal. We note that collegiate behaviour is recognised and rewarded in some performance management systems<sup>25</sup>. We also note schools have for many years had performance appraisal systems. The Department's recently simplified model performance appraisal policy now offers a framework which can be developed by individual schools to meet their specific needs and circumstances.

4.45 The teacher appraisal regulations in England and Wales require assessment against both standards and objectives and so provide for a broad based assessment. We note that Section 8 of the *Teachers' Standards* includes wider professional responsibilities, which provides a useful focus for assessment of a teacher's contribution to the whole school<sup>26</sup>. The simple standards and appraisal frameworks now in place should enable appropriate, rounded judgements on an individual's contribution.

4.46 We have considered carefully the views of consultees and other research and evidence from our visits to schools and local authorities. These have reinforced our view that there are strong arguments for extending the link between pay and performance from the UPS to the main scale. We noted in particular the support from NAHT, NEOST and NGA for a stronger link, echoing views expressed during our visits and found in the ORC research. We explored the concept of differentiation between teachers' performance during oral representation sessions. While some consultees accepted the principle, most were concerned that there was insufficient rigour in the appraisal system to ensure decisions were well-founded.

4.47 We set out in Chapter 2 a range of evidence on the relationship between performance pay and pupil outcomes, whilst acknowledging that care was

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24 CIPD (2012) *Reward Management: Annual Survey Report 2012*

25 IES (2012) *Case studies on Pay Progression*

26 DfE website: <<http://www.education.gov.uk/schools/teachingandlearning/reviewofstandards/a00192172/review-of-teachers-standards-first-report>>

needed in interpreting international evidence and individual studies. We noted evidence that pay levels were important, and that speed of progression through the pay scales could also help schools to recruit and retain higher calibre teachers who have a positive impact on pupil outcomes<sup>27</sup>. Some studies suggested there were other levers for improving teacher performance, such as *raising the status of teaching, offering real career prospects and giving teachers responsibility as professionals and leaders of reform*. We also noted a widely-quoted OECD study<sup>28</sup> which found no relationship at aggregate level between pupil performance and the use of pay systems with performance-based elements, but we consider there is a need for caution in its interpretation. Evidence on the experience of changes in Sweden suggested pay had been used to reward commitment and additional tasks but the absence of a clear framework for evaluating the performance of teachers (now being addressed) appeared to deter school leaders from establishing a closer linkage between pay and performance<sup>29</sup>.

4.48 As we set out below, our proposals are rooted in clear frameworks for teacher standards and performance appraisal and build on the experience of managing performance-based progression to, and within, the upper pay scale. Accordingly, they will enable head teachers and governing bodies to extend their expertise in managing performance-based progression within a relatively familiar framework and should also help maintain the confidence of teachers at a time of change. We also provide scope for schools to tailor pay policies to meet the specific needs of the school.

4.49 We acknowledge consultees' concerns that at present there is not a level-playing field for schools in terms of funding. While we do not believe this should prevent change, we do attach great importance to further reform of the national funding formula. This drives budget allocation and should enable school budgets in future to be more closely related to pupil needs.

*(ii) the context for our proposals on progression*

4.50 Our guiding principles for the teacher pay framework, set out in Chapter 2, include rewarding excellence; offering appropriate reward for good classroom teachers at all career stages; ensuring progression reflects improvements in performance and contribution; providing greater autonomy for schools and simplifying the existing pay system. Before setting out our detailed recommendations we comment on the broad framework in which our proposals will operate.

4.51 Taking account of our guiding principles we considered first what the **overall classroom teacher pay framework** should provide in terms of a career offer which is both attractive to a graduate profession and meets the needs of the employer. We believe it should:

- provide a simple and flexible framework within which schools can deploy teachers effectively to deliver the school's objectives and reward them appropriately for their contributions;

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27 Dolton, P and Marcenaro-Gutierrez, O (2011) *Teachers' pay and pupil performance* in CentrePiece, Autumn 2011, Centre for Economic Performance at LSE

28 OECD (2012) *PISA in Focus 16: Does performance-based pay improve teaching?* page 4

29 OECD (2011) *OECD Reviews of Evaluation and Assessment in Education, Sweden* page 68

- provide clarity about initial expectations, and potential career paths and associated earnings, so teaching can compete effectively with other professions seeking high quality graduates;
- promote a strong emphasis on opportunities for professional development and on contribution to the school;
- enable the most able classroom teachers to be well rewarded if they stay in the classroom; and
- incentivise those who wish to develop their wider leadership potential.

4.52 Second, we believe that judgements on performance, and therefore decisions on progression for classroom teachers, should be made annually and **rooted in the relevant standards and performance appraisal frameworks** in England and Wales. We noted the concerns of some consultees about differentiation between teachers for pay purposes. We also noted evidence that managers generally need time to understand and implement performance-based pay systems, particularly in collaborative and team-based occupations. We make some observations in Chapter 6 about the importance of good quality appraisal dialogue and professional development. We also comment on the role of governing bodies in assuring the robustness of decisions on pay based on performance appraisal, including that they are objectively justified and in line with the school's pay policy.

4.53 Mindful of the IES research<sup>30</sup> into pay progression that found many organisations operated progression across broad pay stages, we explored with consultees during oral representation sessions what progression arrangements were appropriate to the teaching profession. They generally agreed an expectation of progression through the main scale was reasonable. However, some consultees commented adversely on the apparent automaticity of progression on the main scale, resulting in some teachers receiving a significant increase for merely satisfactory performance (the value of one incremental point is 8%)<sup>31</sup>.

4.54 We note that guidance<sup>32</sup> issued by the former Rewards and Incentive Group (RIG) in 2009 indicated that annual increments should apply for main scale teachers, unless an individual was in capability proceedings. In practice this meant automatic progression unless a teacher had been notified their performance was *unsatisfactory*. Thus, it was necessary to trigger the capability procedure if an individual was not to be awarded an incremental point. We also note that the existing scope to award an additional increment for excellent performance is a blunt tool and seldom used.

4.55 It is our view that the current arrangements for progression constrain schools in the degree of flexibility they have to reward teachers appropriately in line with performance against standards and objectives and taking account of contribution to the school. It also restricts pay progression by prescribing the amount of increase permissible (other than in exceptional cases) thus limiting the ambition of individuals and the attraction of the profession to high calibre graduates and career changers. This leaves head teachers with little scope for any shading of progression to reflect differences in performance

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30 Op. Cit. IES

31 England and Wales pay band

32 RIG (2009) *Teachers and Head teachers' Performance Management Guidance* paragraph 5.43

between members of the same peer group, which would be expected in many professions.

4.56 Given the central importance of good teaching to the life chances of young people, we believe it is important that any system of pay progression can be justified to parents, teachers and other taxpayers. Our recommendations for stronger links between pay and progression are a natural consequence of our recommendations over several years. They are simply a development of the arrangements existing elsewhere in the teachers' pay system. They also build on good practice found in other organisations and in some other high-performing school systems.

4.57 In reaching our conclusions we also noted that it is now some twenty years since schools took responsibility for their own financial management and for recruitment of staff. We consider that giving schools responsibility for teachers' pay, within a broad framework, is a logical next step in providing schools with autonomy to do what is best for each school to improve educational outcomes for pupils.

4.58 We are mindful of consultees' concerns about the implementation of new arrangements, but also note that a quarter of new entrants to the teaching profession are mature entrants<sup>33</sup>, some of whom will already have experience of performance-related pay systems. By building on arrangements already in place our recommendations will maintain the confidence of school leaders in their ability to manage the system, enabling them to draw on their experience of managing performance-based progression on the upper pay scale.

4.59 Before turning to our detailed recommendations, we reiterate our view that it will be important for school leaders to provide an environment which embeds *a culture of excellence, continuous professional development and performance management*<sup>34</sup> and that teachers themselves should have prime responsibility for their own professional development. In Chapter 6 we comment on the critical importance of high quality appraisal and development opportunities to improve the quality of teaching, a view supported by research.

#### **Our detailed recommendations on linking pay with performance**

4.60 We propose the retention of a broad national framework for classroom teachers' pay, but with a simplified structure and greater autonomy for schools to determine the level of pay progression. Our recommendations provide **a single pathway** for performance-based progression from entry on the main pay scale, through the upper pay scale, subject to simplified criteria at the threshold, and the possibility of higher paid posts beyond the upper pay scale, at the discretion of the school.

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<sup>33</sup> Teaching Agency Performance Profiles 2010/11 – aged over 29

<sup>34</sup> STRB (2005) *Fifteenth Report*, TSO (Cm 6663) paragraph 7.29



4.61 Our **main recommendations** are:

- **Differentiated performance-based progression on the main pay scale** to enable teachers to progress at different speeds, with higher rewards and more rapid progression for the most able teachers.
- **More flexible performance-based progression to and within the upper pay scale**, assessed against substantially simplified criteria, enabling abolition of the bureaucratic post threshold standards.
- **Local discretion to pay a higher salary to the most successful teachers** if a post (akin to AST) is required and meets simple yet demanding criteria on leading improvement of teaching skills.

4.62 We set out below **how** each recommendation might be implemented. Our overall intention is to offer a simple framework for local decision-making, but provide a greater degree of confidence as to career expectations within a broad national framework than would be offered by a completely deregulated model.

### **Progression within the main and upper pay scales**

#### *The main scale*

4.63 Our view is that the main scale should, as now, offer new entrants to the profession the clear prospect of increasing pay to the maximum, subject to performance against objectives and to continuing development of their skills and competencies. We heard from consultees that typically NQTs take three to five years to develop full competence against the standards and that to reach M6 (which many regarded as the ‘rate for the job’) they should have gained experience in a range of circumstances. Most consultees agreed a performance link was well established on the UPS and in the leadership group pay arrangements.

4.64 We believe that as for the upper pay scale, the main scale should have a clear link between performance and progression, which would enable reward to take account of genuine differences between individuals’ performance and development, and offer faster progression to the most able. We therefore **recommend differentiated performance-based progression on the main scale.**

4.65 We considered a number of options for differentiating progression awards:

- **Do nothing.** This would leave the current system unchanged, enabling differentiation only by the award of an additional increment for excellent performance (or none where an individual was in capability proceedings). Both provisions are used only rarely at present. This would not address the apparent automaticity in the system which is of concern to many school leaders. It would do little to promote higher rewards and more rapid progression for the most able teachers.
- Convert the existing main scale points to become **purely reference points** which would indicate the pay level that might be achieved after a certain period, subject to good performance and development. This would offer greater flexibility for schools to set pay policies which allow differential awards according to the performance and development of individuals, including the option of making no progression award if one was not justified.
- Simply set **a pay minimum and maximum**, and give schools complete flexibility to award progression within that scale. An immediate move

to complete flexibility within a minimum and maximum would, in our view, place significant burdens on schools, given the need to develop transparent and consistent arrangements, without the “scaffolding” offered by the existing points.

4.66 On balance, we consider **reference points** would be the approach best suited to schools at present. This would enable schools to award progression increases as they judge appropriate in the circumstances, for example, awarding more or less than a whole point. A teacher could expect to reach the top of the pay scale in about five years, as now, and the best teachers could expect to reach the top of the scale more quickly. This approach would provide clear pay expectations for both graduate entrants and career changers.

4.67 We do not consider it appropriate to prescribe a particular method of linking pay progression to schools’ performance appraisal, given the wide variation in their circumstances and our wish to enhance schools’ autonomy. We consider that schools should set out in their pay policy<sup>35</sup> how progression would be determined, thus ensuring transparency and minimising the risk of any bias. We would expect schools to tailor their pay policies to their particular circumstances, such as school improvement priorities, whilst providing teachers with a degree of confidence about their career expectations.

4.68 Schools would need to develop systematic and transparent arrangements to ensure that decisions were properly documented, could be explained to individuals and were objectively justified. These would build on existing performance appraisal arrangements. Schools which have such systems in place could move rapidly to use greater flexibility. Others might welcome the opportunity to rely on reference points initially as they put arrangements in place.

4.69 We recommend the following on **detailed implementation** and that the Department consider how best to give effect to our intentions in the STPCD or guidance:

- First, there should be a **clear expectation** that, subject to good performance and development, teachers on the main scale should progress to the maximum. Our proposals are not intended to hold down pay across the board but individuals will progress at different rates.
- Second, it should be possible for schools to award **no progression** in a given year without the automatic implication of capability proceedings. This might be the case if a teacher had needed substantial support during the year but by the later stages was performing effectively in relation to objectives and the teacher standards.
- Third, particular considerations apply to progression following satisfactory completion of the **induction period**. We heard from consultees that NQTs are closely managed during their induction period and those who are not meeting expectations will not progress. If they do succeed in meeting the standard, it is right they should continue to progress to a level equivalent to the current M2, as now.
- Fourth, it should be made clear that all pay progression should be dependent on a **written recommendation** based on the timely completion

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<sup>35</sup> All maintained schools are required to have a pay policy, approved by the governing body, which sets out the basis on which it determines teachers’ pay in accordance with STPCD



of an annual performance appraisal and in line with the pay policy of the school. The current model appraisal policy reference to written recommendations 'where relevant' has the potential to generate confusion and we **recommend all pay progression should be dependent upon a written recommendation.**

4.70 In order to ensure successful implementation of differential progression, we **recommend the Department develop guidance or a tool-kit** for leadership teams who need help developing a systematic and transparent approach. It should be open to leadership teams to adopt other approaches if they wished. We believe schools should be able to adopt appropriate systems for their particular circumstances.

#### *The upper pay scale and threshold assessment*

4.71 We received evidence that designated career stages are part of progression in many professions and contribute to the status and attraction of those professions. We believe there should be capacity for greater reward for those more senior teachers who make a greater contribution to the whole school, and beyond. **We recommend there continue to be an upper pay scale.**

4.72 As now, progression from the main scale to the upper pay scale should not be automatic, but should require an application from the individual. To be eligible for consideration we recommend that **teachers must be highly competent classroom teachers who have already progressed substantially towards the maximum of the main scale.** Following implementation of more flexible progression through the main scale we consider it would be an unnecessary constraint on flexibility if a teacher had to be on the maximum, but the intention is that eligible teachers should have progressed close to that level before being considered for the upper pay scale. We recommend that progression to the upper pay scale should be dependent upon rigorous assessment by the head teacher against two simple criteria. Candidates should have demonstrated:

- **substantial and sustained achievement of objectives, appropriate skills and competence in all elements of the Teachers' Standards, and**
- **the potential and commitment to undertake professional duties which make a wider contribution (which involves working with adults) beyond their own classroom.**

4.73 We consider these criteria will enable schools to distinguish sufficiently between a teacher on the main scale and a teacher on the upper pay scale and **accordingly recommend abolition of the post-threshold pay standard** which is unnecessarily complex and bureaucratic. For teachers already on the upper pay scale, we believe the new teachers' standards provide a good basis for appraisal at this level, taking account of the expectations set out in the above criteria. This will provide a more integrated approach to progression through the main and upper pay scales.

#### *Criteria for progression within the upper pay scale*

4.74 The upper pay scale is a relatively short scale (£34,181 to £36,756 nationally<sup>36</sup>) and we consider that the existing minimum and maximum points

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<sup>36</sup> i.e. in England and Wales; the ranges are slightly higher in Inner and Outer London and the Fringe

of the upper pay scale will offer sufficient structure in the pay framework at this level. Accordingly **we recommend that the amount and timing of any progression recommendations should be at the school's discretion, reflecting individuals' differential contributions to the school.** There is already a stronger link between pay and performance on the upper pay scale and our proposals increase the flexibility to differentiate performance and reward in line with contribution to the school.

