

National Assembly for Wales  
Public Accounts Committee  
PAC(4)-SMP05  
Inquiry into Senior Management Pay  
Evidence from the Association of Local Authority Chief Executives



## ALACE - Association of Local Authority Chief Executives

### Submission to the Public Accounts Committee Inquiry into Senior Management Pay in the Welsh Public Sector

January 2014

ALACE, the Association of Local Authority Chief Executives, is the trade union that represents the interests of the chief executives and senior managers of the local authorities in England, Wales, Scotland and Northern Ireland. The Council of ALACE forms the "staff side" of the Joint Negotiating Committee for Chief Executives, the body responsible for the salary and terms/conditions of employment for chief executives.

The Association also represents the interests of its members in responding to draft legislation and regulations which affect the role of the 'head of the paid service', together with issues such as the reorganisation of local government. Membership has also recent years been extended to local authority chief officers and to other agency chief executives connected with local government – e.g. regional assemblies, regional development agencies, Police Authorities and other similar bodies.

ALACE is pleased to submit the following evidence to the Committee, and we trust this will assist in the Committee's deliberations on the subject of senior management pay in the public sector.

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31 January 2014

# **Evidence to the Welsh Public Accounts Committee Inquiry into Senior Management Pay in the Public Sector**

## **1 Complex and Demanding Roles**

1.1 It is widely accepted that chief executives and chief officers in local government have very complex, demanding and publicly accountable jobs. The Audit Commission's 2008 document 'Tougher at the Top' recognised this in describing the changing context for top appointments:

'There have been a series of changes in local government in recent years which have affected the job of a local authority chief executive. These include:

- an emerging consensus that effective political and managerial leadership are fundamental in creating high-performing local authorities;
- the need for a new facilitative style of leadership to reflect local government's role in delivering better outcomes for their areas in partnership with others;
- greater public accountability for performance
- specific changes in the scope and complexity of the role of chief executives.'

1.2 Since that report was published, the demands on the top post-holders have only become more complex and more challenging, with increased public expectations on service delivery, significant economic and financial pressures caused by the recession and the pressures on public finances, and extremely challenging workloads in the areas of child protection and adult social care.

1.3 The top managers in local government manage very complex organisations and are responsible for life-and-death decision making on a daily basis. These are not jobs for the faint-hearted.

1.4 If local government is to attract and retain chief executives and senior managers of a high calibre, adequate remuneration needs to be paid in the context of alternative public sector jobs. The public's democratically elected representatives - the local councillors - decide the level of remuneration on the basis of the size of the job (the range of services to be provided, the numbers of employees and the size of the local population), together with other factors like the scarcity and market cost of the skills and experience they need as well as the perceived difficulty in attracting the right kind of person to their area.

1.5 It is ALACE's view that senior management in local government is lean compared to other parts of the public sector (such as the NHS). There has been significant downward pressure on salaries over the past five years - as can be evidenced by the lack of cost-of-living pay awards, and the salary levels of vacant senior posts, which are being advertised at levels substantially lower than in the past (e.g. Cardiff chief executive post). There is also evidence that senior salaries in Wales are being pitched lower than comparable jobs in England.

## 2 Objective job evaluation

2.1 For at least the past two decades, 'job evaluation' has been commonplace within local government, measuring not just top pay but all pay. Job evaluation frameworks provide a scientific and objective basis for measuring the 'value' of a role in terms of its content and complexity, and the level of skills required to undertake the role. There are a range of specific job evaluation methodologies in use, but they share the characteristics of objective assessment. The driver behind this was not top pay, but legislation on equal pay. Thus, objective measurement of 'value' in local government work is a long established and operationally effective principle, and is widely perceived as fair. Pay grades are published within the organisation and on advertisements for vacant posts, and there is no scope for individual employees to negotiate their own preferential rates outside of the formula mechanism (unlike in the private sector).

2.2 Senior salaries are set with reference to the pay grades of the workforce that these managers lead, and with reference to the conditions in the local employment market.

2.3 Two points are key here:

- 1) that there must be pay differentials between the tiers in the hierarchy of the organisation. The norm that the person doing the managing is paid more than those they manage is a central component of the evaluation system;
- 2) that Councils must have the flexibility to supplement the objective job value in order to respond to scarcity and market dynamics, or in order to obtain a particularly desirable skill-set or particularly experienced post-holder.

In our experience, Councillors are very aware of the balance they need to strike between competitive pay grades and prudent custodianship of public money.

2.4 ALACE believes that it is necessary for senior local government staff's pay to be assessed objectively, with regard to the demands of the role and the prevailing conditions in the marketplace. Too often in the recent past, Council chief executives have been faced with arbitrary calls for their pay to be pegged to that of the UK prime minister - which is a spurious comparison of two very different roles. Chief Executives are skilled professionals for which there is a very competitive marketplace.

