



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyfrifon Cyhoeddus **The Public Accounts Committee**

Dydd Iau, 13 Chwefror 2014
Thursday, 13 February 2014

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Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir
trawsgripiad o'r cyfieithu ar y pryd.

The proceedings are recorded in the language in which they were spoken in the committee. In
addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Lynne Neagle	Llafur (yn dirprwyo ar ran Sandy Mewies am ran o'r cyfarfod) Labour (substitute for Sandy Mewies for part of the meeting)
Sandy Mewies	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

**Eraill yn bresennol
Others in attendance**

John Dwight	Swyddfa Archwilio Cymru Wales Audit Office
Anna Freeman	Cyfarwyddwr Cyflogaeth, Cymdeithas Llywodraeth Leol Cymru Director of Employment, Welsh Local Government Association
Syr/Sir Derek Jones	Ysgrifennydd Parhaol, Llywodraeth Cymru Permanent Secretary, Welsh Government
Peter Kennedy	Cyfarwyddwr Adnoddau Dynol, Llywodraeth Cymru Director of Human Resources, Welsh Government
Jon Rae	Cyfarwyddwr Adnoddau, Cymdeithas Llywodraeth Leol Cymru Director of Resources, Welsh Local Government Association
David Sissling	Prif Weithredwr, GIG Cymru, Llywodraeth Cymru Chief Executive, NHS Wales, Welsh Government
Peter Smith	Hay Group
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales
Richard Tompkins	Cyfarwyddwr Cyflogwyr GIG Cymru, Conffederasiwn GIG Cymru Director of NHS Wales Employers, Welsh NHS Confederation

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Meriel Singleton	Clerc Clerk

*Dechreuodd y cyfarfod am 09:12.
The meeting began at 09:12.*

Cyflwyniadau, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Darren Millar:** Good morning, everybody, and welcome to today's meeting of the Public Accounts Committee. I will just give a few housekeeping notices. Members and witnesses should be aware that the National Assembly for Wales is a bilingual institution and that anybody can contribute to today's proceedings in English or Welsh, as they see fit. There are headsets available for translation, on channel 1, and for sound amplification for those who require it. I encourage everybody to switch off their mobile phones and other electronic equipment, because they can interfere with the broadcasting equipment. In the event of a fire alarm, we should follow the instructions of the ushers, who will lead us to a safe place. We have received apologies today from Sandy Mewies, who has meetings with the Assembly Commission, but she should be joining us later this afternoon. I am delighted to welcome Lynne Neagle to the meeting today in her place.

Papurau i'w Nodi Papers to Note

[2] **Darren Millar:** We have a few papers to note on our agenda today. We have the minutes of the meeting on 4 February, a letter from the Auditor General for Wales in respect of our inquiry on health finances, a letter from the staff of the Wales Ambulance Services NHS Trust in terms of our inquiry on unscheduled care, which I encourage Members to have a look at, and, with regard to the senior management pay inquiry, we have received some evidence from the Association of Local Authority Chief Executives and, indeed, from Rhodri Glyn Thomas AM. I will take it that those items are noted and we will move straight on.

09:13

Cyflog Uwch-reolwyr: Sesiwn Dystiolaeth 1 Senior Management Pay: Evidence Session 1

[3] **Darren Millar:** This is the start of our inquiry into senior management pay. This, of course, has been a matter of significant public interest in recent years. The committee decided to undertake this inquiry and has received a memorandum from the Wales Audit Office setting out some senior management pay rates across the Welsh public sector. The Welsh Government has responded by way of a statement by the Minister for Local Government and Government Business on the governance and scrutiny of senior officers, largely in response to some local authority reports published by the appointed auditor of late. I encourage Members to make reference to the evidence that has been sent in by witnesses during the consultation period that we have had. I am very pleased to be able to welcome to the table today Peter Smith, who is joining us from the Hay Group, which provides consultancy services to the public sector and the private sector in terms of remuneration and pay. Do you want to make a couple of opening remarks, Peter, and we will then go into questions?

09:15

[4] **Mr Smith:** Thank you and good morning, everybody. First of all, I will give you a bit about my background. I am director of a company that, as the Chair has said, provides remuneration consulting throughout the public and private sectors. Our experience

specifically in Wales is more limited, but we do have particular local government experience in Wales. So, I am looking at the questions that you have raised in relation to good practice around the country.

[5] I hope that you will have seen from the submission that I made in advance that I am not uncritical of public sector practice. I think that there is probably quite a lot of common ground. There may be debates about what would be the best way of tackling areas of common concern. However, I was party to expert advice to Will Hutton's inquiry on fair pay, and, as I said in my submission, strong and effective remuneration governance, clear policies and openness are the three mainstays of that report; there are some other things that are also relevant to the inquiry here. In case it is not clear, let me make it clear right now that I do not think that we necessarily see strong and effective governance, clear policies and openness throughout public service at the moment; there is plenty to do in those areas. As I say, the debate is about the best way of stepping into that territory and influencing what happens.

[6] **Darren Millar:** You will have to forgive me for asking this question, but it is certainly a subject that has been suggested: very often, there is a perception that local authorities and other public sector organisations bring consultants like you in to bump pay up. Have you ever bumped pay down or made recommendations for pay reductions for senior officers?

[7] **Mr Smith:** Certainly, and I have not been invited back by organisations. That is always a good test of whether you are providing independent advice or not; from time to time, you ought to be shown the door. My job is to say, 'This is enough', and also to try to help organisations—this is where the clear policies come in, or, in many cases, where they do not—to tie up the various strands of things that they are trying to achieve. So, it is about asking, 'What is the strategy of your council—or hospital or whatever it might be? What kinds of people do you need to have to do that in leadership and other roles?' The particular bit that is, I think, probably weakest in policy links in the public sector, right across publicly funded bodies, is how you grow internal leadership talent so that you do not have to keep going out to the market.

[8] It seems to me that there is a bit of an opportunity with the recommendations of the Williams review, and the inquiry that you are now having, to look more seriously at internal talent development so that people do not have to keep dipping in to the external market. So, if I were able to make public my recommendations, I was at a university in England the other day, where I specifically recommended that they should improve their internal talent management, and that, having identified a potential successor vice-chancellor, they should start them off on a rate well below the 'market rate', or the median for universities of a similar size, on the grounds that that would provide better value. It is, of course, up to the university's remuneration committee whether it goes ahead and does that.

[9] **Darren Millar:** You make the point in your paper—quite strongly, really—about the lack of clear and properly articulated policy in the public sector on pay and remuneration. Is that throughout the public sector, or are there certain parts of the public sector that are worse than others in terms of a lack of policy?

[10] **Mr Smith:** I think that there is a general concern across public services. I would probably say that central Government and agencies are, in my experience, more likely to have some sort of articulated view about what they are trying to achieve. There is a structure about how they are expected to provide strategy and back up the strategy with workforce plans and things like that. The most recent providers of policy are local authorities, in the sense that the requirement to have a policy for senior pay related to everybody else's pay is only a couple of years old for them. However, I do not feel that most of the statements—first of all, it is quite hard to find them on the website, so that does not count as openness to me; I am more used to

it than members of the public and even I find that hard, and when you get to them, you see that they are really a summary of inherited practices rather than a statement of policy, hence my opening remark that there is a long way to go.

[11] **Darren Millar:** Do you think that there is a need for more central, in our case, Welsh Government guidance in order to clarify what a policy statement should look like on senior pay within these organisations?

[12] **Mr Smith:** That is certainly a possibility. There has been guidance. I wrote some myself, which was a model or structure for a public sector pay policy. I know that some local government bodies and associations have also provided guidance. But, the general picture—and that is a gross generalisation and there are better examples—across the public sector is that organisations have practices rather than policies. So, they have a traditional practice of paying at median, for example. The question has to be: why? What is that about? What is so magic about that? Why not some other level? Or, why not have a structure of your own that is based on your own workforce practices?

[13] **Darren Millar:** We will come to Jenny Rathbone and then go over to Julie.

[14] **Jenny Rathbone:** I want to come back to the instance that you gave of when you recommended that the pay on offer should be lowered and then you were not invited back. That, it seems to me, is pivotal to setting up performance and remuneration committees that are independent of the chief officer class. Unfortunately, in some cases, local authorities are run by the officers too much. The lead councillors do not seem to be in a position to take an independent position. How would you get around that? What should be happening is that councillors, as representatives of the public, just like a non-exec on a remuneration committee of a company, need to be representative of the greater good and ensure that it is value for money. How do you get around the dominance of the chief officer who says, 'We don't want that bloke back, he's obviously giving duff advice'?

[15] **Mr Smith:** Yes, indeed. There are a couple of things. First, as a matter of background, I would always expect to speak to the chair of the remuneration committee about an executive pay study. That would be a standard feature of a report. Last week, for example, I wrote an executive pay report that included options rather than recommendations for a hospital in the south-east of England. Both before I wrote my report and then when the chair had read the report, my engagement was essentially with the chair of the remuneration committee. That is an example of what you might call good practice. Where that is not happening, if there is not proper access to the chair or the chair does not see themselves as being the buyer of the advice or the recipient of the advice, then that is not good. As far as senior managers generally and other directors and chief executives are concerned, one would expect the chief executive to have an input, but where their own pay is concerned they would not. You would expect that line to be clearly established.

[16] It is interesting that you pick local government as the example because, looking at the average agency or, for that matter, trust hospitals that have unitary boards, you will quite often get good representation of that set of practices; not always, but often. There are issues with the training and composition of remuneration committees that come up in local authorities, which the local government world has not really settled to, to be honest. There will be examples of committees that do not have access to independent advice. If I were working for Vodafone or BP Amoco, my essential advisory relationship would be with the committee. If the executives wanted advice, that would be a separate issue. The committee, in that case, would probably meet four times a year. It would have a range of performance, succession and remuneration considerations that it would keep track of with its independent advisers. It would essentially be a stable decision-making body. In terms of training, composition, frequency of meetings and the way in which people see the arrangement of a

remuneration committee, the committees in local government are certainly recent as a creation, and some of them are still immature.

[17] **Jenny Rathbone:** Would you expect them to consist of backbenchers in the main or cabinet members?

[18] **Mr Smith:** As I am sure you know, there have been many debates around the sector about how those committees would be created. So, I would expect a bit of a mixture probably, if you are asking me for a view. I think that there will be cases where they are mainly not—where they are mainly cabinet members. There have been attempts by some councils to co-opt, invite or involve local expertise. Leaving aside the question of whether they come to a consultancy like mine, which is a specific decision about data and expert advice, they should help to stabilise and extend their expertise base by co-opting a human resources director or someone like that. There have certainly been attempts to do that. The difficulty with that is making it work as a committee group, and helping it to operate so that the HR director concerned, or someone with a business background or relevant background, such as a government background for that matter, can bring relevant expertise to bear. It is quite difficult to involve them sufficiently in the business of the organisation, as well as the business of the committee, to make them effective as advisers. That is the difficulty. However, that is also being explored as an option.

[19] **Julie Morgan:** Good morning. I wanted to ask you about the Welsh element and how Wales fits into the wider UK. Have you had a lot of experience of looking at Welsh organisations? I think that you said that it was limited, did you not, at the beginning?

[20] **Mr Smith:** My personal experience is limited to universities in Wales, but we as a company have worked with a number of local authorities, many of which you will be aware of, I am sure.

[21] **Julie Morgan:** So, you have not worked with any health boards in Wales.

[22] **Mr Smith:** Not for a long time; that is right.

[23] **Julie Morgan:** But, you have worked with the universities.

[24] **Mr Smith:** Yes.

[25] **Julie Morgan:** Okay, thank you very much. Could you give a view about how senior public sector pay in Wales compares with other parts of the UK? I think that you say in your evidence that you think that the pay has to be sufficient to attract high-quality candidates. Could you expand on that?

[26] **Mr Smith:** One of the questions that I would want to look at if I were advising a remuneration committee is: ‘Where do you expect to get your people from, and if they might leave you to go somewhere else, where might they go?’ I suppose that what underlies some of my comments about needing to be competitive is the need to bridge what I said earlier about growing talent from within, which if you do it right, need not be as expensive as trading on the open market—at the very least, you save on some of the recruitment costs, but there could be other savings as well—and also needing to ensure that the Welsh public service does not leave itself in a position where a lot of talent wanders off to the English public service, and you are not able to keep high-quality candidates. So, there is a sense in which the market is a bit more ‘UK’ than it is ‘Wales’, and one would certainly expect to look at that at any rate, but where exactly one sets the policy is a different matter.

09:30

[27] When we have provided advice, local authority rates in the neighbourhood and in surrounding authorities would be one issue, but public sector pay across the UK, excluding London, would be another consideration. It would be in that context that one would expect to set pay.

[28] One of the ways in which, to my mind, we could improve all of this would be if everybody accepted—this is pie in the sky, I know—that pay is a factor in recruitment and retention and that it could be excellent value for money. It could be the very best value for money, in fact, to keep the finance director or the chief executive or whoever it is that you have at the moment, rather than letting them go and recruiting another in behind.

[29] An example would be a new vice-chancellor appointment in a university. The median salary for vice-chancellors in universities is in the mid £200,000s, but the people in the tier below—the potential applicants on promotion—are probably on £130,000 or £140,000. To my mind, it is bonkers—sorry, that is the technical term—it is mad to take somebody who was on £120,000, £130,000 or £140,000 and suddenly offer them another £100,000 on top for doing a new job. You would bring them into the arrangement over a period of time. However, for that to be regarded as legitimate, there has to be a common public understanding, if you like, that, if you brought somebody in at £175,000 and then they turned out to be excellent and you needed to retain them, you would have to put up pay over time. Some of the nature of public debate—I might even call it immaturity of public debate—is such that some remuneration committees, in all honesty, feel that the simplest thing to do is to set pay at the market rate at the point of recruitment. They feel encouraged, because they do not want to have successive years of arguments about adjustments to salary. They set salary, in my terms, too high at the point of recruitment. It is quite a long way to go, I think, before we can get that debate sorted out. From what I have seen, that would affect some of the Welsh arrangements, as well as those across the border.

[30] The other comment that I would make—this is visible in some of the other evidence that you have—is the sense that people are, as I put it earlier, pursuing practices rather than policies. They have looked at what other organisations do—it could be in Wales or right across the UK—and they have pitched their salaries accordingly, rather than taking a view about how it fits with what they need. I would like to see, as I said earlier, better policies and a more coherent view, not about what everybody else wants to do, but about what they want to do. There are examples of this in the private sector. There are lots of private sector organisations that just benchmark pay at a median or upper quartile level, and that is fine if that is what they want to do. However, there are some that are very distinctive in their remuneration practices. In international business, including banking, some Scandinavian companies would fall into that category. What they are trying to do is to create a culture and an environment of their own, rather than just following what everybody else is doing. Following what everybody else is doing is not a policy.

[31] **Julie Morgan:** And you think that quite a lot of that is going on.

[32] **Mr Smith:** Sorry?

[33] **Julie Morgan:** That is what is going on.

[34] **Mr Smith:** So I believe, yes. We were talking earlier about local authorities particularly, but it is not just them. There is a level of immaturity of debate, even at remuneration committees, about exactly what is required here.

[35] **Julie Morgan:** So, the top pay in local authorities for chief executives in Wales would be comparable to what is being offered throughout the rest of the UK.

[36] **Mr Smith:** I think that it is pretty close, yes.

[37] **Julie Morgan:** It is not any higher in Wales than it would be anywhere else.

[38] **Mr Smith:** I would need to look in more detail at the figures. There has been quite a big change across some of the English authorities that I am aware of in the past three years. I can supply these figures separately, but we track local government pay at chief officer level—the chief executive and the top team—and we see that it has fallen by over 10% in the past three years. That is because more political attention is being paid to it, for one thing; it is because of more deliberate decision making, which is definitely a good thing; and it is mainly not about people in post having their pay cut, but it is taking a new view about what the price needs to be on recruitment.

[39] **Julie Morgan:** I was trying to find out whether we had particular issues in Wales, but I think that your responses are that we do not; the issues are UK-wide.

[40] **Mr Smith:** As I say, there may well be some specific authorities that are high payers, but, from what I have seen at the moment, many of the issues, particularly the ones that are related to my opening statement about fair pay and so on, are generic.

[41] **Julie Morgan:** I have just one last question, Chair. In terms of this issue that you raised about identifying someone who is already in the organisation, for me, that slightly goes against equal opportunities and open advertisement, in which I think that the public sector has been a leader. I just wonder whether you had a brief comment on that.

[42] **Mr Smith:** Yes. I am not really suggesting that someone should be appointed without competition. I am more suggesting that, if you look at some parts of the public sector, or some publicly funded bodies—universities are probably the most extreme where the majority view is that you recruit your new vice-chancellor from somewhere else, but it is also visible in hospitals and local authorities—I do not see why there is not more appointment from within happening. It is about balance, really. I am expecting there to be an open competition, but I would have expected the organisations to have done more to create potential succession from within. I would have seen succession and resilience of the organisation—should the finance director leave, ‘Who do we have in post behind them?’—as fundamentally the business of the remuneration committee, but I am not sure that that is the way that it treats the issue.

[43] **Mike Hedges:** I have a couple of points. You talked about setting a median salary, and one of the things that we have seen in Wales is the moving median, that is, the people at the bottom have said, ‘I am being paid much less’; they move up to the median, and therefore the median keeps moving up. Everything keeps on ratcheting up. Do you think that that is a fair description?

[44] **Mr Smith:** Certainly that can happen, and some of the evidence that you have received indicates that there has been movement over time, whereas certainly in the past three years—or perhaps a bit more than three years—not much has been moving in the general pay market. So, unless local government, hospitals or whoever it is create their own spiral, it is not really necessary for the market to be moving.

[45] **Mike Hedges:** There is a kind of level of inevitability. If I am at the bottom and I say, ‘I should be paid the median’, once I move up, someone else goes to the bottom, and it does have a ratcheting up effect.

[46] **Mr Smith:** It does.

[47] **Mike Hedges:** My other point is that you have said in recent times that, going back to 20 years or so ago, headteachers were paid depending on the size of the school, on the level of complexity of the school, on a band, and it might be a band 4 school and it would stop or end at band 4. Local authorities were banded according to whether, at the time, it was a county or district, whether it was in London, or in one of the old unitary authorities in England, and everyone knew exactly where they were. There was not that huge a movement. What was wrong with that system? All that seems to have happened since then is that salaries seem to have made their way up and, as far as I see it—others may tell me that I am wrong—roughly the same people who would have got the jobs under the old system have got them under the new system, except that they get a lot more for doing them.

[48] **Mr Smith:** Yes. First of all, one of the things that, in governance terms, remuneration committees always need to bear in mind is who they are dealing with when they are dealing with their executives. I do not expect anyone here to necessarily agree with me, but I feel that executive pay ought to be related to performance and ought to have an element of variable as well as fixed pay. You do not necessarily have to go along with that, but perhaps you could just follow the logic for a moment. What happens in the public sector—and I have some specific examples from some of my own clients, although, not, happily from your point of view, in Wales—is that they have considered the possibility of making up the package of some pay that is dependent on performance and some that is fixed, and the executives have argued that they would rather have a base salary, so they have ended up with a higher base salary. So, a lot of what is required of the remuneration committee members is robust decision making and an understanding that what they are dealing with, even with the most enlightened chief executive, is an element of self-interest and they should not be fuelling that self-interest.

[49] **Mike Hedges:** I would not disagree with you. I think that the private sector is probably worse than the public sector in this area.

[50] **Mr Smith:** Absolutely.

[51] **Mike Hedges:** Speaking as someone who served on what was effectively a remuneration committee at one time, as I think have some others in this room, if you are in the top quartile for performance, it is obvious, because you are a very good authority and you are very good at doing it. If you are in the bottom quartile, they say that we are not comparing like with like and that other authorities are putting different things in there. I am sure that everybody has heard that argument at different local authorities, ‘We really are very good; it’s just that they have put different things in’. That is one of the difficulties for a remuneration committee. Personally, I would go back to the old system: ‘You are this size; this is what a chief officer’s salary is and then all the others get 80%, 70% or 65% of the chief executive’s salary’. It was simple, it worked and, more importantly, it did not cause lots of people to move around.

[52] **Mr Smith:** Yes, and you will get submissions, I am sure, from people, possibly including local government associations, saying that maybe that is the thing to do. The most important thrust of what I have said is that I do not think that the public sector is one thing, so, having the same rules right across the public sector is not particularly going to apply. So, I will just take the example of local government compared to universities. Universities, at various points, particularly for their professors, but occasionally for their senior managers, are recruiting not just UK-wide but internationally, whereas local government, typically, is not. I know that there are one or two examples of people who have crossed the globe for local authority jobs, but it is not that common. So, they are in different markets and those different markets have different dynamics and I do not see it as helpful for the wellbeing of, for example, universities to link them to something that was also appropriate to local government.

[53] When you consider local authorities, I would have two questions, and they are

questions, really, because there are debates about tactics here. One is: if you have a banded system like that, can you keep it under review so that, although it does not have to be alongside the median of the English market, or whatever it is, you can make sure that it is not miles away from it, so that it is not unable to compete? The second, which is a big question in my submission and philosophy, I suppose, is about the continuity of accountability. What the current systems do, for all their faults—and there are many—is create some alignment between people’s accountability for the performance of a local authority, a hospital, et cetera, and the remuneration and performance of the senior executives. What worries me about contrary proposals is that, as soon as you step outside that, you end up with diluted and fractured accountability, and I would rather not have that.