4.75 As a consequence of this flexibility we also **recommend discontinuing the requirement for two consecutive successful appraisals at this level**, i.e. a teacher should not have to stay on the same salary for two years if their performance and contribution warrants further progress. This change will enable those highly competent teachers who make a wider contribution to the school to receive a higher salary, with those who make the greatest contribution able to reach the scale maximum more rapidly. Given that the interval between the minimum and maximum of this scale is currently quite narrow, it will be important to ensure in future that the upper pay scale is at a level which continues to incentivise teachers in mid-career.

*Consequential recommendation on progression on the main and upper pay scales*

4.76 The implication of giving schools greater discretion on performance-based progression awards is that individual pay will no longer relate to a fixed point on a scale, but will reflect the performance of a particular teacher in the context of a particular school. It will not therefore be appropriate to regard a salary awarded in one school as the basis for all future postings, if a teacher chose to move. Accordingly, **we recommend that there should be no obligation on schools to match a teacher's existing salary on either the main or upper pay scales.** In practice, schools will wish to advertise posts with the opportunity for salaries that are commensurate with a teacher's skills and experience in order to attract the best teacher available for a particular post.

*Discretion to pay above the upper pay scale for specific posts*

4.77 We remain of the view that there should be an option for schools to reward the most successful teachers who wish to remain in the classroom rather than moving into leadership positions. We are mindful of the wide support among consultees for the AST scheme and of the House of Commons Education Committee's view<sup>37</sup> that clarity about both career paths and pay was necessary to attract high quality graduates and retain the most able teachers in the profession. However we consider that it is confusing to have both the Advanced Skills and Excellent Teacher schemes and note that the latter is little used.

4.78 We also note that the detailed pay standards associated with the respective schemes add complexity to the STPCD which, as we argue in Chapter 5, needs radical simplification. Following the recommendations of the Independent Review of Teacher Standards, the Secretary of State has introduced a single teacher standard. In our view this provides a suitable basis against which all teachers can be assessed. We note also that the proposed Master Teacher standard was not intended to be a pay standard.

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<sup>37</sup> House of Commons Education Committee (2012) *Great teachers: attracting, training and retaining the best* Ninth Report of Session 2010-12 paragraph 109

4.79 We believe that the pay framework should give schools discretion to offer specific, higher paid posts for outstanding classroom teachers. We consider such posts should represent the pinnacle of professionalism for classroom teachers, with commensurate reward. As now for AST and ET schemes, it would be dependent on a head teacher identifying a distinctive post for a teacher whose **primary purpose is the modelling and leading improvement of teaching skills**, such as a leading practitioner or principal teacher.

4.80 Accordingly we **recommend schools should have discretion to create a post paying a salary higher than the maximum of the upper pay scale**. Our intention is that a salary range appropriate to the specific post should be fixed within the range covered by the existing AST pay spine i.e. between £37,461 and £56,950 nationally<sup>38</sup>, with analogous conditions. Any progression within the range fixed by the school would be entirely dependent upon performance. When determining the salary range, schools should take into account the challenge and demands of an individual post and be mindful of internal pay relativities. If a school creates more than one such post, the salary range should be determined separately for each post and the salary ranges need not be identical. Salaries at this level would be for the school specific post, and not portable between schools.

4.81 The **criteria for appointment to such posts must include excellence in teaching, and a contribution to leading the improvement of teaching skills** within and/or beyond the school. Those eligible would normally have a sustained track record of successful performance as a teacher on the upper pay scale. We consider it is for head teachers to decide whether or not such posts should contain an element of outreach. Since these posts focus on pedagogy rather than line management they would not normally attract TLR payments, but there should be no bar to their doing so.

4.82 Posts should be part of the school staffing structure and approved by the governing body, with the responsibilities for the post determined by individual schools, consistent with the criteria above. The school's pay policy should include criteria for setting a pay range and for progression within the range. We consider it should be open to schools or groups of schools to choose the most appropriate designation for such posts e.g. principal teacher.

4.83 Consequent on these proposals for discretion to create specific posts above the upper pay scale, we **recommend a range equivalent to the existing Advanced Skills Teacher, within which an individual range would be set. We recommend the Advanced Skills Teacher pay spine and Excellent Teacher pay range be discontinued, along with the associated standards.**

#### *Unqualified teachers' scale*

4.84 We heard little detailed evidence on the unqualified teachers scale. The Department's models include the option of removing the distinction between qualified and unqualified teacher pay scales and we note that the Department has extended the freedom to employ unqualified teachers to academies<sup>39</sup>. The unions strongly opposed this on the grounds it would harm the status of

<sup>38</sup> With higher equivalent salaries in London and the Fringe

<sup>39</sup> DfE press notice, 27 July 2012 available at <<http://www.education.gov.uk/inthenews/inthenews/a00212396/academies-to-have-same-freedom-as-free-schools-over-teachers>>

the profession. If a school is seeking to appoint on this scale, there is already substantial flexibility in determining where to position unqualified teachers, taking account of past experience. We consider there should also be flexibility in relation to progression and **recommend school discretion in setting salaries within the existing minimum and maximum of the unqualified teachers' scale; with the potential for differential performance-based progression within the school.** We do not believe reference points are appropriate given the variety of circumstances of unqualified teachers. A school's pay policy should set out how progression on the unqualified teachers' scale will operate in the circumstances of that school.

#### **Concluding comments: enablers of change**

4.85 We believe our proposals are an evolution of existing arrangements. They are consistent with the wish of successive governments to reward those teachers who contribute most and to provide schools with greater autonomy to meet the particular needs of their pupils.

4.86 Our proposals will enable head teachers and governing bodies to move towards appropriate differentiation in taking pay decisions whilst providing a degree of confidence in a shared framework, compared with a completely de-regulated model. They reinforce the professional status of the teaching profession by allowing school leaders to use their professional judgment to meet the needs of pupils, allocating the budget as they think appropriate. They are intended to support the **development of a culture that enables all teachers to be appropriately rewarded**, with performance-based differentiation in pay, as is common in other graduate occupations.

4.87 These changes will **require head teachers and line managers to deploy effective people management skills** and to implement simple and transparent pay policies that include arrangements for progression. Greater freedom to increase pay based on performance, with the option to accelerate the progression of high performers, represents an important extension of existing provisions. It will be important that all **individuals are clear about what will be expected of them.** This will place obligations on the head teacher, line managers and individuals to communicate clearly. It will also underline the importance of timely agreement on objectives and well-evidenced performance appraisal.

4.88 We comment further in Chapter 6 on the **central importance of effective appraisal arrangements** in the context of reforms to progression. In our view it will also be important that these reforms on performance-based progression are implemented in a climate which also shows the same strong focus on **high quality professional development** opportunities as is found in other graduate professions.

4.89 The changes will also underline the existing requirement for **governing bodies to have pay policies in place and hold head teachers to account** for their recommendations on pay. An important consideration will be that governing bodies, and local authorities where they are the employer, are satisfied that head teacher recommendations on pay are well-founded and can be objectively justified to minimise the risk of challenge on grounds of equal pay.

4.90 We recognise that increased autonomy on pay is associated with some risk of pay inflation. Overall school budgets will provide some constraint but it will be essential that leadership teams make robust and well-evidenced recommendations and that governing bodies hold head teachers to account for effective use of the pay budget. We set out in Chapter 6 some observations on governance. We also note that Ofsted's new inspection framework should help encourage a clear focus on the relationship between pay progression decisions and quality of teaching in a school.

### **Unattached teachers**

4.91 Our recommendations also apply to unattached teachers who are directly managed by local authorities. Local authorities are already required to have an appraisal policy for unattached teachers and a pay policy which should be linked to their appraisal system. Local authorities will therefore need to set out in their pay policy how appraisal will link to pay progression for unattached teachers.

### **Special considerations applying in Wales**

4.92 We note that the Welsh Government operates slightly different arrangements for performance management, but its own guidance<sup>40</sup> provides for the approach we have described above, linked to the relevant standards<sup>41</sup> in Wales. Our recommendations should therefore apply equally to teachers in England and Wales, based on their respective appraisal system and teacher standards. The Welsh Government might wish to consider whether there is a need for guidance on how the *Practising Teacher Standards* might be applied for all teachers in Wales, including teachers on post-threshold pay scales.

### **Summary of our recommendations**

4.93 **Our main recommendations, which provide for a single pathway through the main and upper pay scales, are as follows:**

- **Differentiated performance-based progression on the main pay scale** to enable teachers to progress at different speeds, with higher rewards and more rapid progression for the most able teachers.
- **More flexible performance-based progression to and within the upper pay scale**, assessed against substantially **simplified criteria**, enabling abolition of the bureaucratic post threshold standards.
- **Local discretion to pay a higher salary to the most successful teachers** (akin to AST) if such a post is required and meets simple yet demanding criteria on leading improvement of teaching skills

4.94 **Our detailed recommendations on implementation are:**

- **The existing points on the main scale should become purely reference points.**
- **The Department consider how to give effect to our detailed recommendations on implementation; including:**
  - **a clear expectation of progression** to the maximum of the main scale, subject to good performance;
  - **an option for no progression** without the automatic implication of

<sup>40</sup> Welsh Government, Performance management for teachers Guidance document no: 073/2012

<sup>41</sup> *Practising Teacher Standards or the Practising Standards for Newly Qualified Teachers*

- capability proceedings;
- **progression to reference point M2 for NQTs** on successful completion of the induction period;
- all pay progression be dependent on a **written recommendation** based on timely completion of an annual performance appraisal in line with the pay policy of a school.
- **The Department develop guidance or a tool-kit to help schools develop systematic and transparent local approaches to pay progression.**
- **A basic eligibility requirement for teachers applying for the upper pay scale**, who must be highly competent classroom teachers who have already progressed substantially towards the maximum of the main scale.
- **Criteria for access to the upper pay scale requiring candidates to have demonstrated:**
  - **substantial and sustained achievement of objectives, appropriate skills and competence in all elements of the Teachers’ Standards, and**
  - **potential and commitment to undertake professional duties which make a wider contribution (which involves working with adults) beyond their own classroom.**
- **On the upper pay scale, the amount and timing of any progression recommendations should be at the school’s discretion, reflecting individuals’ differential contributions to the school.**
- **School discretion to create a post for a teacher whose primary purpose is the modelling and leading improvement of teaching skills. Such posts should have a salary range fixed within the range between £37,461 and £56,950 (nationally<sup>42</sup>), taking account of the challenge of the post and of internal pay relativities, with progression increases entirely dependent upon performance.**
- **Discretion for schools to set salaries within the unqualified teachers’ scale without reference points and with performance-based progression.**

4.95 We also make consequential recommendations as follows:

- **No obligation for schools when recruiting to match a teacher’s existing salary on either the main or the upper pay scales.**
- **The requirement for two consecutive successful appraisals for progression purposes on the upper pay scale be discontinued.**
- **The existing post-threshold, AST and ET standards be abolished; and**
- **The AST pay spine and ET pay range be discontinued.**

4.96 Taken together, we believe these recommendations will provide a more flexible national pay framework that is accessible and easily understood by teachers, head teachers and governing bodies and will enable substantial simplification of the STPCD. The table below sets out the recommended ranges and reference points (where applicable).

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<sup>42</sup> i.e. in England and Wales; the ranges are slightly higher in Inner and Outer London and the Fringe

<b>Basic Pay for Classroom Teachers</b>				
	<b>Annual Salary England and Wales (excluding the London Area)</b>	<b>Annual Salary Inner London Area</b>	<b>Annual Salary Outer London Area</b>	<b>Annual Salary Fringe Area</b>
<b>Main Scale</b>				
	£	£	£	£
Minimum points (fixed)				
1	21,588	27,000	25,117	22,626
Progression points for reference only				
2	23,295	28,408	26,674	24,331
3	25,168	29,889	28,325	26,203
4	27,104	31,446	30,080	28,146
5	29,240	33,865	32,630	30,278
Maximum points (fixed)				
6	31,552	36,387	35,116	32,588
<b>Upper Pay Scale – between fixed minimum and maximum</b>				
Minimum	34,181	41,497	37,599	35,218
Maximum	36,756	45,000	40,433	37,795
<b>Discretion for specific posts – between fixed minimum and maximum</b>				
Minimum <sup>43</sup>	37,461	44,540	40,433	38,493
Maximum	56,950	64,036	59,925	57,985
<b>Unqualified Teacher Scale – between fixed minimum and maximum</b>				
Minimum	15,817	19,893	18,789	16,856
Maximum	25,016	29,088	27,992	26,052

<sup>43</sup> Minimum and maximum for local discretion posts set at a level equivalent to 2012 range for ASTs



# CHAPTER 5

## Other flexibilities

5.1 The Secretary of State's remit letter asked us to recommend:

*what other reforms should be made to teachers' pay and conditions in order to raise the status of the profession and best support the recruitment and retention of high quality teachers in all schools.*

5.2 This part of the remit potentially invites consideration of a wide range of issues: pay, working conditions, autonomy and professional development all bear on the status of the teaching profession. We consider that our recommendations in Chapters 3 and 4, on local pay and linking pay to performance, will, if implemented as a package, make a significant contribution to elevating the status of the teaching profession and supporting the recruitment and retention of high quality teachers in all schools. They offer greater flexibility within the security of a broad national framework, by enabling pay tailored to specific local or market needs and progression at all levels to be linked to performance and overall contribution, in line with other professions.

5.3 On professional development, we have already made clear our view that a strong focus on professional development is an essential complement to the sharper link between progression and performance. All the teacher unions and NEOST have also called for a stronger focus on high quality professional development. We underline in Chapter 6 how professional development should be a central feature of performance appraisal discussions.

5.4 We recognise that there is a case for further examination of how the existing pay and conditions framework might allow greater flexibility for schools to meet the needs of their pupils, whilst continuing to support the status of the teaching profession. Although the Department did not put forward specific proposals on teachers' working conditions, the Secretary of State told us in oral evidence that he believed some elements of the teachers' contract (such as 'rarely cover' and limits on teaching time) acted against the interests of the profession by undermining professionalism. In their evidence, the teacher unions emphasised the progress which had been made on 'professionalisation' following the National Agreement<sup>1</sup> in 2003. The head teacher unions, however, saw this as unnecessarily prescriptive and wanted conditions to be more flexible, as befits a profession. Given the absence of proposals from the Department, and the substantial issues we have already considered in this remit, we consider it would be better to wait for a future remit in which we could give proper consideration to the range of issues on working conditions. This will also have the benefit of enabling schools to become familiar with pay changes we recommend in this remit, before introducing any further changes.

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1 DfES (2003) *Raising Standards and Tackling Workload: a National Agreement*



5.5 Our focus for this remit has therefore been on those elements of the existing pay framework for which we received evidence to suggest there were current barriers to recruiting and retaining high quality teachers; where existing provisions in the framework could be clarified or simplified to make them more effective; and where changes could be made to provide greater flexibility<sup>2</sup>. We consider below the case for changes to Teaching and Learning Responsibility (TLR) payments and recruitment and retention incentives and benefits, the main elements on which we heard concerns.

### **Background on existing allowances<sup>3</sup>**

5.6 Allowances are a significant part of the teacher pay framework and for many secondary teachers (and to a lesser extent for primary teachers) make a substantial contribution to their overall remuneration, in some cases from a relatively early stage in their career. Our analysis of school workforce data shows that there are marked differences in the use of allowances between primary and secondary schools, and regionally. Detailed points from our analysis<sup>4</sup> were:

- 27% of primary and 56% of secondary full-time classroom teachers<sup>5,6</sup> received some form of payment in addition to their basic pay in 2010/11.
- Within these totals, 21% of primary teachers and 44% of secondary teachers received TLRs. Significant numbers of main scale, as well as Upper Pay Scale, teachers held a TLR (see Figure 5.1).
- Other allowances received were Special Educational Needs (SEN) allowance, recruitment and retention payments and ‘other’ (unspecified in the data) payments. The use of recruitment and retention allowances was highest in Inner London.
- The values of TLR payments in 2010/11 were higher in secondary schools (median payments were £2,535 in primary schools and £4,286 in secondary schools).
- The values of recruitment and retention payments were higher in secondary schools (median payments were approximately £1,200 in primary schools and £1,600 in secondary schools).

