



Communities and Local Government Committee

Oral evidence: Local government Chief Officers' remuneration, HC 1084

Monday 17 March 2014

Ordered by the House of Commons to be published on 17 March 2014.

Written evidence from witnesses:

Panel 1 (Questions 1-62)

[Taxpayers' Alliance](#)

Panel 2 (Questions 63-135)

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Watch the session

Members present: Mr Clive Betts (Chair); Bob Blackman; Simon Danczuk; Mrs Mary Glindon; David Heyes; Mark Pawsey; John Stevenson; Heather Wheeler; and Chris Williamson

Panel 1 Questions [1-62]

Witnesses: **Duncan Brown**, Principal, Performance, Reward & Talent, Aon Hewitt, and **Jonathan Isaby**, Chief Executive, TaxPayers' Alliance, gave evidence.

Q1 Chair: Good afternoon, and welcome to our first evidence session on local government chief officers' remuneration. Thank you both for coming. Before we move into our questioning, could I get members of the Committee to put on record any interests they may have around local government? I am a vice-president of the Local Government Association, so I will put that on the record, and I will just go around the table.

Chris Williamson: I have two elected members who are on my payroll.

David Heyes: Two of my staff team are local councillors.

Simon Danczuk: My wife is a local councillor, as is my father-in-law, and three of my staff are local councillors.

Mark Pawsey: One member of my staff is a local councillor.

Chair: Thank you. Heather has had to go out to another committee meeting, but I think she has an interest as well: she is a vice-president of the Local Government Association and her husband is a leader of a council. She has declared them before, so that is clearly in the public domain, and we can move on now. Thank you for coming. Could you say who you are and the organisation that you represent?

Jonathan Isaby: My name is Jonathan Isaby. I am the Chief Executive of the TaxPayers' Alliance, which is a campaign group with about 80,000 supporters around the country that campaigns for lower taxes and less waste by all those who are spending taxpayers' money.

Duncan Brown: I am Duncan Brown. I am a partner at the reward advisory firm Aon Hewitt. I have about 25 years' experience in advising organisations across all sectors in aspects of remuneration, including senior remuneration.

Q2 Chair: The TaxPayers' Alliance has talked in their submission about the escalating costs of chief executive positions over the past decade, saying, "Pay levels remain a serious concern." What evidence have you got to support that? Some of the evidence that we have is that costs are not particularly escalating; they may still be of concern, but what factual evidence have you got to support that?

Jonathan Isaby: You are hearing from Will Hutton later on, are you not?

Chair: Yes.

Jonathan Isaby: The Hutton Report that he brought out in March 2011, an independent review, highlighted the significant growth in the amount of public money being spent on top pay for local council officers, and indeed pointed out that for much of that previous decade, the growth in pay at the very top of local councils was far higher than the growth of those who were the lowest-paid in local councils. It is clear that those numbers are going up, and I would also point you to the Town Hall Rich Lists that we at the TaxPayers' Alliance have produced over time. Whilst I accept that between 2010 and 2011 the figure went down slightly in terms of the number of people earning remuneration of more than £100,000, over the previous few years that number had risen inexorably, and there was huge public concern. We were the first people to get that information out there in one place. We started doing it through FoI; eventually, the Government decided that information should be published by the councils. It is now published by local authorities, and there is always huge media interest when those lists come out, and often public outcry at the number of very senior people earning very high salaries that put them in the top 1% in this country.

Q3 Chair: Can I challenge you on two points, before I come on to Mr Brown? First of all, on pay increasing at the top end of local government faster than the bottom in the early part of this century, in recent years, from 2008 onwards, the median level of chief executive pay basically has not shifted at all. The other comparison would be that while it probably is true that there was a slightly higher percentage increase in senior officers' pay at the beginning of the century, if you looked at the private sector, that differential was an awful lot bigger, was it not?

Jonathan Isaby: In terms of the chief executive level in local government, that is a very different role from that of someone in the private sector, and I imagine we may come on to that later.

Q4 Chair: We can come on to that, but the reality was that despite the fact that chief officers' pay in local authorities was increasing slightly faster than people at the bottom end, that differential was smaller than it was in the private sector, was it not?

Jonathan Isaby: You may be right. I have not got that specific figure in front of me.

Q5 Chair: And is it not true that chief executive median pay has not increased since 2008?

Jonathan Isaby: Since the economic crisis hit, overall it has not.

Q6 Chair: That is not a cause for concern, then, is it?

Jonathan Isaby: No, it is a cause for concern, because there are councils that have still been doing it. There are many councils that have been freezing or reducing.

Q7 Chair: But generally, it is not a cause for concern, is it? It may be a cause for concern in specific examples, but a bland statement, "It is a cause for concern", is not right, is it?

Jonathan Isaby: It is a cause for concern that, in many areas, that pay has not been frozen or reduced.

Q8 Chair: But not generally?

Jonathan Isaby: In many parts of the country, that is an issue. There are examples—and, again, we will come on to these—of where pay has been threatened to go up, and there has been a public outcry that has stopped it.

Q9 Chair: Have you got any comments, Mr Brown?

Duncan Brown: In all sectors, public and private, there is good and bad practice, and we should be aiming to get more good practice and address the bad. Certainly, when Jonathan's organisation produced their first Town Halls Rich List, which I think was in 2007, it highlighted a lot of information that surprised a lot of people, including me, and a lot of that information was not publicly available. Now, the environment is very different. Most of the local authorities I deal with have clearly independent remuneration panels and committees; we have had the Localism Act and requirements on openness, and one study I read in the *Local Government Chronicle* said that a quarter of new chief executives recruited had been recruited at rates below their predecessors, so we do seem to have changed significantly the practices in the sector.

Q10 Chair: Finally, just as a follow-up about the situation, which is depicted as one where pay has not really been going up generally since 2008, there are some examples of pay going up quite sharply. Does that mean that we ought to move back more towards a stronger national framework, so we do not get examples of this big variation in some particular councils?

Jonathan Isaby: No, I would be instinctively opposed to a central diktat of what councils should do. The autonomy that local councils have is a good thing, because it allows councils to work out what works best for them and what their local electorate thinks is acceptable; moreover, it allows councils to look at what happens in authorities all around the country and look for good practice and bad practice, good structures and poor structures, and who is delivering best value for money in order to establish the best way of working.

Duncan Brown: The measurement figures can be quite difficult on this. You need to look at overall remuneration costs of the senior folk, not just any one post. In your consultation, you were asking about, for example, the effects of mergers, and that—although it reduces overall costs, because you have not got two chief executives—will almost certainly make the single chief executive bigger, and therefore the chief executive pay rate would need to be bigger to reflect that bigger job size. If you just look at chief executive pay in that situation, it might have gone up significantly. What you would not see is that there is not another chief executive there.

Q11 Chris Williamson: Jonathan, you said something about widespread public concern about the level of remuneration. I just wondered how you measured that public concern. What is that based on?

Jonathan Isaby: I am not sure it is a tangible thing that you can measure, but I would point to the example of Mr Danczuk's local authority in Rochdale.

Simon Danczuk: It is a good example.

Jonathan Isaby: It is a very good example. There was a proposal to increase the pay of the chief exec by £40,000, and reading the letters of your local paper and the representations that you received and that other local politicians received, it was utterly clear that there was public outcry at such a suggestion, particularly at a time when budgets are so tight and savings are having to be found across the board.

Q12 Chris Williamson: You have not measured it, though, by way of a public opinion poll or some scientific evidence? This is just hearsay and anecdotal stuff, is it not, saying that you see these sorts of letters in the paper? I knock on doors on a regular basis, as you will appreciate; as a local elected Member of Parliament in a marginal seat. I am out quite regularly, and nobody has ever raised this on the doorstep with me. Maybe Derby is a curious place.

Jonathan Isaby: I read a very interesting article that Mr Danczuk wrote for the *Guardian*, which suggested that his postbag showed a very clear sense of public opinion in his area when there was a suggestion to raise that pay. Actually, I think there is a wider issue here. There needs to be far more transparency from authorities about what they are proposing to do, because far too often, these decisions are cooped up behind closed doors and people are not aware of what is going on until they actually go through. Any time that councillors are making decisions about how taxpayers' money is being spent, there should be a clear, open publication of the proposal; there should be time for the public to scrutinise those proposals and make representations to their local councillors, so that those councillors can then make an informed decision based on their local residents' views.

Q13 Chris Williamson: But you have not done any scientific polling?

