



National Assembly for Wales
Public Accounts Committee
PAC(4)-SMP04
Inquiry into Senior Management Pay
Evidence from the Taxpayers' Alliance

**Response from the TaxPayers' Alliance to the
Communities and Local Government Committee
consultation of January 2014 on chief officers' pay**

Submitted on behalf of the TaxPayers' Alliance by

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1. Summary

- The current levels of executive pay in local government continue to be a matter of serious concern. The escalating costs of chief executive positions over the past decade, without parallel improvements in services or efficiency, have done much to undermine the public's faith in local government.
- Before 2010, local government executive pay was not at all transparent. That is why the TaxPayers' Alliance (TPA) began our Town Hall Rich List series in 2007. We initially used Freedom of Information requests to obtain the information but reforms to accounting procedures mean that most of the information salient to taxpayers is now included in council accounts. While not perfect, this is a huge step forward in transparency and accountability.
- More transparency and scrutiny does not mean that senior staff should not be paid appropriately. Many senior public sector jobs are not only difficult but critically important, requiring a level of professional skill or a past career of service that needs to be remunerated accordingly. This will sometimes necessitate pay and conditions sufficient to compete with private sector employers.
- The Town Hall Rich List shows that while councils bemoan reduced budgets too many are still willing to pay their own senior staff very high sums of money. These council executives must ensure they have the moral authority to lead a programme of necessary spending cuts; in many cases that will mean taking a pay cut themselves. Households have seen their Council Tax bills nearly double over the last decade and it is questionable whether many would say that the standard or quantity of public services they access has risen concomitantly.
- To give you some examples from our Town Hall Rich List over the years, the largest remuneration package in Wales in 2010-11 was received by Bryn Parry-Jones, Chief Executive of Pembrokeshire County Council, who received £195,164. The largest remuneration package in Scotland in 2010-11, excluding any redundancy payments, was received by George Black, Chief Executive of Glasgow City Council who received £217,419. Contrast this with the combined ministerial and parliamentary salary of the Prime Minister, who receives £142,500 at April 2013, who is well paid compared to senior managers in all but the largest private sector companies.
- It is important to accept that hard rules and simplistic benchmarks are no substitute for transparency and controlling pay on the basis of a democratic judgement about the level of pay that is acceptable. More can be done on transparency, which will mean far greater scrutiny.

Responses to the questions raised in the Consultation

The rationale for remuneration paid to chief officers in local government

- Many chief officers in local government jobs are not only difficult but critically important, requiring a level of professional skill or a past career of service that needs to be remunerated accordingly. This will sometimes necessitate pay and conditions sufficient to compete with private sector employers.
- However, while many taxpayers have had to take pay freezes or cuts – including those in the public sector – many councils have continued to increase salaries of senior staff. This shows that some are still completely out of touch.
- In order to keep Council Tax as low as possible salary bills have to be cut. What's more, when those at the top freeze or trim their own salaries, they demonstrate to their staff and residents that they do live in the real world, and set an example that they take spending restraint seriously.
- Most top posts are not filled by individuals with a history of well remunerated private sector work, and there is little chance that senior managers will leave for better paid work elsewhere. The chief executives of many public sector bodies and quangos are often career public servants, whose prospects in the private sector are weaker than they would suggest. The majority of highly paid senior public sector jobs are not affected by a particular scarcity of suitable candidates and the key consideration in the setting and monitoring of executive pay must be value for money; "what is the lowest amount we can pay while securing a suitable candidate".
- Public sector workers often stress that they do their jobs, in part, out of sense of duty; this attitude must be reintroduced into the top levels of the public sector. If local government chief executives now chose to pay themselves private sector wages, the idea that public servants take up their profession from a sense of duty no longer holds.

Arrangements for determining remuneration and increases in salaries

- At best public sector bodies and authorities are covered by central government guidance on pay, but most are free to set pay and conditions entirely independently. The system of 'remuneration panels' and 'remuneration boards', in which most public sector executive pay is set are inadequate; ordinary taxpayers are rarely represented. As currently set up, those responsible for setting and monitoring pay and benefits are likely to gain directly from salary increases and improved benefits, eliciting a clear conflict of interest.
- Current arrangements may seem fair to public sector executives, but they are unfair to taxpayers. For instance the generous rewarding of public sector executives after serious management failures is unacceptable. Public sector executive employment contracts must contain clauses that exclude the possibility of pay-outs or compensation for loss of office should the individual be made to resign for reasons of proven poor performance. It is not always payments for failure that irk taxpayers. The notion that local government chief executives leave their well-paid job and get a big pay-out, only then to land another senior role at another council, is a source of much anger for many of our supporters. John Foster, who was the head of Wakefield Council, landed a job as the head of Islington Council, after a big pay-out. Katherine Kerswell received a big pay-out after leaving Kent County Council,

only to join the cabinet Office in another taxpayer-funded role. She was also previously the chief executive of Northamptonshire County Council.

- The use of consultancies to advise on pay does little to encourage public confidence in the system or deliver value for money, often acting as little more than an expensive rubber stamp. Some consultancies, like Solace, seem to be little more than employee groups designed to push up pay. Using consultancies is not always a bad thing, and should be analysed on a case-by-case basis, but extreme caution must be taken.
- Comparisons with private sector executives in charge of equivalent budgets or staff numbers are unhelpful and not at all instructive. Local government chief executives manage organisations in receipt of central government grants and council tax. They do not operate on profit and loss and have no risk of going bust if big mistakes are made. They also have no risk of losing their customers to rival service providers in most cases.
- The primary factor in determining the correct level of pay must be an assessment of the availability of suitable candidates and value for money.
- It is extraordinarily difficult for the public to establish the exact pay and conditions of public sector executives, let alone the details of how such remuneration packages were agreed. All minutes, agreements and memos pertaining to the setting of pay and conditions for board level and £100,000 plus earning members of public sector bodies should be available online, and a clear remuneration report (containing details of all board level and £100,000 plus earning employees) should be made a mandatory part of every public sector body's annual publications.