[54] **Mike Hedges:** So, what you are saying is that, if I looked at salaries in Wales of either health or local government and ran them against performance, the best performing authorities would be paying the most.

[55] **Mr Smith:** That will not be the case at the moment, no. In a good world, it might be, but it will not be the case at the moment.

[56] **Darren Millar:** Just to get this right, you describe the separation of the accountability versus the pay setting, as it were, or in terms of managing performance versus setting the pay as being a sub-optimal approach—

[57] **Mr Smith:** I do, yes.

[58] **Darren Millar:** So, there is obviously an argument that we need more consistency across Wales, and pay bandings, et cetera, have allowed that, certainly in the past. However, in terms of trying to ensure that performance and pay are linked in some way, you feel that there ought to be one committee, or one set of people who are able to do both.

09:45

[59] **Mr Smith:** Yes. If I just take the example, stepping outside local government for a moment, of the hospital trusts that I work with, they have unitary boards and non-executive directors, and they all have a remuneration committee of four or five people chaired by somebody other than the chair of the trust. So, they follow corporate practice. Those remuneration committees—some of them are actually called ‘remuneration performance committees’—will be accountable for measuring and managing the performance of the executive team, for resilience, and for making sure that there is succession in place behind some of the critical individuals on the management team. There is alignment between that and their accountability for pay.

[60] When those committees make a decision—. I was at one a couple of weeks ago, which made a decision that whatever was happening—. Actually, the remuneration for its executive team was probably in the lower quartile, but its performance is definitely not lower quartile; it is in the top 25%, but now is not the time to adjust pay. So, we had a conversation about how they should discuss that with their executives, so as to make it come over as a sensible judgment. It still has the same executives in place, and so on. That is alignment, and they have treated it as a continuous issue: ‘We still want you on board; we can’t do anything about pay at the moment, and now is not the time, while we are cutting services and so on, but we recognise that this is a high-performing organisation’. By keeping that conversation in committee, and in a relatively small group, you get a coherent story.

[61] **Darren Millar:** You are suggesting that it is easy to identify good-performing local authorities versus not-so-good-performing local authorities. One thing that the Welsh Local Government Association has told us in its submission is that fully fledged performance-

related pay mechanisms have not been found to be effective in Wales, because it is difficult to identify individual performance. Do you accept that view?

[62] **Mr Smith:** I am not sure that I do. Just to be clear, I picked a hospital example rather than a local authority, where I think that it is a bit easier. I have done performance scorecards for local authorities, and I have worked with some of the local authorities in the south-east of England—Essex, Kent, Camden; those three in particular—that do have and continue to have performance-related pay. They would not agree with the Welsh Local Government Association view that it is that difficult.

[63] One of the potential areas for debate here, if we are looking at the links between performance and pay, or defining performance, is whether it is individual performance or collective performance that we should be looking at. One of Hay Group's clients is Scottish Water, which is owned by the Scottish Government, so it is a public corporation, but, because it operates in an industry that is predominantly privatised, it has things that private sector organisations have, like a long-term incentives scheme. It does not operate like a private sector one, but it has one. The long-term incentives scheme, as you would expect, is linked to the performance of Scottish Water as a whole. It is linked in particular to five or six auditable measures, which everybody can look up and see, and which are all to do with water quality, performance in relation to the public, and so on. So, one of the things that I would not accept too readily is people saying that performance is difficult to define, because actually, sooner or later, you do have to define performance. Somebody has to work out what a high-performing local authority is, and you ought to be able to recognise one when you see one. Equally, on this business of performance-related pay, there is too ready an assumption, particularly for the members of the top team, that what we are talking about is the performance of the individual chief executive, or the individual finance director, whereas I would probably start from collective rather than individual performance.

[64] **Aled Roberts:** Rwyf eisiau gofyn cwestiwn ar rôl yr ymgynghorwyr eu hunain. Yn gyntaf, sonioch am duedd i gynghorau, neu uwch-swyddogion, os nad oeddent yn fodlon gyda'r cyngor roeddent yn ei dderbyn, i beidio â gofyn i chi fynd yn ôl. A oes ymgynghorwyr hefyd sy'n gyfrifol am recriwtio prif weithredwyr, ac, os ydynt yn gyfrifol am y recriwtio hwnnw, a yw rhan o'u tâl nhw yn seiliedig ar yr incwm sy'n cael ei dalu i'r uwch-swyddogion?

Aled Roberts: I would like to ask a question on the role of the consultants themselves. First of all, you mentioned that there was a tendency for councils or senior officers, if they were not content with the advice that they received, not to invite you back. Are there also consultants who are responsible for the recruitment of chief executives, and, if they are responsible for that recruitment, is part of their pay based on the income paid to those senior officers?

[65] **Mr Smith:** I should say that I do not spend my life not being invited back to organisations, local authorities or any others, but they, very sensibly, take the view that it is only every few years. Certainly, foundation trust hospitals have a regulation that they ought to take external advice once every three years, but that is it, and that seems to me a very sensible framing, so I would not expect to be involved continuously in any organisation. In terms of recruitment consultants, it is an interesting question, and I have to declare a vested interest; I am not a recruitment consultant but I work alongside them. So, yes, there are fee arrangements for recruitment consultants that involve a proportion of the salary being the fee, and you could well argue that that is not an optimal arrangement from a remuneration committee point of view. So, you need a good, solid policy and set of parameters from the remuneration committee and from the chair before recruitment takes place, and they need to be prepared to say, 'Actually, no; you might tell us that we will not get a good candidate for less than £200,000, but our starting point is lower and we want to get best value'. They have to be prepared to insist on that. So, I do think that there can be a difficult dynamic there.

[66] To be fair, quite often, what happens is that—this happens increasingly in the public sector, although not always; it would be very common in the private sector—the recruiting organisation would take advice. It would hire the recruitment consultants to do the recruiting, but it would actually set the salary based on advice from somebody who does not have that vested interest. It is probably sometimes getting one more adviser than you would ideally want, but there is a reason for it.

[67] **Aled Roberts:** Rwyf wedi eistedd ar bwyllgor cydnabyddiaeth oedd yn cynnwys aelodau meinciau cefn, ond a oes problem o ran nad yw'r pwyllgorau hynny yn derbyn cyngor cyson gan ymgynghorwyr, a bod yr ymgynghorwyr sy'n rhoi'r cyngor i'r pwyllgorau hynny yn newid? Felly, hyd yn oed os yw aelodau'r pwyllgor yn gyson, hwyrach nad yw'r cyngor yn gyson.

Aled Roberts: I have been a member of a remuneration committee that included backbench members, but is there a difficulty in that these committees do not receive consistent advice from consultants, and that the consultants who provide the advice to those committees change? Therefore, even if the committee membership is stable, perhaps the advice is not that consistent.

[68] **Mr Smith:** That is an interesting question. Again, to be fair to remuneration committees in the public sector, generally, much of the advice that I would provide, for example, in hospitals or universities, would be to places where we had been before and we were being called back on this three-year principle that I referred to. So, there is an opportunity for continuity of advice. I did have the pleasure of being one of the remuneration advisers for the BBC for many years, and it let that like a listed company would do. So, it had a period of time—I think it was probably six years at that time; we certainly did advise it for six years, but it might have been two successive contracts. However, one way or another, it put it out to competition and let a contract for providing remuneration advice to the remuneration committee. We had that contract for a period and that provided continuity. There then came a time, which would only be normal practice, to change your adviser and get some variety. That is—certainly all HR directors would recognise this—a dangerous time. The loss of continuity loses you some history. That said, all of us who give that sort of advice accept that, at that point, all the previous advice will be disclosed to the new organisation and the new adviser. So, you should get some continuity. I do not see people rapidly changing horses, as it were. If we stick with the principle that the client is the remuneration committee, as opposed to the chief executive, for example, then that will probably help with smoothing over some of those difficulties.

[69] **Aled Roberts:** Rwy'n derbyn bod dadl bod rhaid bod yn gystadleuol; rwyf wedi clywed hynny nifer o weithiau. Fodd bynnag, yn eich profiad chi, a yw'r ddadl honno'n dal dŵr? Pan wyf yn edrych ar fy rhanbarth i, mae'r siroedd sy'n talu'r cyflogau mwyaf, i ryw raddau, wedi penodi yn fewnol ac mae'r rhai hynny sy'n talu'n is wedi denu pobl, o Loegr yn arbennig, i fod yn brif weithredwyr. Felly, mae'r ddadl wedi cael ei defnyddio, ond a yw'r ddadl yn gywir? Rwy'n derbyn hefyd fod tueddiad i gyflogau godi pan fydd prif weithredwr newydd yn cael ei benodi, ond a fydddech chi'n synnu gweld sefyllfa yn rhai o gynghorau Cymru—rwy'n dweud mai cynghorau'r gogledd ydy'r rhain—lle mae cyflog prif weithredwr sydd wedi bod mewn swydd am flwyddyn neu dwy flynedd yn codi rhyw 25%?

Aled Roberts: I accept that there is an argument that there is a need for competition; I have heard that point made a number of times. However, in your experience, does that argument hold water? When I look at my own region, the counties that pay the highest salaries, to a certain extent, have appointed internally and those who pay at the lower end of the scale have attracted people, particularly from England, to be chief executives. So, that argument has been made, but is it correct? Also, I accept that there is a tendency for salaries to increase when new chief executives are appointed, but would you be surprised to see a situation within some Welsh councils—I am speaking here of north Wales councils specifically—where salaries for a chief executive who has been in place for a year or two could increase some

25%?

[70] **Mr Smith:** On the issue of competitive recruitment, which we talked about before, I would always expect senior posts, or middle posts for that matter, to go out to competitive recruitment. I understand completely your point that there may be cases where the external market provides better value than the internal market. I have examples of that from my client base. I have a client in Northern Ireland that has, even though it is an inversion of the logic of the market, made better value hires by dipping into England and bringing people across than it has hiring from the local market. So, there are cases such as that. All I am saying is that there needs to be a balance between internal and external recruitment. Doing all one or doing all the other is never going to be optimal. One needs to maximise the recruitment base, if you like.

[71] In terms of increases and salary gaps and things such as that, there is no hard and fast rule, but I would always be suspicious of big lurches in pay. I was part of the expert group for Will Hutton's fair pay review, where none of us agreed that there should be a ratio that capped chief executives' pay. However, we did all agree that there should be annual monitoring, which is now quite widely observed, actually, of the chief executive's pay compared to the median for the organisation. One of the reasons we did that was because we felt that there ought to be some continuity. If you get sudden changes, then everybody—not just the remuneration committee or decision makers, but members of the public—ought to be asking why that is. Why is the person who was worth £100,000 last year suddenly worth £125,000? Particularly in the last couple of years, a lot of my advice has been in the housing sector. Those bodies are publicly regulated and supported, but they tend not to regard themselves as public sector bodies, conveniently. However, we always provide them with public sector data. The housing sector is an area of relatively high pay and there is always a danger of sudden lurches in pay there. A lot of my advice there has been around saying, 'Really? Do you really need to make that kind of increase? How are you going to explain it? What is the storyline?' In particular, I come back to this thing about performance. If you were saying seriously that somebody was suddenly worth x amount more, first of all, that £25,000 increase—if I stick with my example of an increase from £100,000 to £125,000—is more than the annual salary of quite a lot of people who work there. Is that really justifiable and sensible? Is it a sensible statement to be making at all? Secondly, what is it about the performance of the organisation? Not just that the individual has settled into the role, but point me to what is going on with the organisation's performance that tells you that that provides good value.

10:00

[72] **Mohammad Asghar:** It is wonderful to hear from you, Mr Smith, about recruitment and consultancy worldwide. I know that. Headhunting is one of the jobs that you do and get very nicely paid for. Looking at page 54 of your statement, it is amazing that someone who is a chief executive in a government body gets the same salary of £75,000 for controlling one organisation with only 15 employees as another who has 285 employees. You are talking about all of these being performance-related and so on, but what about the chain of command? With the person who is responsible for a huge number of employees, his responsibilities and performance provide value for money, as we have been saying for a long time. It cannot be justified, because the thing is that, if you are controlling just more than a dozen people and getting such a huge salary, and a person is controlling nearly 300 people and has that responsibility, why have the same salary? Do you not think that there is a serious disparity there?

[73] **Mr Smith:** I would say that there could be. First of all, just for clarification, Hay Group, which I work for, does not do recruitment consultancy. We are management consultants and advisers. Incredibly confusingly, there is a company called Hays, which is an

entirely separate organisation.

[74] **Mohammad Asghar:** You used the word ‘recruitment’.

[75] **Mr Smith:** Yes, that is right. So, that is a separate organisation. A lot of the work that we do with remuneration committees, whether or not we are using our own pay data, which is one of the potential sources, involves some sort of job evaluation. So, when we look at a chief executive’s role or a finance director’s role, we are not saying, ‘It’s a chief executive’, or even ‘It’s a chief executive of an organisation with x number of people in it’. We look at the complexity of the setting and so on. I would agree with you that it is a good idea to look at organisation complexity, weight, the weight of responsibility and, if you like, the size of the job when setting pay. It is fundamental, certainly to our approach to pay advice, that we do that. So, if I just take an example from the NHS, where one looks at finance roles, chief nurse roles or something such as that, a lot of the sector benchmarking is done on job title: the going rate for a chief nurse is x. What we bring to bear is that we look at what is in the chief nurse role compared to what is in the sample. I think that that ability to disaggregate and make sure that you are paying reasonably for what is actually being delivered is right. It is obviously true that it is not only the number of people that you are in charge of, or the amount of budget that the organisation has, that determines job size, but, with that reservation, I would always expect to look at the weight of responsibility in setting pay.

[76] **Mohammad Asghar:** All right. Should any common pay arrangements solely apply to the chief executives or more widely among the senior staff?

[77] **Mr Smith:** As I have said, my personal preference is to concentrate on continuity of accountability and to ensure that local governance of remuneration and local decision making are high quality, open, et cetera. So, I would not have lots of controls in place myself. I have seen places—and there are examples in local authorities at the moment—where the principal cap is on the chief executive salary and not on the others. That does create all sorts of odd distortions. There are local authorities around where the chief executives will be recruited at a certain salary level. That salary level is scarcely what it would take to get a director of children services, and it may not be more than some of the other jobs on the top team. Coming back to your point about job size, I would expect there to be some reflection—it need not be complete—of additional responsibility. If chief executives, for example—in charge, in executive terms, of the whole council—are not, at least to some degree, better rewarded than the people who work for them, it is quite hard to see where the next chief executive is coming from. I think that there are dangers over and above my more general point, which is that I would rather see remuneration set locally but with better quality and openness than it is at the moment. If you are going to impose any kind of regime, one does have to go beyond chief executive level and look at what is happening to the others. Otherwise, if you just cap the chief executive, you end up with these distortions.

[78] **Mohammad Asghar:** The Williams commission may provide the opportunity to make changes to senior public sector pay. What do you think about that?

[79] **Darren Millar:** I do not know whether you are aware of the Williams commission and its recent report—

[80] **Mr Smith:** Yes.

[81] **Darren Millar:** You will know that it is a country of 3 million people, 22 local authorities, and you will know the number of health boards et cetera—

[82] **Mr Smith:** I do. I cannot claim to have read every page of the Williams report—

[83] **Darren Millar:** Why not? [*Laughter.*]

[84] **Mr Smith:** It is a substantial document. I have had a good look at it. Every time that there is some sort of reorganisation of this type, assuming that that is what results, there is an opportunity, which poses the question that you are looking at at the moment, namely whether this is a point at which somebody ought to intervene or, from my point of view, even if you do not intervene, whether this is a point for stronger guidance and better back-up. For example, the NHS in England had training programmes, which I was part of for a long time, and so did universities in England—training programmes for remuneration committees. So, there was a kind of standard; it was not just an internal preparation programme. You needed to get yourself qualified, as it were, to do the job, and that included mock decision making, various scenarios and so on, which people would be taken through.

[85] So, there are things that one could do, even if you are not going to impose or introduce some kind of banding regime to say that the biggest authority in the new, restructured system will be banded like this and will have a salary of X or a salary between X and Y and so on, which is obviously one of the options you will be considering. So, even if you do not do that, there are lots of things to do with infrastructure, back-up, capability and openness—. I said before that, if you are going to have some even bigger local authorities as a result, surely to goodness an ordinary member of the public ought to be able to look up on the website, without taking a day to do it, what the pay is of the chief executive. It ought to be relatively straightforward, but it is not necessarily at the moment. So, there are some things like that.

[86] The other thing about the Williams review that struck me was the reference to public service leadership and development as back-up. So, just to go back to where I started with my reference to Will Hutton's fair pay review, Will had a piece in the report, which has never really been actioned to be honest, about whether some kind of pooling of resource would be possible across different bits of the public service and whether some form of both talent development and talent management could help public services, both to strengthen their capability and to provide better value for money and reduce the cost of hire, if you like. That has never happened across the—whatever it is—50 million population in England because it is a bit of a sprawling mass of organisations and one does not really have the opportunity to get that together, whereas I would have thought that, following the Williams review, in Wales, there is some potential for looking at what we do right across the public sector on talent development, secondments and on making sure that we are promoting and developing the best so that we can get better value. So, that is the area where I would have thought there is probably the biggest opportunity.

[87] **Mohammad Asghar:** Thank you.

[88] **Darren Millar:** Just before I bring in Jenny Rathbone with a supplementary question, before I come to Alun Ffred, do you think that one of the problems that Wales may have been a victim of in some respects has been this supply and demand problem because we are a small nation with quite a significant number of public bodies to have to recruit to?

[89] **Mr Smith:** I think that that is probably true and some of the rationalisation that you were talking about there. I know that, going back over 10 years, health arrangements had more decision-making boards and bodies than they currently have. Those have been rationalised and so on, but there is always the question, 'Are we overbureaucratic—do we have too many organisations?' However, I think that there are opportunities from being, as you say, a small nation. I have done consulting work in both Ireland and Denmark, which have over 4 million people, but are not massively bigger, and they, in their various ways, have managed quite well with those arrangements.

[90] **Darren Millar:** Jenny is next, very briefly, and then I am going to come to—

[91] **Jenny Rathbone:** Could you give us an example of where an organisation has got a competence and performance review committee, which is properly trained up et cetera, and tell us what the impact is on the performance of the organisation as a whole in terms of getting the rigorous and independent advice at the top level? Can you give us any examples of the impact that that has on the organisation?

[92] **Mr Smith:** Probably the best examples that I deal with—there will be some in agencies—are in foundation trust hospitals in England. I work with King's College Hospital in south London, and it will be interesting to see how it gets on in the next couple of years, because it has taken on responsibility for part of the healthcare system in south London in addition to its teaching hospital remit and that is a big performance stretch. It will be interesting to see how it gets on with it. However, the chief executive there, unusually, has come out of the private sector, but one of the things that that has given him is a strong view about the value of governance as opposed to seeing non-executive directors as just people whom you have to have around. He sees their value. So, he is working with the strategic health authority to build up the strength of the non-executive population over a period of time. I would say that it is a strong board, both at executive and at non-executive level, and, as a result of which, the executives get a lot of challenge, but it seems to me that they understand that that is part of the job. That same set of non-executives has proved good so far—as I say, there is a challenge coming up—in helping the organisation to drive improvement and in making sure that awards are in place, but not overstepping the mark. So, I think that that would be an example—I assumed that you were talking about specifics, rather than—

[93] **Jenny Randerson:** I was, yes.

[94] **Darren Millar:** Alun Ffred is next.

[95] **Alun Ffred Jones:** Gofynnaf fy nghwestiwn yn Gymraeg. Rydych wedi dadlau yn eich tystiolaeth nad oes angen rhagor o gysondeb o ran trefniadau talu ar draws y sector cyhoeddus. A ydych chi'n credu y dylai fod mwy o gysondeb o fewn sectorau, boed hynny'n fyrddau iechyd neu lywodraeth leol? **Alun Ffred Jones:** I will ask my question in Welsh. You have stated in your evidence that there is no need for greater consistency in terms of salary arrangements across the public sector. Do you believe that there should be greater consistency within sectors, be they health boards or local authorities?

[96] **Mr Smith:** The word 'probably' comes to mind. What I am saying here is that different bits of the public sector have different dynamics. I would not necessarily expect them to be pulled together. If you look at local authorities, you will see that there is a huge amount of commonality between local authorities, and if you look at health, you will see that there is a fair amount of commonality between hospitals, health boards and things like that. It is slightly different, probably, in agencies, which are a bit more one-off, and in universities, which are definitely quite diverse, so you would probably put them on one side. When you look at each individual slice of the public sector, I think that it is possible to look at it and see what the characteristics and dynamics are and what that tells us about how you could act and what you would expect to happen on pay. I would still say, as I have throughout, that local accountability and continuity of accountability push you in a particular direction.

10:15

[97] **Alun Ffred Jones:** Rydych yn pwysleisio llawer ynglŷn â mesur perfformiad uwch swyddogion neu brif **Alun Ffred Jones:** You put a great deal of emphasis on measuring the performance of senior managers or chief executives. That

weithredwyr. Mae hynny'n dibynnu ar y dystiolaeth a'r wybodaeth sydd gan y bobl sydd yn gwneud y penderfyniad. Os ydych yn edrych ar y sector preifat a'r sector ariannol, a ydych yn gweld bod unrhyw brawf bod mesur perfformiad wedi arwain at arfer da yn y sector ariannol, lle mae taliadau wedi codi a chodi, ac eto rydym wedi gweld sefydliadau sydd yn amlwg yn methu yn llwyr yn eu bwriad? Felly, ble mae'r dystiolaeth bod mesur perfformiad yn arwain at reolaeth dda?

depends on the evidence and the information that the people who make these decisions have. If you look at the private sector or the financial sector, do you see any proof that performance measurement has led to good practice in the financial sector, where payments have increased and increased, and yet we have seen institutions that are obviously failing entirely in their intention? So, where is the evidence that performance measurement leads to good management?