Jonathan Isaby: I wish I had a budget to do loads of polling. I do not, but where this has happened, it is important to look at a Member of Parliament's postbag, as an example, and the general feeling of the armchair auditors and the local media.

David Heyes: My constituency is almost next door to Simon's, and I have not had a single concern expressed to me. You take one example and extrapolate that across the country. Do you not see that this undermines the credibility of the evidence you have extensively sought?

Simon Danczuk: Just briefly to make my position clear: there is no doubt that public opinion in Rochdale ran very high in relation to the council leader's proposal to dramatically increase chief officers' pay. Now, if Oldham, Derbyshire or other authorities are not doing that, then they are not going to get the public outcry that we had in Rochdale, and I think that is where we have a difference.

Chair: We will no doubt come on to that in due course in our inquiry.

Q14 John Stevenson: Quite clearly, we want value for money for the taxpayer. I think everybody accepts that. Is value for money for the taxpayer a situation where you pay the lowest amount to secure a qualified candidate, or should we be doing something different? Duncan?

Duncan Brown: In my experience, across virtually all sectors, employers want to get the best possible person they can get at the money they can afford. Indeed, it would be a fairly depressing organisation that did not want to get the best people. That does not mean they need to pay the highest, but the evidence is quite clear that, if they are way off the market, they will really struggle to recruit a very able candidate.

Jonathan Isaby: There is clearly a balance of factors that goes on here. Taxpayers want to see value for money at the end of the day. If a candidate comes forward who can, once appointed, oversee reductions in council tax, or more efficiencies that deliver better quality, or more services for the council tax that people are paying, then that is great, and they probably deserve to be paid more. However, far too often, you see councils appointing chief executives and you see those councils increasing council tax year after year, and the public see no change in the quality or quantity of their services. That does cause public concern, absolutely.

Q15 John Stevenson: How do you monitor or measure the performance of a senior executive on a council?

Duncan Brown: Most councils that I see now are introducing independent panels for setting remuneration.

Q16 John Stevenson: That is something different. How do you measure the performance of an executive?

Duncan Brown: Generally, across local authorities, there is a whole range of published standards in key areas, including efficiency and public service.

Q17 John Stevenson: Can you give us two or three specific examples of how you would actually measure it? To say, “Oh, the service has improved,” to me, is meaningless. If you actually have a specific benchmark to measure it against, it becomes relevant.

Duncan Brown: Yes.

John Stevenson: Can you give examples of what you would foresee this being?

Duncan Brown: In local authorities, there are a lot of different measures for which you can get relative statistics to see where your council is in the league table. In my experience, the authorities pick the key ones to focus on, and if they have any performance-related bonuses, that is what they link them to. Interestingly, in the work that we did preparing for this, our pick-up was that there seemed to have been a decline in the use of bonuses at senior level amongst local authority chief officers, but whether or not it is linked to pay, it is usually done on hard metrics.

Chair: I am going to need to suspend the sitting now for 15 minutes if there is one vote, or 20 minutes if we have two. We have to go and vote now, and we will be back in due course.

Sitting suspended for a Division in the House.

On resuming—

Chair: Okay, we can recommence our session. Thank you for your patience.

Q18 John Stevenson: Jonathan, how would you measure the performance of a local government senior executive?

Jonathan Isaby: As I indicated before, it comes down to whether value for money is being given to the residents of a local area. I would judge that on whether council tax is going up, down, or staying the same; whether people are getting more or less for the amount of money they are paying in council tax; and the quality of services that they are receiving.

John Stevenson: It is actually quite hard to measure whether a particular service is of a high standard or of a poor standard.

Jonathan Isaby: Of course it is, and I am aware that some local authorities carry out polling on this kind of thing. Whether that is necessarily the best use of taxpayers’ money, I am not sure, but the results of some of the polling along those lines that I have seen do enable you to have a measure from one year to the next as to the satisfaction of local residents. I would certainly say that residents will

be particularly satisfied if they see their council tax frozen or going down, rather than going up.

Q19 John Stevenson: It cannot just be about the council tax. It has got to be more than that.

Jonathan Isaby: Of course. As I say, there are the services that go with it, but what people object to is when they often see big amounts of money being paid in salaries, disregarding performance. At the moment, the chief executive of Surrey County Council gets remuneration of nearly £250,000 a year. Council tax there has gone up 1.99% two years running; they have avoided the referendum but are putting it up as much as they can, and yet the chief executive has been promised that, if he stays in place until 2018, he will get a £100,000 bonus regardless of anything.

Q20 John Stevenson: But it could be argued that the controlling party in that local authority has decided that is not a benchmark they wish to measure their chief executive against, and it might have something to do with some particular services that they wish to see implemented. Would that not be quite legitimate?

Jonathan Isaby: At the end of the day, these are judgments to be made by local residents. I am not in a position to judge every single chief executive around the country, and nor is it my position to do so, but it is for local residents to do so, and certainly to that end, that is why it is so important there is transparency about the amounts being paid and the justifications for those.

Q21 John Stevenson: Following on from that, the TPA have been calling for a change in the culture and employment rights of senior council staff. What sorts of changes would you like to see?

Jonathan Isaby: Certainly, people need to be aware that being the chief executive of a local authority on a six-figure salary, many of them earning more than the Prime Minister, is not a job for life. There may be an argument for looking at more fixed-term contracts subject to renewal. You guys know about that: every five years, you get your contracts renewed, or not, as the case may be. Also, at the end of that fixed-term contract, if it is not renewed, that person should have to walk away and look elsewhere for something to do, rather than expecting a massive payoff for leaving the employ of that local authority. Again, anecdotally, people find it hugely frustrating when they see chief executives who have already been enjoying six-figure salaries being given payoffs of £200,000, £300,000 or £400,000, merely for the fact that they are leaving the employ of that council

earlier than expected. They then often turn up at another council somewhere else in the country on a similar salary.

Q22 John Stevenson: In the defence of the employee, is it not the fault of their political masters? Quite often, the argument is that they are being paid off because of their underperformance, but there are other procedures that could be gone through to get rid of a senior employee without having to make any payments to them.

Jonathan Isaby: At the end of the day, these are all, of course, decisions for the elected politicians and the councillors, albeit the contracts probably need to be written in a way that makes it harder for the employee, if they have underperformed, to be taking big salaries and big payouts.

Q23 John Stevenson: I am sure we will come to that. Just one last question to you, Jonathan: it is quite interesting that, in the public sector, it would appear that most senior executives that are appointed have invariably come through the public sector. You seem to see a lack of private sector people coming into the public sector for senior posts. Could that be down to the fact that they are not rewarded enough?

Jonathan Isaby: I am not sure it is. There is an argument to say that there are certain private sector disciplines and rigours that would be particularly useful to be seen in local councils, but at the end of the day, if you are running a private sector company, you are dealing with the bottom line; you are dealing in profit and loss and in sales. If you are running a local council, you have a guaranteed income stream through government grant of taxpayers' money and, indeed, council tax, which you get because people are threatened with imprisonment if they do not pay it. You have a guaranteed income stream, and you are not trying to shift more widgets than the person next door.

Q24 John Stevenson: But you would think that would be an incentive for somebody in the private sector to move to the public sector, because they might end up with an easier life.

Jonathan Isaby: I do not know whether they would necessarily find it as fulfilling, and I would say, in the broader scheme of things, I do not want to see the people in the private sector who are creating the jobs—who are in the productive side of the economy, and who are boosting growth and trying to get the economy back on its feet again—moving to the unproductive sector of the economy. For the country's sake, they are probably doing best in the private sector.

Q25 John Stevenson: Duncan, why is there not more movement between the two sectors?

Duncan Brown: I know about the relative remuneration levels, and the Hutton Review itself made two observations.

Q26 John Stevenson: On that point, do you think it is a problem that, because the public sector does not pay as much as the private sector, they are not being able to attract those in the private sector?

Duncan Brown: It varies across different parts of government. In central government, there are plenty of examples of private sector people who have moved into the senior Civil Service, and there is also evidence that those people have moved in at a higher rate of pay than people who have progressed internally through promotion. Indeed, the Senior Salaries Review Body has investigated that issue, because there is such a significant gap.

Q27 Chris Williamson: I just wondered, Duncan and Jonathan, whether you had a view on the remuneration packages for those companies to whom local authorities have externalised services—those that are effectively running public services, but in the private sector. Do you think their remuneration packages are excessive as well, and do you think there should be some curtailment on that, or do you think that is fair game?