How efficiency and effectiveness are measured and related to remuneration, and also to redundancy packages

- The increase in chief executive pay and redundancy packages over the last decade is not matched by enough evidence of a corresponding increase in efficiency or effectiveness.
- Not only have we witnessed a worrying trend of rewarding failure but also frequent examples of handing out hefty redundancy pay packages to high-ranking officials, who are, in actual effect, not really being made redundant at all, but being absorbed back into the system in similar roles. A recent example of this was recorded in the NHS when The Times reported that three managers were paid a total of almost £1 million even though they continued to work in the NHS. One manager, Rob Cooper, was paid between £370,000 and £375,000 despite never leaving the NHS at all. As outlined above, though, this practice occurs in local government too.

The extent to which remuneration varies between type of authority, region and gender and the reasons for the variation

- The public sector is vast, encompassing a huge variety of professions. Arrangements to set executive pay will need to reflect this. However there should be consistency across the public sector regarding transparency.
- All individuals employed at executive level positions, in organisations funded by the taxpayer or controlled by Government (whether central or local) should have their total remuneration details published each year. The 'total remuneration' shown must include salary, bonus,

benefits in kind, employer pension contributions, compensation for loss of office, relevant termination payment, etc.

How remuneration compares with similar jobs in the public and private sectors

- Only for a select few senior posts in the public sector is comparability necessary or desirable, and even then the comparative private sector job should be used only as a reference, not a benchmark.
- Most top public sector jobs do not have a comparator in the private sector; with a virtual monopoly on healthcare, NHS managers cannot bench their pay to some private sector equivalent when private sector healthcare is almost exclusively a high value niche. The same applies to Council chief executives, whose closest comparator would be a central government permanent secretary (whose pay is far less than most council chief executives). Comparisons with positions in the City of London or FTSE 100 companies are particularly distorting and should be avoided; the claim that public sector executives, who have worked in the civil service or public sector all their lives, could walk into higher paid private sector jobs is often not very credible. Again, the primary factor in determining the correct level of pay must be an assessment of the availability of suitable candidates and value for money.
- If nothing else it is very difficult to find comparable jobs between the private and public sectors, beyond crude comparisons on organisational size and budget. These crude comparisons ignore the fact that private sector chief executives have different sets of priorities (profit maximisation) and pressures (competition), and thus different risks to public sector top posts.
- One obvious difference is job security; the risk to one's job is higher in the private sector, as poor performance is far more likely to lead to dismissal. Additionally, poor performance of an executive in the private sector can mean many other workers lose their jobs; this is rarely the case in the public sector. Remuneration in the private sector should therefore be higher to reflect these risks.

How chief officers' pay compares with average local government pay, and whether chief officers' pay has increased at a disproportionate rate

- The primary factor in determining the correct level of pay must be an assessment of the availability of suitable candidates and value for money.
- If we want to see good managerial talent come in from the private sector, taking over public sector organisations, then we may (in a few, very special circumstances) have to accept pay at considerably higher levels than the average local government pay. It is important to accept that hard rules and simplistic benchmarks are no substitute for transparency and controlling pay on the basis of a democratic judgement about the level of pay that is acceptable.
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The skills required by chief officers and market rate for those skills

- Leadership can have a considerable influence on the performance of an organisation. The qualities and performance of the senior members of public sector bodies will no doubt have a significant impact, as we have too often seen when over-promoted officials take on top posts, leading to unfortunate results.
- Improving the quality and motivation of staff in the public sector is not just, or even primarily, a matter of money. Giving staff real autonomy, the freedom to make decisions and the chance to take responsibility for the results (good or bad) will improve staff satisfaction, motivation and performance, much more than increased pay.
- Top posts in the public sector are very well remunerated, by any standard or measure. Moreover, if individuals in top posts do not perform to the best of their abilities at all times, regardless of pay, then they are not suitable for the job.

The experience of local authorities that have shared chief executives and management structures, or have deleted the post of Chief Executive

- The TaxPayers' Alliance has spoken at length to councillors at East Hampshire District Council. It shares a Chief Executive and Senior Management team with Havant Borough Council. Their experience has been largely positive, with savings in excess of £5 million since 2010. They have flagged up some lessons to take into consideration for other authorities looking to implement similar mergers. One is that past experience in merging other services is a big help – for East Hampshire and Havant, this was the merger of their waste collection services. Another is the importance of communicating the vision and “end point” to staff and councillors at the very beginning, to assuage any apprehension they may have had. Finally, communicating the process and progress at every stage helps to keep staff motivated and informed. The TaxPayers' Alliance strongly recommends that the Committee holds a separate oral evidence session on this, with appropriate witnesses.

The effect of merger of local authorities' back office services on the employment prospects of chief officers

- First and foremost any decision to merge back office services should be with regards to value for money for the taxpayer, rather than the employment prospects of chief executives.
- It is good that councils have been combining services and this is something we have been recommending for a while. South Holland and East Lindsey District Councils in Lincolnshire merged five back-office services in 2008. They estimate it will save £30 million over the next ten years. In June 2011, it was reported Wokingham Council was to merge its legal services department with the Royal Borough of Windsor and Maidenhead.
- All of this proves when councils work together and explore new ways of working there are considerable benefits for taxpayers. However they do need to go further, and ensure they cut the number of directors and chief executives. When pension contributions are factored in, many senior council officers are costing taxpayers in excess of £200,000 a year.
- With considerable savings possible, this should be the primary concern when deciding a course of action, not the potential employment prospects of chief officers.