[98] **Mr Smith:** It is an interesting question. If you are thinking particularly of banks—let us just stick with banks as an example—first, they have led themselves in remuneration and performance to an overly simplistic definition of performance, both collective and individual performance. We do not have a particularly large executive remuneration practice in the private sector, but where we do, our view is that shareholder value measures as simplistic as the ones that are sometimes used for board performance are simply not good enough, and that you need a more varied performance structure. The evidence from our annual study of the world's most admired companies is that the world's best and highest-performing companies have—'sophisticated' would probably be the wrong word—but they do not have an overly simplified view of 'If our share price or profits go up, we're doing well'; they have a variety of measures on a balanced scorecard that they use for their senior teams and their senior people.

[99] Coming back to the public sector, what I would worry about the most is people ducking away from measuring and managing performance because they find it difficult. I have come across people who say, 'Well, you know, a hospital, university, big agency or something like that is a very complicated organisation, so it is extremely difficult to tell whether it is doing well'. Really? It is the job of people who are responsible for the organisation to work out what constitutes doing well and what constitutes doing badly. So, it needs to be done.

[100] Further to that, if there is no relationship between the pay of people at the top of the organisation and performance, I find that odd; I find it odd from a value-for-money point of view—it is almost as if people get rewarded the same irrespective of how they perform.

[101] Finally, I would be starting all the time with the performance of the organisation, rather than just the performance of the individual.

[102] **Aled Roberts:** Rwyf eisiau gofyn cwestiwn am Gyllid Cymru. Nid wyf yn gwybod os ydych yn ymwybodol o'r sefyllfa, ond mae eich cwmni wedi cael ei benodi i gynnal adolygiad o'r trefniadau o fewn Cyllid Cymru. A allech chi roi unrhyw fath o wybodaeth ynglŷn â natur yr adolygiad, a hefyd yr amserlen o ran pryd y byddwch yn cwblhau'r adolygiad? A fydd canlyniadau eich adolygiad yn cael eu gwneud yn gyhoeddus, oherwydd y sylw a gafodd sefyllfa Cyllid Cymru yn y wasg?

Aled Roberts: I want to ask a question on Finance Wales. I do not know whether you are aware of the situation, but your company has been appointed to carry out a review of arrangements within Finance Wales. Can you give us any kind of information as to the nature of that review, and also the timetable in terms of when you will complete the review? Will the outcomes of your review be made public, because of the media coverage given to the situation of Finance Wales?

[103] **Mr Smith:** I can only provide limited comment, but I can supplement that with evidence if you wish. I am aware that we have a project that started with Finance Wales. I

know which of my colleagues are working on it; I am not personally involved. Indeed, I only became aware of it because we put in a bid to do some work with the British Business Bank, an offshoot of the Department for Business, Innovation and Skills in Whitehall, which has some overlap in what it is intended to do. So, I am aware that work is under way. However, as regards the exact timescale and the nature of the remit, I would need to check. I am very happy, Mr Roberts and Chair, to provide a supplementary comment on that if that would be helpful.

[104] **Darren Millar:** That would be very helpful, and if you could also provide some further information on rates within England versus Wales, that would also be helpful. I think you suggested you might be able to provide us with that earlier on.

[105] There is just one final question from me. Obviously, the NHS arrangements in Wales, in terms of the responsibilities of our much larger health boards, and local government responsibilities in Wales, are becoming increasingly different to the situation in England. Does that merit us being our own local marketplace, with potentially quite significantly different pay scales and rates compared to over the border?

[106] **Mr Smith:** It might do. I can see the point. Whatever the exact constitutional arrangements, what is happening throughout is increasing collaboration between health and local government. In English local authorities or health there are quite a lot of joint appointments, joint teams, and so on. In London, where I have been working with clusters of clinical commissioning groups, as they are called there—the people who sponsor the healthcare—quite a lot of that is cross-sector, so it is local government compared to health. So, I can completely see your point, and certainly in relation to some of the skill development issues post-Williams review that I talked about, there is an opportunity to build a cadre of people who have got some distinctive attributes, and so on. One just needs to be wary that that multi-agency and cross-sector thinking, as it effectively is, is also much prized across the UK. Unfortunately, it may not lead to quite such a distinctive market, and it would certainly make some people more marketable if you are not careful.

[107] **Darren Millar:** With that we will close this part of our meeting. I am very grateful for your attendance today, and I look forward to the further information that you have said you will provide.

10:22

Cyflog Uwch-reolwyr: Sesiwn Dystiolaeth 2 Senior Management Pay: Evidence Session 2

[108] **Darren Millar:** We now move on to our next evidence session. We will just wait for the witnesses to be shown in. We will commence this next part of our oral evidence on our senior management pay inquiry. I am very pleased to be able to welcome to the table Anna Freeman, director of employment at the Welsh Local Government Association, and Jon Rae, who is also from the Welsh Local Government Association, and Richard Tompkins, director of NHS Wales employers at the Welsh NHS Confederation.

[109] Obviously, there has been significant interest in pay in the public sector at this time of austerity and financial challenge. Do you want to give us an overview, Anna, of the arrangements for the setting of pay within local government? I will then ask you, Richard, the same question in terms of the NHS, because there are remarkable differences according to the papers that you have sent in in evidence. We are very grateful for the written evidence you have provided, by the way. We will then open the floor to questions. Over to you, Anna Freeman, first.

[110] **Ms Freeman:** There is a whole range of factors that are taken into account in setting pay in senior levels of local government. They are not really any different to the arrangements for setting pay in general. A range of factors are taken into account. If it is a new job, obviously the duties and arrangements of the job are considered. Market factors are taken into account. The job may be job evaluated, if a job evaluation scheme is currently in use in the organisation, and it would then be taken to some kind of member body, possibly a full committee—there might be a personnel committee or a remuneration committee—so there would be a member decision around the duties and the scope et cetera of the job and the pay rate.

[111] **Darren Millar:** Thank you for that. Richard Tompkins—the buttons of the microphones will operate automatically.

[112] **Mr Tompkins:** Thank you. Within health, following the reforms and the creation of local health boards in 2009, a common framework was established for very senior executive pay in the NHS. A range of roles for the executive teams were evaluated, using the civil service job evaluations for senior posts scheme, and those post outcomes were mapped against a salary scale schedule. All health boards follow those arrangements.

[113] **Darren Millar:** It seems to me that the result of the different arrangements is that there is a much tighter range within NHS pay for chief executives of local health boards, for example, than there is within the local authority world, where it looks as though we have some salaries that are almost double those of some chief executives. In some parts of Wales, they appear to be very much higher than others for what most people on the street would assume would be a very similar job. Do you think that there is a need for greater consistency and, perhaps, a change to the NHS approach within local government, Anna Freeman?

[114] **Ms Freeman:** I think that it is a different arrangement for local government, because you have the whole issue of democratic accountability. I am not particularly familiar with the arrangements in health, so I do not know to what extent, in the different bandings that are used, there is consistency between the posts in terms of the ranges of duties encompassed and the size of the organisations that are being led. In local government, there is quite a difference between posts. I do not know if we are just talking about chief executive pay here or whether we are talking about—

[115] **Darren Millar:** We are talking about all senior pay.

[116] **Ms Freeman:** So, if you are talking about senior management pay as well, there are massive differences. I think that I mentioned in the paper that there were, at one time, separate pay frameworks for both chief executives and chief officers. I do not think that they have been updated—they have never been withdrawn, but they have not been updated since 2007. They provided guidance, but it was never more than guidance, in terms of minimum and maximum salaries for a particular population size. However, things have changed within local government. If you go back some years, you would have very large management teams of perhaps nine or 10 individuals. In order to save money, over the years, those have been cut down and the jobs have got much bigger. So, those kinds of salary ranges are no longer relevant, because in one local authority housing and social services may have been put together, while in another authority it might be housing and planning that have been put together. So, the range of duties for the jobs and the sizes of the jobs are all very different. It is not that easy to say that it should be that kind of scale. Having said that, I suppose that it would provide some assurance for the public.

[117] Thinking it through on my feet, as it were, there are also difficulties, because if you try to peg the salaries across local government to a particular range, you also have the differentials within an organisation, and job evaluation is about the differentials within an

organisation, not the differentials across an organisation. So, you have the propensity to throw up anomalies there, and anomalies can mean equal pay claims, potentially, so you have to be careful about that as well. Although it is superficially attractive, and it would give a benchmark that people could look at and say, 'Yes, this is why it is as it is,' I do not think that we should ignore the fact that there are a lot of complexities beneath the surface of what the public sees in terms of headlines of figures of particular salaries.

10:30

[118] **Darren Millar:** However, in terms of the chief executive role, that is the same responsibility in every local authority, is it not?

[119] **Ms Freeman:** It is probably not identical, but, yes, I suppose—

[120] **Darren Millar:** Well, all local authorities are responsible for the same things, are they not, in terms of Welsh local authorities?

[121] **Ms Freeman:** Well, there will be a whole range of different partnerships that chief executives may be more or less involved in, so that may make differences. Obviously, population sizes—

[122] **Darren Millar:** Enough to justify almost double the salary for—

[123] **Ms Freeman:** I am not trying to justify anybody's salary.

[124] **Darren Millar:** No, I am just asking here—

[125] **Ms Freeman:** That is not my job.

[126] **Darren Millar:** I am just asking you. The size of the senior management team is very different in some local authorities to others, is it not?

[127] **Ms Freeman:** They have all got very, very small now. Some are absolutely miniscule and some may still have a few people knocking around, but they are different, and, obviously, the population sizes are different. However, I guess that that is one of the things that you would want—

[128] **Darren Millar:** You say that some of them are miniscule, but I am just looking at the list: Powys has 16 senior managers, Swansea has 21, and yet the Vale of Glamorgan has five. Neath Port Talbot has four, Conwy has 12 and Denbighshire has 16. It is a huge range, is it not?

[129] **Ms Freeman:** Yes, it depends how you are referring to senior managers, how you are defining them—

[130] **Darren Millar:** I would define them as they are defined in the accounts—

[131] **Ms Freeman:** I was referring to the layer under the chief executive, and that is now generally very small. Then you will have heads of service beneath those. Your very senior management team is generally now only two, three or four people.

[132] **Darren Millar:** We will come back to you in a few moments, but a number of people want come in on this. So, I am going to bring Julie in first, then Jenny and then I will hop across to Alun Ffred and then back to Mike.

[133] **Julie Morgan:** Thank you. I want to ask about local government salaries and particularly about the chief executives. You say in your report that English local government salaries are higher than those in Wales. The previous witness told us that, generally, there is not that much difference, except for in London. So, I wonder what information you have about local authorities outside London in terms of chief executive pay.

[134] **Ms Freeman:** Well, actually—

[135] **Julie Morgan:** You mentioned Lancashire, but that is the only one you mentioned. I wondered whether—

[136] **Ms Freeman:** I have a list here of certainly the top ones. I can provide that.

[137] **Julie Morgan:** So, that provides evidence—

[138] **Ms Freeman:** Yes, there is clear evidence—

[139] **Julie Morgan:** I am just saying that that is what the previous witness said.

[140] **Ms Freeman:** There are about 30 or 40 on this list. The page ends at 182; it starts at 233 and ends at 182. There are a lot more earning a lot more than in local government. There are a couple of perhaps higher—

[141] **Julie Morgan:** Yes, thank you very much; I wanted to establish that.

[142] **Mr Rae:** Perhaps we can provide committee members with some of the summary data we have, which show the figures for comparable authorities in England.

[143] **Ms Freeman:** Yes, sure.

[144] **Mr Rae:** The data include unitary authorities and metropolitan authorities with populations greater than 200,000 and a regional breakdown, so perhaps we can provide the committee with that.

[145] **Julie Morgan:** Yes, it would be very useful if you could provide that. I just want to ask about the issue of divergence with regard to the responsibilities of local authorities and all the plans that are around in Wales for changes, such as the Williams report and all those sort of issues. Do you think that this is having an impact on your ability to attract people to work in Wales?

[146] **Ms Freeman:** We do not have very hard evidence of that, but it is hard to imagine that it is not, really. There are a number of things that have an impact on the ability to attract people to Wales. The divergence in the agenda is an issue because, for people who are seeking a career, a move to Wales may well be seen as taking them out of the mainstream of their experience—

[147] **Julie Morgan:** Because why?

[148] **Ms Freeman:** Because it is so different. When they go back, say if it is social care, it is very different, so they may not be considered to have kept up with what is happening in England. Things move on quite quickly, so I think that that is an issue.

[149] I think that with things like the Williams commission, and what looks, potentially, like being a long period of uncertainty, we do not know yet. Until we get the changes under way and settled in, there will be a period of uncertainty and people are going to be hesitant

about moving to Wales, because they will not know whether they are going to have a job or not.

[150] **Mr Rae:** I think that there is some anecdotal evidence that that is the case. A handful of finance director jobs have been advertised recently, and I know that, from speaking to the chief executive at one authority, he was very concerned about the calibre of candidates that he was going to get for that position, bearing in mind that the Williams commission was going to report and they would, essentially, be applying for a job that might have a shelf life of something like three or four years. Obviously, uncertainty creates issues for recruitment.

[151] **Julie Morgan:** So, you are saying that there is a small bit of evidence, really, already.

[152] **Mr Rae:** It is anecdotal evidence, I think.

[153] **Jenny Rathbone:** I want to explore this issue of why democratic accountability in local government makes it a very different process. If we are comparing how senior officers' pay is being set and performance managed, why should it make any difference whether it is a local authority, a health board or, indeed, a private organisation? Surely, you could regard all councillors as non-executives, because none of them are actually responsible for the day-to-day delivery, but you could just say, 'Well, backbenchers are more non-executive than the cabinet members'. However, when it comes down to the detail of how you manage the performance of your senior officers, is that not something that could be done in a very similar way to our health boards?

[154] **Ms Freeman:** Are we talking about managing performance or setting pay?

[155] **Jenny Rathbone:** I think that they are linked, are they not? I would like to find out what your views are on why it is or is not possible to link pay to performance.

[156] **Ms Freeman:** I am not sure that I would have a very strong view about why it was not possible to link pay to performance. I think that there is some anecdotal evidence that the very direct linking of pay to performance has not necessarily worked. However, it is certainly something that can be done. I think that it is done to a certain extent in local government; obviously, all of the senior officers are appraised on their performance on an annual basis, generally, as far as I am aware. However, there is not very much in the way of specific performance-related pay schemes, as such.

[157] **Jenny Rathbone:** Is there any consistency in the way that local government appraises the performance of its chief officers? If so, are you able to tell us what that is?

[158] **Ms Freeman:** Each local authority is an employer in its own right, so there will probably be similarities, because they share a lot of information as they develop policies on a range of things; with anything workforce related, they build on good practice as opposed to reinventing the wheel. In that sense, there are likely to be shared aspects to it, yes. However, there is not one policy for local government.

[159] **Jenny Rathbone:** No. However, the chief officer of local authority x is going to be responsible for the performance of that local authority, not an adjacent one, even if they are in partnership. So, what is the structure for appraising the performance of the senior officers?

[160] **Ms Freeman:** It would normally be the line manager who would appraise performance.

[161] **Jenny Rathbone:** Would there not be a performance and remuneration committee?

[162] **Ms Freeman:** For the chief executive, there may be specific arrangements. Normally, the leader would be involved, so it would normally be members who would undertake that with guidance.

[163] **Jenny Rathbone:** Could you give us a note about how it is done in each of the 22 local authorities?

[164] **Ms Freeman:** I can certainly ask; yes.

[165] **Jenny Rathbone:** Thank you.

[166] **Darren Millar:** Lynne, do you have a supplementary on this before I bring in Mike?

[167] **Lynne Neagle:** You have just told us that you do not have a lot of evidence on performance-related pay issues, yet the written evidence that you have given says that most local councils do not use fully fledged performance-related pay mechanisms, as they have been found to be generally not effective in terms of efficiency issues. That appears to differ with what you have just told the committee.

[168] **Ms Freeman:** No, I do not think that it does. That is not what I was saying.

[169] **Lynne Neagle:** What is the basis, then, for that statement in your written evidence? You must have some evidence to back that up.

[170] **Ms Freeman:** I can certainly find you the evidence; it is certainly what I have read.

[171] **Lynne Neagle:** So, you do not have any evidence that you can give us today?

[172] **Ms Freeman:** I do not have evidence in the sense that each local authority has given me chapter and verse on why it does not use performance-related pay.

[173] **Lynne Neagle:** Yet, you put it in the paper.

[174] **Ms Freeman:** There is general evidence that performance-related pay does not necessarily produce the results. It is a difficult one. The kinds of working environments in local government today are so complex that it can be very difficult to determine whether a particular individual is necessarily responsible for a particular outcome. So, linking it directly in that way is not necessarily going to be particularly beneficial. I will see what I can find.

[175] **Darren Millar:** May I just ask you about your evidence, because, I have to say, it does not seem to correspond with the other evidence that we have received? For example, you talk about the current salaries for local government CEOs in areas with populations of less than 1 million as varying between £107,000 per annum and £141,000 per annum. Well, that is just not the case, is it? I am looking down the list that has been prepared by the Wales Audit Office for this committee meeting, and there are a number above £141,000 on the list. Have you really got a handle, as the WLGA, on senior pay within the public sector? You have just been asked for some evidence—

[176] **Ms Freeman:** I drew the evidence from the accounts, so it is difficult, being put on the spot, to say where—

[177] **Darren Millar:** Okay, did you then have a copy of the accounts for Carmarthenshire, Pembrokeshire, Rhondda Cynon Taf, and Caerphilly—all of which are beyond the figures that you have suggested?

[178] **Ms Freeman:** Yes, I have them here.

[179] **Darren Millar:** You have also said—

[180] **Ms Freeman:** Let me find—

[181] **Darren Millar:** Wait a second. You have also said in your paper that chief executives and chief officers in local government have not received a cost of living award since 2008, yet, there are 10 on the list with which we have been provided, which has been compiled from the accounts, which is the same information that you have suggested that you have been looking at, that have shown an increase. Ten local authorities have had an increase.

[182] **Ms Freeman:** That is not a cost of living award.

[183] **Darren Millar:** Okay. Perhaps you could explain to us the rationale for, in some cases, what have been very significant increases in pay at a number of local authorities. I can see clearly that some have obviously had their salaries frozen—five local authorities—and a number have had salary reductions, but a number have had significant increases. Do you want to give us an overview as to why that might have been the case; why you have not referred to that at all in your paper; and why your paper appears not to correspond with the information, even though it is apparently based on the same information that the Wales Audit Office paper has been prepared with?

[184] **Ms Freeman:** I cannot say why it does not correspond on the spot, because I will have to look at that when I go back.

[185] **Darren Millar:** Okay.

[186] **Ms Freeman:** In terms of increases, when I say ‘cost of living award’, I mean that the negotiations around the cost of living award are done on a national basis for England and Wales and the cost of living award is the increase that is awarded as a result of those negotiations. There has been no cost of living award. Other members of staff at lower levels in local government got 1% last year, for example, but there has been no cost of living award of that kind since 2008. There have been increases. I cannot tell you, individually, why a particular authority might have given increases and another has not. What I can tell you is the kind of circumstances in which increases can arise.

[187] As I explained earlier, jobs have got considerably larger over the years. We would have had around nine or 10 directors directly at the next layer down from the chief executive at one time. However, over the years, to save money, those jobs have been put together; people have either left on voluntary severance or, in some cases, have been made redundant, and the jobs have got correspondingly larger.

10:45

[188] Sometimes, those jobs were job evaluated and pay rises were awarded. That has not been particularly contentious because we were not in this period of austerity. Some authorities have found that, actually, they are losing people because the jobs have got very much bigger and they can no longer hold onto people and they cannot attract new people, because the responsibilities are very wide and the pay ranges are relatively low for the work that is being undertaken. They have had jobs evaluated and they have found that they need to pay pay rises. Some of them will have done that without perhaps getting the jobs job evaluated. I am not entirely sure that they have all undertaken job evaluation exercises. However, the jobs have got a lot larger, and that is certainly one of the reasons why there will have been increases.

[189] **Darren Millar:** I have a number of people wishing to come in. I first turn to Mike Hedges.

[190] **Mike Hedges:** I have three points that I want to raise. Pre-1972 salaries were set nationally. Between 1972 and the 1995 local government reorganisation people in Wales generally tended to stick to the NJC rates. Even though they did not have to, people tended to stick to them. Post 1995 there has been this drift of salaries upwards—massively upwards in a number of cases. You are right to say that there has been no NJC cost of living rise. Personally, I would miss the cost of living rise if I could have the 20% rise that is going for moving back to the median—this moving-upwards median. Surely, the old NJC scales worked well.

[191] **Ms Freeman:** As I say, the jobs have changed. Certainly for senior managers, the jobs have changed out of all shape to what they were before. I do not think that they are applicable any longer, and they have certainly fallen into abeyance because of that. They have not been uprated since 2007, I think.

[192] **Mike Hedges:** Perhaps you could drop us a note on how the job of a chief executive of a unitary authority in 1995 and in 2014 is different. I do not see that it is, but perhaps you could drop us a note telling us that.