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2 See Appendix D

3 We use the term “allowances” here to include TLR payments, SEN allowances and recruitment and retention payments

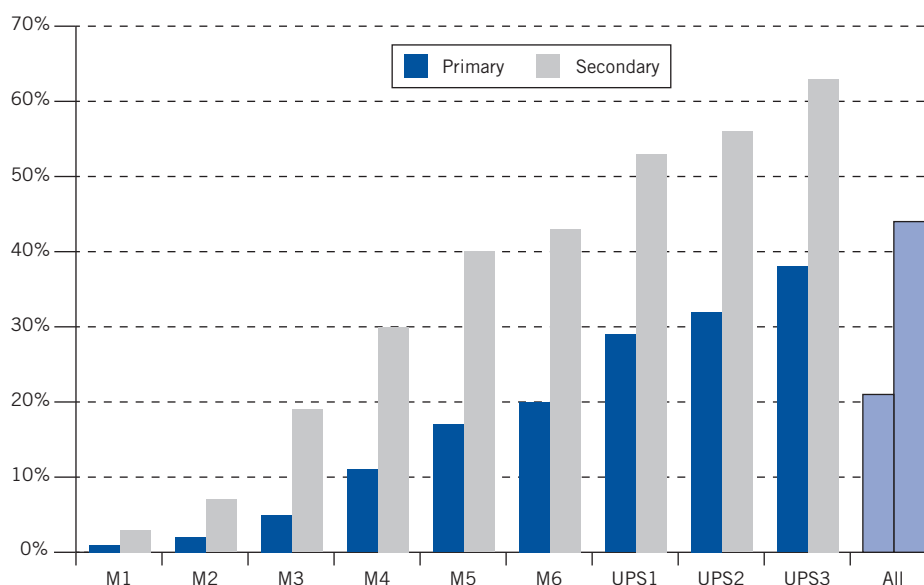
4 OME analysis of DfE School Workforce Census (SWC) data (November 2010)

5 Analysis restricted to full-time teachers as SWC 2010 earnings data are unreliable for part-timers

6 Teachers on the main or upper pay scale

**Figure 5.1**

**% of full-time teachers holding TLRs, by spine point, England 2010/11**



5.7 Allowances accounted for a significant fraction of the paybill. Across England, approximately 6% of total classroom teachers' earnings were related to allowances or payments made in addition to basic pay. This varied considerably across school phases (3% in primary schools, 9% in secondary and special schools). Around three-quarters of the allowance 'spend' was on TLRs (80% in secondary schools)<sup>7</sup>.

5.8 Our research<sup>8</sup> found significant numbers of head teachers said TLRs, SEN allowances and recruitment and retention payments were not sufficiently flexible (37%, 24% and 25% respectively) and suggested changes including time-limited payments and greater flexibility on size of award. In response to an open question, over 60% of head teachers indicated that there were forms of reward or recognition they would like to use but were currently unable to, including one-off payments. Our visits to schools also suggested a significant appetite among school leaders for such flexibility and confirmed, as we have already noted, that detailed prescription contributes to the complexity of the STPCD and can militate against heads and governing bodies using flexibilities with confidence to enable schools to meet the particular needs of their pupils.

**Consultees' views and evidence on pay flexibilities**

5.9 We received a wide range of evidence from consultees on pay flexibilities, much of which was put to us in advance of seeing the Department's evidence. We noted in Chapter 2 that some unions had concerns with the existing discretion available to head teachers. NASUWT saw no evidence of a need for greater freedoms and flexibilities for schools to set teachers' pay, suggesting there was a case for reducing flexibility and autonomy in the system. NUT suggested that increased flexibility would not necessarily lead to increased efficiency and was concerned that discretions reduced transparency and were

<sup>7</sup> OME analysis of DfE School Workforce Census (SWC) data (November 2010)

<sup>8</sup> Infogroup/ORC International (2010) *Teachers' Pay Issues: research findings 2010*

based on subjective judgements. Both NASUWT and NUT saw some discretions as having led to increased pay for leaders at the expense of others. BATOD remarked on a disparity between the way in which teachers of the deaf were paid in respect of SEN allowances and TLRs.

5.10 Other consultees argued that TLRs were unnecessarily complicated and restrictive and that greater flexibility and less prescription were needed in terms of TLR and SEN descriptors. NEOST commented that maintained schools would be at a disadvantage compared to academies if they did not have greater flexibility in respect of allowances (such as TLR and SEN), although it noted responses to a survey of its members showed two-thirds considered existing flexibilities were sufficient to manage recruitment issues. Whilst supporting the general principle of safeguarding, both head teacher unions proposed that it should be possible to pay non-safeguarded temporary allowances for leading and managing a specific time-limited project.

5.11 We explored in oral evidence sessions the case for **time-limited TLRs**. The Welsh Government, NEOST, NGA, ASCL and NAHT supported this but views from the classroom teacher unions were mixed. NUT, UCAC, and Voice said temporary TLRs could be appropriate for time-bound projects. NAHT and Voice both considered time-limited TLRs could provide incentives for leadership development opportunities.

5.12 ATL and NASUWT rejected time-limited TLRs and argued there was already sufficient flexibility in the value of TLRs that could be awarded: the distinct levels provided useful guidance on deciding rates. NASUWT stressed that TLRs were awarded for sustained responsibility of a core function and therefore saw no rationale for time-limited TLRs, foreseeing problems similar to those which had arisen with the former Management Allowances. ATL said it was important for TLRs to remain permanent to provide stability for teachers. UCAC was concerned that time-limited TLRs could be misused, with pressure on teachers to continue to fulfil the responsibilities when the duration of payment had ended. NUT was concerned about the existing flexibility in the payment of TLRs, the role of management in determining them, and the deployment of rotating TLRs. It sought an STRB review of the impact and effectiveness of the TLR system.

5.13 As we noted in Chapter 3, the teacher unions were unanimous in considering that the present framework offered sufficient flexibility already for recruitment and retention purposes but thought the provisions were underused for a number of reasons. The six unions (ASCL, ATL, NAHT, NUT, UCAC, Voice) suggested the use of **recruitment and retention payments** was to some extent constrained by funding considerations, but commented on the perception of fairness in the use of such incentives. ATL suggested some reluctance was due to the fact that school leaders recognised and valued collaboration in teaching and did not wish to undermine team working. NGA said schools needed up to date information on the local recruitment position to ensure suitable incentives were offered when necessary.

5.14 ASCL suggested the time-frames of the payments were rigid, which inhibited their use whilst BATOD, NEOST and Voice sought more flexibility on the period for which recruitment and retention payments could be awarded. ATL considered more clearly defined criteria were needed, but said additional

payments to encourage graduates of shortage subjects into teaching were not effective, suggesting instead that better salaries and conditions for all teachers and a level playing field for schools to compete for staff were needed. As noted in Chapter 3, a number of consultees suggested ways to encourage the use of recruitment and retention payments.

5.15 We received only limited evidence on **SEN allowances**. We recommended changes to these in our Nineteenth Report and need to understand how these have worked before making any further recommendations. We would welcome a remit to review these in future.

### ***Our analysis and recommendations on allowances***

5.16 Earlier in this report we set out our overall approach to pay reform, including the case for greater flexibility and control at local level. The Secretary of State's proposals for greater autonomy imply that allowances for specific responsibilities or for recruitment and retention purposes might in future be subsumed into a single pay scale. However, we consider that, at present, the main allowances serve the important purpose of distinguishing clear reasons for additional reward for those who take on particular responsibilities or who have particular skills. Our priority in this remit is therefore to ensure the allowances are as useful as possible by increasing the flexibility available to head teachers and governing bodies to use these allowances to meet the particular needs of their school.

#### *(i) Time-limited payments and TLRs*

5.17 We considered carefully a number of options for time-limited payments, conscious that there was a strong appetite among school leaders for such flexibility, but also real concern from union consultees about the importance of preserving the core provisions for TLRs in the pay system. We noted NASUWT's suggestion that paragraph 49 of the STPCD was an alternative way of providing for time-limited payments, but our view is that the section should remain focused on activity done out of hours or otherwise distinct from core school improvement priorities (such as ITT or helping other schools). We also think it preferable not to create a new type of allowance distinct from TLRs as this would complicate the provisions of the Document at a time when we are seeking substantial simplification overall.

5.18 We therefore considered how best provision for time-limited, or fixed-term, payments should be incorporated into TLRs. We wish to preserve the arrangements that most consultees believe work well and therefore recommend **no change to the core TLR provisions already in the STPCD**, including the current values. **We recommend that in addition there should be provision to pay a fixed-term TLR for a time-limited project.** The fixed-term would have to be made clear at the outset and such payments would not be safeguarded. We recommend fixed-term TLRs should be awarded only:

- in a range between £500 and £2,500 per annum, as any higher level would amount to a significant component of salary and teachers would reasonably expect continuity of payment. Payment should be made on the same basis as TLRs (i.e. as a proportion of the annual allowance, paid monthly) for the duration of the fixed term. Such awards should not

replace the use of existing TLRs for sustained responsibilities which are part of the school management structure;

- for clearly time-limited school improvement projects, or one-off externally driven responsibilities (an example this year might have been the implications of the Olympics for an East London school);
- at the outset of taking on such a time-limited responsibility. They are not intended to be used as a way of awarding a ‘bonus’ on successful conclusion.

5.19 We emphasise that fixed-term TLRs should be offered for distinct, time-limited projects. We do not expect head teachers to offer consecutive fixed-term TLRs for the same responsibility when a continuing TLR would be appropriate.

5.20 At present TLRs form an important part of the national pay framework and we see our proposal for new fixed-term TLRs as part of our broader package of recommendations to increase discretion available to schools to meet local needs. However, we consider there is scope for more radical reform of TLRs in future but believe there would be merit in looking again at these in a future remit alongside a review of leadership pay. Our recommendations above should therefore be viewed as part of an overall package that is the first stage in a more extensive programme of reform.

*(ii) Recruitment and retention incentives and benefits*

5.21 There is already considerable flexibility in relation to the level of allowances which can be awarded under paragraph 50 of the STPCD, but an absolute limit of three years on payments made at the recruitment stage. Payments for retention can (exceptionally) be extended. We heard evidence on our visits and from NEOST and Voice that there was a need for greater flexibility e.g. to make payments for longer periods than three years.

5.22 We agree such flexibility is desirable and indeed believe it increasingly necessary in the context of our recommendations in Chapter 3 which anticipate greater use of recruitment and retention allowances as a more effective way of responding to local market needs, including attracting shortage subject teachers and helping schools in the most challenging circumstances attract good teachers. **We therefore recommend the removal of the 3-year time limit, subject to a formal review by the school of all awards on a regular basis.** The expected duration of all recruitment and retention allowances and the review date, after which awards may be withdrawn, should be documented at the outset. Provision for such awards should be set out clearly in schools’ pay policies, and governing bodies should ensure decisions are taken based on objectively justified criteria and proportionate to the need. The formal review should consider whether the rationale remains valid in the light of changing labour markets.

5.23 We noted in Chapter 3 that several of our consultees had commented on the perceived under-use of existing provisions for payment of recruitment and retention allowances at school discretion and some evidence that these provisions were not always used to their full potential. We therefore recommend that **the Department communicate clearly to schools the scope for them to make greater use of existing discretionary recruitment and retention payments** available under section 50 of the STPCD to respond to local market needs, including case-study examples of good practice.

## **Simplification of the STPCD**

5.24 Our detailed recommendations for change are underpinned by our recommendation for **simplification of the Document** to enhance users' understanding of the pay framework and the flexibilities available within it.

5.25 We had particularly invited consultees to comment on the case for simplification of the STPCD, having heard concerns about the complexity and opaqueness of the Document on school visits, which are confirmed by our own study of the Document.

5.26 A number of consultees shared our concerns about complexity. NAHT said the STPCD required an in-depth revision and it was sometimes a barrier to the use of flexibilities. ATL said that the pay and conditions framework was relatively simple to understand but considered the STPCD should be redesigned to give a better presentation. NASUWT thought there was no case for root and branch simplification of the provisions in the STPCD but accepted a need for some clarification, with examples of the use of flexibilities. We were encouraged to hear from the Secretary of State, in oral evidence, that he was confident that the Department would be able to produce radically reduced but tighter and more focused pay guidance.

5.27 Our assessment is that there is a strong case for a much shorter, simpler and clearer document which would enable teachers, leaders and governors to better understand how the teacher pay framework operates and the criteria for particular payments, including any flexibility which can be applied in appropriate circumstances. In our view a simpler, better presented document is essential both to underpin greater use of existing flexibilities and to prepare leaders and governors for greater autonomy on pay in due course. The statement on four sides in Annex A of the Department's evidence would be a useful starting point for simplification – a point many consultees noted. Our package of recommendations, if accepted, will simplify the provisions in the STPCD, thus eliminating much of the detail. **We recommend the DfE prepare a much simpler Document for publication in autumn 2013.**

## **Summary of our recommendations on allowances and simplification**

5.28 In summary, we consider there is scope for greater discretion for schools in the use of allowances. Our recommendations are as follows:

- **No change to the core TLR provisions already in the STPCD.**
- **Fixed-term TLRs for time-limited projects, with non-safeguarded payments in a range between £500 and £2,500 per annum.**
- **Removal of the 3-year time limit for recruitment and retention incentives and benefits, subject to a formal review by the school of all awards on a regular basis.**
- **The Department communicate clearly to schools the scope for them to make greater use of existing discretionary recruitment and retention payments available under paragraph 50 of the STPCD to respond to local market needs, including case-study examples of good practice.**
- **The Department prepare a much simpler Document for publication in autumn 2013.**

# CHAPTER 6

## Our conclusions and observations on enabling pay reform

### *Introduction*

6.1 In this report we have considered three distinct but related issues:

- making teachers' pay more market-facing in local areas;
- more effectively linking pay and performance, including progression; and
- other reforms to raise the status of the profession and support the recruitment and retention of high quality teachers in all schools.

6.2 We now draw together the full range of our recommendations and set out how they will enable schools better to meet the needs of their pupils, rewarding those teachers who contribute most to pupil outcomes, responding effectively to wider labour market challenges, and providing flexibility to attract and retain good teachers, including in the most challenging schools. We comment on the capacity of the system to implement reform and, as invited by the Department in its written submission, consider the implications for governance and support arising from our recommendations. We make specific observations on performance appraisal, leadership and governance.

### *Our analysis and conclusions*

6.3 The DfE's proposals on pay reform posed the following important issues for our consideration:

- The future of the **geographic pay bands, and the case for 'hotspots'**, which we considered in detail in Chapter 3. We recommend that the bands should be retained for now with increased scope for targeted use of pay flexibility to respond to highly localised, school specific recruitment and retention challenges.
- The scope for **greater discretion to vary the pace of progression** according to performance, better reflecting differential contributions. Our recommendations in Chapter 4 address this.
- Whether there was a **need for the currently distinct pay scales for classroom teachers**. We recommend in Chapter 4 a consistent progression path through the main and upper pay scales, based on performance against objectives and a single set of standards; and with much simplified criteria for access to the upper pay scale. We also recommend discretion for schools to create posts paid above the upper pay scale where appropriate to meet local needs. The latter will end the requirement for *separate* Advanced Skills Teacher (AST) and Excellent Teacher (ET) pay scales. We note the unqualified teacher pay scale already allows schools considerable flexibility.
- As a consequence of the above, we recommend discontinuation of the **post-threshold, AST and ET standards**.



