



**Government response to the Communities and Local
Government Select Committee Report: Local government
Chief Officers' remuneration**

Presented to Parliament
by the Secretary of State for Communities and Local Government
by Command of Her Majesty

December 2014



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1. Introduction

On 17 December 2013, the Select Committee invited submissions for its enquiry on local government chief officers' remuneration. Following the submission of written evidence and a series of oral evidence sessions, the Committee published its report on 12 September.

The Government welcomes the Committee's report. We have carefully considered the Committee's conclusions and recommendations and set out our response below. In doing so, the Government agrees with the Committee that action in response to some recommendations would be better led by the sector.

We are pleased the Committee acknowledges that the Government's actions have helped set the conditions for increasing pay restraint for senior local government staff. The Government believes that increased transparency and accountability will continue to ensure that local decisions on remuneration of senior officers better reflect local circumstances. This will particularly be the case as the public grow in confidence about how they can challenge and influence these local decisions. The Government is grateful to the Committee for identifying ways to go further, particularly how authorities could be more transparent and accountable in the way chief officers' performance is appraised and commits to considering action in this regard.

2. Setting locally appropriate remuneration

The Committee concludes that in some cases job evaluation schemes have produced remuneration decisions which are not sensitive enough to local circumstances and need. The Committee stated the use of such schemes by a sufficiently large number of councils is valuable in providing an objective measurement of job size which enables councils to benchmark against each other; however councils must ensure that they use this information with greater regard to local circumstances, needs and priorities. Further the Committee concluded councils should have access to accurate data about what they need to pay in their local area and **recommends the Local Government Association work with regional employer organisations to provide a regular analysis of regional pay trends and help to inform the national and local debate on appropriate remuneration levels and changes. In addition, the Local Government Association should seek feedback from its council members as to whether there is a gap in the data about councils' ability to recruit and retain suitable candidates and, if necessary, commission regular surveys.**

The Government has been clear that authorities should reduce spending on consultants. This includes head hunters and recruitment consultants who can drive up costs unnecessarily. The Government supports the Committee's view that decisions on remuneration of chief officers should be tailored to local needs. Councils and fire and rescue authorities must be managed well, by people with appropriate skill and expertise. While authorities' recruitment practices should reflect this, they must also consider what is affordable and take account of local circumstances. We support the recommendation that the sector should produce relevant and timely data on local pay trends which would help elected members make better and well evidenced decisions on remunerating their most senior staff.

The Committee welcomes the fact that most councils have a relatively low ratio between the pay of the highest paid officers and staff on lower pay grades since this indicates a broad fairness within council pay approaches, in contrast to the significant gap between those in high paid and low paid jobs in parts of the private sector. **However the Committee concluded that more can be done to raise the floor for pay and commended those councils which have introduced a living wage policy for all their staff.**

The Government believes that decisions about senior remuneration must be taken in context of similar decisions on lower paid staff, particularly when public sector staff continue to be subject to pay restraint. In this context, authorities should continue to ensure that their pay policy statement describes their policy on how pay and reward should be fairly dispersed across their workforce. The Government supports those employers who choose, in light of local circumstances, to pay the Living Wage or an equivalent local living wage where affordable.

3. Assessment of performance

The Committee concluded that if councils are to award their senior staff additional rewards such as bonuses these must be sensitive to local circumstances and be based on clear evidence of personal, additional contribution. In addition, it was concluded that many councils have only weakly developed and articulated mechanisms for assessing their Chief Officers' performance and bonuses may appear to be paid to those simply undertaking their normal responsibilities. It is essential that there are robust appraisal systems for Chief Officers. **The Committee recommends that the Local Government Association updates and publicises guidance on how to appraise senior officers. Further, recommends the Department for Communities and Local Government should require councils to publish individual appraisals of officers along with the method so that local residents can see how robustly senior staff performance is assessed, and if linked to remuneration, how the performance-reward link is determined.**

The Government welcomes this recommendation on how authorities could be more accountable and transparent to the public on their processes for assessing the performance of their chief officers.

The Government believes that increased accountability and transparency will continue to have an impact on local decisions on senior pay and rewards. People need to have access to the right information in order to hold authorities to account about the decisions they are making about the management of senior staff. Having considered the Committee's recommendations, the Government agrees with the assessment that more can be done to make the approach taken to the appraisal of chief officers' performance less opaque and more readily understandable to the public. This must be done in a way that does not impede a full and frank assessment of an individual's performance and is in line with data protection requirements.

There are existing measures within the Localism Act 2011 which require councils to set out their approach to pay matters in annual pay policy statements. These statements must be approved by full council and published on an authority's website. In exercise of these functions, authorities must have regard to guidance issued or approved by the Secretary of State. The Government issued such guidance in 2012 and 2013. In light of the Committee's recommendation, the Government commits to considering how such guidance could be used to achieve greater transparency about the way authorities appraise the performance of their chief officers - including what rewards are on offer for success and how they tackle poor performance.