[193] Talking of performance, randomly, these are the things that I have picked up this week: Merthyr Tydfil County Borough Council is the best performing council on dealing with homelessness; Ceredigion County Council is the only authority that is excellent at education; and Conwy County Borough Council is very good at dealing with people leaving hospitals. Those are just three random things. If I wanted to be unkind, I could also say what Conwy, Ceredigion and Merthyr Tydfil are bad at. It is really as if we are saying that all authorities are good in some areas and not very good in other areas. Surely, that is one of the difficulties of performance-related pay. I am sure that if I were the chief executive of one of those authorities, I would be telling everyone that I was the best in that one area, but about the area where I am slightly less good, or perhaps in the bottom quartile, I would be saying what, from my experience, chief officers have always said, and that is, 'Well, you're not actually comparing like with like and other authorities are counting things slightly differently'. So, there is always this danger of salaries ratcheting up because people say, 'We are very good at this', and, about with the other bits, 'We are not comparing like with like'.

[194] **Ms Freeman:** What was your question?

[195] **Mike Hedges:** My question is: do you recognise that? I will put it even simpler: do you recognise that some or all authorities perform very well in some areas and not very well in other areas, and that when they have their salaries evaluated, they concentrate on what they are very good at and are less willing to discuss what they are not very good at?

[196] **Ms Freeman:** That is not a factor that is taken into account in evaluating salaries, if you mean job evaluation.

[197] **Darren Millar:** Are you suggesting that performance is not taken into account?

[198] **Ms Freeman:** No, I am not suggesting that performance is not taken into account. I am saying that there are not necessarily formal schemes that link pay and performance in the sense that someone does not move on to the next increment if they have not achieved a particular set of objectives, or that there is a system like Hutton's where part of the pay is withheld unless certain objectives are met. I am sure that objectives are set and that there is oversight of whether they are met or not, but that is not necessarily attached to a monetary

award.

[199] **Mr Rae:** I think that what we are saying here is that performance is very difficult to measure in one quantifiable statistic. Adding value in the public sector is not like the bottom line in the private sector. Mike is absolutely right, there is a whole range of performance indicators and it would be difficult to link one quant in some kind of performance appraisal. Perhaps what Mike was talking about there does go on. It is difficult to comment on what actually happens in authorities; it is just difficult to measure value in the public sector.

[200] **Darren Millar:** Jenny has a brief supplementary question.

[201] **Jenny Rathbone:** You are all evaluated by the same national bodies, like the Wales Audit Office, Estyn and others. What we are struggling with is the role that the WLGA has, or should have, in ensuring that the performance evaluation of chief officers is happening rigorously and to the highest standards. Do you give any advice to people who are on the performance committees or the remuneration committees of local authorities? Do you provide any training for them? What input do you bring in from outside bodies that may have specialist expertise? Do you discuss with other authorities in that area—the health board and the fire authority—as to how they do it and whether you could learn anything from them?

[202] **Ms Freeman:** It is not a role that we get involved in, really. Informally, there may be occasions where the WLGA chief executive might have a chat with an authority about what it is planning to do, or the authority might seek advice about what it is planning to do and might talk it over. However, we do not have a formal role of that kind.

[203] **Mike Hedges:** My last question is a health question. Several reorganisations ago—which may not be that far back in real time—salaries were set, in health boards or the old hospital boards, based on size et cetera. Do you think that there is any benefit in moving back to setting salaries on the basis of board size, rather than having this continual increase and the rising median that people keep on chasing after?

[204] **Mr Tompkins:** As I explained in the introduction, the system was changed in 2009. In terms of the job evaluation system that was put in place and the outcomes of that, the six largest health boards were grouped together. So, Aneurin Bevan, Abertawe Bro Morgannwg, Cardiff and Vale and Betsi Cadwaladr were clustered, and Cwm Taf and Hywel Dda were clustered. Then there was Powys and the three NHS trusts. So, in terms of the outcomes that came through in the overall consideration of executive pay, they are in those groupings. The executive salaries—directors of finance, planning et cetera—are in the same grouping, so there is a commonality that runs through.

[205] **Mike Hedges:** Do you think that that works well?

[206] **Mr Tompkins:** Broadly. I have made comments on this in the paper. With any system like that, five years down the line we need to do a sense check to see whether it is working. There have been areas where people have had difficulty in recruiting. So, I think that it is time to have that sense check. In the main, I think that it works well.

[207] **Darren Millar:** Alun Ffred is next.

[208] **Alun Ffred Jones:** Rwyf am ofyn cwestiwn yn Gymraeg. Mae'r cwestiwn hwn i Anna Freeman i ddechrau. A ydych chi'n credu ei bod yn beth da ac yn beth iach o safbwynt y cyhoedd bod gennych chi ddwy sir debyg iawn o ran eu poblogaeth, ac yn **Alun Ffred Jones:** I will ask my question in Welsh. This question is to Anna Freeman to begin with. Do you believe that it is a good and healthy thing from the point of view of the public that you have two counties that are very similar in terms of their population,

amlwg â'r un cyfrifoldebau, ond bod tâl y prif weithredwr mewn un ohonynt bron ddwywaith tâl y prif weithredwr yn y sir arall? Hynny yw, mae'r gwahaniaeth bron yn 95%. A yw hynny'n beth rhesymol ac yn beth da?

which obviously have the same responsibilities, but where the pay of the chief executive in one of them is almost twice the salary of the chief executive in the other county? That is, the difference is nearly 95%. Is that a reasonable thing and a good thing?

[209] **Ms Freeman:** I do not think that we are here to justify individual salaries in particular authorities.

[210] **Alun Ffred Jones:** Ydych chi'n meddwl ei bod hi'n beth rhesymol, o safbwynt y cyhoedd, i weld gwahaniaethau mawr fel yna rhwng awdurdodau lleol sydd, yn amlwg, yn debyg o ran eu maint a'u cefndir?

Alun Ffred Jones: Do you think that it is reasonable, from the point of view of the public, to see these large differences between local authorities that are, obviously, similar in terms of their size and their backgrounds?

[211] **Ms Freeman:** I can certainly see how it might raise queries in the minds of the public.

[212] **Alun Ffred Jones:** Ond—rwy'n gofyn cwestiwn; a wnewch wrando, plîs? Rwy'n gofyn a ydych chi, fel swyddog yng Nghymdeithas Llywodraeth Leol Cymru—rwy'n gwybod nad ydych yn rheoli cyflogau a thaliadau—ac fel cymdeithas yn credu bod hynny yn rhywbeth sy'n rhoi hyder i'r cyhoedd?

Alun Ffred Jones: However—I am asking a question; can you listen, please? I am asking you whether you, as an officer within the Welsh Local Government Association—I know that you do not control salaries and remuneration—and the association think that that is something that gives confidence to the public.

[213] **Ms Freeman:** As I say, I can see how that would certainly raise questions, but I am not here to justify any particular salary level at individual councils.

[214] **Alun Ffred Jones:** Iawn. **Alun Ffred Jones:** Right. You—Roeddech—

[215] **Darren Millar:** Just one second, Alun Ffred; Jon wanted to come in.

[216] **Mr Rae:** I think that it needs to be explained that there is a range there, and you rightly pointed out this range, Chair, in some of your opening remarks. When I look at the data—I thought that there was quite a useful scatter plot that the Wales Audit Office had done on page 14 of its report—I think that you can see the range. There are, almost, three distinct groupings there; there are about eight authorities between £100,000 and £120,000; there are three authorities that have salaries over £150,000; and then there are about 11 authorities in the middle. When you have a range like that it has to be explained, so I think that it is up to the councils themselves to explain, rightly, to their citizens and justify where they fall in a certain continuum. That certainly has to be explained.

[217] **Alun Ffred Jones:** Roedd Peter Smith, yn ei dystiolaeth, yn dadlau y dylai—. A ydych yn barod i dderbyn y cwestiwn? Roedd Peter Smith, yn ei dystiolaeth, yn credu y dylai mesur perfformiad fod yn rhan hanfodol o bennu tâl uwch swyddogion. Rydych wedi dadlau y bore yma, rwy'n credu, ei bod yn anodd iawn mesur

Alun Ffred Jones: Peter Smith, in his evidence, argued—. Are you ready to listen to the question? Peter Smith, in his evidence, said that he believed that performance measurement should be a crucial part of setting senior management salaries. I believe that you have argued this morning that it is very difficult to measure the performance of

perfformiad uwch swyddogion o fewn maes senior management in the area of local llywodraeth leol. Pam fod hynny mor anodd? government. Why is it so difficult?

[218] **Ms Freeman:** I think that it is very difficult to attribute specific outcomes to an individual because there are so many very complex partnerships that local government officers operate within.

[219] **Alun Ffred Jones:** Fodd bynnag, nid **Alun Ffred Jones:** However, it is not more yw'n fwy cymhleth nag amryw sefydliadau complex than a variety of other institutions. eraill. Mae gan y prif swyddog dîm o bobl The chief executive has a team of people who sy'n cyflawni nifer o dasgau gydag amcanion fulfil a range of tasks with specific objectives and targets, usually. Therefore, why is it a thargedau, fel arfer. Pam fod mesur impossible to measure that body's perfformiad y corff, felly, yn amhosibl? performance?

[220] **Ms Freeman:** I do not think that it is necessarily impossible; I think that it is just something that has been found, from the anecdotal evidence that I have read, to be difficult and not necessarily particularly beneficial.

[221] **Alun Ffred Jones:** A gaf i ofyn un **Alun Ffred Jones:** May I ask one question to cwestiwn i Richard Tompkins? O ran Richard Tompkins? In terms of senior cyflogau uwch swyddogion neu brif management salaries in the health board, how swyddogion y byrddau iechyd, sut maent yn do they compare to similar salaries in cymharu â chyflogau rhai tebyg yn Lloegr? A England? Are they lower, similar or higher? ydynt yn is, yn rhywbeth tebyg neu'n uwch?

[222] **Mr Tompkins:** We have not done any recent benchmarking, but my understanding is that they are broadly comparable when compared to large foundation trusts. So, with a teaching hospital such as the University Hospital of Wales, the executive team and chief executive of a similar establishment in England would be on similar salaries. However, I think that there are some difficulties there in terms of the fact that there has been some inflation in foundation trusts since they have come in. I think that that is a tension that exists in the recruitment pool for the NHS, if that is where people are going to apply from.

11:00

[223] **Aled Roberts:** Rwyf eisiau gofyn **Aled Roberts:** I would like to ask a question cwestiwn i Richard Tompkins yn y lle cyntaf. to Richard Tompkins in the first place. I Rwyf yn deall eich bod yn dweud bod y understand that you say that the rules rheolau wedi newid ers 2009 ymlaen ynglŷn changed from 2009 onwards in terms of â swm y cyflogau. Fodd bynnag, a oedd salaries. However, was the structure of the strwythur y byrddau iechyd hefyd yn cael eu health boards also decided centrally, or was penderfynu yn ganolog, neu a oedd hynny yn that something that was decided at a health rhywbeth a oedd yn cael ei benderfynu ar board level, because many of the senior lefel y bwrdd iechyd, oherwydd mae nifer yr officers are on different salary bands and they vary a great deal from one board to another? uwch swyddogion sydd ar fandiau cyflog Would you accept that there is more gwahanol yn wahanol iawn o fwrdd i fwrdd? consistency, but that, to a certain extent, the A fyddech chi'n derbyn bod mwy o salary levels within the health service are gysondeb, ond, i ryw raddau, bod lefelau even higher than those within local cyflogau o fewn y gwasanaeth iechyd hyd yn government? oed yn uwch na lefelau cyflogau o fewn llywodraeth leol?

[224] **Mr Tompkins:** I will take the second one first. I agree; they are higher, and that is evident from the report. However, that is for a number of reasons—for example, the scale and

complexity of the roles. If you were looking at other NHS organisations across the UK, you would find a similar pattern in terms of the scale and size of organisations.

[225] In terms of the first part of your question, the salary levels were set within the Welsh Government. The job evaluation outcomes were done independently within the Welsh Government, not by the service. The framework was set by the Welsh Government and followed by health boards.

[226] There is a little bit of flexibility, as you can probably pick up from the scales that were in my paper; I think it ranges from £85,000 to £89,000 and then it goes up. So, there is flexibility of between £4,000 and £15,000 for any additional duties that might be over and above the model job description for a chief executive or executive director. Any changes from the minimum of that point would have to go through a health board or trust's remuneration and terms of service committee.

[227] **Aled Roberts:** O ran y feirniadaeth mewn rhai rhanbarthau, mae rheolau o fewn llywodraeth leol bod unrhyw fath o fuddiannau ychwanegol yn cael eu cynnwys yn y cyflogau. Mae beirniadaeth yn y gogledd, er enghraifft, bod llawer iawn o wariant ar geir moethus a phethau felly i uwch swyddogion. A yw'r ffigurau hynny yn cael eu cynnwys o ran cyflogau'r gwasanaeth iechyd, neu a ydynt yn ymddangos rhywle arall?

Aled Roberts: In terms of criticism within certain regions, there are rules within local government that any sort of additional benefits should be included in the salaries. There is criticism in north Wales, for example, that there has been a great deal of expenditure on luxury cars and so on for senior officials. Are those figures included in the salary figures for the health service, or do they appear somewhere else?

[228] **Mr Tompkins:** They would be in the annual accounts and anything like that in terms of benefits in kind. However, just picking up on your points, I am not quite sure what you are referring to when you talk about luxury cars or whatever.

[229] **Aled Roberts:** Well, in north Wales, quite a few BMWs and Jaguars are provided on top. I am just wondering where those would appear, for example.

[230] **Mr Tompkins:** If an individual has a leased car, they are part of the scheme that all staff have. An allowance that we have made for a leased car for an executive director would be the same as that for a district nurse. So, the exact same rules apply.

[231] **Aled Roberts:** Is that a national system, because there is evidence from local government, for example, that a lot of the fringe benefits are being removed as part of the job evaluation and equal pay process?

[232] **Mr Tompkins:** Each health board will have its own lease car arrangements, but they broadly fall around the economic viability of the number of miles that an individual will travel. The cut-off point is about 3,500 miles, at which point it becomes more economical to provide a lease car. As I say, the rules around that are the same for a district nurse as they are for an executive director. The difference is that the base vehicle might be a Ford Fiesta, for example. If an individual does not want a Ford Fiesta as their family car, they pay the difference between the cost of providing the Ford Fiesta and—

[233] **Aled Roberts:** So, to get this right, the base vehicle is the same for everyone?

[234] **Mr Tompkins:** Yes.

[235] **Aled Roberts:** If the chief executive wants a BMW 5 series rather than a Ford Fiesta,

he or she pays the difference.

[236] **Mr Tompkins:** That is correct.

[237] **Darren Millar:** You had a supplementary question on this, Jenny, and then I will come to Oscar.

[238] **Jenny Rathbone:** What guidance, if any, has the Welsh NHS Confederation provided to health boards around performance review and remuneration, because the WLGA does not seem to do that for local authorities?

[239] **Mr Tompkins:** We have not provided any specific advice or guidance around that. There is a clear mechanism within health boards in terms of the board setting the objectives, agreeing those with the chief executive, the chief executive agreeing those for his or her executive team and the chair, an independent member, signing off those objectives as being reasonable in terms of the forward plans and delivery targets for the organisation for the forthcoming year. They are agreed and the chair will agree the chief executive's objectives and sign those off with the chief executive of NHS Wales. There will be the feedback mechanisms and regular reviews, and then the review at the end of that cycle. That will be fed back through the independent members and the chair will feed that back in respect of the overall performance.

[240] **Jenny Rathbone:** So you do not provide any guidance or training to members of remuneration committees.

[241] **Mr Tompkins:** No.

[242] **Jenny Rathbone:** It is up to health boards themselves to get in independent people if they feel that is going to help.

[243] **Mr Tompkins:** Yes. There has been some stuff around board governance and things like that. I think Academi Wales has done some work on that.

[244] **Mohammad Asghar:** Ms Freeman, I think it is a good report, but there is a very concerning question there. You say in one paragraph that there is a variation in terms of the size of the job. You say that the number of jobs has been cut from 10 to three or four, and that the responsibilities are the same. You are probably trying to say that the responsibilities are there and that is why they deserve more money, I suppose. Paragraph 21, the last bit, states that the number of jobs has been reduced from 10 to three or four in the last 10 to 15 years. I think that that is because of high-tech developments and other reasons, rather than a lack of work in the area. As we have already seen, there is a lot of variation in salaries. After reading this paragraph, it seems like the responsibility is the same or more, with the lesser number. Is that true?

[245] **Ms Freeman:** There are fewer senior people doing larger jobs, by and large.

[246] **Mohammad Asghar:** So, you are saying that the fewer people who are doing those jobs were—

[247] **Ms Freeman:** The example that I gave before was that there would have been, at one time, a senior management team of directors below the chief executive. It might have numbered eight, nine or 10. You would have a director of housing, a director of planning and a director of social services. As money has become tighter, in order to save money, some of those jobs have gone and the jobs have been put together. So, instead of having a stand-alone director of social services, the director of social services would be the director of social

services and housing or the director of social services and planning. Those jobs have been put together, so they are then the director of a much bigger part of the organisation and their range of responsibilities is much broader.

[248] **Darren Millar:** That has to be coupled, though, does it not, with a reduction in some responsibilities in areas of education, for example, or perhaps if housing stock has been transferred to a registered social landlord? Do we ever see salaries going down in local government at times like that? I cannot recall ever seeing a salary go down.

[249] **Ms Freeman:** It is not so much that an individual's salary would be cut; you would have a restructuring at that point, you would have a range of new jobs in the structure and people would be slotted into the jobs or they would be made redundant.

[250] **Darren Millar:** Forgive me, but you have just argued that if people have greater responsibility they should have extra pay. If they have less responsibility, does the reverse not happen?

[251] **Ms Freeman:** Yes, it does, but it does not happen in that way, generally. It does not happen in the way—

[252] **Darren Millar:** Well, obviously it does not happen, does it? You are telling me, 'Yes, it does', but then you are saying, 'No, people's salaries tend not to go down'.

[253] **Ms Freeman:** No, individual salaries do not go down in that way, because when people are employed, they are contractually entitled to a specific salary—

[254] **Darren Millar:** For a certain job with certain responsibilities.

[255] **Ms Freeman:** For a certain job. So, if that job changes considerably—

[256] **Darren Millar:** That is, responsibilities disappear.

[257] **Ms Freeman:** Yes, then it would not tend to happen that you would cut the salary. You would change the structure and people would be made redundant or they could apply for the job at a lower grade in the structure. Their salary would be cut, in effect, but you would not say, 'You are now going to have a pay cut of £20,000 a year'. You would say, 'Here is the new structure, that is the nearest to your old job, you can be slotted in to that at a £20,000 a year reduction, or you can apply for something else, or you can be made redundant. That is the way that employment law would govern these issues.

[258] **Darren Millar:** Let us take education, for example. We have had the regional situation develop in terms of education in recent years. Can you give us examples of director of education posts that have seen a reduction in salary in any of the 22 local authorities?

[259] **Ms Freeman:** I do not have that detailed information to hand.

[260] **Darren Millar:** Can you provide it to us?

[261] **Ms Freeman:** I can ask authorities whether there have been any restructurings around education, and what effect that has had on salary.

[262] **Darren Millar:** That would be interesting for Members to know. Aled wanted to come in, and then I am going to bring Ffred in. Oh, sorry Oscar—is it on this issue? I will come back to you. Aled, and then Ffred.

[263] **Aled Roberts:** Rwyf ond eisiau gofyn—rwy'n derbyn bod llai o uwch-swyddogion o fewn awdurdodau, ond y broblem yr ydym yn ei wynebu yw bod rhai cynghorau lle, yn amlwg, maent wedi ail-strwythuro, ac mae llai o uwch-swyddogion yn cael eu talu'r cyflogau uchel hynny, ond mae cynghorau eraill lle maent wedi ail-strwythuro ac nad yw'r un chwyddiant o fewn cyflogau'r prif weithredwr a'r cyfarwyddwyr wedi digwydd. A oes gwendid o ran gadael i gynghorau unigol bennu yn union sut y maent yn gwneud pethau?

Aled Roberts: I just want to ask—I accept that there are fewer senior officers within authorities, but the problem we face is that there are some councils where clearly they have restructured, and there are fewer senior officers paid those high salaries, but there are other councils where they have restructured and there has not been the same inflation in the salaries of the chief executive and the directors. Is there a weakness in allowing individual councils to decide exactly how they operate?

[264] **Ms Freeman:** It is always a lot more complex than it might appear. Yes, it is certainly true that there are some authorities where the jobs have been re-evaluated and the senior jobs have therefore been paid more, and there are other authorities where that has not been done. However, it does not necessarily follow that it is always appropriate that people should take on larger jobs with greater responsibility and not receive rises for that. I can see how, in this period of austerity, the public will look at what it sees as being pretty well-paid posts, on average, and I can see that there is a concern that, 'Oh, these people are getting a pay rise', and other people might not be. However, whether it is right that, in this period, senior staff should always not get a pay rise if they take on extra duties, is not a question I can answer, really. There is certainly a logical argument that, if people take on extra duties in a post, they would be paid for that. You would expect that to happen lower down the structure. Decisions are taken because it is a period of austerity and because of how things might look in the press or to staff in the organisation. In other circumstances, local authorities have actually ended up losing people, because the jobs have got so much bigger and they have not been able to retain people and they have not been able to recruit. So, there are those considerations as well.