2.5 Moreover, there is little genuine understanding of the real total remuneration of the Prime Minister. The Hutton Report on Fair Pay in the Public Sector (published in 2011) concluded that the Prime Minister's total remuneration could be valued at around £580,000, and recommended that *"the Government should refrain from using the pay of the Prime Minister or other politicians as a benchmark for the remuneration of senior public servants, whose pay should reflect their due desert, and be proportional to the weight of their roles and their performance."*

### **3 Openness and Accountability**

3.1 Openness and transparency are hallmarks of local government, and our sector leads the way in this, when compared to other services, such as the NHS, Higher Education or Housing Associations. Councils exist to serve the local community, and to be accountable to local residents, and this ethos is deeply engrained into the sector's top managers. It is very easy for local taxpayers to obtain information on the levels of remuneration of the top managers in their Council. Much more information is available to the public about local authority pay than about any other local public services - for example the local hospital or university, or larger public institutions such as the BBC.

3.2 ALACE would argue that this is a good thing. Indeed, if the same high standards of openness were applied across the public sector, local taxpayers would be far better able to make meaningful comparisons about the value of public sector job roles. ALACE would like to see other parts of the public sector being bound by the same requirements for openness and transparency as local government.

3.3 Crucial to that open accountability is local decision-making by locally elected representatives, informed by expert advice on job evaluation and market conditions. Local Councils are best placed to know and understand their communities, and the needs of their authorities, and the discretion of individual Councils to take their own decisions on senior pay should not be fettered or undermined.

3.4 However, ALACE has no difficulty with the proposal for the Independent Remuneration Panel to be a statutory consultee on any proposal to increase or decrease chief executive pay (except in line with universal pay rises or cuts). Our view is that this process will act as a safeguard against the risk that a maverick Councillor might seek to force through a disproportionate cut to an individual's pay.

### **4 Performance Evaluation**

4.1 The evaluation of the value of a job role is very different from the evaluation of an individual's performance within that role. The measured value of a primary school teacher's job, for example, says nothing about whether any individual teacher is good, bad or indifferent in the performance of that job.

4.2 Pay with a significant element that is performance-related has always been a relatively rare phenomenon in local government – largely as a consequence of the relative complexity involved in seeking to measure the productivity of the job roles involved. Performance bonuses for chief executives and senior managers in local government have been offered by some Councils – generally linked to the desire for rapid and significant turnaround in the results achieved by the Council, but generally modest in scale (typically only between 5 - 10% of salary). However, there has been a definite trend for Councils to abandon or refuse to pay these performance bonuses since the start of the recession.

4.3 This means that the basic rate of pay is even more important, therefore, in ensuring that the senior roles remain sufficiently attractive to encourage skilled people to apply for them.

## 5 The Squeeze on Senior Local Government Staff

5.1 Basic pay across the local government sector has been either static or reducing over the past five years. Nationally, local authority chief executives and chief officers have not had an annual cost-of-living pay award during this period, and many of the additional incentives that used to be common across the sector - such as lease cars and private health insurance - have been cut out.

5.2 The local government pay package has traditionally been significantly lower than that for comparable job roles within the private sector. The public sector 'deal' was traditionally been that individuals worked for less money, but received a more reliable pension at the end of their working lives. This norm is in the process of changing fundamentally:

- Disproportionate employee contribution rates have been introduced for senior staff - up from 6% of salary in 2007 to 12.5% in 2014.

This is an entirely political increase, designed to demonstrate that senior staff are being made to pay more, ignoring the fundamental point that they have always paid more because their pay is higher. These rates compare particularly unfavourably with civil servants contributions of only 3.5%.

- Punitive reductions in the annual and lifetime pension tax allowances (annual down to £50,000 in 2012 and then reduced again to £40,000 in 2014, and lifetime down from £1.8m to £1.5m in 2012 and £1.25m in 2014).

These tax changes are already having the effect of driving senior staff out of the pension scheme altogether, which deprives them of the benefits of the scheme, and the benefit of the employer's pension contribution of 14.5%.

5.3 Moreover, any senior employee who receives a pay increase or wins a promotion is now likely to face a punitive in-year tax bill, sometimes for tens of thousands of pounds, based on the increase in book value of their pension. As time goes on, and the tax allowances are squeezed still further, this could act as a significant deterrent to individuals seeking promotion up the career ladder, because of the financial penalties.

5.4 Thus, there are a significant range of pressures on the top earners in local government, above and beyond the issue of the erosion of basic pay levels.

## **6 Risks for the future.**

6.1 There is plenty of evidence that the most important determining factors in the success of a local authority are:

- the calibre of the chief executive
- the calibre of the elected Leader
- the strength of the relationship between the two.

Therefore, the sector's ability to recruit high calibre chief executives and senior managers is crucial – and it is undoubtedly the case that adequate remuneration is very important in the sector's ability to recruit to top jobs.

6.2 The more senior local government pay is used as a political football, the less attractive the profession appears to potential recruits. ALACE believes that it is essential to the future of local government that it continues to attract the best talent into the sector. To do that, reward levels must be seen in the market place as attractive, and the roles themselves must be seen as well-regarded and valued.