4. Under-performance

The Committee concluded that many councils do not have robust approaches to identify and tackle under-performance by senior staff which means some find it easier to pay them off inappropriately rather than address the underlying failure. The blurring of processes and the opaque manner in which some of these payments have been made has meant that local taxpayers may often not be aware when redundancy or discretionary payments have been mis-used. This does not deliver best value for local taxpayers. **The Committee recommended that councils must publish the rationale for, and amount of, any financial payment to a departing Chief Officer within a month of the decision to ensure that the public can understand why such a payment has been made. In addition, the Department for Communities and Local Government to ensure the public are assured that effective appraisal processes are being followed and to see clearly how problems with performance is addressed, should require councils to publish information on the method used to appraise senior staff.**

Better management can make it easier to tackle performance issues quicker, which in turn can help avoid costly exit deals. Ministers have encouraged the local government sector to take appropriate steps to help local members properly exercise their responsibilities in this regard. In this context, the Government welcomes the Committee's recommendation for the Local Government Association to update its guidance on appraising senior officers. This should include guidance on presenting and publishing such information.

The Committee has highlighted that, rather than tackling under-performance by senior staff, some authorities instead taken the decision to pay them off. This is unacceptable and it is precisely this reason why the Government intends to remove the costly and bureaucratic requirement for a designated independent person to investigate allegations of misconduct by senior officers. The Department of Communities and Local Government is working on proposals to both provide chief officers with adequate protection against unfair or improper dismissal and protection for taxpayers from having to fund costly bills.

The Government recognises that the public rightly expect access to sufficient information about the way authorities deal with poor performance, particularly if a senior officer appears to have received a large exit payment in unexplained or controversial circumstances. The Government supports the Committee's view that authorities should be more open with how decisions on such pay-offs are made and how much money is spent on them.

Authorities are already required to publish information on severance payments for chief officers within their annual statement of accounts. Such payments cannot be protected from disclosure by confidentiality agreements. The Government has also said that any decision to award a severance package of over £100,000 should be considered by full council. By following this approach authorities can ensure that such decisions are subject to appropriate scrutiny by locally elected members.

The Government would encourage authorities to go beyond these minimum expectations and to do more to ensure that the public have access to this information in a timely way. This could include adopting a policy that information will be made available within a certain period. The Government believes such policies should be determined locally by those directly accountable to local taxpayers. However, the Government is clear that authorities should not wait to be challenged by the public, the media or be prompted by a series of freedom of information requests before providing an explanation as to why individuals have left and how much money they have received as a pay-off.

The Committee welcomes the Government's moves to prevent the 'revolving door' where senior staff in receipt of large redundancy payments immediately take on another highly-paid job in the same sector, or even undertake the same work for the same council as a consultant. This does not deliver best value for the taxpayer and in cases where an individual's performance has been inadequate represents a mis-use of public money. **The Committee, if time, will wish to return later this year to look at the Government's proposals in more detail.**

The Government announced in the Queen's Speech in June 2014 its intention to introduce legislation to recover exit payments from high earners in the public sector where they return to the public sector within 12 months. The Government published a consultation on the proposals on 25 June 2014. The consultation closed on 17 September and the Government's response was published on 28 October 2014. The policy will apply across as much of the public sector as possible with only a small number of exceptions. For local government, it will mean that senior officers leaving the sector and returning in a similar role within a short period of time must repay all or part of their pay-off. The Government plan to take forward these proposals in primary legislation as part of the Small Business, Enterprise and Employment Bill, with the measures being implemented no later than April 2016.

5. Are Chief Executives essential?

The Committee recognises that innovative approaches such as removing or sharing the post of Chief Executive can reduce overall salary bills and it is right that each council considers whether such approaches will deliver best value for their communities. However, councils can be deterred by adverse local public comment where, despite net savings on salaries, this approach leads to higher salaries for some individuals whose jobs expand. **The Committee recommends the Local Government Association researches the impact on overall salary budgets of those councils which have taken such approaches so as to provide an objective evidence base. In addition, the Local Government Association should undertake an assessment as to the wider impact of sharing or abolishing senior posts on the efficiency and effectiveness of the council's leadership and management and strategic development, in order to help inform other councils' decisions. The Committee thinks this analysis could usefully assess the cost savings delivered in reduced senior management remuneration costs where communities have decided to create unitary councils.** In addition, the Committee stated they do not support the merging of the role of Leader and Chief Executive since this has the potential to blur the distinction between two quite separate functions. The posts are distinct: the Leader sets the political direction of the council; and the Chief Officer implements these policy decisions operationally.

The Government believes that the traditional model of chief executive, with a wide public role and a significant salary, is unnecessary and can weaken the ability of a council's political leadership to set the direction through the executive role of elected members. The Government has not encouraged council leaders to take on the role of chief executives. Where councils choose to operate without any form of chief executive, with a Mayor or Leader taking on this role fully or in part, it is essential that this is properly planned and that there is full democratic scrutiny to ensure that the governance and functioning of the council is not undermined.

The Government has encouraged authorities to share chief executives because we believe that this can provide stronger strategic direction over larger areas and provide significant savings.