[265] **Aled Roberts:** In a lot of these instances, however, these salaries have not gone up to attract new people. These salaries have gone up—in some instances, by significant amounts—and surely that cannot be justified purely by increases in responsibilities.

[266] **Ms Freeman:** Well, I am not able—. I do not have the detail. I am not the person going in and doing the job evaluation exercise. You certainly had some evidence from Hay around that.

[267] **Aled Roberts:** Do we not have a dilemma, then, if we want to allow continued localism and democratic accountability? In reality, we heard from Hay that it is very patchy, and there are some instances where there are good structures in place, and robust remuneration committees, and others where, clearly, that is not the case. Is that not the dilemma that we have? Where that localism is accepted, the reality is that the arrangements are too inconsistent. There is no consistency.

[268] **Ms Freeman:** I think that the issue of localism and democratic accountability is that the authority and the members have to undertake a careful balancing act in terms of senior salaries. They have to set salaries at a level where they can attract and retain. It is not just about attracting people; it is about retaining them. Salaries are generally higher in England and many of these authorities are close to the border. Wales is not hermetically sealed as a labour market—

11:15

[269] **Aled Roberts:** There are many of these authorities that are far away from the border.

[270] **Ms Freeman:** Well, whether being close to the border should be a factor in setting salaries in another matter. However, there are other opportunities available in England, and salaries do tend to be higher in England, so it is a difficult balancing act. You have to set salaries at a level where you can retain people and you can attract people, but also in terms of being able to justify that to the population. It is about value for money.

[271] **Darren Millar:** In terms of this recruitment issue, because you refer to this in paragraph 28 of your evidence, you have suggested that some local authorities have experienced difficulties in attracting and retaining people. Has that been the case at chief executive level? There does not appear to be much shift in terms of new chief executives.

[272] **Ms Freeman:** Oh, there has been a lot of shift in chief executives in recent years. There are certainly instances of authorities having to go out more than once. Again, I do not have—

[273] **Darren Millar:** Have they been going to higher paid jobs elsewhere?

[274] **Ms Freeman:** I do not have that information.

[275] **Mr Rae:** We do not have all the details for 22 authorities, but, again, anecdotally, I think there is evidence that chief executives can move off to other jobs. Take, for example, the former chief executive from Cardiff, who has gone off to work for PricewaterhouseCoopers. The chief executive who has been recruited, although he had worked in Cardiff before, came back from New Zealand to take up the post. So, that gives you a good idea of the kind of market that chief executives operate in. They will move freely, or some individuals certainly will, in the private sector, and there is an international market for people of this calibre.

[276] **Darren Millar:** Do you struggle in terms of getting applications? Some local authorities have relatively low chief executive salaries compared to others. So, if they advertised a job at £110,000 in Cardiff, do you think there would be a shortage of people applying for that post?

[277] **Ms Freeman:** There may not be a shortage of people applying, but it is a question of whether you have people of a suitable calibre.

[278] **Darren Millar:** You would not know that, though, if you did not advertise first, would you?

[279] **Ms Freeman:** Well, I think what you would know—

[280] **Darren Millar:** Are people being too risk-averse in the salaries that they are setting? Are they setting them higher because they are assuming there might be a recruitment problem, when in actuality, there may not be?

[281] **Ms Freeman:** There would be issues to be considered apart from just who you would get applying. There are internal relativities within an organisation as well, so you have to recognise of those. You cannot simply set a chief executive salary at a very low level that does not fit with the rest of the structure and then hope you get somebody who comes along who is prepared to do it at a knockdown rate. I do not think that is very good recruitment practice.

[282] **Alun Ffred Jones:** Mae gennyf **Alun Ffred Jones:** I have a question for the

gwestiwn i'r WLGA. Yn eich tystiolaeth, rydych yn dweud bod atebolrwydd effeithiol o ran tâl i uwch-reolwyr o fewn llywodraeth leol. A allwch chi roi enghraifft o atebolrwydd effeithiol? Beth yw atebolrwydd da?

WLGA. In your evidence, you say that there is effective accountability in terms of senior management pay within local government. Can you give an example of effective accountability? What is good accountability?

[283] **Ms Freeman:** Local government is completely transparent in terms of all the salaries that are set for all the senior officers. Those are published on an annual basis and the pay policy is published on an annual basis. If a set of elected members decided to advertise a chief executive or senior manager post at a salary that is not considered appropriate, then they are putting their appointment at risk through the ballot box. So, it is very direct.

[284] **Alun Ffred Jones:** Roedd y tyst blaenorol yn dweud ei fod yn ei chael yn anodd iawn cael gwybodaeth ynglŷn â'r polisiau, ac, yn wir, weithiau ynglŷn â'r cyflog. Roedd e'n dweud hyn fel rhywun sydd wedi arfer edrych am y math hwn o wybodaeth ar wefannau. Fodd bynnag, rydych chi'n dweud bod y cynghorau i gyd yn gyson yn y ffordd maen nhw'n cyflwyno'r wybodaeth hon, a ydych?

Alun Ffred Jones: The previous witness said that he found it very difficult to get information about policies, and, indeed, sometimes about salaries. He said that as one who is used to looking for this kind of information on websites. However, you are saying that all of the councils are consistent in the way that they present this information, are you?

[285] **Ms Freeman:** Well, I am not at all computer literate and I pulled it all off very easily indeed, so I do not know what problems your witnesses was experiencing or why, but, yes, it is all very easily available. You simply go into the local authority website, type 'accounts' for whatever financial year you want and they come up.

[286] **Alun Ffred Jones:** A gaf i ofyn un cwestiwn arall?

Alun Ffred Jones: May I just ask one other question?

[287] **Darren Millar:** One second. I think that the auditor general wants to provide some information to the committee.

[288] **Mr Thomas:** The point that the previous witness was making was about finding the pay policy—the disclosure relating to the pay policy. You have answered in relation to a specific spot.

[289] **Ms Freeman:** Similarly, the pay policies, as far as I have always found, are available, if you go in and ask for the pay policy. Put it into the website and ask for the pay policy for whichever year you want. I have not had any difficulty, personally, so I cannot comment on the difficulties that your witness has had.

[290] **Alun Ffred Jones:** Rydych yn sôn am *effective accountability*. Ai'r hyn rydych yn ei olygu wrth atebolrwydd yw ffigur cyflog a'r polisi?

Alun Ffred Jones: You are talking about effective accountability. Is the salary figure and policy what you mean by accountability?

[291] **Ms Freeman:** That is part of the accountability, but the larger accountability is the democratic accountability.

[292] **Alun Ffred Jones:** Yes. Can you enlarge on what that entails? When you talk about effective accountability, what would it entail?

[293] **Ms Freeman:** Well, that none of the information is—. The information is all publicly available so that it is transparent.

[294] **Darren Millar:** May I just ask, Anna Freeman, you say that it is publicly available and that it is easy to obtain, yet the evidence that you have given us clearly does not reflect the truth in terms of what is publicly available because you have given us different figures for the upper limit in terms of salaries, you have suggested that some local authorities have this, some local authorities have that, and you said that you do not have the evidence to hand to be able to provide us with information on performance-related pay. So it is obviously not available, is it? Or, it is not readily available, even to you, as the representative organisation of local government in Wales. So, if you cannot find this information and put it into a single document for this committee to be able to digest, how on earth can any member of the public be certain that, on every single local authority website, they will be able to drill down and find the data that you are suggesting it is easy for them to be able to find?

[295] **Ms Freeman:** It does not follow, because I do not have the information about something like performance-related pay here with me today, that it is difficult for me to find—

[296] **Darren Millar:** In terms of salaries, you do not even have the basic information on what the salary is for some of these local authority chief executives—

[297] **Ms Freeman:** I have all the information on the salaries. I have it here.

[298] **Darren Millar:** Well, you have misrepresented it in your paper, as I have already said, with regard to the salary range. It is a simple point that is completely wrong.

[299] **Ms Freeman:** If I have made any mistake, I can only apologise, but, until I actually go back to compare what the Wales Audit Office has said with what I have said, I cannot comment on this.

[300] **Mr Thomas:** Our figures come from the audited accounts—

[301] **Ms Freeman:** Yes, well, so do mine—

[302] **Mr Thomas:** They have the adjustments as set out in this document, and I would just recommend that you check the audited accounts.

[303] **Ms Freeman:** Well, I will do, but—

[304] **Darren Millar:** I am going to come back to Oscar and then there is one issue that I want to take up with both witnesses.

[305] **Mohammad Asghar:** Thanks, Chair. Anna, do not worry, sometimes there is an error or something in the middle. My concern is that we have just heard from Jon that it is very hard to measure the performance with the pay-related—you know, with the high official performance—and how senior managers perform. They are obliged under the contractual entitlement to the salary—that is what you said. If we intervene now and make any changes or anything some employment laws will be enforced or there will be something that they can claim back—that is what I understand. What is the impact of employment law if performance is not happening in the right direction, as we just mentioned? You cannot measure the performance. On the other hand, the entitlement to salaries is there, for so much salary, and the performance is not that much in the public domain. The measure is not achieved, so how can you justify someone going to intervene, the employer resorting to employment law and getting the money back or whatever? You are just saying this in your own paper, under equal

pay and all the rest of it.

[306] What do you mean by your statement in paragraph 22? Why are you saying that that particular job would be a risk?

[307] **Ms Freeman:** You have to relate it back to the question, which was whether there should be a body that has a remit for taking an overview of pay and remuneration across the public sector. What I am saying is that it is easy to establish such a body, but in terms of impacting on current pay levels, it is quite a complicated process because people will have been appointed to a role at a particular rate of pay. Therefore, if you start to say, 'We're going to job evaluate all the public sector jobs and we're going to establish this benchmark and pay everybody accordingly', it is going to mean that some people's salaries will go up and some will go down. People have been appointed at a particular rate of pay, so if you put their pay down because a body is being created, you could have a breach of contract.

[308] **Mohammad Asghar:** If they are not performing, then contractual—

[309] **Ms Freeman:** If they are not performing, there is a capability policy that is laid out in chief executive and chief officer terms and conditions; there is a handbook for both roles. If people are not performing, they would be taken through capability procedures. It means that they would be set objectives to improve, it would be monitored and if they are ultimately not able to perform in the job, there is potential for dismissal. That is quite clearly laid down in their contracts. However, that is a bit different from suddenly saying, 'You didn't meet a specific objective, therefore we're going to hold back part of your pay', because if it was not in their contract to do that, it could give rise to breach of contract claims. If someone is not performing, that is a different matter.

[310] **Mohammad Asghar:** We heard just now from one of your colleagues that you cannot measure the performance. If you cannot measure the performance—

[311] **Ms Freeman:** No, what we are saying is that it is difficult to measure the performance and link it to a monetary award, or the withholding of a monetary award. That is what is difficult. Performance must obviously be continuously monitored—we are not suggesting that it cannot be and that it is not; it is continuously monitored. What I have been talking about is performance-related pay, where you link an additional award or the withholding of an element of salary to the review of performance.

[312] **Darren Millar:** The point that Mohammad Asghar is making is that, if you are not able to measure performance, as you have suggested that you are not in terms of performance-related pay, how can you measure a failure in terms of someone's role and be able to address that failure through the employment contract mechanisms?

[313] **Ms Freeman:** It is a fairly complex issue, but—

[314] **Darren Millar:** I think that we have gathered that.

[315] **Ms Freeman:** If you let me finish. The issue with performance-related pay is that the awarding or withholding of a particular element of salary is linked to specific objectives. If you are looking at performance in the round, or if there are particular concerning circumstances around performance—which is not quite the same as not hitting an objective on the head—then decisions need to be made. It will be that something terrible happens or it will be something that comes up over a period of time that niggles and becomes clearer, and issues get picked up.

[316] **Mohammad Asghar:** You also say that a particular job could risk an equal pay

claim. What does that mean?

[317] **Ms Freeman:** It relates to this question about a body to set pay across the public sector. If you had a body that only looked at senior pay across the public sector and tried to balance that across the whole public sector, or even potentially for local government, the wider public sector, as has been suggested, would definitely be more problematic. The issue is not just one of relativities between senior people across the public sector; you also have to think about the relativities within a particular organisation. So, if you were to reduce pay because of a body's recommendations, that may well have an impact within the organisation. You might well then have a chief executive who was paid less than the other staff in the organisation.

11:30

[318] **Darren Millar:** I am going to bring in some other Members with supplementary questions on this; Jenny Rathbone first, then Aled and then Lynne Neagle.

[319] **Jenny Rathbone:** You said earlier that if somebody was not performing—a chief executive—they would be set objectives. I want to clarify what objectives are set when a chief executive is first employed. Is it not the case that objectives are set?

[320] **Ms Freeman:** Yes; objectives are, obviously, set as part of the general performance management of a chief executive. I meant specific objectives around improvement of whatever aspects of performance are of concern.

[321] **Jenny Rathbone:** I am unclear how the WLGA views the performance-setting process as a way of raising performance across local authorities. There is considerable concern around uneven performance, both in different departments and in different local authorities. What role do you see for the setting of objectives and ensuring that the chief executive, and everything that goes on underneath him or her, is evaluated in terms of their performance to understand where improvement needs to take place?

[322] **Ms Freeman:** We are not any kind of regulatory or monitoring body in that regard, so we do not get involved in that detail. Again, there are clear guidelines laid down in the chief executive and chief officer terms and conditions handbooks around those issues, but we do not get involved in the detail.

[323] **Jenny Rathbone:** So, you would see no role for the WLGA in spreading good practice.

[324] **Ms Freeman:** Sorry?

[325] **Jenny Rathbone:** You would see no role for the WLGA in spreading good practice where performance management was working well.

[326] **Mr Rae:** We touch on that slightly in some of our improvement activities. Recently, over the past three or four years, perhaps, we have been doing peer reviews of local authorities, going in before the WAO goes in to do its corporate assessments. We look at these things. The focus of these peer reviews varies from authority to authority, but, generally, you look at the vision of the organisation and whether there is a golden thread from that vision right down to the objectives of senior management.

[327] **Aled Roberts:** Rwyf eisiau gofyn **Aled Roberts:** I have a question for Anna cwestiwn i Anna ac ar ôl hynny i Richard. and, after that, Richard. Would you not Onid ydych yn derbyn, os oes corff accept that, if there was a national body and

cedlaethol a bod cyflogau'n newid i ryw raddau, bod arfer o fewn llywodraeth leol, sydd wedi cael ei ddefnyddio gyda staff is, lle rydych yn gwarchod y cyflogau am gyfnod? that salaries changed to a certain extent, there is a practice within local government, used for staff at lower levels, where you simply protect salaries for a period?

[328] **Ms Freeman:** Are you asking whether I think that that should be put—*[Interruption.]*

[329] **Aled Roberts:** Why does that not apply to senior officers if the whole remit of equal-pay job evaluation has been that, where somebody comes to a conclusion that the job should not be paid at the level at which it was previously paid, all that happens is that pay protection is put in place for a limited period of time and that, at the end of that protection, they revert to the lower salary? Why should that not apply to senior officers in the same way that it applies to other employees?

[330] **Ms Freeman:** It does apply in the same way, potentially. Again, other staff do not just have their pay cut in that way; that would cut across employment law. In, for example—

[331] **Aled Roberts:** Well, they do at the end of the pay protection period, do they not?

[332] **Ms Freeman:** I am talking about the first instance; for example, we have undertaken the single-status exercise, which has resulted in some people's pay going up, some people's pay staying the same and some people's pay going down across those kinds of lower levels. In order for that to be implemented, there has had to be either a collective agreement that changed the contracts of those individuals to accept those new salaries or individuals had to sign up to those new salaries. So, yes, it would be possible, I suppose, for a director of education who had fewer responsibilities to be asked to take a lesser salary. It is just that what tends to happen is that where that individual has fewer duties, it is not just about that individual in isolation, it would impact on the whole of the department in one way or another and, therefore, what you would have would be a restructuring of that department rather than pinpointing changes in individual's duties, and the creation of new jobs that were appropriate for the new kinds of responsibilities, for example, in housing where the housing stock has gone out, and either people would be slotted into those posts if they were relatively close to their original posts or they would have to apply for them.

[333] **Aled Roberts:** May I just then—

[334] Gwnaf droi at Richard. I ryw raddau, rydych chi eisoes wedi mynd drwy'r broses honno, lle cafodd 22 o fyrddau iechyd lleol eu newid i mewn i'r byrddau mwy hyn, ond, wrth gwrs, mae llawer iawn o feirniadaeth ynglŷn â faint o arian sydd yn dal i gael ei dalu i'r cyn-swyddogion hynny. A oes yna ffigur i ni gymharu o ran y gwasanaeth iechyd yng Nghymru o ran faint o arian yn union sy'n cael ei wario gan bob bwrdd iechyd ar warchod cyflogau? I will turn to Richard. To a certain extent, you have already gone through that process, where 22 local health boards were changed into these larger health boards, but, of course, there is a great deal of criticism as to how much money is still paid to those former senior officers. Is there a figure so that we can make a comparison in terms of the health service in Wales in terms of how much money is being spent by every health board on pay protection?

[335] **Mr Tompkins:** There have been various questions. We can ascertain that and get that figure.

[336] **Darren Millar:** That would be very helpful. Yes, Anna?

[337] **Ms Freeman:** If I could just make a point around pay protection, I want to make it clear that local government has nothing like the provision that health does in relation to pay

protection.

[338] **Aled Roberts:** No, I know.

[339] **Ms Freeman:** Some authorities now have no pay protection and some have perhaps up to 12 months.

[340] **Darren Millar:** Okay, thank you. I appreciate that.

[341] **Mr Tompkins:** May I clarify the question to provide the right answer, as it were? Are you talking about the consequence of the reorganisation of 2009 that still exists with protection?

[342] **Aled Roberts:** Yes.

[343] **Mr Tompkins:** There are other organisational changes and, sometimes, we need to—

[344] **Aled Roberts:** I am talking about the specific 2009 reorganisation.

[345] **Darren Millar:** Lynne Neagle is next.

[346] **Lynne Neagle:** I just wanted to ask a question of the WLGA. The evidence that you have provided to the committee says that,

[347] ‘most councils do not use fully-fledged performance related pay mechanisms’.

[348] So, presumably, there are local authorities that do. Are you able to tell us which local authorities have those mechanisms in place?

[349] **Ms Freeman:** No, not off the top of my head. We did a survey on it some years ago, and I think that there was potentially one member, but I would not like to mention which, because I do not know what their position is now. They have had a couple of changes of chief executives since that time and things may have changed.

[350] **Jenny Rathbone:** Can you get that information for us?

[351] **Lynne Neagle:** Obviously, you have given the committee a statement that says what the position is in Wales, which does not seem to have any evidence to back it up. So, is it possible for the WLGA to come back to the committee with that?

[352] **Ms Freeman:** Yes.

[353] **Darren Millar:** That would be very helpful indeed.

[354] I have just one final question to both groups of witnesses. The TaxPayers Alliance has sent in some evidence to the committee’s inquiry and, of course, it published its rich list of senior paid people in the public sector, but one of the interesting points that it makes in its paper is that,

[355] ‘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.’

[356] We have seen in Wales, both in the NHS and, indeed, in the local authority world, some serious failings that have been identified by the Wales Audit Office, Healthcare Inspectorate Wales and other inspectorate bodies of services in your fields. Do you accept that there is a case to be made that the sorts of pay-offs that people may have been given are unfair and do not represent value for money for taxpayers? Richard Tompkins?

[357] **Mr Tompkins:** I thought that you might come to me first. I think it goes back to the discussion that we were having earlier about performance management and contracts. Those two things are very much linked. It is about ensuring that the employment framework is appropriate for chief executives and executives, so that it is quite clear that the organisation is supporting that individual to effectively deliver, and that that individual is delivering against their objectives, and in terms of the consequences when things go wrong, actually supporting an individual if things start to go wrong. There is a tension between having something that makes a senior officer feel potentially vulnerable, so that they would not enter into a contract on that basis, and the exact point that you are making, around ensuring that it is an appropriate use of taxpayers' money, and the consequences of failure. That tension does need to be worked through, because we want effective senior leadership within NHS Wales, where there are complex roles and huge challenges to be faced over the next few years in terms of service change and financial viability. So, it is balancing those two things, and ensuring that it is fair to both parties, and that we can have effective senior leadership. That sounds like a woolly answer, but it is a complex area. I accept the point that is being made. The perception is that people are rewarded for failure, and I think that we have to be clear about how we work through that, so that, if there is failure, and there is responsibility for that failure, there is a mechanism for us to part company with individuals.

[358] **Ms Freeman:** First of all, I would like to agree 100% with what Richard has said, and, secondly, I would like to make an additional point. Within local government in Wales we have the designated independent person procedure. That is the procedure whereby, if there is an issue with a chief executive in terms of discipline or capability or any issue that could result in dismissal, the independent third party is called in. I wonder whether we have the balance 100% right in relation to that. I hesitate to say that, but in England they are looking at streamlining that process considerably, because it does make it a lot more difficult, where there are performance issues, for them to be addressed. The Welsh Government has not only reconfirmed that procedure for Wales recently, but it has actually extended it to the democratic services officer, for which we cannot see any good reason. So, perhaps that may be an issue.

[359] **Darren Millar:** Do you think there ought to be limits on the sorts of pay-outs that can be made in such circumstances? I appreciate that people have employment contracts, et cetera, but do you think that there needs to be legislation or very clear guidance issued by the Welsh Government in this particular area?