- **The scope for reform of leadership group pay.** We recognise the need for a consistent framework for leadership and classroom teacher pay. However, the evidence we received this remit focused on classroom teachers and we gave priority to reform of their pay framework. We note that performance-based pay is already in operation across the whole of the leadership group. Nevertheless, we recognise there is an urgent need to review leadership group pay and look forward in Chapter 7 to a separate remit on this issue.
- **Whether to set a minimum and a maximum** to pay scales. We consider the former is essential to enable the profession to attract high quality graduates. We recognise that, at present, the retention of a maximum on remaining pay scales is desirable to guide expectations and contain inflationary pressures. However, evidence of competitive pressures on starting and median salaries suggests a future review of the case for their retention may be needed.
- **Whether separate allowances should be payable in addition to basic pay.** We consider that some allowances form an important part of the national pay framework but there should be greater flexibility in the context of an individual school's needs. Accordingly we propose in Chapter 5 new fixed-term payments for time-limited responsibilities and more flexible recruitment and retention allowances.
- The case for **simplification of the STPCD**, which we consider in Chapter 5 and recommend action by the Department.
- The need to **assure the effective and proper use of public funds** as pay decisions are increasingly devolved to local levels. We comment later in this chapter on the importance of governance.

6.4 We endorse the case for greater autonomy for schools on pay as this should enable decisions which better reflect individual contributions and meet local needs. STRB has repeatedly stated the need for significant scope for, and encouragement of, local discretion and for national rules and parameters only when essential. As we noted in Chapter 1 it has been the consistent policy of successive Governments to devolve decision-making as a means of supporting school improvement.

6.5 In our view the models set out by the Department represent a continuum of change. **The question is how far and how fast to make progress on greater autonomy** on teachers' pay. We noted, and considered very carefully, the strength of feeling on the part of many consultees about the importance of retaining a national pay and conditions framework: this was a consistent message from those representing classroom teachers, head teachers and employers and governing bodies, including those who sought greater flexibility.

6.6 Our assessment is that a **staged approach to reform** is needed, beginning with greater freedoms and flexibilities in relation to the core pay scales and allowances so that all those concerned can gain confidence in the ability of school leaders to use these flexibilities well. This should initially happen within a **simpler national framework** which will sustain the confidence of those already in the profession, and offer a degree of clarity on early career expectations for able graduates and those considering teaching as a career change. Our recommendations in this report **focus on specific areas on which we have evidence of an appetite for change** among those using the pay system, drawing



on what we have heard from consultees during this remit, the evidence base from our school visits, and independent research.

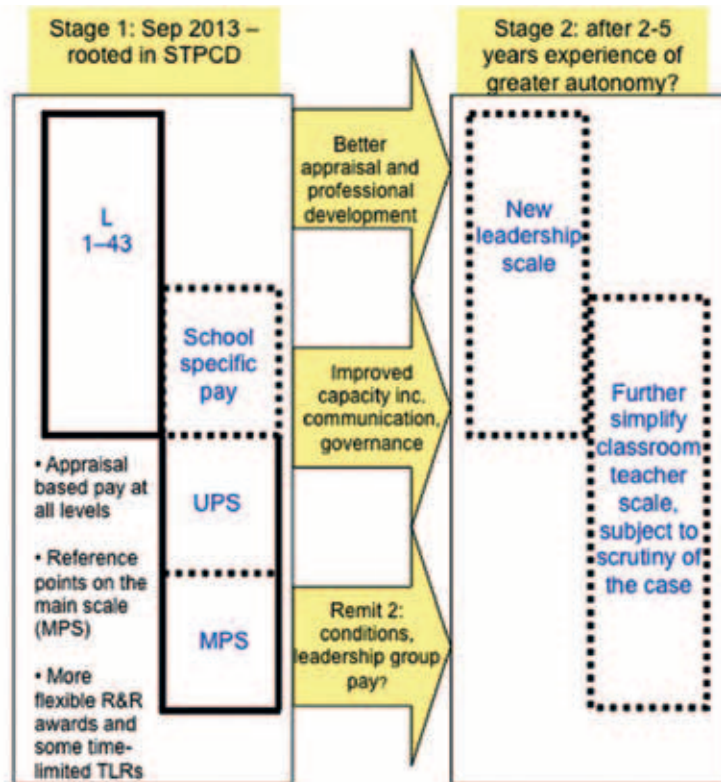
6.7 We recognise there is genuine concern among many consultees about the ability of some school leaders and governing bodies fully to utilise the range of existing flexibilities. We accept there is a significant task ahead to **raise the capacity of the system** to develop, and operate effectively, pay policies which allow greater flexibility at school level under a more autonomous model. This is not a reason to resist changes which will enable decision-making better able to meet local needs. But it underlines the need to match the pace of change towards greater autonomy with the capacity in school leadership and governing bodies to manage it well. We comment in paragraphs 6.14 – 6.27 below on the importance of helping schools build capacity to do this.

6.8 Autonomy on pay is in our view a logical consequence of the freedom introduced many years ago to allow schools to manage their own finances. As we noted in Chapter 4 there was considerable disquiet at that time that schools would be unable to cope with the change. The autonomy for schools to have control over their own budgets is now regarded as vital for the effective operation of schools to meet the needs of their pupils. Schools are trusted to recruit their own staff. We consider this must now be matched by clear steps towards further autonomy for schools with the local discretion on pay recommended by this report.

6.9 It is our view that all those concerned – teachers, school leaders and governing bodies – will need to gain confidence in operating more flexibly within a broad national framework before considering more radical changes which would move further along the continuum towards the greater autonomy which the Secretary of State seeks. It is also worth noting that an increasing proportion of schools now have academy status, which gives them the freedom to move more rapidly should they choose to, and the lessons of their experiences could help inform future steps on the continuum of reform.

6.10 We set out in Figure 6.1 how our proposals for reform (Stage 1) could evolve into a second stage of reform, subject to successful experience of devolved decision-making in pay and evidence of its effective use to support school improvement. This would enable embedding of the links between appraisal and pay progression; strengthening of governance; and consideration of a remit on leadership group pay and on conditions, before embarking upon Stage 2 reform. Any further reform would, of course, be likely to work best on the basis of a new national funding formula, better linking budgets to school needs.

Figure 6.1



### *Summary of our overall recommendations*

6.11 As we have noted, this has been a challenging remit which has required us to examine a wide range of important issues. We have had in mind throughout, the guiding principles we set out in Chapter 2 and which are woven through our recommendations. A central theme has been increasing flexibility in a pay framework which is widely acknowledged to be complex and, in our view, unduly prescriptive. Our proposals simplify the framework and give schools greater autonomy to match resources to the needs of pupils.

6.12 At the same time, we have sought to reinforce the professional status of teachers, by ensuring the framework provides appropriate reward for good classroom teachers at all stages in their career and rewards excellence. Our proposals link pay progression firmly to contribution for all teachers; and offer scope for more rapid progression where justified, initially to the upper pay scale and subsequently, at school discretion, to posts paying higher salaries.

6.13 Our recommendations should be viewed as a package which, taken together, provide a better framework for reward to respond to local needs. In summary:

- Our proposals in Chapter 3 on retention, for now, of the current geographic pay bands, supplemented by greater use of (more flexible) discretionary recruitment and retention payments, offer schools greater scope to target reward as necessary (e.g. by role or subject) to facilitate recruitment and take account of school needs. This allows appropriate

responses to the different challenges of schools in close proximity, for example, higher salaries for teachers if justified by the challenge of the school, including in low income areas.

- Our proposals on linking progression better to performance and contribution (Chapter 4) will, prudently managed, balance greater autonomy and discretion for schools within a broad national framework to give confidence and clarity on professional expectations and clearly link pay to teachers' contributions. This should support the best possible pupil outcomes.
- We also propose simplification of other aspects of the framework to enable greater flexibility in deployment of teachers to meet school improvement priorities, including (in Chapter 4) scope for school specific posts for the very best teachers (replacing the more complex AST/ET provisions), and (in Chapter 5) scope to award time-limited TLRs.
- We emphasise the importance of accountability arrangements, including transparent pay policies, which enable governing bodies to ensure pay recommendations and consequential pay progression are appropriate and within overall budget parameters.

### ***Our observations on governance and enablers of pay reforms***

6.14 In its written evidence the Department noted the importance of effective school governance arrangements and of support for governing bodies and head teachers in making decisions about pay which ensure probity and value for money. It invited us to:

*consider the implications for governance and support as part of [our] consideration of the various options for pay reform<sup>1</sup>.*

6.15 Experience of other organisations making changes to pay and conditions underlines the importance of effective performance appraisal, leadership, communication and governance as important enablers of change. We also note that our recommendations, if accepted, would give rise to a range of implementation issues, such as timing. We expect the Department will wish to consider these during the formal consultation process.

#### **(i) Performance appraisal and links to pay**

6.16 Although our remit does not cover the design of the teachers' appraisal system, it is a pre-requisite of linking pay and performance that there is a trusted and effective performance appraisal system. The key task for the school is then to set out transparently how appraisal links to its pay policy, focusing on the ultimate purpose of appraisal, i.e. to improve teaching so as to enable better outcomes for pupils.

6.17 The new appraisal regulations in England have given schools freedom to develop appropriate local approaches, within a simple overall framework. In addition to working collaboratively with their teaching staff, to ensure appraisal is done well in schools, it will be important that school leaders' and governing bodies' efforts focus on the quality of appraisal with appropriate support, and accountability. In particular we observe that successful implementation of our proposals to link appraisal to pay decisions will need the following actions:

<sup>1</sup> DfE (2012) *Evidence to the STRB: the case for change*: <<http://media.education.gov.uk/assets/files/pdf/e/evidence%20to%20the%20strb%20the%20case%20for%20change.pdf>>

- **Individual teachers and their line managers** should work together, initially to agree appraisal objectives and clarify what is expected and how they will be assessed. **Effective appraisal should be a two-way, professional dialogue** between the teacher and their appraiser which focuses upon how to improve teaching for the benefit of pupils. It should be a positive process involving reflective self-appraisal, as is the case in other professional occupations, reflection on professional development during the year and consideration of individual circumstances and needs. Appraisal should recognise achievements and identify specific support and development needs, include preparation of a plan for addressing those needs, and where appropriate cover future career development. It should be an ongoing process so there are no surprises.
- **School leadership teams** will need to develop systematic and transparent arrangements for **linking appraisal to pay progression** and set this out in school pay policies. They will also need to explain to teaching staff how these will operate – we comment below on the importance of communications and development for school leaders.
- It will be an essential part of **head teacher accountability** to submit the new arrangements in the pay policy to the governing body for approval; and to report subsequently on how their pay recommendations are justified under the policy. As part of this it will be important for head teachers to be able to assure the governing body that effective appraisal arrangements are in place. We note that the 2012 appraisal regulations (in England) discontinued the requirement for the head teacher to report annually to the governing body on the operation and effectiveness of the appraisal system. We consider teachers will lack confidence in the new system unless there is such a requirement.
- **Governing bodies** will need to consider the **proposed pay policies** and assure themselves that appropriate arrangements for linking appraisal to pay are in place, can be applied consistently and that pay decisions can be objectively justified.

6.18 As the above makes clear, it will be important that the appraisal process is **robust and consistently applied** within a school. We recommended in Chapter 4 that **the Department consider guidance or a tool-kit** to assist schools in developing an approach to linking appraisal to pay. School leaders will need to be able to explain clearly how appraisal outcomes have led to pay decisions. It will also be important that individual teachers understand the basis for appraisal judgements (including assessment of their performance against national standards and locally-set objectives). The timetable for assessment and the types of evidence on which judgements are based should be clear at the outset.

6.19 In this context, we note, and welcome, Ofsted's new inspection framework which includes, as part of its assessment of the quality of leadership and management, consideration of the robustness of performance management, including links between performance management, appraisal and salary progression. This underlines the need for governing bodies to be fully cognisant of their responsibilities in respect of teachers' pay and performance. We comment below on the importance of appropriate governance of pay flexibilities overall, not only in relation to appraisal and pay recommendations but also in considering proposals for starting salaries of new teachers, for new responsibility allowances and for posts paying above the upper pay scale.

## **(ii) Leadership and communications on pay reform**

6.20 It will fall to school leadership teams, supported by governing bodies, to communicate the changes in the pay system so it effectively supports their core task of improving educational outcomes. We note that in large organisations line managers would have the benefit of, for example, centralised communication and HR advice. We are conscious that increasingly, schools use a variety of sources for HR support. It will be particularly important for:

- Head teachers to have access to **appropriate support**, including HR advice as well as more informal support, including collaborating in local clusters of schools to share good practice, where appropriate.
- Head teachers to ensure that the school's pay policy is understood by staff, **explaining the rationale** for, and local benefits of, changes to the pay framework.
- Head teachers, and other line managers involved in assessment, to access **appropriate professional development** to ensure effective management of decisions impacting on pay.
- Head teachers and line managers to be able **to explain the basis for individual pay decisions to teachers**, including how these link to their appraisal and can be justified in the context of the school's pay policy.

6.21 The Department will need to consider how best to ensure at national level that there is **effective and direct communication with schools** on the key elements of changes to the pay system to promote overall confidence in the system. It may also wish to consider whether action is needed to provide guidance for potential recruits on **career and pay expectations** and to demonstrate the possible career paths available and potential local variations.

## **(iii) Governance in the context of pay autonomy**

6.22 We have commented above on governance in relation to performance appraisal and its links to pay decisions. It will also be important for governing bodies to ensure wider use of pay flexibility is effective and appropriate. We noted the Secretary of State's fourth strategic objective was: *to provide the best value for money for the tax payer and to ensure that the individual decisions of head teachers and governing bodies do not result in overall cost inflation in the system and that there are arrangements to maintain propriety in the system*. The Secretary of State commented in oral evidence on the need for smaller, more confident and competent governing bodies. He also told us his Department was working with the National College for School Leadership to provide appropriate training for governing body chairs.

6.23 We noted a number of concerns in oral evidence about the implications for governing bodies of increased pay flexibility and devolution of decision-making. NEOST and NGA both commented specifically on the need for governing bodies to have access to benchmarking data; and NEOST noted the need for greater attention to fiduciary duties. Most consultees said effective external HR advice for governing bodies would be crucial, along with appropriate training.

6.24 School governing bodies already have significant responsibilities in oversight of pay decisions. However, in our view, it will be a challenge for

governing bodies to move from the present position of pay recommendations based on an established national framework, with very limited discretions, to one of holding to account head teachers both for differentiated recommendations on pay progression; and increasingly for use of other flexibilities in the framework in relation to allowances. Governing bodies will need to develop effective mechanisms for support and challenge of such decisions, without undue bureaucracy or detailed involvement in judgements on individuals which are more appropriate to the leadership team. It will be particularly important for governing bodies to assure themselves on two considerations:

- first, that public money is being used **effectively and with propriety**; and
- second, that pay decisions are **properly documented and objectively justified**, individually and in relation to potential comparators, given the responsibilities of all employers (whether that is the governing body itself or formally the local authority) under equal pay legislation.

6.25 It is already obligatory for governing bodies to agree a school pay policy and they should ensure they are competent to consider the implications of pay decisions taken at school level. They may wish to consider steps to ensure they have access to independent expert advice, e.g. by collaboration with other local governing bodies; by ensuring that at least one member has experience of remuneration management from their professional background; or by buying in remuneration advice. This will ensure teachers and the wider public have confidence that decisions on pay reflect a teacher's contribution and that finite resources are used effectively.

