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## Public Accounts Committee

### Response to question about Finance Wales

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At the Committee's session on public sector pay on 13<sup>th</sup> February, I agreed in response to questions to provide a brief statement about our current project work with Finance Wales. The statement follows below.

Hay Group responded to an Invitation to Tender submitted by Finance Wales in September 2013. The services requested in the tender titled 'Review of Remuneration Policy' were prompted by the following factors:-

- the continuing uncertainty regarding pay and benefits in the financial services sector;
- the increasing focus on this area by regulators; and
- the elapsed time since Finance Wales last reviewed its remuneration policy.

The terms of reference of our review are as follows:

- a "root and branch" review of remuneration policy and practice – covering all elements of remuneration and for all employees; and
- a process for annually benchmarking salaries to ensure that Finance Wales remains market-competitive.

The policy is to be based on discussions with employee groups and the senior management team, supported by salary benchmarking and an internal equity analysis. Policy recommendations will be subject to approval by the senior management team before being put forward to the Remuneration Committee for further discussion and ratification.

Hay Group will provide recommendations and advice relating to remuneration policy based on our assessment of Finance Wales pay practice relative to the market, adherence to the principles of equal pay for work of equal value and an understanding of the business and talent needs of the organisation in future.

The project is due to conclude with a presentation to the Remuneration Committee in late March.

**Peter Smith**  
**Hay Group**  
**March 2014**

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## Public Accounts Committee

### Response to question about local government pay

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At the Committee's session on public sector pay on 13<sup>th</sup> February, I agreed to provide further comment on the comparison between top pay in local authorities in Wales compared to England.

First, salary levels. The salaries of chief executives of unitary authorities in Wales were set out in the memorandum Senior Management Pay across the Welsh Public Sector, prepared for the Public Accounts Committee by the Wales Audit Office (WAO). We are able to compare these with pay in local authorities in the UK excluding London recorded in Hay Group's salary database.

It is clear from the WAO figures that there is some variation in the pay of chief executives for authorities and jobs of similar size. However, the average pay of chief executives of unitary authorities in Wales is about 90% of the median pay for jobs of similar size in councils across the UK (excluding London), and about 88% of the average.

Second, salary trends. The WAO figures show that, out of 22 unitary authorities in Wales, the salary is higher in 2012/13 than it was in 2009/10 in ten cases, the same in six and lower in six. The average pay for those chief executives has risen by some 2.3%.

This is different to the trend in England, where average chief executive and chief officer salaries have fallen in recent years; both Hay Group and other sources indicate a drop of 10% or more since 2010. This has typically been achieved not by cutting current salaries, but simply by recruiting replacements on lower pay.

Overall, therefore, the pay of council chief executives in Wales has risen slightly during a period when it has fallen in England – so it has caught up a little - but it is still well below the median and the average for jobs of similar size in local government.

**Peter Smith**  
**Hay Group**  
**March 2014**

Following the evidence session with the Taxpayers Alliance on 6 March, the Hay Group was asked for further information. They have advised that they are not able to give examples of advice where we/I have advised that the current level of remuneration is enough or too high – our comments and recommendations are confidential to the client and are also hesitant about naming any specific organisations in response to your question about performance related pay.

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## Public Accounts Committee

### Performance management and pay in the public sector

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The Committee has asked for comments on how performance is managed in the public sector and how performance is and might be linked to pay. It would not be appropriate to identify specific organisations, but the comments below highlight some of the ingredients of good practice.

#### Performance management

Many public sector organisations struggle to manage performance effectively, for several reasons:

- Many public bodies are complex, and they operate in an uncertain environment. They do not have ready measures of success like profit or market share. In local government, for example, although it should be possible to define success in individual services, it is not easy to describe and communicate the purpose and value of the organisation as a whole.
- It is necessary to manage performance at two levels at the same time: ensuring basic services are delivered and risks are controlled; and driving improvements over time. Organisations and individuals find it hard to handle both simultaneously. (An example is the understandable focus of hospitals at the moment on zero harm. The objective of causing no harm has a long and respectable history, embracing Hippocrates and Florence Nightingale, but it surely has to sit alongside healing people and improving services).
- Management disciplines are weak. Many public service managers do not see the vital importance of the impact they have on individuals and teams. In addition, they often do not recognise the value of the performance management cycle: clarify what is required; provide support and development to enable good performance; give feedback. It is common for staff surveys in the public sector to criticise the quality of managers and in particular to say that poor performance is not tackled properly.