[360] **Mr Tompkins:** You would have to incorporate that in the contract, but there is nothing wrong with that at all.

[361] **Darren Millar:** Any comment from you, Anna, before I bring Aled in?

[362] **Ms Freeman:** I am not too clear what kinds of payments are being talked about. Clearly, if somebody's contract is effectively being terminated, there would be issues about compensation for the termination of the contract, and how that would operate would have to be, as Richard says, incorporated in the contract.

[363] **Aled Roberts:** Yn ffodus i Anna ni fu'n rhaid imi ddefnyddio'r broses honno pan oeddwn o fewn llywodraeth leol. Pwy sy'n **Aled Roberts:** Fortunately for Anna, I did not have to use this process when I was in local government. Who actually chooses this

dewis y person annibynnol hwn mewn independent individual when there is a
sefyllfa o'r fath lle mae problemau ynglŷn â problem in terms of the performance of the
pherfformiad y prif weithredwr? chief executive?

[364] **Ms Freeman:** I think that it is agreed currently. I think that the authority chooses and that, possibly, the chief executive might have a veto on that. There are special regulations in Wales that the Welsh Government can step in if it cannot be agreed.

11:45

[365] **Aled Roberts:** So, it might be something worth looking at if we have issues regarding governance arrangements within local authorities with regard to senior pay. Clearly, if the choice of the person currently rests with the local authority, that might be something that causes us concern within those governance arrangements.

[366] **Ms Freeman:** I do not know that it has been an issue of concern at any point.

[367] **Aled Roberts:** But, if we were concerned and we wanted to look at it, then certainly you are saying that, in England at the moment, they are looking at—

[368] **Ms Freeman:** I am not sure exactly what is going to be done because it has come from the Department for Communities and Local Government. It was talking about abolishing the procedure, but I think that it may actually, in the end, streamline the procedure.

[369] **Darren Millar:** That is very helpful. If there are no further questions, that brings this particular evidence session to an end. Thank you very much, Richard, Anna and Jon for your attendance today. You will be sent a copy of the transcript of today's proceedings and a note from the clerks in terms of the additional information that you have agreed to provide, but we are very grateful for your attendance and the written papers that you have sent in to us. The committee will now break until 12.30 p.m. when we come back and take evidence from the Welsh Government.

*Gohiriwyd y cyfarfod rhwng 11:46 a 12:33.
The meeting adjourned between 11:46 and 12:33.*

Cyflog Uwch-reolwyr: Sesiwn Dystiolaeth 4 Senior Management Pay: Evidence Session 4

[370] **Darren Millar:** The Public Accounts Committee is now back in session, continuing with our inquiry into senior management pay in the public sector. I am very pleased to welcome to the table this afternoon Sir Derek Jones, Permanent Secretary of the Welsh Government. Welcome, Derek. We also have David Sissling, chief executive of NHS Wales. Welcome, David. Also here is Peter Kennedy, director of human resources at the Welsh Government. Welcome to you, too.

[371] We have obviously taken this subject on because of the significant public interest in senior management pay in the public sector, particularly in recent months and weeks. We are very keen to shine a light on the processes by which senior management pay is set and, indeed, on the role of the Welsh Government in supporting the Welsh public sector in setting senior management pay. I am very grateful for the written paper that you have sent in. Did you want to make any opening remarks, Sir Derek, before we move into wider questioning?

[372] **Sir Derek Jones:** Thank you, Chair. Good afternoon, everyone. Prynhawn da. Yes, please; I will take the opportunity to just say a few things. I am grateful to the committee for

the opportunity to come here to talk on this subject, and I welcome the inquiry. The committee might think that that reflects a masochistic streak in me because it is not an easy subject. It is particularly difficult at the moment given the backdrop of controversy in some local government cases, but it is difficult anyway. One can talk about the Welsh public sector, but there is quite a complex matrix of employers and accountabilities at work there. It is not a simple matter at all. It is difficult for me personally, frankly, because I am the recipient of one of the top management salaries in question. That is something that I am acutely aware of, and the responsibilities that go with it. Despite all of that, Chair, I have put in a short paper dealing primarily with my civil service responsibilities, but, as far as I can, commenting on some of the wider issues as well. I am genuinely glad to be able to contribute to the committee's work.

[373] **Darren Millar:** I think that one of the issues that the committee has had some concern about, perhaps—and you have made a small reference to this in the paper that you submitted—is the role of the Welsh Government in setting the pay for Welsh Government-sponsored bodies. You will know that there has been some media concern expressed about the levels of pay in Finance Wales, for example, of late. You refer to the Welsh Government having a role in determining the pay of chief executives in organisations like Finance Wales, and other organisations more widely that are supported by Welsh Government funding. Do you want to put a bit more meat on the bones in terms of how that process works, whether Ministers are involved in any way, whether it is just for the initial appointment or whether it is for subsequent increases in pay? Perhaps you can just elaborate on that.

[374] **Sir Derek Jones:** For sponsored bodies generally, I think the position is reasonably clear. Although their boards have the primary responsibility for recruitment and consideration of salary, the Welsh Government will take a view on appropriateness. That could be a ministerial decision. It might depend on the circumstances—if there was a degree of concern at official level about a proposal, then it might go to a Minister. That happens throughout the sponsored-body community. I will come back to Finance Wales in a minute, Chair, if I might. I do not think there has been any general public concern expressed about levels of pay in sponsored bodies. This process I am describing has been in place for quite some time.

[375] On Finance Wales, I confess that the issue that has struck me there—and I was only aware of it last week—was not so much about the levels of pay as transparency. I have taken some action on that subsequently, and it is now the case—it was not previously the case—that in Finance Wales, as a subsidiary of the Welsh Government, the senior staff salaries will be published.

[376] **Darren Millar:** They will be published.

[377] **Sir Derek Jones:** They are being published.

[378] **Darren Millar:** In terms of how they are going to be determined rather than published, what role is the Welsh Government going to play in that, given that it is effectively an arm of the Welsh Government?

[379] **Sir Derek Jones:** It is, but, hitherto, it set its own remuneration through its own remuneration committee and on advice from employment consultants. Peter, do you want to say anything more about that?

[380] **Mr Kennedy:** That is the fact, Derek. A few years ago it employed—I am tempted to say the Hay Group, but do not quote me, because I might be wrong—

[381] **Darren Millar:** The information that we have is that it recently engaged with the Hay Group, last year, in order to support it in its remuneration decision making. However, I do not

know what the situation was previously.

[382] **Mr Kennedy:** It is on the periphery, so I do not know the details specifically. It did an exercise some three years or more ago when it commissioned some external support to determine the appropriate levels of pay. I am aware of that, but it was the fact that we did not have a role at that point to actually sanction or otherwise.

[383] **Sir Derek Jones:** Now that we have dealt with the transparency point, I will satisfy myself that the rates of pay are not unreasonable, or at least that the system for setting those rates of pay is a good one.

[384] **Darren Millar:** So, you are satisfied with the system for setting the rates of pay even though—

[385] **Sir Derek Jones:** I am satisfied now with the transparency point and that the senior salaries will be published—are being published now. I will satisfy myself and, if necessary, come back to the committee on whether what that transparency has revealed to me as Permanent Secretary reflects a good system for setting levels of pay.

[386] **Darren Millar:** You will be content to use the privileged position that the Welsh Government is in, if necessary, to influence the setting of pay to make sure that it is providing good value for money for Welsh taxpayers.

[387] **Sir Derek Jones:** I will rest on the ‘if necessary’ there, Chair, if I might. We have come early on to precisely one of those difficult areas. Finance Wales has been established to have a degree of independence in what it does and it operates in a relatively commercial sphere. I would not want to exert any undue interference in its processes, but it is reasonable for me, and I am sure that Ministers would take the same view with a Welsh Government subsidiary, to be able to be satisfied about those processes.

[388] **Darren Millar:** So, it is on your radar. You are looking at it. I will now bring in Aled Roberts and then Julie Morgan.

[389] **Aled Roberts:** Gai ofyn i chi ynglŷn **Aled Roberts:** Can I ask you, therefore—
â—

[390] **Syr Derek Jones:** Mae’n ddrwg gennyf, nid wyf yn siarad Cymraeg yn rhugl—dim ond tipyn bach. **Sir Derek Jones:** I apologise, I do not speak Welsh fluently—only a little.

[391] **Aled Roberts:** Mae’n iawn; dim problem. O ran Cyllid Cymru, rydych wedi sôn y bydd mwy o dryloywder o hyn ymlaen. Fodd bynnag, a allwch esbonio’n union sut? Rwy’n derbyn ei fod yn gorff annibynnol, ond roeddech yn sôn am broses lle byddai lefelau cyflogau yn cael eu hadrodd yn ôl i’r Llywodraeth. Mewn rhai amgylchiadau byddai penderfyniad yn cael ei ganiatáu gan Weinidog. Mewn achosion eraill hwyrach mai gwas sifil fyddai’n gwneud y penderfyniad. Fodd bynnag, beth yn union fyddai’n digwydd? Mae rhai ohonom wedi ein syfrdanu heddiw i weld y bu cynnydd, dros gyfnod o bedair blynedd, o 78.9% yn y **Aled Roberts:** That is fine; no problem. In terms of Finance Wales, you have mentioned the fact that there is to be greater transparency from here on in. However, can you explain to us exactly how? I understand that it is an independent body, but you mention that there is a process in place whereby salary levels would be reported back to Government. In certain circumstances, a decision would be permitted by a Minister. In other cases, perhaps a civil servant would make that decision. However, what exactly would happen? Some of us have been staggered today to see that, over a period of four years, there has been a 78.9% increase in

taliadau i uwch-gyfarwyddwr Cyllid Cymru. Mae hynny yn erbyn cefndir o lawer o feirniadaeth ynglŷn â pherfformiad y corff o ran ei gyfrifoldebau. Nid wyf eisiau i chi ddweud dim am yr achos penodol ei hun, ond beth yw'r broses o fewn y Llywodraeth? A oes gennych unrhyw reolaeth dros y sefyllfa?

the payments made to the senior director of Finance Wales. That is against a background of huge criticism about the performance of that body in terms of its responsibilities. I do not want you to say anything about the specific case, but what is the process within Government? Do you have any control over the system?

[392] **Sir Derek Jones:** I think that I got that question. The audio is a little quiet through the headset; I will try to increase the volume. On what I said about the possibility of referring a proposal on salary to the Welsh Government, and possibly to a Minister related to sponsored bodies, Finance Wales is in a slightly different position. I had not heard the reports of—did you say a 78.9% increase?

[393] **Aled Roberts:** There was a 78.9% increase in salary from 2008-09 to 2012-13.

[394] **Sir Derek Jones:** I simply do not know the answer to that. If the committee would like to pursue it, I will find out more and report back.

[395] **Aled Roberts:** Can I ask another question?

[396] Roedd tystiolaeth Richard Tompkins o'r gwasanaeth iechyd yn dweud mai'r gyfundrefn o fewn y gwasanaeth iechyd, ar ôl ad-drefnu 2009, yw bod cyflogau yn cael eu penderfynu ar lefel genedlaethol ar gyfer uwch-swyddogion. Dywedodd hefyd fod cyflogau yn cael eu penderfynu yn ôl gwerthusiad swydd y gwasanaeth sifil. Beth oedd y cyfiawnhad dros hynny? A yw hynny'n cael ei adlewyrchu ar draws y gwasanaeth iechyd ym Mhrydain?

The evidence of Richard Tompkins from the health service stated that the system within the health service, post the reorganisation in 2009, is that salaries are decided on a national level for senior officers. He also said that salaries had been decided upon after a civil service job evaluation. What was the justification for that? Is that reflected across the health service in Britain?

[397] **Sir Derek Jones:** I will defer to David and possibly Peter in a moment, but I think that I am right in saying that the approach taken in 2009 was to use a tried-and-tested system for evaluating job weight. That system had been used in the civil service for quite some time and it was taken and applied to posts in the reset local health boards. So, it was not to apply civil service rates of pay as such—it was to apply a well-tried system for establishing job weight. I hope I got that right.

[398] **Mr Sissling:** Absolutely. I am happy to provide further information. Within the NHS across the UK, there is a group of senior managers and a further group of very senior managers. The senior managers are covered by a UK pay scale, which is subject to job evaluation and has a number of different grades and pay scales, with a range that covers all the people. It goes up, currently for this year, to a level just short of £100,000 and is applied consistently across the UK. For very senior managers paid in excess of that across the UK, their pay is determined on an NHS-by-NHS, devolved basis.

12:45

[399] There is not a UK-wide system for determination of salaries for those individuals, for a variety of reasons. The situation that arose in 2009 with the establishment of the new health boards was one that required there to be a national approach, rather than a local approach. That was a ministerial decision. Therefore, there had to be a means to apply a structured and

consistent approach to make sure that people doing comparable jobs in different parts of the new system were paid at appropriately consistent levels. There was consideration of different job evaluation systems, but the one that was felt to be most appropriate for Wales was the job evaluation for senior posts system, which is used in the civil service. It looks at a number of different criteria, and there are five in particular: managing people, levels of accountability, exercising judgment, influencing skills, and professional competence. That was applied to the standard job descriptions and that resulted in a 14-point salary scale against which every job was mapped. Therefore, there was knowledge, for example, of what the director of finance would be paid in Cardiff and the Vale, what the director of finance would be paid in Hywel Dda, what the director of workforce would be paid, and so on and so forth. Therefore, recruitment was made to those particular pay grades and those salary ranges on the basis that those would be fixed salaries. That position has been maintained ever since.

[400] **Sir Derek Jones:** It sounds to me that that was a good and rational process. When I looked at this, however, I did ask the question, ‘Why are the salaries at the top in the health boards so high relative to other salaries elsewhere in the public sector?’. Although the process for job-weight assessment would be a good and a well-tested one, it does not in itself explain a particular level of salary. The answer, in effect, was to look at market rates for equivalent jobs elsewhere in the UK.

[401] **Mr Sissling:** There was a benchmarking exercise done and there was particular reference in interaction with the Scottish Government and its arrangements. So, there was consideration of the market rates that were applicable at the time within the UK NHS.

[402] **Sir Derek Jones:** It does, Chair, I think, immediately take you into one of the bigger questions here, which is about consistency across the public services in Wales. That process was probably a very good process and it produced a result balancing job weight and employment market issues. Nevertheless, it needs to be taken in the wider context, so that people can be satisfied about that and that, if there is any apparent inconsistency, there are good reasons for the differences. I do not think, hitherto, that we have been quite there, which is the main reason why we welcome the committee’s work.

[403] **Aled Roberts:** Rwy’n meddwl mai dyna’r sylw a wnaethpwyd y bore yma—hwyrach fod mwy o gysondeb yn y gwasanaeth iechyd, ond cysondeb ar lefel uwch na’r hyn a welwch yn llywodraeth leol yn arbennig. Rydych yn sôn bod ystyriaeth wedi cael ei rhoi i’r gwahanol wledydd o fewn y Deyrnas Gyfunol, ac rydym hefyd wedi bod yn trafod y bore yma gyflog sydd yn rhannol seiliedig ar berfformiad. Mae’r gwasanaeth iechyd yn Lloegr, wrth gwrs, yn mynd ar drywydd hollol wahanol i’r gyfundrefn yng Nghymru ar hyn o bryd, lle mae llawer iawn mwy o’r farchnad rydd, i ryw raddau, a sefydliadau ymddiriedol—*y foundation trusts*. A oes tueddiad yn Lloegr o fewn y gwasanaeth iechyd i edrych ar berfformiad o hyn ymlaen fel rhan o’r cyflog?

Aled Roberts: I think that was the comment made this morning—perhaps there is greater consistency within the health service, but consistency at a higher level than you see within local government particularly. You mentioned that there had been consideration given to the various countries within the UK, and we have also this morning been discussing salaries that are partially based on performance. The health service in England, of course, is going down an entirely different route to the approach in Wales at present, where there is far more of a free market to a certain extent being used there, as well as foundation trusts. Is there a trend in England within the health service that performance is to be taken into account from here on in in terms of deciding on salaries?

[404] **Mr Sissling:** I would not be able to give you a researched answer to that, because the application of performance-related arrangements tend to ebb and flow in terms of the degree to which they are seen to be an appropriate thing to do. So, I am not in a position where I

could tell you how many organisations in England's foundation trusts, which have completely different governance arrangements, much more autonomy and clearly, therefore, much more scope for variation, would or would not be using performance-related arrangements.

[405] **Sir Derek Jones:** However, top salaries in the health boards in Wales are fixed, if I am understanding this correctly, and are not topped up by bonus payments.

[406] **Aled Roberts:** I am just thinking that, if you were talking about the market within the health service, is there a danger that in England—we were given the instance by Hay Group, for example, that King's College Hospital is now taking over the responsibility for the running of local health services in south London, and I am wondering, if that sort of pattern emerges, whether this consistency of application within the NHS might start unwinding.

[407] **Mr Sissling:** I have a couple of comments. First, comparisons with any organisation in London have to be slightly qualified. Secondly, comparisons between the Welsh system and the English health system need to take account of the relative complexity and scale of organisations. Our NHS organisations, in relative terms, are significantly larger and significantly more complex. Many English organisations, as we know, are still based on hospitals, mental health care and primary care, whereas the leadership task in Wales is one that is on a whole-health-system basis. So, it is reasonable, of course, to take account of a first-shot look at indicators, but, beyond that, it is necessary to look at the relative complexity and the variation that that might create. I suppose that the further issue is what experience tells us and whether we have been able to attract good-quality people into Wales in the NHS. The answer, I think, is, 'Yes, we have managed to have good shortlists and make good appointments'.

[408] **Darren Millar:** I think that Alun Ffred wanted to come in, supplementary to Aled, and then I will come to you, Julie, and then Oscar.

[409] **Alun Ffred Jones:** Cwestiwn yw hwn sy'n dilyn sylw a wnaethoch chi, Syr Derek, ynglŷn ag anghysondeb. A ydych chi'n credu bod angen cysoni'r taliadau o fewn y sector gyhoeddus yng Nghymru, hynny yw, o fewn y cyrff cyhoeddus a'r cyrff noddedig?

Alun Ffred Jones: I have a question that follows on from the comment that you made, Sir Derek, in relation to a lack of consistency. Do you think that there needs to be consistency in terms of salaries within the public sector in Wales, that is, within the public bodies and the sponsored bodies?

[410] **Sir Derek Jones:** I think that that is the big question. I think that there is a case for greater consistency. I had not, until I looked at the audit office's report to this committee last week, seen a lot of this material brought together between two covers before. So, although I think that all the material—not the analysis—was probably previously published and therefore transparent, it was not quite visible, in the sense of being able to look at consistency, partly within the main sectors. So, there are questions of consistency within local government, for example, and, I think, reasonable answers regarding consistency within health and in the civil service, for which I am largely responsible, but there are some questions of consistency within those main streams and other areas like sponsored bodies, and there are also questions of consistency between the main streams. I think that those questions come out quite clearly from the analysis. What it tells me is that there is a case for working towards greater consistency. I do not underestimate the difficulties of doing that.

[411] **Darren Millar:** Is that okay, Ffred? I see that it is. Julie Morgan is next.

[412] **Julie Morgan:** Thank you. David, you said that we are able to attract high-calibre applicants to posts in the NHS. I wondered whether the panel could comment on whether it feels that that is true in all sectors of the public sector and how much that is related to pay

issues.

[413] **Mr Sissling:** I am really able to speak only from the point of view of the NHS. I would have to say, however, that it would be wrong to presume that the only reason that people are attracted to work in the Welsh NHS is salary. People see it as a potentially very fulfilling experience. They see some of the distinctive characteristics in the Welsh health system—as I mentioned before, it is managing a health system, rather than managing particular elements of it, and it means working in a planned system, rather than one that is based more on the market—as things that would professionally appeal to them. So, I suppose that one of my comments, without wishing to dodge the question, is that I think that the opportunity to attract good people into the Welsh system is, of course, to an extent, related to pay, but I think that there is a whole heap of other things that are as important that we should not neglect to pay attention to in terms of the experience of living in Wales and, indeed, the professional and personal benefits and fulfilment that people get from coming to Wales. So, the answer to your question in the narrow sense of the NHS is, ‘yes’, as I think that we have been able to attract people, but that is not just a pay-related issue.

[414] **Julie Morgan:** What about the other parts of the public sector?

[415] **Sir Derek Jones:** I agree with what David has just said. This also brings us back to the question that Aled Roberts raised about what would happen if, in the health service in England, a very market-facing approach was taken. We know what happens in those sorts of circumstances—the market tends to chase the next highest level. I think that, if that happened, it could give us a problem in future. I do not think that it has yet. However, if, in Wales, we are to set levels of pay in the public services generally not just purely in accordance with the market but in accordance with values, we need to take a distinct and different approach. I think it is perfectly possible to do that. I do not think that, at any level in the public services in Wales, people are attracted simply by the rate of salary. I am absolutely certain about this as far as the civil service is concerned, and I think, on the basis of much less experience, this is the same in other parts of the public services in Wales. There is a strong public service ethos. There is the intrinsic interest and value of the work. These are intangible factors but real. There is also the work context—the quality of life within work. These are all intangible.

[416] There are some other more tangible factors such as job security, for example, or pension arrangements, which, again, are not related to headline pay. So, all of those things, in my view, motivate people to want to work in the public services here in Wales. It is not always easy because sometimes one is encouraged by employment consultants to try to be as competitive on salary as possible, but actually, sometimes, we say, ‘Well, we would at least like to test the market on the basis of a lower salary but presenting the job as one that should be attractive in the round’, and I think that we are often quite successful in doing that. My own senior staff are a good broad mix—they are good examples of that, I think.