6.26 We believe further steps may be needed to ensure parents and the wider public can be assured that pay progression and wider pay flexibilities are responsibly managed. In the context of Ofsted's responsibility for inspecting the quality of leadership and management we invite the Department to consider with Ofsted and other interested parties (such as the National Governors' Association and NEOST) what combination of approaches would be most appropriate. In our view, this should include:

- Reinforcing the need for all governing bodies to review the school's existing pay policy to ensure it adequately takes account of the changes to the system of pay and progression, including clarity on links to appraisal.
- Requiring head teachers to report annually to their governing bodies on the effectiveness of school's arrangements for linking appraisal to pay progression
- Developing Ofsted's inspection framework in relation to the leadership and management of schools to provide assurance that pay flexibilities are being managed in the best interests of pupils and with budgetary probity.

6.27 As we noted in Chapter 3, it will also be important that school funding reflects school needs to enable effective local decision-making on pay. In this context, we were encouraged to hear the Secretary of State confirm in oral evidence his wish to move towards a national funding formula in the next Spending Review.

### **Summary of our observations**

6.28 As we recommend in Chapter 4, head teachers will need to develop systematic and transparent arrangements for linking appraisal to pay and set them out in the school pay policy for approval by the governing body. In addition, we consider that the following will be needed to underpin the effective implementation of pay reform:

- High quality appraisal should be the norm in every school, with a two-way professional dialogue incorporating a strong focus on professional development.
- School leaders should be able to communicate the rationale and local benefits of reform and explain how local pay policies link pay to performance.
- Head teachers should account to governing bodies for the effectiveness of their appraisal arrangements and the robustness of pay/progression recommendations.
- Governing bodies should build the effective oversight of performance appraisal, pay and budget management into their annual work round.
- The Department should consider developing a toolkit for schools on developing their own approach to appraisal and associated pay/progression recommendations
- The Department should consider, with Ofsted and others, what approaches would be most appropriate to provide assurance on management of pay flexibilities.



# CHAPTER 7

## Looking ahead

### *The teacher labour market*

7.1 Teachers in England and Wales entered the second year of a pay freeze in September 2012. We expect a remit later this year on teachers' pay from September 2013. In advance of this, and in line with our commitment to monitor trends in teacher supply over the period of the pay freeze, we set out below our observations to date.

7.2 Whilst many teachers continue to receive increments as they progress through the relevant pay scales, the pay freeze means that the last uplift of the pay scales for teachers was in September 2010 (the final year of a 3-year pay award which increased the pay scale values by 2.45%, 2.3% and 2.3% over the period 2008-2010). Many teachers (approximately 40%<sup>1</sup>), at the top of their respective scales, will therefore have seen no change in their absolute level of pay during the pay freeze period. Given recent prevailing levels of inflation, together with increased pension contributions from April 2012, many teachers are experiencing real terms reductions in their take-home pay.

7.3 In this context it is clearly important to monitor any impact on the labour market for teachers and we set out below our assessment based on the key data available to us. We will continue to monitor developments and will be undertaking a detailed review of the evidence, including that from consultees, as part of our next remit.

### **Future demand for teachers**

7.4 It is important for us to understand the projected demand for teachers since this will impact on recruitment and retention requirements. We have examined the latest pupil projections data<sup>2</sup> for England and Wales which show that overall, pupil numbers (aged up to and including 15) in state-funded schools began to increase in 2011 and are projected to continue rising. However, patterns vary across the key phases and regions of the country:

- The numbers in maintained nursery and state-funded primary schools started increasing in 2010 and are projected to continue rising. By 2020, numbers are projected to be 18% higher than in 2012, reaching levels last seen in the 1970s.
- By 2015, all regions in England are projected to have an increase in their primary aged population compared with 2010. This ranges from around 9% in the North East and South West to 18% in London.
- State-funded secondary pupil numbers aged up to and including 15 have been declining since 2004 and are projected to continue to decline until 2015, after which the increases in primary pupil numbers will start to flow through. By 2018, they are projected to recover to 2012 levels.

1 OME analysis of DfE School Workforce Census data

2 DfE (2012), *National Pupil projections: Future trends in pupil numbers, July 2012*

- In Wales, primary pupil numbers are expected to increase by around 13% from 2011/12 to 2020/21. Secondary school numbers are expected to decrease over the next three years, followed by a recovery as the increased primary numbers feed through to the secondary sector. The projections suggest a net increase across both phases of some 6% over the period to 2020/21<sup>3</sup>.

### Recruitment to the profession

7.5 We set out below the latest figures on recruitment to Initial Teacher Training (ITT) and are conscious that successfully recruiting graduates and career-changers to the profession will become increasingly important as the demand for teachers grows in line with the pupil projections. In this context, it will be crucial that the status of the profession is enhanced in order to attract a plentiful supply of high calibre candidates. It is with some concern that we note that the average number of applications per acceptance for ITT is around two, considerably lower than many other successful systems and arguably less competitive as a result.

7.6 In 2011, the target for entry to primary ITT in England was met despite being set some 6% higher than the previous year. The target for secondary teaching places in 2011 was 14% lower overall than 2010. Recruitment targets were exceeded in maths, chemistry and biology (and other sciences) but not met in modern languages (98% of target), ICT (96%) and physics (93%), although the number of physics recruits was the highest ever recorded. Contextual factors that may have contributed to the 2011 entry figures were reductions in bursaries, restrictions on TDA recruitment advertising and uncertainty relating to the EBACC and its impact on certain secondary subjects<sup>4</sup>.

7.7 We also note here the contribution of the Teach First scheme which has recruited 1,000 participants to start in the 2012/13 academic year and aims to increase this by a further 50% over the next two years. While the scheme's participants represent a small proportion of each year's new intake into teaching, it has played an important role in attracting high calibre graduates into the profession and, in particular, into many of the most challenging schools. We note in particular the healthy level of competition for places on the scheme with around seven applicants per place in 2011<sup>5</sup>.

7.8 Over the last five years Wales has gone through a process of ITT reconfiguration, prompted by reductions in demand for newly-trained teachers. Following reductions in recent years, primary ITT numbers have now steadied and depending on the outcome of the Teacher Planning and Supply Model (TPSM) for Wales may start to increase in the future to accommodate a projected increase in pupil numbers. PGCE secondary ITT numbers were reduced for the 2012/13 intake and, depending on the outcome of the TPSM, may do so again in 2013/14<sup>6</sup>.

3 OME analysis of Welsh Assembly Pupil Projections statistics published in *School Statistics Compendium 2012*

4 OME analysis of Teaching Agency data

5 Teach First (2012) *Teach First Annual Review 2011 – Time for change*

6 OME analysis of HEFCW circulars on ITT targets

## Vacancies

7.9 We noted in Chapter 3 that recruitment and retention, as measured by official vacancy figures appears to be healthy. Vacancy rates<sup>7</sup> across England have halved over the last decade, from 0.8% in January 2000 to 0.4% in January 2010. However the method for collecting vacancy data changed during 2010<sup>8</sup> and the headline rates were recorded as 0.1%<sup>9</sup> for both November 2010 and 2011.

7.10 The most recent data for England show little variation across regions with all headline vacancy rates being equal to 0.1% apart from Inner London (0.2%). The headline vacancy rate in Wales (using a different methodology) has been stable over recent years and was 0.4% in 2012<sup>10</sup>. Using a broader definition of vacancies which includes posts being temporarily filled for up to a year, there is greater regional variation but recorded rates are still low (the highest regional rate, in Inner London, was under 1%)<sup>11</sup>.

7.11 Using the broader definition, we note that in secondary schools in England, the subject with the highest vacancy rate in November 2011 was mathematics (0.5%), nearly twice the average across all subjects. Rates for Information Technology, Sciences, Languages and English were also above average<sup>12</sup>.

7.12 We are conscious that national and regional aggregate rates conceal localised variation and, as we set out in Chapter 3, there are a number of reasons for treating them with caution. The published aggregate figures cannot account for a number of factors. These include the use of non-specialised teachers and teachers on temporary contracts. Anecdotal evidence also suggests some schools have had to recruit newly qualified teachers, having advertised unsuccessfully for more experienced staff. Against this background, we anticipate that the recruitment climate could become tougher as the economic cycle evolves, and the demand for teachers increases in line with forecast increases in pupil numbers.

## Teachers' earnings

7.13 In considering this remit as a whole, we have emphasised our view that teaching is a professional occupation which should aim to attract the best graduates. As such it is important that the relative position of teachers' pay is competitive; both to recruit new people into the profession and to retain skilled and experienced staff throughout their careers. This is a view echoed in research on the approach to recruitment in the world's top performing school systems, all of which recruit from the very highest graduate strata<sup>13</sup>.

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7 Advertised vacancies for full-time permanent appointments (or appointments of at least one term's duration). Includes vacancies being filled on a temporary basis of less than one term. Figures relate to all publicly funded schools

8 DfE introduced a new School Workforce Census in November 2010

9 DfE (2012) *School Workforce in England, November 2011*

10 Welsh Government (2012) *Teachers in Service, Vacancies and Sickness Absence, January 2012*

11 DfE (2012) *School Workforce in England, November 2011*

12 DfE (2012) *School Workforce in England, November 2011*

13 McKinsey&Company (2010) *Closing the talent gap: Attracting and retaining top-third graduates to careers in teaching*

7.14 Our analysis in Chapter 3 showed that in 2011 teachers' starting pay was broadly equal to the estimated starting pay of other professional occupations in a number of regions but lagged in several. We also noted that in Inner London starting pay was broadly competitive following previous differential increases to Inner London starting pay, but that some sectors paid higher starting salaries<sup>14</sup>.

7.15 Our analysis of median earnings across all classroom teachers suggested they were broadly similar to the estimated earnings of other professional occupations in some regions but lagged in London, the South East, East of England and East Midlands (regions which account for around half the teaching profession). We also observed patterns in the data suggesting that teachers' earnings tended to be lower than other professionals in urban areas.

7.16 In this context, we also note data on 2012 pay settlements in the wider economy which suggest the majority of settlements in the year to date were between 2% and 3%<sup>15</sup>. This suggests that it will be important for us to continue to monitor earnings levels closely and to consider further how to ensure teaching remains attractive to graduates, both for career starters and those in mid-career.

### **Summary**

7.17 While the published labour market indicators suggest that recruitment and retention to teaching is relatively healthy, we remain cautious due to the limitations of the data and the fact that aggregate statistics mask more localised recruitment and retention challenges, often relating to particular subjects and affecting individual schools. On earnings, the three-year pay award for teachers which ran from 2008 to 2010 was important in keeping pay broadly competitive with other professions, but our analysis here has shown that there are competitive pressures in some areas on both the starting pay and the median earnings of classroom teachers.

7.18 We are also conscious that recent conditions in the wider economy have contributed to a relatively benign climate for teacher recruitment and retention. However, greater challenges are likely to arise as the economic cycle evolves and the demand for teachers increases. Indeed, we note recent research<sup>16</sup> warning of reductions in applications to teacher training and to localised challenges, including in relation to shortage subjects and leadership appointments. We will return to these issues in detail as part of our next remit.

### **Future remits**

7.19 The Chancellor of the Exchequer announced in the Autumn Statement 2011<sup>17</sup> that following the end of the two year public sector pay freeze, public sector pay increases would be limited to an average of one per cent for each of the next two years. We therefore expect the Secretary of State to give us a remit to consider teachers' pay from September 2013. We would welcome a further remit to examine aspects of the existing pay and conditions framework that we have not touched upon in this report: leadership pay and non-pay conditions.

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<sup>14</sup> Earnings figures of other professional occupations are sample-based *estimates*, so carry some margin of error

<sup>15</sup> OME analysis of IDS settlements data

<sup>16</sup> Pearson Think Tank (2012) *The Future Teacher Workforce: quality and quantity*

<sup>17</sup> HM Treasury (2011) *Autumn Statement 2011*, TSO (Cm 8231) paragraph 1.53

### *Leadership pay*

7.20 The current arrangements for leadership pay are complex and the STPCD is opaque on leadership pay arrangements in particular. We commented in our last report<sup>18</sup> on the need for a full review, a point many consultees have underlined in evidence this round. We note that recent remits on leadership issues have presented only limited opportunities to address the pay implications of the increasingly diverse range of school leadership roles, including where head teachers are accountable for more than one school. Having focused on classroom teacher pay this round, we emphasise the need for a consistent framework across the profession and would welcome a remit on leadership pay in the near future. This would enable us to consider properly how the current arrangements could be reformed to provide a simplified and flexible framework for ensuring school leaders' pay is appropriate to the challenge of the post and their contribution to the school or schools. It may also be appropriate in the context of such a review to consider whether Teaching and Learning Responsibility payments remain appropriate for middle management posts such as head of department.

### *Teachers' conditions*

7.21 The Secretary of State did not provide any written evidence on teachers' conditions for the present remit, although when asked during oral evidence he said that some of the current arrangements undermined teacher professionalism and believed they were matters for head teachers to decide. Other consultees commented on conditions as part of their written representations. We heard from teacher unions how much they valued the current conditions package, but also from head teacher unions that they sought greater flexibility in the application of certain aspects of teachers' conditions within the STPCD, such as professional responsibilities and working hours. The Welsh Government felt that the current levels of prescription in the Document constrained leaders' ability to lead schools, a point also made by NEOST.

### *Other issues*

7.22 Subject to the Secretary of State's response to our recommendations in this report, there may be other issues which it would be helpful for us to consider in the next or a subsequent remit. Given the wide scope and challenging nature of this remit we were not able to examine all the detailed provisions in the Document. If, as we hope, the Department makes early progress on a major simplification of the Document, this may reveal other aspects of the pay framework which would benefit from review so as to remove unnecessary prescription and increase the flexibility available for local decisions which meet local needs.

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18 STRB (2011) *Twentieth Report*, TSO (Cm 8037) paragraph 5.6

# APPENDIX A

## Remit and directions from the Secretary of State



Rt Hon Michael Gove MP  
Secretary of State

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*Zlsz* February 2012

*D. S. P. A.*

### STRB REMIT: MATTERS FOR REPORT

I should first of all like to repeat my warm congratulations on your appointment as Chair of the STRB, and I am looking forward to working with you over the next few years. As signalled in my last remit, I want to see greater freedoms and flexibilities in teachers' pay and conditions that are consistent with the Government's commitment to reduce the rigidity of the existing framework. My aim is that it should better support my aspirations to raise the status of the profession, and help raise standards of teaching in our schools to be amongst the very best in the world.

Nothing is more important in any education system than the quality of teaching. That is why I want to attract even more of the best entrants, and to develop and retain good teachers who can make the most difference to pupils' learning. I am now asking the STRB to review the current provisions and provide recommendations on how to reduce the rigidity of the pay system such that it best supports the recruitment and retention of high quality teachers in all schools. I would be grateful for recommendations on where progress should be made rapidly; and where more detailed work would be required if I wished to proceed further.

In considering this objective, I would particularly welcome your advice on how we might strengthen the link between pay and performance, and on any particular barriers to this inherent within the current School Teachers' Pay and Conditions Document (STPCD), including consideration of incremental progression pay.

Following the Chancellor of the Exchequer's Autumn Statement and subsequent letter of 7 December to pay review bodies, I would also be grateful for advice, in this remit, on how to make pay more market-facing for teachers. The matters which I would ask the Review Body to examine include those set out in that letter and



reproduced in the attached annex.

As background to your work, you will also wish to be aware that following the Teachers' Standards Review's recommendation on a single set of standards to replace those for Core and Qualified Teacher Status, I have already approved those standards to come into force from 1 September 2012. They will be published in the 2012 STPCD.

I envisage this remit forming the first part of a two stage process. Firstly, I would be grateful for your conclusions by 28 September on how best to implement pay reform, as set out in this letter. I then intend to issue a second remit that will seek further advice on the implementation of specific options, as well as the matter of the pay award for 2013.