Jonathan Isaby: In general terms, what private sector companies pay their people is entirely a matter for them.

Q28 Chris Williamson: Even when they are doing public sector contracts?

Jonathan Isaby: When they are doing public sector contracts, we need to examine the contracts and whether taxpayers are getting value for money from the deals that the councils are doing with those contractors, but whether that necessarily extends to the pay of the very top person in that organisation, I am not so sure.

Q29 Chris Williamson: What about you, Duncan?

Duncan Brown: Again, I think Hutton was clear that organisations that very heavily concentrate on providing services to the public sector should be looked at and, indeed, have very significant higher salaries and pay ratios than the local authorities providing the services directly. My own experience has been in setting up organisations in the public sector that have had to recruit from the private sector because they are in financial services or whatever. There is a certain level you can go under. You can play the messages of public service and maybe more

flexible working conditions, etc., but that goes to a certain extent. If the gap gets too wide, then they are just not going to come.

Jonathan Isaby: I would say that it is absolutely right that taxpayers should be able to follow the taxpayer pound wherever it is going. I believe that is the phrase that your colleague Margaret Hodge uses on a regular basis. At the end of the day, it is still taxpayers' money that is being spent on those contracts, even if they are being delivered by an outside body, and in terms of that specific contract, I think we have absolutely every right to see the finances involved and who is getting what. But, as I say, I feel that if you are paying a team of gardeners to clear up the local park, or whatever it is, what the chief executive of that company gets is a few steps removed from that particular deal.

Q30 Mark Pawsey: I would like to follow up Mr Stevenson's line of inquiry. He has covered what constitutes good performance by a council chief executive; I want to ask you whether or not a chief executive delivering a good performance should be paid more than a chief executive who delivers poor performance. I just wanted to pick up Mr Brown, if I may, because a moment ago you said that if there was a merger of two authorities, one of the things that would be an automatic assumption would be that the chief executive of the merged authorities would receive higher pay than the chief executive of a smaller authority. From that, you have an assumption that the bigger the authority, the higher the pay. Why should that be the case?

Duncan Brown: With respect, I do not think I used the word "automatic".

Mark Pawsey: Well, you did. You said that if two authorities merged, there would be an assumption that the chief executive of the two merged authorities would receive more pay.

Duncan Brown: Yes.

Q31 Mark Pawsey: Why should that be the case?

Duncan Brown: In all sectors, not just in local authorities, if you look at the relationship between organisation size and pay level, it is a fairly close relationship.

Q32 Mark Pawsey: I would argue that in the private sector, it is the profit that is generated by the chief executive for his shareholders, not a matter of the size of the organisation.

Duncan Brown: I am afraid that I can show you lots of data to show there is a very clear relationship. Bigger plcs pay their chief executives more money.

Mark Pawsey: Because they generate more profit.

Duncan Brown: In some cases, yes; in some cases, no.

Q33 Mark Pawsey: Is size the only criterion?

Duncan Brown: No.

Q34 Mark Pawsey: Should a chief executive who performs well receive more?

Duncan Brown: Ideally, I think they should. The issue of whether chief executives in local authorities should have bonuses or not is one that I have found has been heavily debated in the authorities I have looked at. The arguments for are that it does introduce that relationship, and it means the total compensation better reflects the performance of the authority and the individual, but the potential downside is that if you introduce bonuses, generally the experience has been that total compensation levels go up. For our submission, I just did a bit of current analysis on our database of local authority pay against private sector pay at this level. It is always difficult to compare, because the jobs are very different, but nonetheless, using a job evaluation method to get roughly similar-sized jobs, what we found in the medium-sized authorities was that base pay levels were broadly equivalent. In the larger authorities, the private sector paid about a third more, but when you look at the private sector performance-related rewards, it more than doubled those gaps, because the bonus payments were much more significant in the private sector.

Q35 Mark Pawsey: Mr Isaby, in your investigations, have you found much existence of bonuses payable to chief executives of local authorities on the basis of good performance?

Jonathan Isaby: It varies. I mentioned the issue of Surrey, where they are giving the guy a bonus in 2018.

Mark Pawsey: I was going to come on to that as a separate issue, if I may. I am particularly concerned about bonuses for good performance.

Jonathan Isaby: I have not got any figures on that in front of me.

Q36 Mark Pawsey: My assumption would be that it does not exist very often, but you just told us that a chief executive receives a bonus purely for staying in the job. How do you justify that, or how should anybody justify that?

Jonathan Isaby: I do not think you can justify that. I think Surrey County Council are being profligate with taxpayers' money in that sense, and that is not the only example from Surrey, believe me. But, in terms of the merging of chief executives between authorities, in principle I think that is a good thing to pursue.

Q37 Mark Pawsey: I think there are some questions on that later on. Do you think it is right that the assumption should be that, just because an authority is bigger, the chief executive should be paid more?

Jonathan Isaby: No, not necessarily.

Q38 Mark Pawsey: We have covered what constitutes deficiency, but I want to now look at where we have got a local authority that is underperforming. Do you think that the measures that are in existence to enable an authority to dispense with the services of their chief executive, where the chief executive is not performing, are satisfactory?

Jonathan Isaby: No. As I say, there are a number of examples of where people have left the employ of a local authority: for example, John Foster, in 2008, took a payoff from Wakefield Council of £545,000 after clashing with the council leader. They were not happy, and then a few months later he ended up as chief executive of Islington council on £210,000. I think the people in Wakefield would have been very dissatisfied with that situation. You saw a situation in Kent: Katherine Kerswell was the chief executive of Kent County Council, and got a payoff of over £400,000.

Q39 Mark Pawsey: Did these payoffs occur because the executive left because of poor performance?

Jonathan Isaby: It was either poor performance or not seeing eye-to-eye with the council leader, for whatever reason.

Q40 Mark Pawsey: Seeing eye-to-eye with the council leader is one issue. I am particularly interested in the issue of performance; that is, have you got cases where people have received payoffs and left where there had been demonstrable poor performance?

Jonathan Isaby: I have not got the individual performance of each of these chief executives I am talking about. I would have to look into the detail of the exact reasons behind the individual cases, but suffice it to

say, there are lots of these payoffs happening that are not satisfactory for local councils.

Q41 Mark Pawsey: Mr Brown, have you got a view about these payoffs?

Duncan Brown: My understanding is that now, under the code of remuneration practice for local authorities, they are required to be disclosed if they exceed £100,000, and that hopefully will have some effect on practice in this area.

Q42 Mark Pawsey: And why are these payments made? If there is poor performance, why does the council not simply go through the procedure of establishing lack of capability on the part of the chief executive and dismiss him, in the way that, again, might happen in the private sector?

Duncan Brown: I am not an expert in these areas, and I am not an employment lawyer, but my experience of having seen it has been where a decision has been made around the total costs of going through the legal process and the time that will take, versus the immediate payment.

Q43 Mark Pawsey: So it is expediency. These are payments made for reasons of expediency, rather than being the right thing to do. Is that what you are suggesting?

Duncan Brown: Again, I have limited experience of it, but I have certainly seen examples of that, yes.

Q44 Mark Pawsey: Have you got a view, Mr Isaby, on whether it is expediency or an alternative to doing the right thing?

Jonathan Isaby: What I say is that, far too often, these things happen behind closed doors. You asked me about poor performance and so on; the fact is that it is very difficult for anyone, whether it be me, you, or local taxpayers, to know exactly what has gone on, because these things all take place in behind-closed-doors meetings. Frankly, it is embarrassing for a council leadership if the chief executive has screwed up in some way. It is in their interest to hush it up, if you like, and give them a good reference, and then they will turn up as chief executive of another council later in the year somewhere else. It is quite difficult as taxpayers to get to the bottom of what has happened when these payoffs happen, and to establish when there are failings.

Q45 Simon Danczuk: Can I just start by saying happy St Patrick's Day to both of you? That is important.

Jonathan Isaby: And to you.

Simon Danczuk: Staying with a similar theme to what was raised there, can either of you think of any instances where a local authority, having gone out looking for a chief executive, has had nobody apply for the job?

Jonathan Isaby: I am certainly not aware of one.

Q46 Simon Danczuk: There are plenty of people applying to be chief executives of local authorities. It is a bit like wanting to be a Member of Parliament; there is no shortage of people. They are queuing up to do the job. Can you see the point I am getting at? In terms of competition, a lot of people want these positions.