[417] **Julie Morgan:** So, you would say that, in the public sector as a whole, the jobs are competitive but that it is not just to do with money.

[418] **Sir Derek Jones:** It is not just to do with money. The health service might be a good example of that because it is a different system. So, senior jobs in the health service in Wales provide an opportunity for a more holistic approach to the management of the health service because of the way the health service is structured. I know from talking to senior colleagues in the civil service in Whitehall that that is seen as an attractive thing.

[419] **Julie Morgan:** What about the impending changes that might come as a result of, for example, the Williams commission? Do you think that those are going to cause any issues in terms of recruitment and retention? We have had some anecdotal evidence from previous witnesses that this is already happening.

[420] **Sir Derek Jones:** I cannot anticipate the Welsh Government's response to the Williams commission, so I do not know what change process we might be managing. However, if, for example, it were to involve significant restructuring of local authorities, there might be questions of retention because a period of change can cause uncertainty and people may want to act on that uncertainty. However, I think that it is a perfectly manageable situation, and it has been managed in previous times. For others, that process of change and development is a positive one that creates opportunities.

[421] **Darren Millar:** Just before I bring Oscar in, I want to ask you a question, Mr Sissling. The Welsh NHS Confederation told us—and this seems to be slightly at odds with the evidence you are giving us—that,

[422] 'there is evidence that where there has been turnover in Director posts over the past 4 years that the published pay levels have been uncompetitive and have required WG approval to increase the salary'.

13:00

[423] So this, I assume, is your approval to be able to advertise at a slightly higher rate than would normally be the case. On how many occasions has that been required?

[424] **Mr Sissling:** In the last three years, which is the only period that I could talk about, once.

[425] **Darren Millar:** Just once. So, they are not actually—

[426] **Mr Sissling:** Again, just to amplify on that, the arrangements are that people are appointed to the appropriate pay band and that is a fixed position. There are no increments or performance-related progression. The only basis for progression is for existing people who take on additional responsibilities. If, during the course of a recruitment exercise, there is an identification, for example, that we have tried to recruit three times and have been unable to find somebody and everybody is saying that, to get this person into post, we need to pay more than the established level, then a business case would have to be submitted for consideration by Welsh Government, and, ultimately, by me, and I would look at that on the merits of the case. Only once has that been presented to me. There may have been difficulties, but there has only been once where it has culminated in a formal submission of a case to me, and the approval of that case was associated with a reduction in the overall number of directors, which allowed the overall pay cost for the senior group to be contained within a certain level. It is something that we take very seriously because, as soon as you start allowing too many exceptions, the exceptions become the rule. Therefore, the pay structure as was set up in 2009 remains pretty much intact.

[427] **Darren Millar:** So, it has only happened once in the past three years. Are there any points that would trigger you seeking ministerial sign-off of a departure from the general rules? Is that something of a judgment call?

[428] **Mr Sissling:** Yes, it would be a judgment call, Chair. There could be particular situations and you would look at every situation on its particular merits in terms of the circumstances of the case. This was initially set up based on a ministerial decision, and if, for example, it became clear that the overall system was being stressed to a point where it was in danger of being compromised, that would clearly be something that we would appropriately bring to the attention of the Minister to consider the implications of that.

[429] **Darren Millar:** Would you welcome a clearer set of rules, if you like, that took away

your judgment call and rather required you to refer something to a Minister if it was a certain percentage higher than the band, for example? Would that be easier for you to be able to determine because your judgment could be very different from the judgment of your successor or your predecessor?

[430] **Ms Sissling:** I could see the benefits of that. I suppose the fact that there has only been one case where I have had to take a judgment on that—. If it was becoming a very regular thing, then I think it might be helpful to have some sort of algorithm or formulaic approach that would say, ‘under certain circumstances—’. However, ultimately, that would be a decision for the Minister. I would have to go to the Minister to say, ‘This situation is arising; to what extent would you want to become involved in these decisions of this particular nature?’

[431] **Sir Derek Jones:** If they stay that infrequent, you could end up with a sledgehammer to crack a nut if you try to build up a system around—

[432] **Darren Millar:** Although, of course, we are not just talking about the NHS here; we are also talking about the broader picture and you have already made reference in your own paper, Sir Derek, to the fact that, particularly in terms of Welsh Government sponsored bodies, often, the position will need to go to the Minister for sign-off.

[433] **Sir Derek Jones:** That is a fair point.

[434] **Darren Millar:** I am going to bring in Oscar and then Mike Hedges.

[435] **Mohammad Asghar:** Gentlemen, thank you very much for attending this meeting. The biggest chunk of the NHS budget goes towards salaries, especially the highly paid managers and directors. So, accountability and transparency are paramount in this case. Do you think that the Welsh Government should make greater use of the independent panel to set the salary mark for the highly paid in the NHS in Wales and set the benchmark for the whole NHS area?

[436] **Sir Derek Jones:** David has the best line on that, but transparency is the key to this. All of these decisions should have an element of independence as well. A good remuneration panel should have independent representation. In the case of my own remuneration panel, it is chaired by a non-executive director, as it were, an independent director of my board, and the other two independents sit on it. So, there is a majority of independent members on my own remuneration panel, and I think that that works well. That kind of independence could be incorporated into NHS procedures, as an alternative and perhaps simpler way than having a freestanding independent panel. However, I will stop there and allow David to comment.

[437] **Mr Sissling:** I would not want to add much more to that. The characteristics we want to achieve are consistency across the NHS in Wales, and competitiveness in terms of our ability to attract good people into Wales, and, indeed, to promote careers within Wales: this is not just about attracting people into Wales. We want to have the ability to make sure that people can see a career ladder ahead of them that provides all kinds of professional rewards. Therefore, we need a job evaluation system that allows us to create relativities between jobs. That was the approach we adopted, by using one that we felt was applicable to the NHS in Wales, and it seems to have done its job, and to fix the salaries in relation to that. That was done in 2009 by reference to external benchmarks and taking advantage of comparable health systems. Since that time the salaries have been fixed; there have been no pay increases in the NHS in Wales. So, that has taken away an awful lot of the issues that might have arisen, but, periodically, I think that there may be time to take stock of the situation and see whether the position is right. Whether that needs to be an independent panel just for the NHS is another matter. At the moment, however, the system seems to be working reasonably well in the NHS

in Wales, in the terms of the way in which it was constructed in 2009.

[438] **Mike Hedges:** Just over a decade ago, I served on the WLGA's health and social care board and the LGA's health and social care board. One of things we found then was that it was not the salaries being offered by local authorities that attracted directors of social services, it was the quality of the organisation and the commitment it showed to social services. Some of the biggest authorities that offered the highest salaries were having far greater difficulty in recruiting staff than some of the smaller organisations that had built up a tremendously good record in that area. Is that something that you would recognise?

[439] **Sir Derek Jones:** If I could get away with simply agreeing, I probably would. However, I do not suppose that I can. You are absolutely right that the reputation of an organisation and the general sense of value that an organisation attributes to the work it is recruiting to—it goes back to the questions that Julie Morgan asked me earlier—are very important factors. It is not just about salary.

[440] **Mr Sissling:** I am absolutely and completely at one with you on that. When people look at opportunities in the public service, their motivations are particularly associated with the intrinsic value of jobs. They will do due diligence and that will possibly at some point look at salary, but they will look at a whole series of other things. Some people will want to join organisations with very good reputations, but there are people who quite enjoy working with an operation and doing the turnaround thing as well, and would be attracted to organisations that need a particular kind of leadership.

[441] **Mike Hedges:** I have a second question, and I hope to get another 'yes'. You have said that:

[442] 'There is also the risk of creating circumstances in which there is a gradual upwards inflationary trend in senior management pay.'

[443] Is that not a case of the moving median? There is a median salary and the people on the bottom move up towards the median, but the median itself is moving, so, over a period of time, the ones on the top will end up towards the bottom, and will get ratcheted up again in order to move up to the median.

[444] **Sir Derek Jones:** I do not think that it is a simple 'yes' to that question. I meant what I said in the paper. At the top, in particular, there is the danger of an inflationary or market-based uplift with the market chasing the next highest salary. That is why transparency and governance structures at the top are so vital, so that there are other inputs to the system. In the case of the civil service, there is an independent review body, the Review Body on Senior Salaries, which advises the UK Government on these matters. The Government is not obliged to take that advice, but it is clear, independent advice to the Government and it is an important input to make sure that you do not simply chase the next salary.

[445] **Mike Hedges:** I was thinking specifically of local government, where authorities have consultants coming in and saying, 'You are paying well below the median, you are one of the bottom ones, so move it up to the median', which means that the median itself moves. So, another one down the bottom moves up and eventually the median keeps on making its way up.

[446] **Sir Derek Jones:** I am not sure that I recognise that, although—

[447] **Mike Hedges:** If you do not recognise it, may I suggest that you look at local government salaries 10 years ago for chief executives and look at local government salaries for chief executives now, and see whether you recognise it then?

[448] **Sir Derek Jones:** Okay. What I do appreciate is that you will get a pay settlement that will usually apply across an organisation, but those things are usually not what determine pay at the top.

[449] **Darren Millar:** I think the point that Mike Hedges is making, which, to be fair, was accepted by the previous witnesses, is that, very often, the rationale for increasing pay will be, 'Well, we want to set it at the median benchmark'. Of course, the median is constantly moving up if somebody below that moves up.

[450] **Sir Derek Jones:** Well, in which case, it is the same at the middle as at the top, in terms of a risk.

[451] **Darren Millar:** Precisely. Sandy, did you want to come in on this point?

[452] **Sandy Mewies:** Yes. Apologies for being so late, but, as you know, I have been in another meeting this morning, so I feel a bit disconnected from the process. There was a phrase in your very useful paragraph 17 that caught my eye. You say that there is a

[453] 'risk of creating circumstances in which there is a gradual upwards inflationary trend in senior management pay.'

[454] Certainly, in the local authority that I used to be on, I sat on Hay management panels looking at pay, and nobody went down; I can tell you that for sure. I was wondering—you may not have any information on this at all—whether anyone has ever recognised that this had happened in an organisation and went back and looked at it again, or if it is just accepted that that is going to happen, if you understand what I am saying. I am with Mike; I think it does happen, but I have never heard of a case of anybody going back and saying, 'You know what, that is just drifting up and up because of the process, I think we better go and look at it again'. I wondered whether you had spotted this happening in anything that you look at closely, because I accept what you said about the report and I think that it presented a lot of different challenges for all of us. Do you have any knowledge of a situation where it was independently evaluated, but, looking at the sector, maybe it needs looking at again?

[455] **Sir Derek Jones:** I do not have an example that I can give you of that thought process resulting in a pushing back or a resetting of salaries. I just do not have an example of that. I can give you a personal example of something that I am doing currently, because I do have a concern about always looking to a market-facing salary in the Welsh Government. Another thing to hold on to is the ability to develop one's own staff and to not just recruit well at the top, but to recruit well at all levels and to make sure that there is good training and development in place so that, when the senior jobs become vacant, there are good internal competitors for those jobs, as well as external ones, so that one is not constantly reliant on the advice of an executive search consultant or an employment sector consultant to say, 'This is the rate of pay, you have to apply that in order to stand a chance of recruiting'. A similar point applies to the public services in Wales generally, because, with regard to worries about lack of consistency, although there is a fundamental problem of principle with lack of consistency, which is that it would undermine public trust and confidence over time, another practical difficulty is that it makes more difficult movement between the public services in Wales at senior levels, which, were it not for that, would be a comparative advantage for a small nation like Wales across its public services to recruit and develop people who are more mobile. So, if we can both develop internal talent effectively and make mobility around the public services as easy as possible, you have two good, strong counterbalancing factors against what is the market rate assessed across the United Kingdom or internationally.

13:15

[456] **Darren Millar:** I will come back to you in a second, Mike. Alun Ffred had a supplementary question on this.

[457] **Alun Ffred Jones:** Nid cwestiwn sydd gennyf ond y pwynt hwn. Gwnaethpwyd yr un pwynt gan Peter Smith o'r Hay Group y bore yma, ac er ei fod yn ymddangos ei fod yn ymwneud â datblygu talent, mae hefyd yn gallu dylanwadu ar y math o arian sy'n cael ei gynnig am swydd, yn enwedig, fel rydych newydd ddweud, gan fod ymgyngorwyr o'r tu allan yn aml iawn yn dweud wrthych dalu'r cyflog uchaf posibl er mwyn denu'r gorau posibl. Os gallwch ddatblygu eich talent eich hun, wrth gwrs, mae hynny'n newid y dnameg, ac yn gwella'r gwasanaeth.

Alun Ffred Jones: It is not a supplementary question but this point. The same point was made by Peter Smith from the Hay Group this morning, and even though it appears to be related to developing talent, it can also influence the kind of salary that is being offered for a job, especially, as you have just said, as external consultants frequently tell you to pay the highest possible salary to attract the best possible candidate. If you develop your own talent, of course, that changes the dynamics, and improves the service.

[458] **Sir Derek Jones:** Yes. I still think that it is usually important to test the market or to test what you might call one's internal candidates against the external ones. Certainly, at senior levels in the civil service, there is a strong presumption for an open competition, and that is policed very closely by the Civil Service Commission. However, if you have good talent emerging it does give you options compared to simply coming up with fancy salaries and going to the market.

[459] **Mike Hedges:** I would like to respond to the last bit. For years, people have been talking about growing their own talent. I remember one local government magazine used to have a 'one to watch' article in it every week with somebody that it thought was going to be making their way in the future. That is probably going back 20 years. I think that everybody has always talked about it but it is not necessarily an easy task. I am not going to ask you how you are going to do it now. The question that I am going to ask is this: Richard Tompkins came this morning and told us that, in the NHS, there were three bands relating to the size of health boards. There were four, then there were two and then, as always, there was Powys, which, despite being a fifth the size of the Highlands, seems to be treated as if it is unique. Is there any advantage, or do you see an advantage, in having that same banding, even if it is only advisory, for local government and all other parts of the public sector?

[460] **Sir Derek Jones:** I think that you can do reasonably hard banding within one service like the national health service. I think that it would be difficult to do similarly hard banding across the public services generally, but it comes back to the general question of consistency. If there is a case for more consistency then the next question will have to be 'What will be the best mechanisms for pursuing that kind of consistency?' It is not just the health service where there is banding. I am a permanent secretary; permanent secretary salaries are set across the UK in accordance with short bands related to job weight, the size of the management and financial accountabilities.

[461] **Mike Hedges:** You probably will not like me doing this, but can I push you on banding for local government, even if it was only advisory?

[462] **Sir Derek Jones:** I think that I need to be allowed to refer that to the Welsh Government. The issues of consistency of senior pay in the public services are in the minds of the First Minister and my Ministers at the moment, partly for the obvious reasons. However, there are also recommendations in the report of the Silk commission that are relevant to this, and the Government has not responded to those recommendations yet. It is not right for me to

try to anticipate what the Ministers all want to conclude, either in response to the Silk commission or on the issue more generally.

[463] **Darren Millar:** We will not try to draw you on that.

[464] **Sir Derek Jones:** The First Minister and Ministers are very conscious that public sector pay, at what you might call ‘working levels’, has been quite steadily eroded over recent years through pay restraint or pay freezes and are concerned that top-level pay in the public services does not become out of kilter with those processes, and then there are these other events and the Silk commission’s recommendations, but, I would like to leave it at that.

[465] **Mr Sissling:** I did not hear what Richard said and I would not wish to comment, other than to say that there are not three bands of organisations. Jobs are evaluated and it is quite possible that a job in Powys, if it has certain characteristics, could come up at the same level of band as a job within any other health board. So, the jobs are evaluated. What might drive it, to an extent, are issues to do with numbers of people and amounts of money, but, we do not have three bands that are fixed.

[466] **Darren Millar:** That could be a factor in determining—

[467] **Mr Sissling:** It may be an indirect factor. It is important to make that comment. If you look at the bands—if you wanted to do that—in certain areas, there are four bands, and in some cases there are five. It is the jobs that drive it. We have a job evaluation, rather than an organisation evaluation.

[468] **Mike Hedges:** I think that we need to look back at what Richard actually said. I am fairly certain that he said that there were four, then two, and then there was Powys.

[469] **Darren Millar:** It would be interesting if you could just provide a brief note in terms of the make up of the NHS.

[470] **Mr Sissling:** I am very happy to do so.

[471] **Darren Millar:** In terms of consistency, it appears to be much better than in some other parts of the public sector.

[472] **Sir Derek Jones:** David is right to say that, but I think, if I am remembering the audit office’s report correctly, that there is quite a clear consistency between the rates of pay that are banded, and what you might call, at least, the straightforward job weighting related to the financial and management accountabilities. However, it is absolutely only one thing. If you look at sponsored bodies, for example, those financial responsibility or management span factors might be quite small, but those with the critical responsibility—for example, the commissioners—are not in those areas at all. It is something completely different.

[473] **Jenny Rathbone:** There is huge variation in the pay of chief officers in local authorities, and it is impossible to see any pattern related to size of population or budgets. There is obviously considerable concern among the public that they are not getting value for money, necessarily. What difference, if any, will it make to the local government democracy Act that will come into force this April? What difference will the independent remuneration panel for Wales actually make in relation to the pay of the head of paid service—the chief executive?

[474] **Sir Derek Jones:** The Minister has made a recent statement on this. She announced recent changes arising from the introduction of the local democracy Act that will widen the remit of the independent remuneration panel, which will, in future, be able to take a view on

chief officer salaries and pay increases. It will also strengthen the governance in that all posts remunerated at over £100,000 will have to be openly advertised. Also, the changes to chief officers' pay would be decisions for the whole of the council. I think that the Minister has said that, fundamentally, the responsibility remains with the democratically elected authority, but the changes that have been introduced by the Welsh Government are a substantial toughening up in terms of transparency and governance.

[475] However, your question to me was: what difference will it make? I am afraid that my answer will have to be that we will need to allow some time for those changes to work through.

[476] **Jenny Rathbone:** The measures that the Minister for local government has announced are to improve the transparency of the information so that the public can see who is being paid what, much more clearly, after the review that was done. What I am keen to find out is what level of scrutiny this independent remuneration panel would have of the process that has been gone through to arrive at salary x, which brings them to the reference to the remuneration panel.

[477] **Sir Derek Jones:** I think that the panel will be in a position to be able to satisfy itself or not about the process and the end result of that process in terms of the proposed salary.

[478] **Jenny Rathbone:** So, for now, the Welsh Government has no powers to influence the way in which elected councillors set the pay and performance management of their chief officers. Is that right?

[479] **Sir Derek Jones:** The Minister has said that it fundamentally remains the responsibility of the democratically elected authority to take responsibility for these matters, but has introduced those changes through the democracy Act too. It also requires a published pay policy, and there will be some guidelines to provide for consistency in those pay policies. So, it is about transparency, improvements, governance and consistency, but it does not change the fundamental responsibilities of the authorities.

[480] **Jenny Rathbone:** In light of the variable quality of leadership at local authority level, as highlighted by the Williams report, what role could the Welsh Government play in setting out some parameters as to the type of support and training that might be required for local councillors to be able to carry out those duties?

[481] **Sir Derek Jones:** You are tempting me to anticipate the Government's response to Williams. I think that I covered that a bit earlier, Chair. I probably ought to not go any further than that.

[482] **Darren Millar:** It is just that we were told that the quality of decision making in some local authorities is inconsistent. Some seem to be very good and very robust with their processes and scrutiny of these things; some appear to be less good. I will put it to you hypothetically: if a Government Minister wanted to issue guidance on a requirement for training for councillors who are members of remuneration panels, for example, they could do so, could they not, with their existing suite of powers?

[483] **Sir Derek Jones:** Yes, and some of the changes that a Government might consider might require legislation. I do not think that there is any fundamental obstacle to that. However, that is a matter of policy and decision for the Government, not for me personally.

[484] **Alun Ffred Jones:** Rwyf eisiau gofyn cwestiwn ynglŷn â'r gwasanaeth sifil in relation to the civil service in Wales. What is your view of bonus payments within the
Beth yw eich barn ynglŷn â

taliadau bonws o fewn y gwasanaeth sifil? A civil service? Are there such payments, and if
oes taliadau o'r fath, ac os oes, beth maent yn so, what do they do?
ei wneud?

[485] **Sir Derek Jones:** I am glad to be asked a question about the civil service; I am more on home ground. This is a question about the fundamentals of the relationship between salary and performance. My view is that that tends to be a dialogue about bonuses. Big bonuses sit uncomfortably in the context of public services in Wales. There are bonuses paid to senior civil servants, and the UK system allows for it. However, it has also recently allowed for some flexibility, so I have suspended bonus payments for the senior civil service in the Welsh Government—it is the First Minister's decision taken on my advice—because I felt that they were not motivating staff to any great extent. They were not very large sums of money in the great scheme of things. I did not believe that they were the key to motivating senior staff in the Welsh civil service. I think that my senior colleagues are motivated by a desire to do a good job, peer respect and job satisfaction, and not by these bonus payments. So, they were not motivating. On the other hand, they sat uncomfortably. The payments were misunderstood generally and created an impression of—They were called bonuses, so that immediately translated into something akin to bankers' bonuses, and I felt that they were not performing a useful function, and were actually quite damaging. So, for the foreseeable future, they will not be paid to the senior civil service in Wales, which will get the same deal as the rest of the staff.