#### **Matters for report**

I refer to the STRB the following matters:

- a. how the pay framework for teachers should best be made more market facing in local areas;
- b. how the pay scales, including the main and upper pay scales, should be reformed to more effectively link pay and performance, including arrangements for progression; and
- c. what other reforms should be made to teachers' pay and conditions in order to raise the status of the profession and best support the recruitment and retention of high quality teachers in all schools.

#### **Timescale for report**

I require you to report your initial findings on the above matters to me by 28 September 2012. I shall then consider your advice and return with a subsequent remit to provide further advice, including on the matter of the pay award for 2013.

I am very grateful to the STRB for all your work and look forward to receiving your report in due course.

*With my regards,*

*M.G.*

MICHAEL GOVE



**Considerations to which the STRB is to have particular regard**

These considerations are:

- a. the need to make all recommendations affordable within the context of the Government's plans for deficit reduction – proposals should not lead to any increase in paybill in the short or long term;
- b. recruitment and retention data and wider economic and labour market conditions;
- c. the need to encourage consistent and reasonable pay arrangements which both support recruitment and retention of good graduates and reward high performance;
- d. the importance of promoting simplification of the pay system;
- e. the need for coherence across the teachers' pay system; and
- f. the relevant legal obligations of relevant bodies, including anti-discrimination legislation.

**Local pay – additional factors the STRB should take into account**

- g. the difference in total reward between teachers and those of similar skills working in the private sector by location – and the impact of these differences on local labour markets;
- h. how private sector employers determine wages for staff in different areas of the country;
- i. what the most appropriate areas or zones by which to differentiate pay levels should be;
- j. the need to ensure that proposals are consistent with law on equal pay;
- k. whether and how the new approach could be delivered within national frameworks; and
- l. whether proposals should apply to existing teachers, or just to new entrants.

# APPENDIX B

## Letter from Chancellor of the Exchequer on market-facing pay for local areas



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

2 December 2011

Dewi Jones, Elizabeth Kidd, Esmond Lindop, Stella Pantelides,  
Jill Pullen, Dr Patricia Rice and Anne Watts CBE  
Chairs  
Pay Review Body – School Teachers  
Office of Manpower Economics  
6th Floor  
Victoria House  
Southampton Row  
London  
WC1B 4AD

Following my recent announcements at the Autumn Statement, I am writing to set out the Government's view on the critical role of the School Teachers Pay Review Body in the years ahead.

The Government continues to value the independent and expert view that the Review Bodies provide. You will be aware that, at the Autumn Statement, I announced that the public sector pay freeze will end after 2012-13 – but that in order to support fiscal consolidation, for each of the following two years the Government will seek public sector pay awards that average at 1 per cent. The Secretary of State will write to you in advance of the 2013-14 pay round, in line with normal process.

However, when it comes to setting pay policy after the freeze, the Government is concerned not only with the appropriate annual uplift, but also ensuring that overall public sector pay systems are the most appropriate for the modern labour market.

In particular, as Review Bodies have noted in the past, there is substantial evidence that the differential between public and private sector wages varies considerably between local labour markets. This has the potential to hurt private sector businesses that need to compete with higher public sector wages; lead to unfair variations in public sector service quality; and reduce the number of jobs that the public sector can support for any given level of expenditure.

The Government believes that there is a clear case for seeking to correct these problems, ensuring that public sector pay does not distort local markets. Therefore – following my

announcement in the Autumn Statement, I am now writing to ask that you consider how to make pay more market-facing in local areas for teachers.

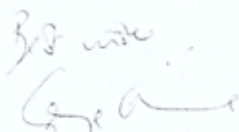
In taking forward this analysis, you should take into account:

- the need to recruit, retain and motivate suitably able and qualified staff across the UK;
- the difference in total reward between teachers and those of similar skills working in the private sector, by location – and the impact of these differences on local labour markets;
- how private sector employers determine wages for staff in different areas of the country;
- what the most appropriate areas or zones, by which to differentiate pay levels should be;
- the affordability of any proposals in light of the fiscal position – these should not lead to any increase in paybill in the short or long-term;
- the need to ensure that proposals are consistent with law on equal pay;
- whether and how the new approach could be delivered within national frameworks; and
- whether proposals should apply to existing staff, or just to new entrants.

The Secretary of State will follow this letter with a detailed remit in relation to teachers, which may also raise other pay reform issues.

I would be grateful if you could submit initial findings by 17 July 2012. It will then be possible to feed these findings into the evidence provided by Government and other parties, to the 2013-14 pay round.

I am copying this letter to the Chief Secretary to the Treasury, the Secretary of State for Education and the Minister for the Cabinet Office.



GEORGE OSBORNE

# APPENDIX C

## OME call for evidence on market-facing pay

### Call for evidence on how to make pay more market-facing in local areas for certain groups of public sector workers

#### Introduction

1. The Government has asked four of the independent pay review bodies to consider how to make the pay of some their remit groups more market-facing in local areas. The Government argues that differentials between public and private sector wages vary considerably between local labour markets and this has the potential to hurt private sector businesses that need to compete with higher public sector wages, lead to unfair variations in public sector service quality and reduce the number of jobs that the public sector can support for any given level of expenditure.

#### Scope

2. The public sector workers covered by this request are:

- NHS workers covered by the Agenda for Change pay system;
- schoolteachers;
- operational staff<sup>1</sup> in public sector prisons;
- very senior managers in Special Health Authorities and NHS Executive Non-Departmental Public Bodies;
- senior civil servants.

In his Autumn Statement the Chancellor of the Exchequer also announced that the Minister for the Cabinet Office will review how more local, market-facing pay could be introduced in civil service departments, for civil servants below the senior civil service. However, the pay review bodies are not responsible for those civil servants.

<sup>1</sup> Broadly speaking, operational staff are those who have direct contact with prisoners and who by law are prevented from striking. The category excludes, for example, clerical workers in prisons who do not routinely come into contact with prisoners and are not part of the Prison Service Pay Review Body remit group.

#### The remits for review bodies

3. Following his Autumn Statement, the Chancellor of the Exchequer wrote to each of the relevant pay review body chairmen explaining in a little more detail what was needed and those letters are being followed by formal remit letters from respective departmental Ministers. The letters to review body chairmen from the Chancellor of the Exchequer and departmental Ministers form the remits to the review bodies and will be made available on the Office of Manpower Economics (OME) website – [Office of Manpower Economics - Letters to the Pay Review Bodies about market-based local pay.](#)<sup>2</sup>

4. The Government's request to the review bodies is in respect of those workers whose terms and conditions are set by the UK Government. This means senior civil servants in Great Britain, prison staff and schoolteachers in England and Wales, and NHS workers (including very senior managers but not doctors and dentists) in England.

5. The OME, which provides secretarial and research support to all the pay review bodies, has already looked at geographical pay differentiation and commissioned research in the past.<sup>3</sup> However, the OME is issuing this call for evidence on the specific issues raised in the remits described above, to invite all those with evidence relevant to the remits to submit it. In particular the OME would welcome the following information:

- examples of where private sector employers have had difficulty in recruiting or retaining staff because of competition from the employers of the pay review body remit groups specified in paragraph 2 above;
- examples of where public sector employers of the pay review body remit groups specified in paragraph 2 above have had difficulty in recruiting or retaining staff because of competition from wider public or

<sup>2</sup> The letters from departments on schoolteachers and senior civil servants had not yet been received when this call for evidence was issued.

<sup>3</sup> See, for example, *Geographical pay differentiation in multi-site private organisations*, IDS, 2008 - research report for OME, available at [http://www.ome.uk.com/Cross\\_cutting\\_Research.aspx](http://www.ome.uk.com/Cross_cutting_Research.aspx). OME is currently updating this information.



private sector employers;

- statistical information or other research or quantified evidence on comparative levels of public and private sector pay or, where possible, total reward in specific areas, regions or localities, or for specific occupations or jobs;
- information on how larger private sector employers operating in multiple locations within England or Britain decide on appropriate levels of total reward for those locations.

6. In addition, we should welcome information about how private sector employers set pay in different localities, whether or not they operate in multiple locations. What factors or information do they take into account in setting pay levels? How important, for example, is information on local cost of living variations, such as the cost of housing? What information sources are available to employers for this purpose? Where employers pay different amounts in different locations, how is the differentiation achieved, eg through base pay, separate allowances or in some other way? What are the mechanisms for reviewing and adjusting local differentiation?

7. Finally we should welcome comparative information on pay levels for different occupations, especially those which occur within the remit groups listed in paragraph 2 above. Are there occupations for which the labour market is essentially national rather than local? Is there a level of pay above which the market tends to be national?

How to respond

8. If you are able to provide evidence likely to assist the review bodies in their reviews of locality pay, please send it, preferably electronically, by 16 March 2012 to :

[omelocalpay@bis.gsi.gov.uk](mailto:omelocalpay@bis.gsi.gov.uk)

If you are unable to send material electronically, please address it to:

OME Local Pay Review  
Office of Manpower Economics  
6<sup>th</sup> Floor  
Victoria House  
Southampton Row  
London  
WC1B 4AD

Please indicate whether you are happy for OME to contact you if necessary for clarification or follow-up questions.

9. All evidence provided will be made available to the four review bodies with remits to provide advice on market-facing pay in local areas and will be placed on the OME website so that all those with an interest in this subject can read and comment on it if they wish.

10. The individual review bodies with remits on local pay are contacting their parties (the relevant government departments, employer organisations and trade unions representing the remit groups) with more specific requests for evidence. Any organisation which receives such a request should respond directly to the review body rather than to this more general call for evidence. Review body secretariats will ensure that any information relevant to more than one review body is shared appropriately.



# APPENDIX D

## STRB call for evidence

### Annex A

#### Questions to cover in submissions

1. Those making written submissions are asked to include their views and evidence on the questions set out below.

**a. how the pay framework for teachers should best be made more market facing in local areas**

- i. What evidence is there of teacher recruitment or retention difficulties in particular locations? Such evidence might include, for example, persistent **local** shortages of teachers of particular subjects, or of staff with particular experience
- ii. What evidence is there of over-supply of teachers in particular locations? Such evidence might include for example consistently higher than average levels of applications for vacancies, or very low turnover rates?
- iii. What evidence is there that the flexibilities already available in the STPCD<sup>1</sup> are not adequate to manage recruitment and retention difficulties? In what way might the relevant provisions be clarified or simplified to encourage their use and/or make them more effective?
- iv. What evidence is there that:
  - the geographic boundaries for existing pay bands are not correctly defined;
  - existing pay bands are not set at an appropriate pay level (relative to other pay bands);
  - The number of pay bands is inadequate to reflect the range of labour market conditions
  - there are particular boundary or 'cliff edge' problems?
- v. What are the appropriate comparator graduate-level occupations when assessing pay levels for school teachers against other occupations in specific localities?

<sup>1</sup> Such as recruitment and retention payments, or discretionary points on the pay scale



- vi. Where there is evidence that pay is not set at levels appropriate to local labour markets, what changes might be needed to the STPCD to give head teachers / governing bodies greater autonomy to set pay?

- vii. What evidence is there on the scale and extent of teacher mobility?

You may also wish to submit evidence on the local pay issues on which OME's wider call for evidence focused, set out for ease of reference in para 3 below.

**b. how the pay scales, including the main and upper pay scales, should be reformed to more effectively link pay and performance, including arrangements for progression**

- viii. What **evidence** is there that the current pay and progression arrangements need reforming in order to more effectively link pay and performance?
- ix. What **changes** to current pay and progression arrangements for (a) the main scale and (b) the upper pay scale would enable schools to more effectively link pay and performance?
- x. What **other factors** need addressing to:
- enable schools effectively to manage arrangements to link pay to performance; and
  - help teachers to develop their professional skills, and so improve their performance and ability to progress?

**c. what other reforms should be made to teachers' pay and conditions in order to raise the status of the profession and best support the recruitment and retention of high quality teachers in all schools**

- xi. What are the barriers in the existing pay and conditions framework (STPCD) to recruiting and retaining high quality teachers?
- xii. What existing provisions of the framework might be clarified or simplified to encourage their use or to make them more effective?
- xiii. What other changes to the framework might be made to provide greater flexibility for head teachers (and others) to recruit and retain high quality teachers?



- xiv. What other changes to the pay and conditions framework would help to raise the status of the teaching profession?

#### **Other issues you may wish to cover in submissions**

2. **Timing:** The remit letter asks for recommendations on where progress should be made rapidly and where more detailed work would be required. You may wish to indicate in your submission particular areas where you consider early changes would be beneficial / rapid progress could be made.

3. **Relevant independent research:** a range of evidence related to remit issues is published on the OME website. This includes the research into teachers' pay commissioned last year by STRB from ORC International at: [http://www.ome.uk.com/STRB\\_Research\\_Documents.aspx](http://www.ome.uk.com/STRB_Research_Documents.aspx)  
You may wish to comment in your submissions on this or other recent reports.

4. OME has commissioned an update of an IDS report published in 2008, *Geographical pay differentiation in multi-site private sector organizations*. We will let you know when the update report is available on the OME website.

5. **Wider evidence on local pay:** OME issued a general call for evidence on Friday 20<sup>th</sup> January 2012, mainly targeted at bodies who are not normally part of the review body process such as broad based employer and employee representative organizations (CBI, TUC and others). This sought evidence on:

- examples of where private sector employers have had difficulty in recruiting or retaining staff because of competition from the employers of the pay review body remit groups;
- examples of where public sector employers of the pay review body remit groups have had difficulty in recruiting or retaining staff because of competition from wider public or private sector employers;
- statistical information or other research or quantified evidence on comparative levels of public and private sector pay or total reward in specific areas, regions or localities, or for specific occupations or jobs;
- information on how larger private sector employers operating in multiple locations within England or Britain decide on appropriate levels of total reward for those locations;
- information about how private sector employers set pay in different localities, whether or not they operate in multiple locations; and
- comparative information on pay levels for different occupations.



If you wish to make any observations in respect of the issues set out in that call for evidence, please include them in your submission on this remit. The general call for evidence can be found on OME's website at:

<http://www.ome.uk.com/Article/Detail.aspx?ArticleUId=1fb5693f-71c7-4619-bf9f-79353b89925e>



# APPENDIX E

## Conduct of the Review

E1 On 21 February 2012, the Secretary of State for Education, the Rt Hon Michael Gove MP, asked us to consider three matters relating to teachers' pay: how to make it more market-facing in local areas; reforms to more effectively link pay and performance; and other reforms to teachers' pay and conditions to raise the status of the profession and support the recruitment and retention of high quality teachers. We were asked to report by end October 2012<sup>1</sup> and to have regard to a number of considerations. The Secretary of State's letter is at Appendix A. Our work to respond to these matters took place between February 2012 and October 2012.

E2 We set out in the body of this report the wide range of evidence we considered, including international and research evidence; and reports commissioned by OME. We set out below the statutory consultation we undertook and a range of visits and meetings which informed our broad understanding of the issues.

