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Inquiry into Senior Management Pay
Evidence from the Welsh Local
Government Association

Welsh Government Public Accounts Committee Inquiry into Senior Management Pay

WLGA Evidence Paper
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WLGA • CLILC

Introduction

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales. The three fire and rescue authorities and the three national park authorities are associate members.
2. The WLGA seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.

The Public Account's Committee's Questions

The decision making process for setting pay, particularly whether this is appropriate for achieving value for money across the public sector?

3. Senior pay in local government is set by democratically elected and accountable members. The exact method and governance structures may however vary from council to council. Examples of governance structures include Pay and Grading Committees, Referral to Executive and / or full Council, specific politically balanced committees to deal with Chief Officer appointments and remuneration and personnel committees. An enquiry last year also established that a few councils were intending to set up Remuneration Committees, but it is not known if these are now in place or not.
4. In terms of the methodology for setting pay, there were some national historic guidelines available through the Joint National Negotiating Committees for Chief Executives and Chief Officers. These provided benchmarks based on actual median population bands and actual median salaries for different types of authorities (district/ county/ unitary etc.). However, although these were never actually

withdrawn, they have not been updated since around 2007 as their usefulness has declined as the variance between councils as to the structure, size and remit of their senior jobs has increased considerably. It had also become increasingly impossible for councils to attract candidates using pay bands that were uncompetitive against any meaningful market comparisons. The Chief Executive's and Chief Officer's Handbooks provide detailed guidance on setting pay.

5. The rationale for remuneration at senior levels in local government is generally that used for staff at other levels. Once a job profile and description for a new role are developed the size and complexity of the job is determined. This may be via a recognised job evaluation scheme or as an assessment of the percentage of CEO duties. Available market data for similar jobs is checked to provide a benchmark remuneration level and consideration given to where the council wishes to pitch pay in terms of the market ranges, taking into account their own pay structure and affordability. Recommendations are then made to elected members through the appropriate governance structure.
6. Salary structures for Chief Executives and Chief Officers vary between councils. Some use incremental scales or pay ranges and others apply spot salaries. These are entirely local decisions.
7. Local authorities are large complex organisations with multi-million pound budgets. They have a very wide range functions and provide and /or commission a wide range of essential services. The primary aim of a reward strategy is to attract, retain and motivate suitably skilled staff so that the organisation can perform at its best. The biggest challenge for the council in the current circumstances is to maximise productivity and efficiency within current resources. Pay policy then is a matter of striking a sometimes difficult balance between setting remuneration levels at appropriate levels to facilitate a sufficient supply of appropriately skilled individuals to fill the authority's very wide range of posts, and ensuring that the burden on the taxpayer does not become greater than can be fully and objectively justified.

8. In this context it does therefore need to be recognised that at the more senior grades in particular remuneration levels must enable the attraction of a suitably wide pool of talent (which will ideally include people from the private as well as public sector and from outside as well as within Wales), and the retention of suitably skilled and qualified individuals once in post. In this respect the council will often be seeking to recruit in competition with other good public and private sector employers, who often pay more at senior levels.

The Method for Agreeing Pay Increases?

9. At a national level basic pay increases in local government are negotiated through the Joint National Committee on a collective bargaining basis and senior officers are never offered more than other staff. This arrangement allowed local government to introduce a basic pay freeze for senior staff during the downturn sooner and for longer than in the rest of the public sector. Chief Executives and Chief Officers in local government have not received a cost of living award since 2008.
10. All other responsibilities around setting remuneration packages as described earlier are exercised at the local level, including personal salary adjustments (e.g. due to increased responsibilities due to a restructuring). All decisions taken locally are made in various ways by elected members either directly through full council or through committees with powers delegated by full council.
11. Once an officer is in post decisions on pay progression through available incremental scales may depend on satisfactory performance in the role. However, most councils do not use fully-fledged performance related pay mechanisms as these have generally been found not to be effective in terms of efficiency issues. The complexity of collaborative roles has also made identification of individual performance more difficult in some cases.

The Transparency of Pay and Rewards / Benefits e.g. Pensions or Returning Officers Fees?

12. The Accounts and Audit Regulations (Wales) 2010 require that all 'local government bodies' publish information on senior salaries with their annual accounts. The regulations require publication of:

- i) the numbers of senior employees receiving salaries above £60,000 per annum in £5,000 bands, and
- ii) the individual remuneration details of senior employees earning between £60,000 and £150,000 per annum by post, showing i) salary (including fees and allowances), ii) bonuses, iii) expenses, iv) compensation for loss of employment, (v) pensions contribution and vi) any other emoluments

13. Detailed information is therefore available for all relevant senior local government officers on each authority's website on annual basis. Current pay frameworks thereby ensure that senior pay in local government is very transparent and decisions accountable.

14. In addition Councils are required to publish their Pay Policy Statements on an annual basis and these are required to contain information on a range of factors related to senior manager pay policy.

15. While there local government pay and rewards are extremely transparent, similar information does not appear to be so easily available for other parts of the public sector, and we believe there would be value in this being available.

The Quality and Level of Comparative Data that Exists for Senior Management Pay Across the Public Sector?