The Government is keen to encourage districts councils to take up the challenge of sharing chief executives and other services which is why we set-up the Transformation Challenge Award in 2013. A good example of authorities taking up the challenge is West Somerset and Taunton Deane. Together the Councils bid for 72 per cent of the investment they required for their transformation programme which was designed to create a shared chief executive, a single senior management team working across both councils, and a single shared workforce. This transformation to shared arrangements has significantly reduced management overheads for both Councils whilst respecting that the Councils remain separate democratic entities with autonomy over their decision making.

The Government understands the Committee's call for more information and would support a sector-led analysis of how shared management models are working and an assessment of the wider impacts.

6. Transparency and scrutiny

The Committee consider well-informed local action to be a more effective means of moderating pay levels than centrally imposed approaches. The regulatory regime introduced since 2010 requiring publication and scrutiny by councillors of pay decisions has made it easier for communities to influence pay decisions but more can be done to ensure that full and transparent data are available. Whilst it is clear that data are being published as required by regulations, councils do so in different ways, making it difficult for local taxpayers to make comparisons with other authorities or over time. **The Committee recommend the Local Government Association collates and presents data in a format which allows local people to compare approaches in their areas within a framework of easy to understand benchmarks. Individual councils should also assess with their local residents whether the way in which they present data is easily understandable.**

The Government welcomes the Committee's comments that steps taken since 2010 to increase transparency over local pay matters have made it easier for communities to influence pay decisions. Transparency is about how councils spend public money and delivers services; about how decisions are made within councils; and about giving local people the information they need to hold their elected leaders to account and participate in local democratic processes. The availability of data can also help secure more efficient and effective local

services. The Government recently published the *Local Government Transparency Code 2014* which came into effect on 31 October 2014. The Code sets out the minimum data that must be published by councils about their financial and procurement decisions and about who takes those decisions. The first quarterly set of data must be published by 31 December 2014 and first set of annual data by 2 February 2015.

The Code requires councils to publish a range of pay and workforce information, in a timely fashion, regularly and in open and machine-readable formats. This will make it easier for local taxpayers and other interested parties, including the Local Government Association, to make comparisons among councils and/or over time. For example, councils must publish annually the pay multiple, defined as the ratio between the highest paid taxable earnings for the given year and the median earnings figure of the whole of the authority's workforce. This will help ensure that this information will become an established data-set which will be published in a timely and regular fashion.

The Government welcomes the Committee's recommendation that the sector should consider how to collate and present information to help local people make comparisons between authorities.

The Committee considered transparency on tax arrangements of councils which could be perceived to minimise tax arrangements. **The Committee recommends that councils must set out, and fully report the matter to council, when an officer is paid other than by means of a salary subject to income tax, such as via a limited company, to provide clarity on the level of tax payable under any non-standard arrangements.**

The Government is committed to tackling all forms of tax avoidance. Public appointments that involve arrangements whereby savings in tax and National Insurance contributions are made may be at the expense of other taxpayers or other parts of the public sector. The Government has said that authorities should actively review their approach to the terms of remuneration for senior appointments where arrangements exist which could be perceived as seeking to minimise tax payments. Authorities should develop, and include within their annual pay policy statements, a local policy on the use of such arrangements within their workforces. Pay policy statements must be considered by full council and published on an authority's website.

The Government has made it increasingly difficult for local payments made to sole traders or contractors to be hidden from the public. Since 2011 when the first Transparency Code was issued, authorities have been publishing regular data-sets detailing expenditure of £500 or more including those made to contractors, sole traders, and other bodies acting in a business capacity in receipt of £500 or more. The Code has now been made law which means councils are legally bound to disclose this information.

The Committee concluded that to enable effective scrutiny, frontline as well as Executive councillors must be involved. The current pay accountability guidance requires decisions on remuneration packages worth over £100,000 and decisions on severance payments to be approved by full council. **The Committee recommends the Department for Communities and Local Government should monitor how far councils are abiding by this.**

The Government agrees with the Committee's conclusion that all councillors should be involved in the scrutiny of decisions on senior remuneration. This principle has been at the heart of the Government's pay accountability reforms.

As the Committee highlights, the Government has set out its expectation that decisions about the largest remuneration packages – salaries or severance payments of £100,000 or more – should be considered by full council. The public have a right to expect that their authority will adopt these arrangements or will explain clearly in its pay policy statements why not.

Ministers have been clear that they will continue to keep the issue of senior pay and reward under review. This could include research into the number of authorities who have adopted these policies in their annual pay policy statements. However, in line with the Government's broader commitment to scale back performance monitoring of authorities and data collections, the Government does not believe that it would be appropriate to put in place formal monitoring arrangements.

Ministers will continue to apply appropriate pressure to the sector to challenge local practices on senior remuneration where those practices do not deliver an appropriate level of accountability. However, each authority is responsible for setting the terms, conditions and remuneration of their chief executive and chief officers. It must remain the responsibility of local elected members to put in place local arrangements on senior pay and reward that are fair, accountable and deliver best value for taxpayers.

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