### **Consultation**

E3 On 22 February 2012 we gave the following organisations the opportunity to make written representations and provide evidence on the matters on which we were due to report:

#### **Government**

Department for Education (DfE)  
Welsh Government

#### **Organisations representing teachers**

Association of School and College Leaders (ASCL)  
Association of Teachers and Lecturers (ATL)  
British Association of Teachers of the Deaf (BATOD)  
National Association of Head Teachers (NAHT)  
National Association of Schoolmasters Union of Women Teachers (NASUWT)  
National Union of Teachers (NUT)  
Undeb Cenedlaethol Athrawon Cymru (UCAC)  
Voice

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<sup>1</sup> The original deadline was 28 September 2012; a revised deadline of end of October 2012 was given in a letter to the STRB Chair dated 15 May 2012 covering the Department's submission, which can be found at: <[http://www.ome.uk.com/STRB\\_Correspondence.aspx](http://www.ome.uk.com/STRB_Correspondence.aspx)>

**Association of local authorities**

National Employers' Organisation for School Teachers (NEOST)

**Organisations representing governors**

Governors Wales (GW)

National Governors' Association (NGA)

E4 We also notified the following organisations of our remit on 22 February 2012:

Agency for Jewish Education

Association of Directors of Children's Services (ADCS)

Association of Directors of Education in Wales (ADEW)

Association of Professionals in Education and Children's Trusts (Aspect)

Board of Education, General Synod of the Church of England

Catholic Education Services for England and Wales

Her Majesty's Inspectorate for Education and Training in Wales (Estyn)

Foundation and Aided Schools' National Association (FASNA)

Free Churches Education Committee

General Teaching Council for England (GTCE)

General Teaching Council for Wales (GTCW)

Information for School and College Governors (ISCG)

Methodist Independent Schools Trust

National College for School Leadership (NCSL)

Office for Standards in Education, Children's Services and Skills (Ofsted)

The Schools Network

Training and Development Agency for Schools (TDA)

E5 We invited the above consultees to respond in writing by 20 April 2012 and asked them to copy their submissions to other consultees. We gave consultees an opportunity to comment in writing on other consultees' submissions.

E6 The following consultees made written submissions: ASCL<sup>2</sup>, ATL<sup>3</sup>, BATOD, DfE<sup>4</sup>, Governors Wales, NAHT<sup>5</sup>, NASUWT<sup>6</sup> (including research it

2 ASCL (2012) <[http://ascl.org.uk/News\\_views/consultation\\_responses/ASCL\\_response\\_to\\_STRB\\_2012](http://ascl.org.uk/News_views/consultation_responses/ASCL_response_to_STRB_2012)>

3 ATL (2012) <<http://www.atl.org.uk/Images/ATL%20-%20submission%20to%20STRB%20April%202012.pdf>>

4 DfE (2012) <<http://media.education.gov.uk/assets/files/pdf/e/evidence%20to%20the%20strb%20the%20case%20for%20change.pdf>>

5 NAHT (2012) <<http://www.naht.org.uk/welcome/news-and-media/key-topics/pay-and-conditions/naht-evidence-to-school-teachers-review-body-april-2012>>

6 NASUWT (2012) <[http://www.nasuwt.org.uk/consum/groups/public/@press/documents/nas\\_download/nasuwt\\_009767.pdf](http://www.nasuwt.org.uk/consum/groups/public/@press/documents/nas_download/nasuwt_009767.pdf)>

had commissioned from IDS<sup>7</sup> on local pay), NEOST<sup>8</sup>, NGA<sup>9</sup>, NUT<sup>10</sup>, UCAC<sup>11</sup>, Voice<sup>12</sup> and the Welsh Government<sup>13</sup>. Six unions<sup>14,15</sup> submitted joint evidence on market-facing pay including research they had commissioned from IDS<sup>16</sup> and from the Labour Research Department<sup>17</sup> on local pay). DfE provided a submission on 14 May 2012.

E7 Six unions<sup>18</sup> provided a joint supplementary submission on local pay in response to other consultees' submissions. Four unions<sup>19,20</sup> submitted a joint supplementary submission on performance-related pay. ASCL, ATL<sup>21</sup>, NASUWT<sup>22</sup>, NUT<sup>23</sup> and the Welsh Government also provided supplementary submissions.

E8 We received submissions from the following organisations in response to the OME call for evidence on market-facing pay<sup>24</sup>:

- CBI
- Centre for Economic Performance (London School of Economics)
- Centre for Market and Public Organisation (CMPO) (University of Bristol)<sup>25</sup>
- Institute of Directors
- Local Government Association
- Mercer
- TUC

E9 We also received evidence submitted to OME from the Welsh Government, the Northern Ireland Executive, the Scottish Government and from a group of backbench Liberal Democrat MPs.

E10 ATL provided supplementary evidence on the IDS and IES research, the NEF research for the TUC and on the CMPO research report. NASUWT submitted supplementary evidence on the CMPO research report. The Welsh Government also commented on the NEF research for the TUC and on the CMPO research report.

7 IDS (2012) <[http://www.nasuwt.org.uk/consum/groups/public/@press/documents/nas\\_download/nasuwt\\_009770.pdf](http://www.nasuwt.org.uk/consum/groups/public/@press/documents/nas_download/nasuwt_009770.pdf)>

8 NEOST is the representative body for employers of teachers in maintained schools in England and Wales. It draws members from the Local Government Association, the Welsh Local Government Association, FASNA, the Church of England Board of Education and the Catholic Education Service. NEOST (2012) <<http://www.lge.gov.uk/lge/aio/17199287>>

9 NGA (2012) <<http://www.nga.org.uk/getattachment/Resources/Consultation/School-Teachers--Review-Body/NGASTRB190412.pdf.aspx>>

10 NUT (2012) <<http://www.teachers.org.uk/files/nut-submission-to-the-strb-april-2012.pdf>>

11 UCAC (2012) <<http://www.athrawon.com/uploads/STRB2012.pdf>>

12 Voice (2012) <<http://www.voicetheunion.org.uk/index.cfm?cid=902>>

13 Welsh Government (2012) <<http://wales.gov.uk/docs/dcells/publications/120423responsedigitalen.pdf>>

14 The six unions are: ASCL, ATL, NAHT, NUT, UCAC, and Voice

15 Six Unions (2012) <<http://www.teachers.org.uk/files/teacher-unions'-joint-submission-to-the-strb-april-2012.pdf>>

16 IDS (2012) <<http://www.voicetheunion.org.uk/files/pdfs/IDSreportMay2012.pdf>>

17 LRD (2012) <<http://www.voicetheunion.org.uk/files/pdfs/LRDReportMay2012.pdf>>

18 <<http://www.voicetheunion.org.uk/files/pdfs/JointSupplementarySTRB2012.pdf>>

19 The four unions are: ATL, NUT, UCAC, and Voice

20 Four Unions (2012) <<http://www.teachers.org.uk/docs/files/joint-union-prp-submission---may-2012-final.docx>>

21 ATL (2012) <<http://www.atl.org.uk/Images/ATL%20-%20supplementary%20submission%20May%202012.pdf>>

22 NASUWT (2012) <[http://www.nasuwt.org.uk/consum/groups/public/@press/documents/nas\\_download/nasuwt\\_009771.pdf](http://www.nasuwt.org.uk/consum/groups/public/@press/documents/nas_download/nasuwt_009771.pdf)>

23 NUT (2012) <<http://www.teachers.org.uk/files/nut-supplementary-submission---june-2012-final.pdf>>

24 See: <<http://www.ome.uk.com/Article/Detail.aspx?ArticleUid=43ac3584-4142-4883-aa81-7485c1a29970>>

25 CMPO research report was submitted to OME after the deadline.



E11 We invited the following consultees to make oral representations: ASCL, ATL, DfE, NAHT, NASUWT, NEOST, NGA, NUT, UCAC, Voice and the Welsh Government. All these organisations made individual representations at meetings in June 2012.

### ***Visits and Meetings***

E12 In total, STRB had 20 working meetings between 21 February 2012 and end October 2012. It held two additional full day meetings and two half day meetings at which it heard oral representations from consultees.

E13 The Chair attended a meeting with the Secretary of State for Education, Rt Hon Michael Gove MP, and attended a presentation by HMT for Review Body Chairs and Economists in February 2012. She had introductory meetings with General Secretaries of the following teacher unions and associations in February and March 2012: Brian Lightman, ASCL; Mary Bousted, ATL; Russell Hobby, NAHT; Chris Keates, NASUWT; Christine Blower, NUT; Elaine Edwards, UCAC; and Philip Parkin, Voice. The Chair also met Marcus Bell, Director of the DfE Teachers Group, in February 2012, and in March 2012 had informal meetings with Sally Coates, Chair of the Independent Review of Teachers' Standards, and with Sir Michael Wilshaw, Chief Inspector of Ofsted.

E14 Between June 2011 and March 2012 members of STRB visited schools in the following local authorities:

- Waltham Forest
- Hammersmith and Fulham
- St. Albans (Hertfordshire)
- Merton
- Cardiff
- Portsmouth

E15 11 schools were visited in total: six secondary schools and five primary schools. In each school, members met groups of teachers and leaders to discuss teachers' pay and conditions. They also met officials at each local authority. In Hammersmith and Fulham and St. Albans, the Review Body met school governors.

E16 In December 2011, STRB members met representatives from the Department for Education and Skills, Welsh Government, to discuss developments affecting the school workforce in Wales.

E17 STRB members attended a meeting with representatives from an academy chain to discuss its approach to pay in January 2012.

E18 In March 2012 STRB received presentations from Marcus Bell, Director of the DfE Workforce Group; and Stephen Hillier, Chief Executive of the TDA and invited Lord Adonis to offer a broad perspective on educational changes of the last decade, as part of a strategy day. The Review Body also received presentations from Incomes Data Services (IDS) and Institute for Employment Studies (IES) on research commissioned by OME in May 2012.

# APPENDIX F

## Generic evidence on public-private sector pay differentials, 'crowding out' and geographical pay differentiation

F1 Chapter 3 of this report on market-facing pay focuses on the issues of particular relevance to the teaching workforce. However we received wider evidence on these matters<sup>1</sup> which is summarised only briefly in Chapter 3 and is set out more fully below for the record.

### Public-Private Sector Pay Differentials

F2 The public sector comprises about one fifth of the workforce in the UK, or just over 6 million employees. It includes a very wide range of occupations which makes comparisons of average pay in the public and private sectors complex. Employees in the two sectors differ in terms of their employer size, occupational mix; gender balance; age; and level of qualifications. In relation to teaching, it is important to focus on the comparison with other graduate professions, a point we return to in our analysis. Some of the aggregate data quoted below is therefore of limited relevance.

F3 A number of studies have been carried out which seek to control for observed differences in workforce characteristics, and so aim to make like-for-like comparisons between pay in the public and private sectors. These sources permit comparisons which account for the characteristics of individuals working in the public and private sectors, including: their age; gender; place of residence; and (where available) qualifications.

F4 The Office for National Statistics (ONS), using data from the April 2011 Annual Survey of Hours and Earnings (ASHE), estimated a differential of 8.2% in favour of the public sector across all occupations<sup>2</sup>. Acknowledging that results from sample surveys are subject to a margin of error, ONS calculated that the differential was likely to be in the range 7.7% to 8.7%<sup>3</sup>. The Institute for Fiscal Studies (IFS)<sup>4</sup>, using data from the Labour Force Survey (LFS) for the two-year period ending March 2011, estimated a differential of 8.3% in favour of the public sector across all occupations. The differential for males was 5.5%, and for females 11.3%. IFS found that the differential varied for each gender across UK regions (see Figure F.1 below). Using a similar approach to IFS, HM Treasury<sup>5</sup> estimated public sector pay differentials within regions and showed that these could sometimes be greater than between regions, although we note

1 Responses to OME's call for wider evidence referred to in this Appendix can be found at: <<http://www.ome.uk.com/Article/Detail.aspx?ArticleUid=43ac3584-4142-4883-aa81-7485c1a29970>>

2 ONS (2012) *Estimating Differences in public and private sector pay – 2012*

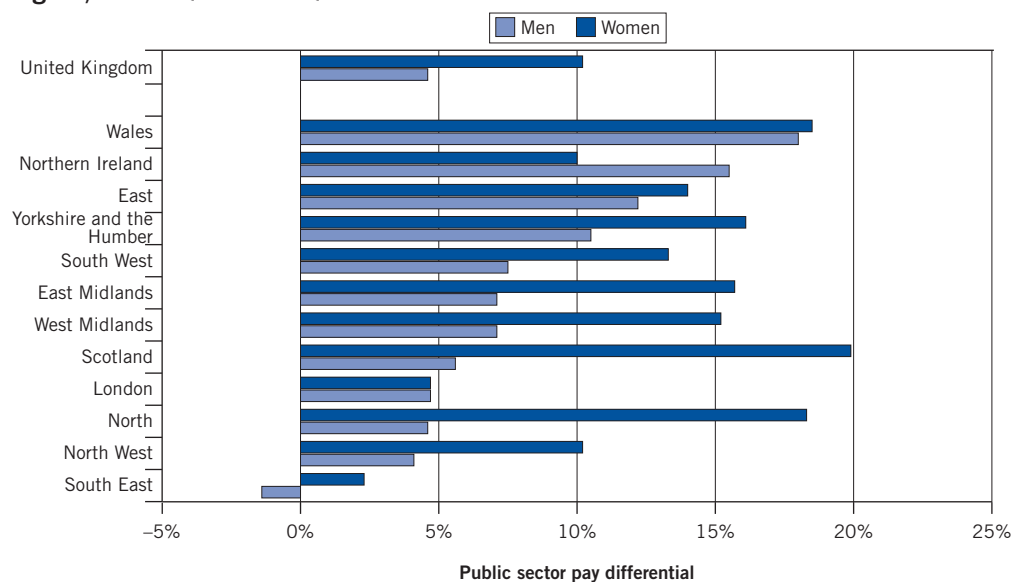
3 The 95% confidence interval around its best estimate of 8.2%

4 IFS (2012) *The IFS Green Budget: February 2012, Chapter 5 – Public sector pensions and pay*

5 HMT (2012) <<http://www.ome.uk.com/Document/Default.aspx?DocumentUid=61D57913-B95E-4F26-AFC2-661297D266AC>>

that within-region analyses are subject to small sample sizes so must be treated with some caution.

**Figure F.1**  
**Estimated average public-private hourly pay differential across all occupations, by region, 2009 Q2–2011 Q1**



Source: IFS Green Budget 2012.

### *Changes over time*

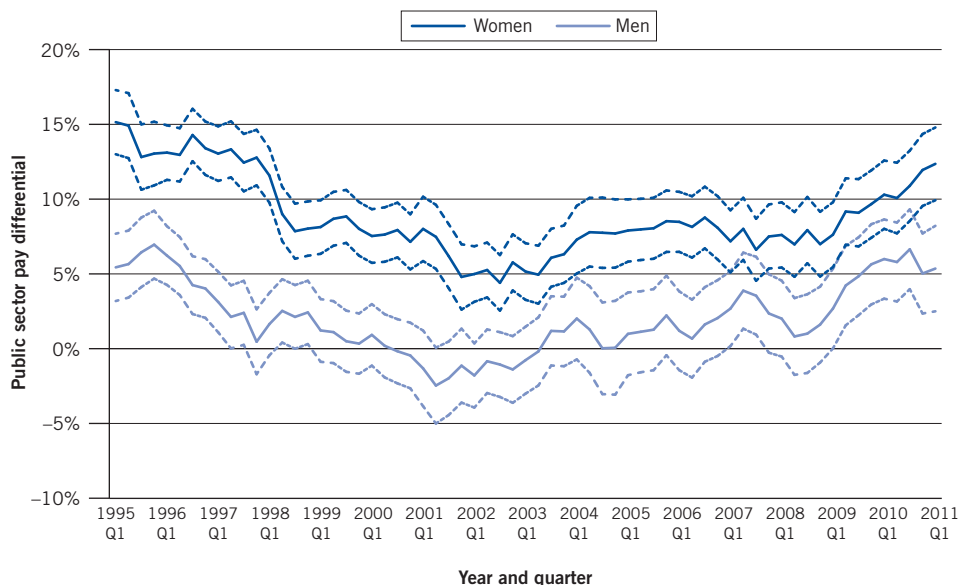
F5 ONS<sup>6</sup> produced estimates of the pay differential across all occupations for the period 2002 to 2011. The overall differential in favour of the public sector was at its lowest in 2002<sup>7</sup> at 3%, increasing to 7.6% in 2005, then falling to 5.3% in 2007. The differential increased year-on-year thereafter until 2011. IFS<sup>8</sup> produced separate estimates of the differential for males and females for the period 1995 to 2011 (see Figure F.2). The public sector differential for females was significantly positive throughout this period. For male workers, IFS estimated that in the ten years prior to the 2008 recession, there was no statistically significant public sector pay differential, but that a differential in favour of the public sector across all occupations had started to emerge since 2008 (reaching around 5% by the start of 2011).