Duncan Brown: Sure, but whether they can all do the job or not is another question.

Q47 Simon Danczuk: Well, there are plenty of examples of chief executives who cannot do the job. We see that in terms of the performance of some local authorities, and they have been appointed—just following that through—compared with other people in the marketplace. They have been given the job, and then there has been failure within local government.

Duncan Brown: Sure, and there is failure in the private sector.

Simon Danczuk: Yes, but we are not talking about the private sector. This is not the BIS Select Committee; it is the Communities and Local Government Select Committee.

Duncan Brown: Sure. There are good examples of some excellent chief executives in local authorities.

Simon Danczuk: But there is lots of competition for the job.

Duncan Brown: People will apply. Whether they are all capable or not is another matter.

Q48 Simon Danczuk: Let me move on to another question. Should the public have a role in determining a chief officer's pay and assessing their performance, do you think? Jonathan?

Jonathan Isaby: You have that democratic structure in place with the local elected councillors, and it is important that they are there as the representatives of their local communities in terms of making decisions about how taxpayers' money is being spent. They must keep doing it that way round. Far too regularly—and, dare I say it, this has

happened as councillors' allowances have increased and they have been able to join the Local Government Pension Scheme, which has now been stopped, thankfully—they have ended up representing the council to the community, rather than vice versa. It is really important that councillors remain representatives of the people to the authority.

I do not know whether you necessarily want a formal role for the public in these kinds of decisions, but as I indicated earlier, when there is any proposal on the table for spending taxpayers' money, it needs to be published online, and it needs to be made accessible to local media so that the local people are able to assess what is being proposed. They can make their feelings known to their local elected representatives, who are the councillors, so that the councillors can then make an informed decision based on the feedback that they have had from their local electorate. I think that democratic side is really important. The TaxPayers' Alliance happens to believe that, both for Parliament and for local councils, there should be a system of recall, so that if your local elected representative lets you down very badly, or fails ever to turn up to a meeting or whatever it might be, there is a system in place to keep them on their toes, and that would add to that accountability. But, at the end of the day, if you do not like what your councillor and the council has done, you have the power to vote them out come the next election.

Q49 Simon Danczuk: Duncan, do you think the public should have a role in determining chief officer pay and assessing their performance?

Duncan Brown: I very much agree with Jonathan. I would say that practice has improved significantly, in terms of the independence of the pay-setting processes with independent panels and remuneration committees, with council members, either exclusively or majority, involved in setting the pay in that process. They are obviously the elected representatives of the local population. Secondly, disclosure: for the local population now, it is much easier for them to get clear information about what the folks are getting paid, and if areas such as payoffs are being made, that is very clearly in the public domain as well.

There are problems with directly involving the community in that pay-setting process. How would you select people? How would you give them the levels of knowledge that they would need? Therefore, it seems to me that we have probably got the right balance at the moment, with elected representatives doing it on their behalf.

Q50 Simon Danczuk: Jonathan, starting with you, can you cite any examples of effective public and councillor scrutiny leading to improved decisions around pay of chief officers? I can think of some.

Jonathan Isaby: What happened in Rochdale was a perfect example of how there can be a proposal on the table; the public look at that proposal and say, "This is not acceptable," and there is an outcry; the media scrutinise it, the public scrutinise it, the Member of Parliament scrutinises it, and then the council makes a decision based on that input. That is great.

Q51 Simon Danczuk: There were attempts by the leadership of the council to try to push the decision through without involving the public, so if it were not for the fact that information had been leaked to the local media, and if the public had not got involved as they did—just by chance—the chances are that it would have just been pushed through on a nod and a wink, as they say. One advantage of it, just to cut to the chase—and I have to give credit to the Government for this—is that the decision has to go to a full council meeting, so inevitably it would have to end up in the public domain, and that will help that process.

Jonathan Isaby: By the way, when full council is meeting, it is important that there should be recorded votes of how the councillors vote when it comes to spending taxpayers' money. I think I am right in saying that for the setting of council tax, the DCLG has now said that has to be subject to a recorded vote, but there are still all kinds of things that councils will decide, week after week around the country. I, as a taxpayer and a resident in a London borough, as it happens to be, am not able to know how my councillor has voted when it comes to all these various decisions. It is really, really important for accountability and transparency purposes that we should be able to go online—like you can with Hansard, to see how you guys have just voted on the Pensions Bill—to see how my representative has voted at a council meeting.

Q52 Simon Danczuk: Can you think of any examples?

Duncan Brown: I have done most of my work in London, so I would name a number such as Camden; I am obviously interested in where the practice is adopted without malpractice but rather from scrutiny. That is a sign that things are really changing. For example, the governance process was improved, they put in an independent remuneration committee, and when the new chief executive was appointed, they both job-evaluated and used market data and selected a very good candidate who has proved to be very good, I think, at a lower remuneration than the previous chief executive. I believe there are a number of those, but Camden is one that I know.

Q53 Simon Danczuk: Finally, should the Government legislate to require councils to ensure full accountability to their communities for the sake of transparency and clear decisions? Is there a need for any more legislation, do you think?

Duncan Brown: My take would be that legislation is relatively recent, so we should probably wait anyway, whatever your view. Certainly, in my experience, it has improved that information a lot.

Jonathan Isaby: My instinct when talking about legislation is always that the last thing we want is more and more laws passed; we have got enough. But, in terms of anything that enshrines transparency and openness and accountability until kingdom come, that is a very good thing, whether it be in terms of enshrining that votes have to be recorded when it comes to making these decisions, or saying that on any decision where the council is spending significant amounts of money on a particular thing, they should have to publish it online for it to be accessible for the public, and for there to be a period of several weeks before that final meeting in which that scrutiny can take place by the armchair auditors that are the local residents, enabling them to have a discussion with their elected representatives if they feel strongly about something before a vote is taken.

Duncan Brown: Sorry, I forgot: I think the Department is going to make statutory what is, at the moment, a code of recommended practice. There are actions under way anyway to strengthen the legislative base.

Q54 Bob Blackman: One of the things that, Jonathan, you were referring to is these payoffs that are often concluded behind closed doors, with gagging orders, so no-one can know how much they have been paid off. Do you think these decisions should be made by the full council with appropriate opportunity for councillors to have their say, rather than what frequently happens in authorities, where the leader decides, "I am going to get rid of the chief executive," and that is the end of it. Do you think that practice should change?

Jonathan Isaby: Yes, my instinct would be very much that that would be a far fairer and more transparent way of going about it, absolutely.

Q55 Bob Blackman: Duncan, do you have a view?

Duncan Brown: I do not have enough experience, I am afraid, to have a view. In the examples that I have seen, the legal process clearly has to influence it, as well, and the contractual arrangements.

Q56 Bob Blackman: The other thing I would mention is that it is often very hard to assess the performance of an individual. Given that the chief executive may come into a difficult local authority, how do you then assess how they have performed, even if they have not dramatically improved the local authority but may have done a pretty good job in turning something around? Is that something that should be taken into account in terms of performance when bonuses are being paid or decisions on salaries are being taken, or should it be a case of, "No, you have got to be a high-performing chief executive, or else you do not get paid?"

Duncan Brown: My experience is that the strategic plan and the annual objectives that the chief executive will have agreed for his chief officers and with the council leader do reflect those factors anyway, so you would hope that they are being judged against the appropriate standards that have been agreed and published in the strategic plan. In my experience, there is a lot of relative information, so if someone has been a lower performer, usually they are not saying, "You have got to get to the top." Usually, that is taken account of in the standards that were set; they should be achievable, but stretching.

Q57 Bob Blackman: Jonathan, if the average person in the street worries about whether their bins are being collected, the streetlights are working, and the rubbish is being cleared off the streets, which is a small part of a local authority's job—they may have children-safeguarding responsibilities, and all sorts of things that maybe the public does not really see—is it then fair for the public to be assessing the role of that chief executive, when that is only a small but important part of the job?

Jonathan Isaby: The whole range of responsibilities will be the subject of reporting in the local media in an area. Clearly, if there have been problems in a particular department, then the public will be aware through their reading of local press reports, and so on. You talked about somebody taking on an authority in difficulties and improving it. It would be churlish to say that that person's overseeing an improvement should not be recognised in their remuneration, but it needs to be made clear that the person graduates to a higher level of pay as the improvements are paid, rather than getting an eye-watering sum on day one before they have done anything.

