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## Public Accounts Committee Inquiry into Senior Management Pay

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This is an initial response to the Committee's questions about senior management pay in the Welsh public sector. It draws on our work particularly with local government in Wales and on our extensive experience of the public sector across the UK, including central and local government, the NHS, police and fire services, universities and public bodies.

### Current public sector practice

The public sector is not a single entity: there are several major subsectors and some unique organisations, each with their own structures, traditions and practices. Two examples might illustrate this:

- **Governance** NHS trusts and some agencies have unitary boards, with executives and non-executives alongside each other. Universities and some non-departmental public bodies have a separation between the governing authority and the executive team. Local authorities and police forces also have a separation, but the governing authority is elected. It is possible for all these organisations to have a remuneration committee – and possible to use other structures too for making decisions about pay – but how these are constituted in detail will vary, and their perspectives and priorities will differ too.
- **Recruitment markets** All public sector organisations share a requirement for corporate services professionals (finance, HR, communications, facilities etc), and in these areas they are also competing for talent with the private sector. However, a significant proportion of their recruitment, including at senior level, calls for skills and experience specific to their subsector, where there are often shortages and market supplements for particular roles and occupations. Consequently there is not a single public sector rate for senior jobs but a multiplicity of rates. Employers, in particular local councils, NHS trusts and universities, are more interested in comparisons with other organisations like them and with the wider economy than they are in benchmarking with the rest of the public sector.

In spite of these differences, there are some general points which can be made about senior management pay in the public sector.

First, it is set according to local processes. There may be comment or criticism from others, but typically pay is set taking account of local needs and circumstances, by people who are also responsible for ensuring that the organisation has appropriate plans and services and delivers them.

Second, public sector organisations often lack clear and properly articulated policies for senior pay. A rounded policy will define what the organisation wants to pay for and what forms reward will take, as well as how much should be paid. Many public sector organisations concentrate on the last of these things, and some even make assumptions about market position rather than developing a rationale for what they do.

Third, faced by public, staff and political concern about senior salaries, remuneration committees in many (though not all) parts of the public sector have been cautious in recent years. Average pay at the top of local authorities across the UK has actually fallen. If these developments reflect careful thought about what is needed and are part of a considered strategy, that can only be good. However,

they are often simply a reaction to pressure, which leaves organisations offering poor rewards for taking on additional responsibility and unable to recruit and retain the leadership talent they need to be successful.

Finally, although there is some use of bonuses in the public sector – and a fair amount of criticism where they occur – most or all of the package is a fixed cost and the relationship between pay and performance (at individual, team or whole organisation level) is limited or non-existent.

### What should happen?

We believe improvements are needed in four main areas, which reflect some of the main themes in Will Hutton’s review of fair pay. First, public service organisations should have – though many do not – reward policies which will provide them with the workforce needed to deliver their strategy. Remuneration should not be treated in isolation but linked to other aspects of people management – for example, how talent is identified and developed in house, so the organisation can balance open market recruitment with promotion of home-grown capability.

Second, more work needs to be done to ensure that remuneration committees are effective in all parts of the public sector. Areas for attention include the definition of the committee’s remit, the composition of the group, the training of new members, the programme of meetings and the agenda.

Third, there should be a much closer relationship between senior pay and performance. Current systems commonly pay the same for failure as they do for success. It is vital to define what is required from people in senior roles and is it only good use of public money to align pay to individual and organisational performance.

Finally, the public is also ill-served by the present approach to disclosure: information on senior management remuneration remains difficult to find and it is not always presented in a helpful way, with a clear link between what is paid and why. If all bodies in receipt of public money had to provide a remuneration report (of a kind offered by some of the best private sector companies and certain agencies and NHS trusts, and covering at least the chief executive and all members of the top executive team) it would be a lot clearer. There could be a requirement to explain how changes to remuneration related to strategy, organisation need and organisation performance.

In response to specific questions:

- We do believe that pay has to be sufficient to attract high quality candidates. If individual organisations become uncompetitive, they will suffer in terms of leadership and service quality. If there is an overall clampdown on public sector pay in Wales, it will become difficult to recruit good leaders from across the UK and internationally, and many talented individuals might move to jobs in England.
- We are concerned that the complexity of senior jobs is often poorly understood and that pressure is applied and decisions are taken without a full appreciation of the consequences. For example, the current rate for chief executive in some local authorities has been reduced to be no higher than the cost of a major director. That is not likely to encourage anyone to take on the top job.
- We do not believe that greater consistency in pay arrangements is required across the public sector – this is not a single market. Nor do we believe that an overarching body should impose levels on individual public service organisations. On the contrary, in our view it is vital to maintain continuity of accountability: those who are responsible for the performance of an

organisation (and for the influences on performance such as shaping strategy, developing talent and managing succession) should also be accountable for setting senior management pay. They then have to explain their decisions and stand by them. A separation of accountability – where an outside body sets pay and those responsible for performance have no influence on remuneration – will always be suboptimal.

Nonetheless, this is an important debate, not just because of public and political concern, but also because of the Williams Review. At the level of structure, if the Review is implemented it will lead to a smaller number of larger local authorities, and the people providing them with executive leadership will need to be appropriately remunerated. The Williams Review also highlights the need for stronger governance and scrutiny and better performance management, and it suggests a role for a public service leadership and development centre. This is an opportunity to improve the way remuneration is handled, through better governance, more complete policies and better links between pay and talent development.

However, we are convinced that any reforms should concentrate on improving practices for which each individual employer remains responsible, not imposing pay levels and restraints from the outside. The public sector is too diverse, and the issue of local accountability too important, for such intervention to be helpful or appropriate.

## **Our role**

We are commissioned by the remuneration committee or equivalent body, and in the case of Councils often the Leader (mainly for top team roles) or by the chief executive and the head of human resources (for senior jobs further down the structure). The exact split will depend on the scope of the review and the remit of the committee.

Our role can be to assist with policy development or review; it might simply concentrate on market comparisons (from our own and/or published sources); or we might do both. We will often evaluate the size of senior roles, so we can move beyond job title matching to a systematic comparison with jobs of similar weight and complexity. Typically, we will report findings, raise questions and make comments. In relation to how much senior managers should be paid, we might put forward options but we do not normally recommend a decision (that is a matter for the client).

We are not always invited to attend the relevant decision-making group, such as a remuneration committee – sometimes the written report is the end of our involvement. However, if we do attend, our job is to give independent advice.

The problems we encounter are illustrated by the comments above, for example committees which are not in a position to decide, because they do not have a common understanding of policy or are not fully prepared; and reluctance to link remuneration to organisation need and performance. Disclosure is increasingly a topic of discussion, which has to be seen as progress.

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