6 Op. cit. ONS *Estimating Differences in public and private sector pay – 2012*

7 The earliest year in which ONS could perform this analysis on a consistent basis.

8 Op. cit. IFS *The IFS Green Budget: February 2012, Chapter 5 – Public sector pensions and pay*

**Figure F.2**  
**Estimated average public-private wage differentials across all occupations, 1995–2011**



Source: IFS Green Budget 2012. Dashed lines represent 95% confidence intervals.

#### *Distributional Differences in Pay Differentials*

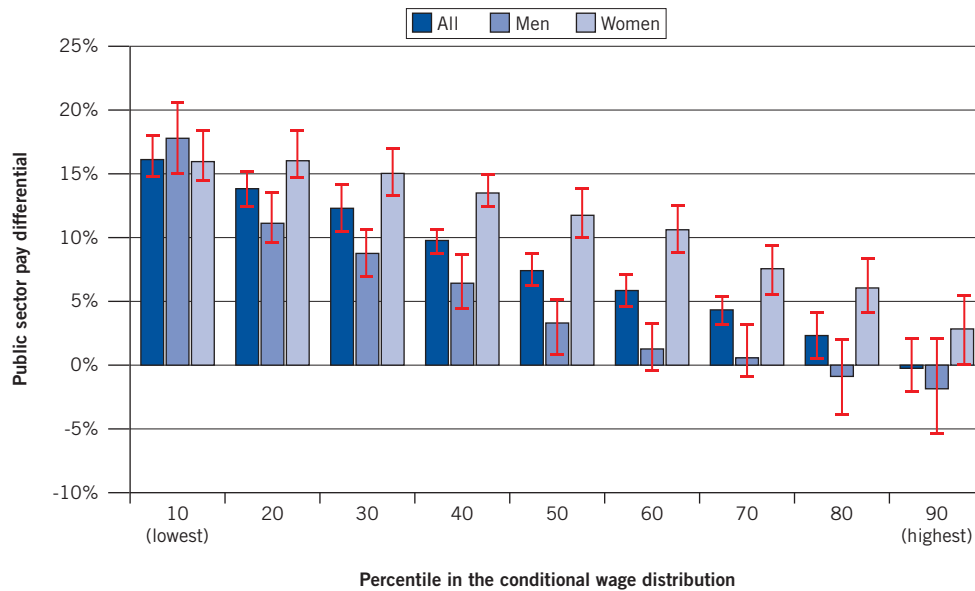
F6 As we have already noted, whilst the analyses of all occupations provide an economy-wide measure of relative earnings, it is important to understand that the aggregate findings may not be representative of specific occupations. In this context, the IFS analyses noted important differences relating to the levels of earnings (see Figure F.3 below)<sup>9</sup>. It estimated that the differential in favour of the public sector was largest at the lowest end of the earnings distribution, and that it decreased as earnings increased. It also estimated that, at the upper end of the distribution, the differential for males was in favour of the private sector (though not statistically significantly different from zero). IFS noted that this pattern had changed little over time. In its analysis, ONS<sup>10</sup> suggested that graduates in the public sector earned less on average than their counterparts in the private sector – its analysis showed a pay deficit for graduates<sup>11</sup> in the public sector of 4.1% in 2011 (and 5.7% in 2010).

<sup>9</sup> Ibid

<sup>10</sup> Op. cit. ONS *Estimating Differences in public and private sector pay – 2012*

<sup>11</sup> Defined as employees whose highest level of education is a degree or equivalent

**Figure F.3**  
**Estimated average public-private wage differential by percentile in the wage distribution, 2009 Q2–2011 Q1**



Source: IFS Green Budget 2012.  
 Bar heights represent the gap between the relevant percentile of the public sector conditional wage distribution and that of the private sector. Red bars show the 95% confidence intervals.

F7 In the Government's generic evidence, HM Treasury, drawing on some of the above research, stated that there was an estimated premium of around 8% for those working in the public sector compared with those in similar jobs in the private sector and that the level of the premium varied across the UK. It considered that one reason for this was that, unlike the private sector, there were few mechanisms for public sector pay to respond flexibly to local conditions.

F8 HM Treasury argued that the existence of pay premia suggested that the public sector paid more than necessary to recruit, retain and motivate staff in some areas. It said that this in turn limited the number of jobs that the public sector could support for a given level of spending and diverted resources away from other ways of improving the quality of public services. HM Treasury noted that there were likely to be differences in the pay premia between different occupations and that any changes would therefore need to be appropriate for each individual workforce.

F9 HM Treasury said that in places where private sector firms had to compete for workers with public sector employers offering a large pay premium, the introduction of more local, market-facing pay could help private businesses become more competitive and expand. It cited the use of zonal pay in the Ministry for Justice which allowed differential levels of pay for particular 'hotspots' across the country, where recruitment and retention were more challenging.

F10 The CBI echoed many of the Treasury's arguments in favour of more market-facing pay, which it said would benefit both public and private sectors and promote jobs and growth. It said that the goal of hiring in the private sector was 'hobbled' by the public sector pay premium which established a pay floor at public sector rates for the wages a private sector employer could offer to compete for the best staff in less economically successful areas. The CBI also pointed to the example of the decentralisation of public sector pay in Sweden which they considered allowed managers to be genuinely flexible in creating posts and roles and allowing wages to better reflect local circumstances.

F11 The TUC questioned the validity of many of the public-private sector wage comparisons cited elsewhere. It stated that in large national organisations in the private sector, geographic pay was centrally organised and that national pay bargaining was more efficient than the alternative. The TUC also argued that the introduction of local pay would be likely to dampen economic growth and risked leading to an increase in equal pay issues. In July, the TUC also published research that concluded that moves to make public sector pay more market-facing would result in substantial net costs to the economy.

F12 The Institute of Directors (IoD) cited a survey of 1,051 of its members and suggested decentralising public sector pay would be supported by business. The survey had reported that 27% of respondents had found it difficult to attract skilled staff at least once because of public sector pay levels<sup>12</sup>.

F13 The Local Government Association (LGA) reported that about 10% of councils determined pay locally and that even where pay awards were determined centrally there was considerable local flexibility in the positioning of roles within the local government grading structures.

F14 The Welsh Government questioned the perceived imbalance between private and public sector and expressed concern about the potential impact of local pay on public sector workers and the wider economy. The Scottish Government expressed similar concerns and stated that it would not be issuing remits on local pay to the review bodies in relation to devolved workforce groups.

### **The Impact of Pay Differentials**

F15 OME's wider call for evidence sought examples of where private or public sector employers have had difficulty in recruiting or retaining staff because of competition from employers of Pay Review Body remit groups. A recent discussion paper<sup>13</sup> by Faggio and Overman considered the impact of increases in public sector employment on local labour markets. It suggested that the 'multiplier effect' of additional jobs may be offset by displacement or crowding out elsewhere in the local economy. The study found that public sector employment had no identifiable effect on total private sector employment but did affect the sectoral composition of the private sector.

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<sup>12</sup> Though the IoD did not specify over what period respondents had encountered this difficulty

<sup>13</sup> Spatial Economics Research Centre (2012) *The Effect of Public Sector Employment on Local Labour Markets*

F16 Academic research by Hall, Propper and Van Reenan, using data from 1995/96 to 2002/3, examined the link between pay differentials and quality of patient care<sup>14</sup>. The authors found that hospitals in stronger labour markets with higher external comparator wages, showed worse outcomes in terms of quality and productivity. They concluded that wages that more closely reflected the local market in higher outside wage areas would improve outcomes and productivity.

### **Wider practice in geographical pay differentiation**

F17 Research commissioned by OME from Incomes Data Services (IDS) on private sector practice<sup>15</sup> updated previous research on this issue<sup>16</sup>. Nine detailed case studies were undertaken, focusing on large, multi-site employers with a range of professional and front-line staff. The sample included companies in retailing, financial services, transport infrastructure, distribution, manufacturing, communications and professional services. Key findings from the case studies were:

- Companies broadly used three different forms of geographically-differentiated pay: location-specific pay bands/zones; traditional London allowances; or geographic differentials arising from the use of market data.
- Companies typically used a relatively small number of geographic zones for differentiating pay by location, ranging from two to five bands. They commonly used four bands (including national) and did not attempt to recognise small differences between labour markets.
- Firms set local pay centrally. The case study companies set great store by controlling pay, both basic and location-based, centrally. This was because of the need for tight cost control, a lack of confidence in the ability of local managers to manage pay, and the risk of inconsistent decisions on pay at local level.
- Geographical differentials were highest for the most junior staff and lowest, approaching zero, for the most senior staff.
- The recent trend, if anything, was away from locational pay differentiation. This was largely due to the lack of labour market pressures that would normally drive higher local allowances.

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14 Propper, C and Van Reenen, J (2010) *Can Pay Regulation Kill? Panel Data Evidence on the Effect of Labor Markets on Hospital Performance* Journal of Political Economy, Volume 118 No 2

15 IDS (2012) *Case studies on Geographically-Differentiated Pay*

16 IDS (2008) *Geographical pay differentiation in multi-site private sector organisations*



# APPENDIX G

## Teachers' pay scales and allowances

From School Teachers' Pay and Conditions Document 2012

<b>England and Wales</b>		
<b>Pay scale/spine/range</b>	<b>minimum</b>	<b>maximum</b>
Main scale	£21,588	£31,552
Upper pay scale	£34,181	£36,756
Advanced Skills Teacher spine	£37,461	£56,950
Excellent Teacher range	£39,697	£52,090
<i>Unqualified Teacher scale</i>	<i>£15,817</i>	<i>£25,016</i>

<b>Inner London</b>		
<b>Pay scale/spine/range</b>	<b>minimum</b>	<b>maximum</b>
Main scale	£27,000	£36,387
Upper pay scale	£41,497	£45,000
Advanced Skills Teacher spine	£44,540	£64,036
Excellent Teacher range	£48,600	£60,993
<i>Unqualified Teacher scale</i>	<i>£19,893</i>	<i>£29,088</i>

<b>Outer London</b>		
<b>Pay scale/spine/range</b>	<b>minimum</b>	<b>maximum</b>
Main scale	£25,117	£35,116
Upper pay scale	£37,599	£40,433
Advanced Skills Teacher spine	£40,433	£59,925
Excellent Teacher range	£43,668	£56,061
<i>Unqualified Teacher scale</i>	<i>£18,789</i>	<i>£27,992</i>

<b>Fringe</b>		
<b>Pay scale/spine/range</b>	<b>minimum</b>	<b>maximum</b>
Main scale	£22,626	£32,588
Upper pay scale	£35,218	£37,795
Advanced Skills Teacher spine	£38,493	£57,985
Excellent Teacher range	£40,819	£53,212
<i>Unqualified Teacher scale</i>	<i>£16,856</i>	<i>£26,052</i>

<b>Allowance</b>	<b>minimum</b>	<b>maximum</b>
TLR 2	£2,535	£6,197
TLR1	£7,323	£12,393
SEN	£2,001	£3,954

# APPENDIX H

## The Department’s response to previous STRB recommendations

107

Summary of STRB recommendations in the Twentieth <sup>1</sup> Report	Secretary of State's initial response and relevant actions by the Department
<b>Payment for teachers earning £21,000 or less</b>	
A non-consolidated payment of £250 be made in both years to all full-time teachers on points 1-3 of the Unqualified Teachers’ scale.	Accepted. Incorporated into paragraph 35 of the School Teachers’ Pay and Conditions Document (STPCD).
The £250 payment be pro-rated according to their working hours for part-time teachers on points 1-3 of the Unqualified Teachers’ scale.	Accepted. Incorporated into the Section 3 guidance which accompanies the STPCD.
The Department, as part of its consultation process, seek views on a simple and cost-effective method of payment, and issue guidance as appropriate.	Accepted. Secretary of State decided, having taken into account consultation responses, that the payment should be made on a monthly basis rather than as a one-off sum.
<b>Limiting the value of discretions that can be applied to head teacher pay</b>	
There should be an overall limit on the discretions that can be applied to head teachers’ pay.	Accepted. Incorporated into paragraph 12 of the STPCD.
There should be a “base” ISR for a head teacher clearly defined in the STPCD and it should be the normal expectation that this remuneration covers the head teacher’s full role.	The Secretary of State accepted the term ‘base’ in principle but he decided to not incorporate it into the STPCD. The Section 3 guidance which accompanies the STPCD makes clear that the ISR should cover the head teacher’s full role.
Any discretions above “base” ISR pay should be used only when clearly justified and the total of all discretions should not exceed the limit of 25% above the individual’s point on their “base” ISR in any given year.	Accepted. Incorporated into paragraph 12 of the STPCD.

Summary of STRB recommendations in the Twentieth <sup>1</sup> Report	Secretary of State's initial response and relevant actions by the Department	
Governing bodies should ensure they have oversight of all the contractual arrangements and income streams applying to the head teacher.	Accepted. Incorporated into the Section 3 guidance which accompanies the STPCD.	
It should be wholly exceptional to exceed the limit of 25% above "base" ISR, but where it is necessary to consider an exception, a business case must be presented to the full governing body, which must seek external independent advice in reaching its decision.	Accepted. Incorporated into paragraph 12 of the STPCD.	
The Department re-draft the provisions in the STPCD to give effect to our recommendations, including in particular:	The Secretary of State accepted the term 'base' in principle but he decided to not incorporate it into the STPCD. The provisions in the STPCD made clear what was included in school's ISR and which payments were discretionary and counted towards the 25% limit.	
Making clear it should be the normal expectation that the remuneration provided by the "base" ISR, as set out in paragraphs 4.55 – 4.57, should encompass all the responsibilities of a head teacher, for example, the need to address improvement challenges in the "home" school and a wider contribution across the education system such as the sharing of good practice and liaison with other service providers.		Accepted. The STPCD made it mandatory for the governing body to obtain external independent advice.
Making clear the role of the governing body in considering wholly exceptional cases to exceed the limit. This must require the relevant committee to make a business case for the exception to the full governing body, which must itself seek external independent advice before making a decision on whether it is justifiable to exceed the limit and the amount of the total remuneration. There must be a clear audit trail for any advice given to the governing body and a full and proper record of all decisions and the reasoning behind them.		
Seek better to align the structure of the STPCD so as to draw together in one place all existing discretions as they impact on head teachers and locate provisions on head teachers' pay alongside statements on head teachers' professional responsibilities.		The Secretary of State decided to take this forward in the next remit on greater freedoms and flexibilities.

Summary of STRB recommendations in the Twentieth <sup>1</sup> Report	Secretary of State's initial response and relevant actions by the Department
Consider what arrangements should be put in place to monitor the use of exceptions to the limit on discretions.	Not accepted. The Secretary of State said that the requirement for the full governing body to consider a business case and to seek independent advice was sufficient.
Consider how to give effect to our recommendation that governing bodies should ensure they have oversight of all the contractual arrangements and income streams applying to a head teacher, e.g. by a single contract for a head teacher, overseen by the governing body.	Accepted. Section 3 guidance of the STPCD was strengthened to say that the governing body should have oversight of a head teacher's entire role and its paid responsibilities.

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<sup>1</sup> STRB (2011) *Twentieth Report*, TSO (Cm 8037)



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