13:30

[486] **Alun Ffred Jones yn parhau:** Cawsom dystiolaeth y bore yma gan Peter Smith a oedd yn awgrymu bod taliadau sy'n ymwneud â pherfformiad yn ffordd ddefnyddiol o fesur llwyddiant neu aflwyddiant uwch-swyddog. Eich barn chi ydy nad ydynt yn ddefnyddiol ac na ddylent fod yn rhan o daliadau'r gwasanaeth sifil; a ydych yn credu hynny hefyd mewn swyddi neu feysydd eraill o fewn y gwasanaeth cyhoeddus?

Alun Ffred Jones continues: We heard evidence this morning from Peter Smith suggesting that payments in relation to performance are a useful way of measuring the success, or lack thereof, of a senior officer. Your opinion is that they are not useful and that they should not be a part of salaries within the civil service; do you believe that that is true for other positions within public service?

[487] **Sir Derek Jones:** Not necessarily. The point that I was making, and the action that I have taken, was related very specifically to the bonus regime in the senior civil service in the Welsh context, and I would not want to generalise that, necessarily, across the whole of the public services. However, we were talking about this earlier, and I think that motivation is a much wider factor than pay and bonuses, so I would not necessarily in principle and forever want to rule out the use of financial reward as part of a performance system. However, for the moment, I am very comfortable with not having a bonus system. Also, the years of austerity in public finances are still ahead of us, I think, by most assessments, so I think that it befits the senior cadre of leaders to demonstrate some leadership in that area as well.

[488] These bonuses were not available to the staff generally. However, what I think is essential in those cases is that there is a very good, strong performance management system that is not related to bonuses, but is related to other things. In my organisation, if your performance is deemed to be below a certain level, you will not receive a pay uplift. That is not a bonus—it is the opposite. That can be motivating. I am reasonably comfortable with a tried and tested performance management system, not related to bonuses, in the senior civil service in the Welsh Government at present.

[489] **Alun Ffred Jones:** A gaf i ofyn un **Alun Ffred Jones:** May I ask one further

cwestiwn arall ynglŷn â'r taliadau diswyddo? Gwelsom yn ddiweddar yma, yng nghydestun y BBC, bod y BBC wedi bod yn defnyddio arian cyhoeddus, i bob pwrpas, i roi arian i bobl a oedd wedi cael eu siomi, neu a oedd wedi blino neu nad oeddent wedi cael y swydd yr oeddent eisiau ei chael. Roedd y BBC yn rhoi taliadau sylweddol iawn. Yng nghydestun y gwasanaeth sifil yng Nghymru, ac, efallai, cyrff cyhoeddus eraill, a yw'n arfer i dalu taliadau diswyddo pan fydd sefyllfaoedd anodd yn codi? Os oes taliadau felly yn cael eu gwneud, a ydynt yn ymddangos yn y cyfrifon? A yw'n bosibl adnabod niferoedd y bobl a faint yw swm y taliadau hynny?

question in relation to redundancy payments? We saw recently here, in the context of the BBC, that the BBC had been using public funds, to all intents and purposes, to pay people who had been disappointed, who were tired or who had not received the position that they wanted to receive. The BBC was making substantial payments to those people. In the context of the civil service in Wales, and, perhaps, other public bodies, is it a practice to make redundancy payments when difficult situations arise? If so, do they appear in the accounts? Is it possible to identify the number of people paid and what the amount of the payment is?

[490] **Sir Derek Jones:** The civil service does make use of redundancy settlements. The Welsh civil service has done so considerably in recent years, because of a need to bring the workforce pay bill down to meet some very tight budgets. That, as a matter of preference, has always been done by voluntary redundancies, rather than compulsory ones. It has also been done within the context of a fairly demanding value-for-money test. So, if there is to be a voluntary redundancy and a severance payment, that has to pay back—I think, Peter, that the normal benchmark is within two years—through the salary saved in order to be approved.

[491] **Alun Ffred Jones:** I fully understand that, but I am actually referring to senior officers—you talk about severance pay—when situations arise, where there are conflicts, or there are all sorts of possibilities, and senior officers are more or less being paid to leave or drop out.

[492] **Darren Millar:** It is in relation to a point that the TaxPayers Alliance has made in its written evidence, which suggests that, sometimes, in the public sector there is a perception that people are rewarded for failure and given big leaving packages, even though they have failed to deliver the services that they were required to deliver or they have failed in terms of performance. Is that happening in the civil service?

[493] **Sir Derek Jones:** Not in my bit of it, Chair.

[494] **Darren Millar:** Okay. What about the NHS, Mr Sissling?

[495] **Mr Sissling:** No.

[496] **Darren Millar:** Are you confident of that?

[497] **Mr Sissling:** Yes.

[498] **Mr Kennedy:** Could I just make a clarification? It might seem very technical, but redundancy is a particular activity. It can confuse people and it can be very emotive. We are talking in these circumstances about a voluntary—

[499] **Darren Millar:** There is a distinction between the two.

[500] **Mr Kennedy:** Yes.

[501] **Darren Millar:** Of course there is. I suppose that if someone has departed via a

compromise agreement, the public has an interest in what the terms of those compromise agreements might be and the difficulty in trying, as a taxpayer, to look at that because of confidentiality arrangements, for example, which might have been established as a result of the compromise agreements. So, it can be quite difficult even though there may be significant sums of public money involved for the public to understand the sort of payments and the level of payments that might have been made. I turn to Sir Derek.

[502] **Sir Derek Jones:** It is a matter of transparency again, I think.

[503] **Darren Millar:** Do you think that it should be a requirement for the terms of compromise agreements to allow for public disclosure in terms of any pay-offs under compromise agreements?

[504] **Sir Derek Jones:** It is not something that I would want to try to prescribe. If you are talking about confidentiality agreements in the way that is sometimes referred to as ‘gagging clauses’, I see no appropriate role for them in the public services at all. It is always best to say ‘except in exceptional circumstances’, although I cannot quite imagine what those circumstances would be. The compromise agreement itself is an agreement between the employee and the employer, which is why I hesitate. There are matters of employment law involved as well. So, I would hesitate to suggest any kind of general prescription.

[505] **Darren Millar:** Is your question on this, Mike?

[506] **Mike Hedges:** It is on this. Yes, people have their redundancies and they have their redundancy sums. What can make a huge difference to the total cost to an organisation is when they have additional years added to their pensions and immediate access to their pensions with no actuarial reduction. That can actually cost as much as the redundancy itself. When you calculate the cost of someone leaving, are those added to it?

[507] **Sir Derek Jones:** I do not know. The colleague on my left might know.

[508] **Mr Kennedy:** For the civil service, the compensation scheme rules were changed a few years ago—I forget exactly when. That opportunity to enhance the salary by a maximum of six and two-thirds, which is my recollection, was removed. We have no facility to do that across the civil service, let alone the Welsh Government.

[509] **Mike Hedges:** What about early access to a pension with no actuarial reduction?

[510] **Mr Kennedy:** Early access to the pension is an individual’s right subject to actuarial reductions. I am fairly confident that individuals are not even allowed to use a compensation payment that they get to offset the actuarial reduction.

[511] **Sir Derek Jones:** You are talking about the rules of the civil service pension scheme. The same rules may not apply everywhere else.

[512] **Mike Hedges:** They do not.

[513] **Mr Kennedy:** We have some individuals in the Welsh Government who are employed mainly in the local government pension schemes who may have that facility. We do not. We apply the same rules.

[514] **Mike Hedges:** The point that I was making is whether that will be shown as part of the cost.

[515] **Mr Kennedy:** It is not relevant to us because—

[516] **Mike Hedges:** No, but does it happen in other parts of the public sector? We are discussing the whole of the public sector here, not just civil servants. Do you want to let us know later?

[517] **Sir Derek Jones:** I think that you have stretched our knowledge to breaking point on that question.

[518] **Darren Millar:** The fundamental issue is whether the sums should be disclosed, and whether there should be more openness and transparency, so that the public can get a grip and understand the settlement arrangements that people might come to when taxpayers' money is involved.

[519] **Sir Derek Jones:** Yes.

[520] **Darren Millar:** That is great. It is over to you, Aled.

[521] **Sir Derek Jones:** It should also be in the accounts, which I think Alun Ffred Jones was asking about.

[522] **Aled Roberts:** I have just two brief issues, really. Is there NHS Wales guidance on the use of compromise agreements, because certainly the practice at various health boards seems to differ greatly? Given the specific examples that have been quoted in the TaxPayers Alliance evidence that relate to the NHS, is the individual employed by the health board or by NHS Wales? The evidence cites examples, albeit that they were in England, which have been reported in *The Times*, where individuals received substantive packages—one in the region of £375,000—and then remained within the employ of the NHS, although I guess that it might have been in a different body. On the Welsh point, are they an employee of the NHS in Wales or could they get a package from Betsi on the Friday and move to Hywel Dda on the Monday?

[523] **Mr Sissling:** The first question that you asked was on confidentiality agreements. There is guidance that has been publicised by NHS employers that sets out the arrangements that should pertain, which have been established, I think, on a UK basis. They are certainly the ones that we would utilise in terms of current good practice. The—

[524] **Aled Roberts:** Would you monitor what might be perceived as excessive use of confidentiality or compromise agreements by a certain health board?

[525] **Darren Millar:** Is there a threshold by which they are referred to you, for example?

[526] **Mr Sissling:** In terms of confidentiality agreements, we would want them to make us aware of the use of any confidentiality agreements, absolutely.

[527] On your second question, the kind of scenario that I understand was described in the material related to people employed by individual NHS bodies. There would be restrictions against the kind of scenario that you described happening in the NHS in Wales.

[528] **Sir Derek Jones:** It is crucial that this guidance exists and is adhered to. Again, it is a matter of public trust and confidence. If somebody is leaving a health authority, the public will always want to know that they remain nevertheless, having left, free to say anything they want to about the standards of care in the health service in that area. Nothing in a technical compromise agreement should cause any doubts to exist about a person's liberty to carry on doing what the public would want them to do—sometimes it is called whistleblowing, but in my view it is just telling the truth about any legitimate concern. That guidance exists and it is

very important that it is adhered to.

[529] **Jenny Rathbone:** If performance management is to be adhered to rigorously across the board, there will evidently be some people who will fail on the grounds of competency or capability. What are the procedures then? Do they receive payments to go? Is that what the TaxPayers Alliance calls 'payments for failure'?

[530] **Sir Derek Jones:** Are you asking generally, or—

[531] **Jenny Rathbone:** I am asking generally, yes.

[532] **Sir Derek Jones:** In the civil service, if it is a clear case of sustained underperformance that has not been corrected, then the person leaves without any financial compensation.

[533] **Mr Kennedy:** They are dismissed.

[534] **Sir Derek Jones:** This is rare, and it is good that it is, because if you recruit well, train and develop it should be very rare for anybody, particularly at a senior level, to come to that point. I do not know what the situation is in local government, I confess. David might have an answer.

[535] **Mr Sissling:** That position was enabled and assisted by recommendations that this committee made. We are currently finalising a procedure that sets out the arrangements that would apply, to confirm and strengthen them, should performance problems of the type you describe develop in the NHS in senior post holders.

[536] **Mohammad Asghar:** What do you think about democratic accountability? Is it sufficient in Wales to control senior people's salaries in the NHS?

[537] **Sir Derek Jones:** Democratic accountability I would immediately associate with the local authority sector. I cannot see any reason in principle why it should not be adequate. It is the fundamental accountability. An elected authority's accountability to the people would certainly extend to its ability to properly manage senior pay and performance. The committee's question in part is to look at whether it is working in practice as well as in principle. In the health service, I suppose it is the democratic accountability at central or Welsh Government level that would ultimately operate. Again, I can think of few areas of Government business where the public is as careful and rigorous in its scrutiny of what the Government does as the field of health.

13:45

[538] **Darren Millar:** We have just two final questions. We referred to the postponement, if you like, or the suspension of the bonus payments system within the Welsh civil service, Sir Derek. Can you tell us whether that has had any consequences in terms of increased fixed salaries for people within the Welsh civil service, given that people would have expected perhaps an annual bonus if they hit their performance criteria? Has there been no uplift in salaries as a result?

[539] **Sir Derek Jones:** The senior civil service, as I mentioned, will get the same deal as the whole of the organisation, which, at the moment, means that we are talking about 1%. That is pretty standard across the civil service, actually—a 1% annual pay uplift. So, that has no effect—

[540] **Darren Millar:** And the senior civil service has been happy, in effect, to take a pay

cut then? Is that right?

[541] **Sir Derek Jones:** Well, I do not think that I would call it a pay cut. The—

[542] **Darren Millar:** Well, if they are expecting bonuses on an annual basis and they have traditionally received them, it is.

[543] **Sir Derek Jones:** The bonus system was that no more than 25% of the senior civil service cadre could qualify for one. So, there was always a large majority that was not likely to. When I arrived in this post about 15 months ago and began to ask questions about these things and listen to what people were saying, the clear message from the senior civil service cadre was that it thought that this was just a divisive arrangement that was not motivational and that was causing what you might call reputational damage in the outside world because of the rather toxic nature of the concept of the bonus at the time. It was mostly to do with banking; it was not really anything to do with the civil service, but you can understand the sentiment, I think. It is a group of about 150 people and I would not say that they were completely unanimous about it, but the centre of gravity of opinion was that we would be better off without it.

[544] **Darren Millar:** So, they were not compensated for the loss of the bonus in any way.

[545] **Sir Derek Jones:** No.

[546] **Darren Millar:** Just as a matter of interest, what was the average size of bonus in the Welsh Government?

[547] **Mr Kennedy:** There is a range that is permitted across the civil service, which is subject to grade. It goes up to a maximum of £15,000, I think. We set a standard of £7,000 across all grades.

[548] **Darren Millar:** Okay, £7,000.

[549] **Sir Derek Jones:** It is not the same in other parts of the UK civil service, Chair.

[550] **Darren Millar:** Very quickly, you have set out in your paper the different approaches to senior pay in different parts of the public sector—local government, the NHS, schools, et cetera. The Welsh Government, of course, holds the purse strings for the Welsh public sector in general. Does that not give you more influence than is being suggested by your paper in the sense of saying, ‘Well, we can’t touch these, because they’ve got their own arrangements in place’? You attach grant conditions as a Government all the time to different organisations when they apply for money. Can you not attach some conditions to the finances that you make available to these different parts of the public sector, thereby influencing in some way the pay arrangements for senior managers?

[551] **Sir Derek Jones:** I do not think it is quite a case of, ‘Well, we can’t go there’. I think that I need to work through the different sectors. We have talked a bit about the civil service. That is pretty well—. Actually, senior civil service matters are not fully delegated, interestingly enough. However, we have talked about that and that is a fairly clear Government hands-on approach—

[552] **Darren Millar:** In terms of the very senior managers.

[553] **Sir Derek Jones:** Since 2009, I think that there has been a fairly definite Government hands-on approach to setting senior pay. There are some high salaries in that area, but they are fixed and have remained the same since 2009. Sponsored bodies we have talked about.

They have their own boards and the boards have their accountabilities but there is also a reference into Government and we look at markets, consistency and job weighting for sponsored bodies. Then there is local government, and I would go back to the questions that Jenny Rathbone was asking me earlier. It is not that the Government is saying, ‘Well, we can’t go there’; it is just that it has always been the case that the fundamental accountability was with the elected authority, and the Government’s moves recently have been to try to improve transparency in governance across those bodies, while leaving the fundamental accountability with the authority. That is the current position, Chair, and you have allowed me not to try to go any further in anticipating what else the Government might do in response to Williams.

[554] **Darren Millar:** There is an opportunity, potentially, should this be a policy that the Government wanted to pursue, to allow for greater control and greater influence over the consistency of arrangements through the fact that the Welsh Government holds the purse strings. I am not asking you to say whether that is something that you would support or not, I am simply asking this: is that something that it is possible to use, namely that power over the purse strings, to influence the pay and remuneration arrangements?

[555] **Sir Derek Jones:** I am trying to think whether there are any purse strings that I have not mentioned that we could further tug. If there are, then, yes, a Government could aim to do that, although I think—I am reverting back to, perhaps, a personal view here; it is where I started off, I suppose—that this is a large, complex system with many employers and many different accountabilities, and the best results will come, in part, from transparency, visibility and good governance, rather than central control.

[556] **Darren Millar:** Jenny is next.

[557] **Jenny Rathbone:** The Welsh Government is very keen on collaboration between different bodies and between local authorities. Given that performance managing the chief officer of a local authority is quite a challenging job for any elected councillor, is there any legal barrier to, for example, the head of HR of a health body, a fire body or another public body, sitting on the performance management committee of a local authority, to give independent advice?

[558] **Sir Derek Jones:** I do not think so. You asked whether there is any legal barrier; I always like to answer questions like that with the advice of a lawyer, but I do not think that there is. Something along those lines, rather like the role of a non-executive, somebody coming in to an organisation from another field, well-informed and experienced, and bringing that knowledge and experience to a remuneration panel or a performance management panel as a non-executive, seems to me to be good practice.

[559] **Aled Roberts:** We have a plethora of regional organisations now, some of which involve secondments from local government, or health organisations in some instances, and others involve people who are employed by the regional organisation. I am just thinking that I am not aware of what the arrangements are for the accountability as far as performance or remuneration is concerned, because those staff would not fall within the ambit of one individual local authority. So, does the Welsh Government have any role—

[560] **Sir Derek Jones:** Are you asking about regional bodies?

[561] **Aled Roberts:** Yes. I was just thinking of regional education consortia and there are regional social services commissioning arrangements. There is a lot of criticism regarding the lack of democratic accountability for those bodies, but, thinking it through, what are the governance arrangements as far as remuneration is concerned.

[562] **Sir Derek Jones:** There are regional transport authorities as well.

[563] **Aled Roberts:** For now.

[564] **Sir Derek Jones:** I think that I would like to come back to you on that. I am really not sure. I think that, normally, one of the authorities participating in the partnership will, if necessary, provide the employer element for the consortium, and so that would provide for the governance and employer arrangements. However, it is a serious question, and I do not really know the answer for sure, so I would like to come back to you on that.

[565] **Aled Roberts:** One witness this morning mentioned that, where there are different arrangements for different strata among the employees, there can be some tensions where, perhaps, the upper level is subject to more transparency and accountability and there is a downward pressure, but that might not apply to the—. I am thinking of the difference between a chief executive's salary, for instance, and a director's salary within local government, and where that might create difficulties as far as the attractiveness of the more senior post is concerned, compared with the other one. Also within local government, where perhaps local government salary posts themselves are not as attractive as other posts that are dealt with at a UK-wide level, I am thinking in particular of headteachers, who historically would have been employees of the local education authority, and where headteacher salaries now, in some instances, are a lot more attractive than those of a head of service or assistant head of service within local authorities.

[566] **Sir Derek Jones:** As far as chief executives in local government, or elsewhere in the civil service, are concerned, are you saying that the need for transparency might make those sorts of posts unattractive?

[567] **Aled Roberts:** It is interesting that, with some of the salaries that have not been subject to this inflation over the last four or five years, we are told that that is due to more robust arrangements of democratic accountability within authorities. So, there has been a downward pressure, but those same downward pressures cannot apply to head of service arrangements, for example, which are subject to pure job evaluation exercises.

[568] **Sir Derek Jones:** It may be uncomfortable from time to time, but transparency in these areas is just absolutely vital. I would not want to move off that. The headteacher example is a good one in that it is what has come out from the audit office's report. These are not comparisons that we are accustomed to making, and it is informative to make them and to have these sorts of data brought together within one report.

[569] **Darren Millar:** Just on the subject of schools, obviously school governors are responsible for setting the pay and conditions for headteachers, but it does appear that there are some outliers in terms of the pay of headteachers—some are within the £125,000 to £149,000 pay band, for example, in Blaenau Gwent as a local authority, whereas in others, the maximum band that is being used is between £75,000 and £99,000. That is obviously a significant disparity. Is there any guidance that the Welsh Government currently gives to governing bodies on the setting of pay? I know, for example, that a previous Minister for education sought to initiate training requirements for governing bodies. Does this feature anywhere in those training requirements?

[570] **Sir Derek Jones:** I do not think so, Chair. It is another one on which I would like to check to be sure. We are in a non-devolved area here, with teachers' pay, and at least to some extent, what might look like anomalies in pay probably reflect very different challenges. You do not have to go back very far, I do not think, to hear arguments about the risk of society undervaluing the role of teachers and headteachers, and the need to improve their remuneration. The role of the headteacher in turning around the performance of a failing

school, for example is absolutely crucial—that has been well-evidenced, I think—not just in Wales, but certainly in England as well. The awareness of that has meant that rewarding that kind of top-level performance has been seen to be worth while, given the number of lives it might transform. I do not think that that is Welsh Government territory, so I do not think we have issued guidance to governing bodies, but I will check.

[571] **Darren Millar:** Are there any other questions from Members? I can see that there are not. That brings us to the end of the session. Thank you very much Sir Derek, Peter Kennedy and David Sissling for the evidence that you have provided. You will get a copy of the transcript from today's proceedings and a note from the clerks if there is any information that you have promised to send on to us to help inform us. I am very grateful for your attendance, especially with the change in the timing of arrangements. We appreciate that very much.

[572] **Sir Derek Jones:** You are welcome. We always try to—[*Inaudible.*]—Public Accounts Committee. [*Laughter.*]

13:59

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[573] **Darren Millar:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[574] Do any Members object? I see that there are no objections.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 13:59.
The public part of the meeting ended at 13:59.*