Q58 John Stevenson: I have a couple of final questions. What do you think are the pros and cons of scrapping the post of chief executive, or merging it, for a local authority or a community?

Jonathan Isaby: I think there are considerable benefits of it, and you will be well aware there are a number of places where this has happened. Wiltshire has replaced the role with three corporate

directors. East Hampshire and Havant now share a chief executive. Barking and Dagenham and Thurrock share one fifty-fifty. Harrow has transferred the power to a senior director. You have seen changes in the Isle of Wight, Salford, West Lancs and Rugby, so it is happening a lot around the country. Not only is there the potential for saving in terms of having one person covering two authorities, but also then on top of that you have potentially got legal services, human resources, or other services being shared. In London, you have the experience of Hammersmith and Fulham, Kensington and Chelsea and Westminster, which are sharing various services amongst three boroughs and saving a lot of taxpayers' money across those boroughs for their local residents.

I think—and this is slightly veering on to another inquiry for another day—it could be asked whether we have too many local authorities in this country. Should there be more unitary authorities and fewer two-tier authorities? My instinct is that, without wanting to have an expensive local government reorganisation, there are potentials for savings in the structure, but that is for another day. In terms of the sharing of chief executives, definitely; there are examples of considerable savings being made by doing that. Again, I do not want to dictate to authorities exactly who they should share with and how they should do it, but if you look at some of the examples I have just cited and elsewhere around the country, there are practices that can be replicated elsewhere in order to save money.

Q59 John Stevenson: Duncan?

Duncan Brown: I am not an expert in local government organisation, but I know quite a lot about remuneration. What is interesting to me about local government is that the framework for senior remuneration setting is an interesting balance of national requirements and guidelines and local flexibility, and the localism is very important. That is why transparency is so key, etc., and I guess I like the fact that on my way to the station I cycle past my local town hall and feel that is where decisions that affect me are made. While there may be efficiency savings and pulling-in, the risk is you lose some of that local ownership if the person making the key decisions is progressively removed from the area that you are in.

Q60 John Stevenson: That is an interesting point. Just to follow up on that, then: how about getting rid of the chief executive and putting the political leader, effectively, in their place?

Duncan Brown: The council leader running it?

Q61 John Stevenson: Well, we have the strong leader model. We have, in some parts of the country, an elected mayor. Should they not just take responsibility and step into the shoes of the chief executive?

Duncan Brown: My view, if I were to express it, would be a personal one. My own experience is that running large organisations of any type has got more and more difficult, and the question is whether the competencies of a chief executive of a local authority are the same as for a council leader? I am not sure I would say they are exactly the same.

Q62 John Stevenson: Jonathan?

Jonathan Isaby: It would be akin to having the Cabinet Secretary and the Prime Minister merge their roles, would it not? My instinct is that is not necessarily the right way to go. It is important that you have a council leader—a political leadership—and then a council that will do as they are bid by the political leadership. The executive mayor model is the closest you have got to doing what you propose, and obviously there are a number of places in the country where you have an executive, elected mayor. Your former colleague Sir Peter Soulsby is now running Leicester, and I think he did get rid of the chief executive in Leicester when he took over that, but then he had a very personal, specific mandate over that whole city's government. Lest we forget, there were referenda in a number of cities a couple of years ago, and the vast majority of residents in the vast majority of those places that voted did not want to go down that road. We have to respect the public vote on that.

Chair: Thank you very much indeed, both of you, for coming along and giving evidence to us this afternoon. We move on now to the second panel, please.

Panel 2 Questions [63-135]

Witnesses: **Charles Cotton**, Performance and Reward Manager, CIPD, **Will Hutton**, author of *Fair Pay in the Public Sector*, and **Cllr Jim McMahon**, Chair, Workforce Board, Local Government Association, gave evidence.

Q63 Chair: Good afternoon. Thank you all for coming to this evidence session. We would just ask you to say who you are and the organisation you represent at the beginning, please.

Cllr McMahon: My name is Jim McMahon. I am the Chair of the Workforce Board at the Local Government Association.

Will Hutton: I am Will Hutton. I am currently Principal of Hertford College in Oxford, but I am here in my capacity as the chap who ran the Fair Pay Review, published in 2011.

Charles Cotton: My name is Charles Cotton, and I work for the Chartered Institute of Personnel and Development, which is a body that represents the interests of the HR profession in the UK and Ireland. I am their policy and research specialist in the area of reward.

Chair: Thank you all for coming. I understand, Will Hutton, that you have got to leave at about 10 past six, for personal reasons that you have explained to the clerk, so we will try to bear that in mind in moving forward.

Will Hutton: If the questioning gets really interesting, I will stay on!

Q64 Chair: Okay. Just to begin, the Local Government Association has said that there is no evidence that remuneration packages for top executives in local government are growing too fast. That may be true as a general statement of the median pay increases, but there are still one or two examples around of very high pay increases, which might strike everyone as slightly out of sync with the general restraint on public sector pay, are there not?

Cllr McMahon: I suppose you could take any individual council and use it as an example for the whole sector, but it would not be proportionate. I was interested in the Rochdale situation being played out. Actually, the Rochdale chief executive stands as the lowest paid in Greater Manchester by some significant margin; even after the increase that was being proposed, they would still have been one of the lowest paid. If you take an amount in one local authority and use that as an example of the whole sector, you can get a disproportionate view about what the actual evidence is on the ground. The evidence tells us that the average increase across the sector is less than 1%, and that the last 12 new recruits have all taken pay decreases when compared with their predecessors.

Q65 Chair: Will Hutton, I think you said that one of the problems—historically, not in the last two or three years—is that there has not been enough competition around for these jobs, and therefore with authorities having a fair degree of autonomy over their pay, there has been a tendency to push salaries up as bidding takes place for people who are capable of doing these jobs.

Will Hutton: Yes. I would preface everything by saying that, whatever arms-race effect you see in local government senior pay, it is much less than that in the private sector. That has to be said immediately. That said, certainly in the run-up to my report, when I was looking at data

broadly between 2005 and 2010/11, you could see that the recruitment pool was not large, and the numbers of people who have the skills to do these jobs were not great. There are not that many hirings from the private sector, and it is the same effect that you get when you read remuneration committee reports.

Everybody wants to have the best person. If you are a well-performing authority, you want to have the best person to succeed whoever it is who is just leaving for all the reasons you would do, and if you are underperforming, you want the strongest team that you can get hold of to turn it around. The pool in which you are recruiting is not large, because the numbers of people that will come forward to do the job are not great, and you do, therefore, get some upward-ratcheting effects as a result. I have not got chapter and verse, but one or two of the authorities where there have been these substantive increases tend to be in areas of the country, like South London, where the job market is particularly tight. If you spoke to the remuneration committee or the people doing the hiring, I would expect that part of their explanation would be what I have just told you.

Q66 Chair: Mr Cotton, what do you feel about this? In your experience, is it necessary to pay £250,000 to get an adequate chief executive for a large local authority?

Charles Cotton: It rather depends on what you want that individual to do. Again, it is looking at the needs of the organisation, the philosophy, the values and the culture of the organisation, as well as looking at what the market rate is for that position. Obviously, there are ways you can look at trying to buck the market, looking to see if you can develop people internally, and often it is the case that you can appoint people to senior roles internally at a lot less than if you had to go out and start advertising or recruiting people.

Q67 Chair: What is the answer, then, to this conundrum? Is it about getting more people who are capable of doing the job, in which case the question is, "How do we do it?" or is it about stronger national frameworks so we do not get the amount of competition between authorities bidding up rates, and just assume more authorities are going to adopt the appropriate rate for their size of authority? What is the way forward?

Will Hutton: This has not happened. If that question was addressed to me, what I suggested in my report was that one answer to this question of how one creates a cadre of people who could take on these roles is that you might modify the Civil Service entry scheme, so that people might spend some part of their first three years of their career in local government, some part of it in a "quango", and part of it in

central government. You could start to create people who had a range of management skills and experience that would, in 15 or 20 years' time, be the pool from which you would recruit. You would enlarge the pool. There are variants on a theme, and you can imagine there are other ways of arriving at the same destination, but no such initiative has been launched, to my certain knowledge.

Cllr McMahon: Councils do that on an individual basis. My own local authority, by way of example, does have a fast-track scheme for graduates who come in and are seconded to other organisations to gain experience. We can be in danger, though, of thinking that the private sector is good and the public sector is somehow wasteful and bureaucratic. That just cannot be true, can it? There is good and bad in every organisation. When we recruit a chief executive, we try to make an assessment on balance, and most local authorities do that to a good standard.