16. See our response to the previous question. We do not believe that comparable comparative data is available so readily in all other parts of the public sector as it is

in local government. In addition the WLGA participates in the National Regional Employer EPay-check online Market Pay Database. This is a low cost shared system for the local government sector which pools local data about the pay rates offered for jobs identified as being comparable (as far as possible). Current 10 Welsh authorities are participating members and 6 have uploaded senior pay data.

Whether there should be a Body that has a Remit for Taking an Overview of Pay / Remuneration Across the Public Sector?

17. The view of the WLGA is that decisions on reward packages must be made by the local employer because they are most familiar with their operational needs and the labour markets that they recruit in. However we are aware that there will be views in support of, for example, a set of nationally prescribed pay bands for organisations serving similar population sizes or of a similar size. The difficulty with implementing such an arrangement would lie in determining the correct benchmarks due to the discrepancy between current rates of pay for senior managers in different parts of the public sector.

18. For example the spot salary for a Primary Care Trust Chief Executive in an area with over 500K and under 1 million population is £139,957. Current salaries for local government CEOs in areas with less than 1 million population vary between roughly £107,000 and £141,000 with the average being relatively low at £118,000 as only one of these authorities has a CEO salary equal to or above that of the NHS CEO. Similarly the salary scale for the Permanent Secretary in the Welsh Government, an organisation of some 5,000 staff is £180 – 225,000. Local Government salaries for CEOs in Welsh councils with around 5,000 staff vary between £108,000 and £127,000.

19. In the university arena salaries of university Vice Chancellors are often twice that of local authority Chief Executives. For example in 2011 the Vice Chancellor of Cardiff University earned £246,000, of Bangor University £214,000 and Aberystwyth

University's £196,000 (Source Times Higher Education Supplement). The highest paid public servants work in the BBC with the Director General receiving a salary of £450,000 per year and this impacting on other salary grades. One benchmark used by the media is that of the Prime Ministers earnings of £142,000. This is generally a misleading comparison and the Hutton Report has warned against its use. However it does show an historic fact that professions tend to be much higher paid than those who are located in the political arena. In the Cabinet Office there are 21 officials earning more than Rt. Hon David Cameron MP and the Head of the UK Civil Service earns in excess of £200k. When you widen this it applies to nearly every Permanent Secretary of Government Departments including in Wales where the post holder is remunerated to a higher level than the First Minister. If you take the NHS as a whole at a UK level it contains the highest number of staff earning over £100,000 in any part of the public sector, over 26,000. Nearly 6,500 NHS employees are paid more than the Prime Minister - 1,465 of them are GPs (Figures from the BBC Survey in 2011)

20. It can be seen therefore that the impact for local government of benchmarking salaries against the rest of the Welsh public sector (including for example BBC and further and higher education as well as NHS and Welsh Government) would actually demonstrate that local government is on the lower end of the high earners. Furthermore when you take into account the breadth of responsibility, the public and political interface, service and financial risks and the nature of the job role then it could be argued that legitimate scrutiny of the wage levels of local authority chief executives should also apply across the totality of the Welsh public sector. Why for example is the University Vice Chancellor of Cardiff with total estimated income for 2013/14 of £460m paid nearly £250,000 whilst the Chief Executive of Cardiff City Council was recently advertised at £170k? The Council is the largest employer in the city and has a combined revenue and capital budget of nearly £1billion and a much greater breadth of direct public service responsibilities ne.

21. In addition there are a great many variant factors that need to be taken into account in determining pay other than just size of the organisation or population served.

These will include relevant labour market relativities, size of the job and level and extent of the responsibilities. In particular there is now very wide variance between senior jobs in local authorities even between those of similar sizes due to successive re-structures that have seen senior teams cut from around 10 to 3 or 4 in the last 10-15 years. It would be difficult for any central body to be able to balance these factors effectively for all organisations across the whole public sector.

22. Finally on this point, senior managers within the public sector are employed on rates of pay to which they are contractually entitled, and their contractual relationship is with their employer. Any attempt to intervene in current individual contractual pay arrangements or impact on these could create breach of contract cases under employment law. Additionally the application of public sector wide pay rates that were not sensitive to the specific details of any particular job could risk equal pay claims.

WLGA Views on how Senior Management Pay is Set in the Public Sector?

23. The WLGA has no information on how senior management pay is set in the rest of the public sector, as there does not seem to be the same openness as there generally is in local government. However it appears that there are significant disparities in pay rates for doing similar roles in different parts of the public sector, with local government generally being at the lower end. In view of this we would wish to see greater public acknowledgement of the true position to counter the false public impression fostered by the continual media focus on local government's senior pay rates.

How Do You Think Public Sector Pay for Senior Management Should be Determined?

24. We are aware of views that pay bands could be set for small, medium and large organisations across the public sector in Wales or that a whole public sector job

evaluation exercise should be carried out. While we are not totally against such approaches in principle the practicalities and cost of implementation (as explained in paragraph 17) would make these kinds of approach difficult to put into practice. We would therefore reiterate that decisions on local rewards packages best made by the local employer because they are most familiar with their operational needs and the labour markets they recruit in.