None of these things is an excuse. The fact that public sector organisations are complex makes it all the more important to define what they are for and what they are trying to achieve. Employers throughout the economy have to combine multiple layers of performance and cannot even survive let alone prosper without doing so. Leaders and managers everywhere need to be selected carefully, invested in, and developed to be good at their job.

Public sector organisations which are good at performance management:

1. Provide a clear starting point – an overall strategy or plan which informs what everybody does.
2. Create alignment – so individuals and teams throughout the organisation understand how they contribute to the whole and what is expected of them.
3. Have a well-rounded performance model, which helps people to understand their core responsibilities and what would constitute real success, identifies how they should represent the organisation and contribute to their team, and covers both objectives and behaviours.
4. Develop and sustain a culture of clarity, supportiveness and feedback, led by example from the top.

5. Keep on investing in the capability and quality of leaders and managers.

### Links to pay

How pay should be linked to performance is a matter of debate. There is room in the public sector for many different approaches. However, most organisations have not thought this through, for example because:

- They have inherited pay systems established long ago and simply operate them unthinkingly.
- They are distracted by misleading beliefs (e.g. ‘performance related pay doesn’t work in the public sector’) or by assumptions (such as ‘people here aren’t motivated by money’) which do not fully answer the presenting question.<sup>1</sup>
- They know the pay system needs reform, but feel it is simply too difficult.

However, pay costs form a large proportion of total costs in the public sector and the way people are rewarded sends important messages about what the organisation values. Sooner or later, all employers need to review pay and its relationship to performance.

I would begin that process of review with a number of points in mind:

1. It is odd to have no connection between pay and performance. An organisation which offers pay increases when it is performing badly, and which pays people the same whether or not they perform well, is wasting money and conveying a damaging message. Employee surveys in the public sector suggest that poor performance is handled particularly well, and the fact that poor performers get paid the same as others may be part of the concern. An important starting question for any review is: what do we want to reward?
2. All basic salary systems offer some prospect of progression and that has to depend on the performance or contribution of the individual. There has been increasing concern about the costs imposed by automatic increments; it is now Government policy that there should be no automatic, time-served progression, and that something else has to be put in its place.
3. Apart from this link to basic salary, there are plenty of other ways of connecting performance and pay – individual and collective annual bonuses, long term incentives, recognition etc. Whether these are appropriate and for whom will depend on:
  - What the organisation wants to communicate or reinforce, what it is prepared to include in policy and how strong its performance management processes are.
  - The nature of the work and the roles. For example, some activities are delivered through interaction across a team, whereas others are more concerned with individual advice and casework. Some jobs shape services and deliver results over a year or more, while others produce immediate services to the public.

<sup>1</sup> Relevant evidence includes the work of David Marsden, for example: *The paradox of performance-related pay systems: why do we keep adopting them in the face of evidence that they fail to motivate?* (2010). Also Peter Reilly, Jane Phillipson & Peter Smith: *Team based pay in the United Kingdom* (Compensation & Benefits Review 2005).

4. The relationship between performance and pay does not have to be the same throughout an organisation. It might vary by level or type of role.
5. The place to start is not the performance of the individual – even though that may be relevant – but the performance of the organisation. Changes in the overall paybill cost have to be affordable, and pay should only increase if the organisation's finances and performance justify it. Any effective definition of the contribution made by individuals and teams must begin with an understanding of how they relate to the plans and priorities of the organisation. And the public sector assumes too readily that performance related pay is about the individual, when it might be more suitable to reward collective success.

Each organisation needs to create a pay policy which reflects its own needs and tastes, but that policy will only be complete and clear if it takes account of points like these.

**Peter Smith**  
**Hay Group**  
**March 2014**