Charles Cotton: Obviously, there is going to be an issue around skills and knowledge that may be specific to local government. It is a question of how important those are compared with the other skills and knowledge required to manage and lead a large organisation. Perhaps those are similar across sectors, irrespective of the environment they are in. You should be trying to look outside the local government environment, if that is possible, and if that is going to help you with your recruitment and not lead to spiralling costs.

Q68 Chris Williamson: Will, first of all to you: how far do you think local authorities have taken on board the principles contained in your report, in terms of the recommendations relating to attracting high-quality staff, delivering value for money, and making sure that it is fair in relation to other staff in the organisation? Do you think local authorities have taken that on board and, if they have, how far do you think they have adopted that approach?

Will Hutton: This is so difficult. The last three years have seen unprecedented cuts in current capital expenditure in local government, and I think that the leadership teams have been focusing on that, rather than on your question, to tell the truth. That is what has been happening. Who can blame them? Nothing like this has been seen in Britain since the Geddes cuts in the 1920s, and some local authorities would argue that they are even more severe than that, so there is that.

On the other hand, I do think it is a pity, and more than a pity. I tried to argue in my report, and get as much cross-party consensus as I possibly could, that to the extent that one has to pay a rate that may go up year on year—for the reasons we have been discussing—there should be a framework in place, an ongoing explanation, backed by

ongoing engagement with trying to redress these issues. That is an investment well worth making, and it has not been made. When particular boroughs in London, which must be alert to the issues that are before your inquiry, pay what they pay, they are doing it because they are desperate, but they have got no framework to justify it. I am not saying that every last dotted I and crossed T of what I wrote was engraved in tablets of stone, but the general trajectory of what I was trying to argue needed to be built upon and argued about, and it has not happened.

Q69 Chris Williamson: Charles, do you have a take on this, in terms of how far local authorities have taken on board the principles contained in Will's report about value for money and fairness for the staff within the organisation, attracting the right calibre of staff, etc?

Charles Cotton: Certainly, it has affected the thinking of CIPD members who work in that sector. Some of them they have found harder to land, such as the concept of earn-back, pay at risk, which has not taken off perhaps as much as Will Hutton would have liked.

Will Hutton: It has not taken off.

Charles Cotton: These things are thought about and, as was mentioned in the last session, more and more is being put out into the public domain around what is being paid. It is relatively easy to deliver; as has happened in the private sector, you can dump a load of complicated information about executive remuneration, and it gives you more information about what is happening but does not tell you why or how these decisions have been made. That is also important. If you are going to start talking about giving people certain amounts of money, it is important to talk about what the justifications are, what the rationale is, and how it has been determined.

Q70 Chris Williamson: Jim, what are your thoughts? You are from the sharp end, as it were, from the LGA perspective. What are your thoughts in terms of those recommendations contained in the Hutton report? Do you think they have been taken on board, or not?

Cllr McMahon: I want to be clear that I have a different view about how much people have bought into it. I would say that local government have moved quite far. 28% of councils do have an element of performance-related pay, but it is very difficult to justify that. On the one hand, you can make an argument that says payment on results is the way to go, but the minute that the bonus payment is made it is very likely to be on the front page of the local paper. There is a difficulty in some of this, which is that you have an implicit contract of employment with the individual as an employer, and on any

reasonable measure you can make an argument for performance-related pay. I am not sure whether, when it actually comes down to it, the public have a lot of appetite for that.

The other side of it is that most members of the public think the numbers we are talking about are too high anyway, and at the moment, at the point at which you move beyond a tangible amount of money that people can earn themselves, it becomes an academic debate around that level. Councils will pay what they believe to be appropriate, and the LGA is very clear on this. There does need to be a national framework, and there is, and it is fit for purpose, but the local accountability is a thing that local people use to hold to account the people that they have elected. On an annual basis, councils will publish their pay policy statement. If there are any changes to the top rates of pay or the number of people being paid above £50,000, or if there are any increases to the chief executive's pay, those will be published, and the council will need to explain why they have taken that decision.

It does have to go to full council where members have to vote, and many councils, including my own, web-stream council meetings live so the public can see it from the comfort of their own living rooms, and it is there on the public record for people to go back onto. They can tweet and Facebook their comments during the meeting, so if they are not very happy about it, it will show up in the meeting and they will be heard. On most measures, local authorities are trying to be more accountable and more transparent, but it is within the context that the type of salaries that we are talking around, even for me as a member of the public, are big numbers, and you cannot escape that. However, on balance, they are proportionate for the responsibilities that come with that post.

Q71 Chris Williamson: I thought all of you might have said that local government is already delivering on your recommendations, Will. I think you were talking about a maximum of 20 times the lowest paid, and as far as I understand it, the average is eight or 12 times. It is certainly a lot better than the multiples within the private sector. Has local government already delivered on your recommendations?

Will Hutton: The terms of reference were to see whether there was a case for introducing a ratio of 20 to one in the public sector, with the interesting rider where this could become a benchmark or reference point for the private sector, and it was with some reluctance, I have to say, that I came to the conclusion that a ratio like 20 to one would probably do more damage than it was worth. I came up, instead, with the notion that you should publish multiples of pay to a median pay over time—this was across the public sector, so it would be for, in this context, the CEO—and I also thought, to give it some bite, that there

should be a proportion of pay put at risk, which was the earn-back idea. That should be associated with some very broad-brush metrics of performance, and I thought that the workforce should be incorporated in the remuneration committees that set those broad-brush metrics. That was the height of it, and that has not been done.

Q72 Chris Williamson: In terms of delivering against your recommendations and looking at what local authorities and government should do, would you say—and I would be interested in what everybody says on this—that that earn-back principle is something that should be adopted across the piece, and if that were done, what else, if anything, should be done?

Will Hutton: The trouble with it is that it feels to executives like a tax on their pay. It is very easy to deduct the 15% or 20% of people's base pay for them to earn back, but if they then do jolly well and over-achieve and they then get an amount of bonus—not consolidated, but bonus—as a result of actually having over-achieved on these broad-brush metrics, it immediately gets published in local newspapers and everyone is down like a ton of bricks.

I will just say this to the Committee, although it is not the subject of your inquiry: I do think that this problem of pay in Britain has really become very problematic, in the private sector in particular. Executives in the private sector push back at the notion of earn-back, which is sometimes seen in the banking sector as being to claw back bonuses, and the idea of a bonus as a malus you claw back because the performance you thought was going to manifest itself has not manifested itself. You get huge rows about it, but I am absolutely convinced that it is the direction of travel in remuneration. It is absolutely clear it is the direction of travel in remuneration. The Governor of the Bank of England has made it clear he wants to see this being the principle that underlies bank bonuses. When we convene in 10 years' time—although I do not know if I will still be here in 10 years' time—that idea of earn-back, give or take, modified because of the pressures that you describe, but something like it, will be embedded in the way we pay people in the private and public sector.

Q73 Chris Williamson: What do you think, Jim? Not just in relation to earn-back but in terms of securing fair pay at all levels within local government, what else can be done to deliver that?

Cllr McMahon: My first observation is that if we did pay on the ratio of 20 to one, every single chief executive in the country would get a pay rise. We would not do that.

Will Hutton: There was always an upper cap. It is never, "You must pay this."

Cllr McMahon: I understand that. If you look at my own local authority, we pay 11 to one, so we are well below that. The real issue became the growing gap between the lowest-paid and the highest-paid. That really was what was focusing minds, but the discussion, in my view, should have been about how much we are paying people at the bottom end of the pay scale, and quite a number of local authorities are now introducing the living wage into their authorities. By doing so, they are going to narrow the gap. That, coupled with pay restraint at the top level and new appointments being paid less, generally, than their predecessors will mean that you will have a fairer balance of pay across the public sector.

I would say that, in terms of the principle of whether staff should form part of a salary committee—and we need to be very clear on this—chief executives and council employees are employed by the community. They are public sector workers, and the community makes nominations for its representatives as councillors. They are there to represent the community, and it is their judgment, in a transparent and accountable way, that is held to task. My very strong view, and the view of the LGA, is that the democratic function of a council chamber provides that function of community accountability.

Q74 Chris Williamson: Do you agree with that, Charles, or do you think there should be, say, a trade union representative on a remuneration panel for local government to determine that, and to try to make sure we have got fair pay throughout the organisation?