25. With regard to local government internally, there may be scope for agreement on suitable pay ranges for Chief Executives of newly merged authorities post Williams. This would need to take into account the considerable increase in the size and responsibility of these roles as a result of the mergers.

Do you think Senior Management Pay Needs to be Set Competitively to Attract the Best Candidates?

26. With the current budget cuts some senior local government roles are being filled by internal candidates as re-deployment opportunities. While this is entirely appropriate in the circumstances, it does mean that there has been only a limited internal competitive exercise to fill some posts, many of which have greater responsibilities than previously. With the major challenges facing local government currently and in the near future it will be important to be able to attract the best talent to work in Welsh Local Government, and while pay is not the only factor that will attract people it is an important one. Examining what the market pays for similar jobs should form part of the overall strategy for setting rates. However, there are other important considerations including the relationship between the pay of senior management and the rest of the organisation.

27. For Welsh local authorities there is also potentially an issue of the divergence of the Welsh and English local government agendas that may be a barrier to applying for local government jobs in Wales for some candidates. If the salary is not competitive and the opportunity for further career development is seen as uncertain, local government in Wales may well struggle to recruit from the wider pool of good

candidates including those from the private sector. Indeed where senior management pay has been set below market rates the councils concerned have struggled both to recruit and retain.

Do you think senior management pay adequately reflects the levels of responsibility associated with senior management roles?

28. We cannot comment on this question from other than a local government perspective, apart from the seeming discrepancy between pay rates in local government and other parts of the public sector including health and higher and further education (with local government at the bottom end). However with regard to local government, pay rates have certainly become less competitive over the last 5 years due to the pay freeze which has seen no cost of living increases for Chief Executive's and Chief Officer's during this time. Some council's do report that they have experienced increasing difficulty in attracting and retaining the best people as a consequence. It is also empirically the case that salaries in English local government are higher than those in Wales. Lancashire County Council, which has more limited functions than a Unitary Council, are out to advert at the moment on a Chief Executive at £180,000. In the London borough the Chief Executives of Wandsworth earns £254,880, the CEx of Barnet collects £250,818 and at Bexley the post holder receives £244,897. WLGA is not for a moment advocating that such levels should apply in Wales but this does show the scale of regional difference.

29. In addition to their being no cost of living increase councils have also undergone successive restructures over the last decade to save money. These restructures have seen many senior jobs taken out of the structure with the consequence that the remaining jobs are much bigger with far greater responsibility. While this situation has been addressed in some councils through job evaluation of the remaining senior jobs resulting in increased pay rates, this is far from being the situation in all cases. Indeed in the current financial climate it would be very difficult for any council to undertake an exercise of this kind, regardless of the extent of any underpayment of

the senior managers in terms of the increased size of the jobs being undertaken, and the amount of money that had been saved by the restructure. It will certainly be the case therefore that many senior local government officers will not be receiving rates of pay that adequately reflect the levels of responsibility associated with their roles as would be assessed by any job evaluation exercise. This is not to say that they are not 'well paid' in comparison to many working people in the Welsh economy. However, the fact that they are comparatively well paid in this respect appears to completely mitigate against senior local government officers receiving any recompense for taking on considerably increased duties and responsibilities in a way that is not so apparent in relation to other parts of the public sector.

30. It is the view of the WLGA that the current arrangements for senior management pay in local government have functioned to keep pay lower than would have been the case had an all-Wales approach been adopted to setting senior public sector pay. Clearly the publication of the Williams report and a possible local government reorganisation will require these issues to be revisited in the round.

Is there Adequate Accountability for Senior Management Pay?

31. It is the WLGA's view that there is generally very effective accountability for senior management pay in local government (we cannot comment on the position in other parts of the public sector save that they do not seem to come under the intense scrutiny on pay that local government does).

32. We accept entirely that there have been a few high profile cases where there has been poor practice and this has inevitably been the focus of much press and public interest and has unfortunately cast some doubt on the whole sector's willingness and ability to regulate itself. However, such cases are actually very much in the minority and we believe the lessons have been learned.

Should there be more consistency in the pay awards of senior management within the public sector? Is there a formula which could be utilised depending on

size/budget/level of responsibility? Should a panel be established to set pay levels?

33. As we have stated in previous answers we believe there should be a more consistent focus on senior management pay and far greater transparency across the whole public sector. This would put local government pay into a more realistic context and allow accurate comparisons to be made. However, had there been more consistent pay awards for senior management within the public sector local government senior pay could well have been higher than it is today.

34. With regard to a 'formula' that could be utilised to determine appropriate pay levels or ranges - there already exist job evaluations schemes that could be adopted and used on a whole public sector wide basis and these would provide the nearest to 'scientific' and equal pay-proofed outcomes that could be achieved in assessing appropriate pay rates. However, as previously explained, the difficulty would then be in implementation of any new pay structure, which could call into question the setting of a benchmark pay line, existing contractual pay arrangements, the impact on pay relativities between senior management and other staff within organisations and the increased costs in areas such as local government where rates might well rise. Establishing a panel to set pay rates would be a relatively simple matter. Resolving the issues this would raise would not be.

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