Charles Cotton: I would have thought that one of the purposes of having elected councillors was to represent the public views, and obviously there are different lenses of fairness. You have got the perspective of people who pay the taxes, of people who use the services, of executives themselves, and the people lower down the organisation—the lower-paid. They have all got their different viewpoints and perspectives of fairness, and it is for the councillors to moderate those and be a neutral party.

Q75 Chris Williamson: A final question, then, from me. I will start with Charles, and work across, if that is okay. Do you think the Government should do something to tackle these excessive income multiples in the private sector to diminish the upward pressure across the piece into the public sector, in order to try to give some assistance, if you like, to getting a fairer remuneration arrangement in the public sector?

Charles Cotton: I am not sure to what extent there is a trickle effect from different sectors.

Q76 Chris Williamson: Well, there is quite a big difference, is there not? In terms of income multiples, you are talking in FTSE 100 companies about multiples of hundreds of times more, never mind 20.

Charles Cotton: Yes, and therefore it is important for shareholders to hold the executives to account in the private sector.

Q77 Chris Williamson: Is your point, then, that it is for shareholders? It is not a role for government to take any action.

Charles Cotton: It is for the owners of the organisation. The problem has been that there has been so much focus on trying to align the interests of the chief executives with the shareholders. We have seen complicated pay arrangements being brought in. We have seen different testing periods, claw-back, option shares, etc., etc., and it has become so complicated that the shareholders themselves do not quite understand what the package is aiming to achieve and how much it is worth. Similarly, the executives on the receiving end do not see that the package that they have been offered is particularly attractive now, or that they have got any control of it. It may be better to go back to a simpler system of having smaller bonuses.

Q78 Chris Williamson: The question is whether it is a role for government to deal with this phenomenon.

Charles Cotton: It is a role for government to ensure that shareholders have sufficient information.

Q79 Chris Williamson: But ultimately, it is down to shareholders, in your view.

Charles Cotton: Yes.

Q80 Chris Williamson: What about you, Jim? What are your thoughts on that? Should it be shareholders or should it be government that stipulate the terms of reference?

Cllr McMahon: I am here representing the LGA, and the LGA would not have a view about the private sector, other than to make the comparison that, in the way that private sector organisations and chief executives are held to account by their shareholders, so too are local government chief executives. It happens that the shareholders are usually more in numbers, more vocal, and the pay and reward strategy is usually more transparent in the public domain. It is exactly the

same, and in that respect councillors, through the council chamber, are acting in a similar way to a shareholder arrangement.

Q81 Chris Williamson: Will, finally, do you think there is a role for government to change some rules or the terms of engagement to tackle what some would say are obscene income multiples in the private sector, because that would then potentially have a read-across and make it a fairer, level playing field for the public sector, too?

Will Hutton: I will give you two sentences and a straight answer. The two sentences are these: there are a growing number of people concerned about this in international organisations like the IMF. It has been debated in the American Congress and the European Parliament. Do you all have to rush off and vote?

Chair: Yes.

Will Hutton: Do I finish the sentence?

Chair: Yes.

Will Hutton: I am profoundly concerned by these levels of executive pay. It is most analogous, in my view, to this period in the last 15 years before the First World War; in America, it was called the “robber baron” period. The scale of executive remuneration now in Britain is just breathtaking. In the private sector, it has gone up four times in the last 20 years. It is an average of around 147 times median pay, and it is an arms race. It is a bit like a Ponzi scheme—I agree with the Shadow Chancellor—and the only way to cap it, with all its deleterious spill-over effects, is some kind of public action. There are a variety of things you can do. You can tax one-year bonuses extremely aggressively and you can change corporate governance rules, but the idea that shareholders are going to solve this alone is unrealistic. In the way British companies are owned, they are part of the problem, not the solution.

Chair: We are going to have to suspend the sitting now for 10 minutes.

Sitting suspended for a Division in the House.

On resuming—

Chair: Can we make a start. Mark?

Q82 Mark Pawsey: Gentlemen, I wonder if I might ask whether, in the main, you believe that local authorities have ended up with the chief executive they deserve. Is the system broadly currently working?

Will Hutton: Was that to me?

Mark Pawsey: To anybody.

Cllr McMahon: From a political point of view, I think it is complex. That is the honest answer, and probably not the most helpful answer, but at least it is accurate. Good managerial leadership and strong political leadership, when it works well together, obviously produces results. Where there is conflict because one is not performing, then you do end up in unfortunate situations. You can end up in situations, as you state, where you can get chief executives and politicians that a place deserves, because of course politicians are elected by the community.

Q83 Mark Pawsey: Has the system largely delivered the right kind of chief executive in the right authority?

Will Hutton: If behind that lies the question, "Could it be better?" it obviously could.

Q84 Mark Pawsey: I would next ask you how.

Will Hutton: You have to get at why. Here we get at very deep things in Britain. The amount of autonomy that local government has over its budgets and over its revenue streams is extremely narrow. By international standards, it is close to the bottom of the league table in terms of tax-raising powers. Historically, local government, apart from a few short intervals for 50 or 70 years at the end of the 19th century and beginning of the 20th century, has been essentially administering central government policy.

Mark Pawsey: You are straying into another report that we are currently working on.

Will Hutton: These two things do hook up. The fact that it is a narrow pool, the fact that the skills are very particular and attract a certain kind of person, and the fact that, for quite a lot of what you might want to see, you are constantly giving six or seven out of 10 rather than eight or nine out of 10 lies in that realm as much as pointing out failures in current systems and processes. They are very much part of a bigger story.

Q85 Mark Pawsey: Mr Cotton, do you think that in our local authorities we have largely got the chief executives we deserve?

Charles Cotton: Any organisation needs to think about what they need to do to be successful; in the local government context, they need to think about what they need to do in local government to be successful, and therefore what skills, values and attitudes they need from their employees, including their chief executive, and how they are going to reward and recognise them. There seems to be quite a lot of

emphasis on the reward and recognition bit, but not much emphasis on whether the way we have structured local government is fit for the 21st century, and whether the services it provides are what we need in the 21st century.

Q86 Mark Pawsey: If we think we have largely got the chief executives we deserve—let us assume that is broadly a yes—do you think there would be some benefit in there being more movement between the private sector and the public sector, with chief executives moving between private companies and local authorities? Would that be beneficial?

Charles Cotton: Yes, I think that there would be a lot that both sectors could learn from cross-fertilisation of ideas, with people moving from sector to sector.

Q87 Mark Pawsey: Mr Hutton, do you share that positive view?

Will Hutton: The average term of a CEO in the FTSE 100 is three years and seven months at the moment. They are under extraordinary pressure to deliver very high financial returns.

Q88 Mark Pawsey: Is a FTSE 100 chief executive likely to move across to a local authority?

Will Hutton: No, although some of the turnover of some local authorities is straying into a billion. You will know the exact numbers, but you have got some very high turnover numbers.

Cllr McMahon: Overall, it is 12% turnover.

Will Hutton: Sorry, 12% of what?

Cllr McMahon: The annual turnover.

Will Hutton: Yes, sorry. I was giving you revenue numbers.

Mark Pawsey: So eight years, rather than 3.7.

Will Hutton: Even if you are in the FTSE 350, the preoccupations are so financial and so particular that I worry about whether there is reasonable crossover, and that is part of the problem. The character of leading private sector organisations in Britain has become so particular, and local government is also so particular. I am trying to think; I certainly could not find anyone who, at the top level, had crossed over. It is very siloed, and I think it is unhealthy.

Q89 Mark Pawsey: I will come back to silos in a minute. Councillor McMahon, do you think there would be a benefit if there were more crossover?

Cllr McMahon: First of all, I need to challenge the view that it is a small talent pool. Local government, even after the recent reductions, employs 1.2 million people. That is not a shallow pool by anybody's standards.

Q90 Mark Pawsey: I think Mr Hutton was talking about there being a small pool at senior executive level.

Cllr McMahon: The evidence is that there is minimal crossover, but I do not think you can compare the two. We are in danger of trying to consumerise local government and public service, and that is a very dangerous thing to do. We can have service standards and we can provide a good service, but I do not think we should automatically go down to a consumer society for public services. They are very different skills. You can have transferable leadership skills and be a strong leader in an organisation, but if you have not got the public service ethos that people in the public service have, you will come unstuck when you arrive in the organisation, because the cultures are very particular.

Q91 Mark Pawsey: Mr Cotton, you seem to be the most positive about the need for transfer between the two, but I wonder if I might put it to you that it is not very likely to happen. If you are a private sector business chief executive, you have got two issues: you have got to generate income, which for a private sector business is probably the hardest thing to do—in a competitive market environment, you have got to generate income—and then you have got to manage expenditure. All the chief executive of the local authority has to do is manage expenditure, so it is a much simpler task. Why would the chief executive being well-paid for generating income and managing expenditure drift across to a role where all he had to do was manage expenditure? What would be in it for him?

Charles Cotton: Possibly, the challenge of the complexity of the role. You are dealing in the public sector with multiple stakeholders with different priorities and trying to work out how much should go to different types of services; so, for instance, whether you should take money away from the libraries to give to the social services, or whether you should give it to housing.

Mark Pawsey: Akin to saying, "Should we spend money on this marketing promotion or that marketing promotion?" They are difficult decisions that chief executives have to make all the time.

Charles Cotton: Yes, but you could argue that, for instance, in the financial sector, nobody died from the financial crash. People die in the public sector if you get decisions wrong, so they are more meaningful, and you could argue that they may be more socially constructive. It might be that some individuals in the private sector say, "Well, I want to do something for the community," and we should be encouraging them to do that.

Q92 Mark Pawsey: Any views from our other witnesses?

Cllr McMahon: You have to be very careful that you do not underplay the role of a chief executive of a local authority.

Q93 Mark Pawsey: What pressure is the chief executive of the local authority under, then, that the private sector chief executive is not under?

Cllr McMahon: If we are likening it to the private sector, if McDonald's were in a situation where the consumers were only willing to pay half of what they do for a cheeseburger but they demanded twice the number of cheeseburgers, then McDonald's would soon go bust. Local authorities are not just about spending public money; they are about balancing demand and need with the available resources, and that is very difficult. I can tell you that it is a lot harder to take money out of the system than it is to spend money when times are slightly better, particularly when the demand in the communities is increasing. A modern chief executive's role is not just about managing a local authority; it is about bringing together other partners in the locality—other public sector and private sector partners.

Q94 Mark Pawsey: Do you think some of the skills that you have spoken about would be available in the private sector, or are they, as Mr Hutton suggests, full of silos—that there are people who are good in the public sector and people who are good in the private sector, and we are not going to get this crossover that Mr Cotton thinks might be desirable?

Cllr McMahon: The reality is that when it works, it works very well, but it is about matching skills to the task that is required. By way of an example, I may be able to challenge this notion that local authorities do not raise income, or are not commercial or entrepreneurial. The Greater Manchester authorities collectively own Manchester Airport Group, which owns Manchester Airport and Stansted Airport. Now, it is not one of our chief executives that runs the airport group, of course; we employ a commercial manager to do that on our behalf. This month, we are opening a new power plant at Runcorn, and clearly it is not going to be my chief executive who does that. We will employ somebody with skills to do that. It is not as simplistic as a public sector

chief executive having a very narrow role, but they do have ultimate responsibility, managerially, for making sure that those complex relationships are managed and delivering value for money.

Q95 David Heyes: I want to go back briefly to performance-related pay. Jim, you said that only 28% of councils have performance-related pay. We have heard that earn-back is rejected by the staff it might work for, and bonuses are rejected by public disapproval. If that is the situation, how can good performance be measured and underperformance be recognised in the public sector?

Cllr McMahon: At that level, my very strong view is that if people are not performing, then they probably should go. I do not think you can afford to be underperforming as a chief executive of a local authority that has such complex services and relationships to maintain. The real question is how someone goes, and that is the one that focuses minds when we talk about how much it can cost to get people out of the door. It is very difficult to make a case for performance-related pay when a contract for employment is already in place, because like every employee who works for the council, they have employment rights. To go through any renegotiation of that, you have to enter into a fair and balanced process.

Q96 David Heyes: Is that an argument for fixed-term contracts?

Cllr McMahon: If you look at the average tenure of a chief executive, it is three years. If you were to have a fixed-term contract anyway, three years for a chief executive would probably feel about right. The current view is that there is not a rush to do that, because the evidence says that the turnover naturally exists anyway.

Q97 David Heyes: Will?

Will Hutton: Sorry, you want me to discuss in the round the knotty question of performance?

Q98 David Heyes: Collectively, you have knocked on the head the accepted ways of doing it, but we still need to measure performance; we still need to identify underperformance. What measures are there available to us to do that? Earn-back does not work, and bonuses do not work.

Cllr McMahon: I might possibly qualify my own response, then, if we are talking about performance in the round. There are performance processes in place to manage chief executives. There are appraisals that take place; there are targets set. Quite often, independent people

from outside the local authority are brought in to advise members on that, and chief executives are held to account for delivering on those targets.

Will Hutton: To pick up that point, it would be wrong—and I hope the Committee will not do this—to characterise CEOs as living in a performance-free zone. There are annual appraisals, as you have described, and of course they are in the eye of the hurricane, in a sense, in the council chamber. This reflects the points that were made in my earlier questioning. What you are reaching for as a Committee is strategic grip over time, and actually trying to set incentives that will lead to that and reward it.

It is fairly crude—although it is a good thing you said what you said, Jim—to say that you are going to exit somebody who does not perform. It can be that black and white, but it tends to be that XYZ holder of the job is very good at two or three components of it, okay at bits of it, and not very good at other bits of it. You are constantly trying to find ways of supplementing where they are poorer, coaching them, and all the rest of it, but all those interventions in local government are jolly hard to pull off. Of course, the strategic intent has got to be done—because it is a political environment—with the political leader of the council. Building that relationship and making sure it endures over time is also fundamental to it.

I think that quite a lot would be improved, and I hope you will call for this as a Committee, if there were more capacity to do things that were outside the tram-lines of what Whitehall and Westminster say—to be entrepreneurial, in the way that you described with Manchester Airport. We would get a different cadre of people coming into it, and that would throw up demand from citizens and from workforces for the kinds of performance criteria we have been talking about.

Q99 David Heyes: Charles, do you have a view on what other measures might be available to measure good performance or underperformance?

Charles Cotton: It is important, as I said earlier, for the organisation to think about what success is, and then to work back from that. If you cannot think of measures or means of assessment, how can you work out whether what you are doing is important or of value? But, yes; there are loads of metrics out there that you can potentially think of. It is a question of whether they are necessarily going to be relevant for your organisation and for that role. You could do mystery shoppers, for instance, to look at the service of a library or a leisure centre. You can do surveys of users of social services, for instance, to see if they are happy with the service that is being provided. You could talk to your

electorate and see what they think of the services that they are getting from their council. There are a multitude of measures out there; it is a case of working out which ones are going to be of value.

Will Hutton: At the Work Foundation, back in the years 2005, 2006 and 2007, we tried to push something like that. It was called Public Value, and we tried to think through what iterative relationships there might be with local authority leadership—political and executive—and the public to create public value, and how you might bed that into targets, budgeting, and performance criteria. Once again, I am sure its time will come.

Q100 Simon Danczuk: Should the public have a role in determining a chief officer's pay and in assessing their performance? Let us start with you, Jim.

Cllr McMahon: Again, I come back to the principle of the council chamber, which is the community who come together, and the people in that room are nominated by the community. I would argue that in every town and city across the UK, the community does have a role to play in that, and in terms of how information is published and how decisions are made, they are transparent. Some of the examples I have used where councils have blocked some payment that they felt was inappropriate to their own circumstances are examples of a system that works, because in the private sector, I would argue, that probably would not have been possible.

The other thing to bear in mind, of course—and it comes back to performance—is that the vast majority of chief executives' responsibilities are invisible to the public. The public will see the pothole and the wheelie-bin and the park, but they will not see 80% of what the council spends money on. Generally, when it works, people do not hear about it, but when it goes wrong, people start thinking about whether the right managerial leadership is in place. If you were going to have a performance measure in place that supported increases, it would have to be a mixture of different things, and most local authorities do that. They pull together different information, through residents' surveys to assess whether the public feel that they are getting value for money and if they are satisfied with service provisions. They make sure that the statutory requirements are being met to a standard. There are value-for-money checks and surveys that can be carried out, but of course quite a lot of this is about relationships at that level, and maintaining good relationships beyond that. To be honest, the point at which the cost of the chief executive's salary comes into question is usually the point at which people start to question the value of that role.

Q101 Simon Danczuk: You have to be commended; you mentioned earlier that your local authority's full council meetings are filmed live. People can tweet in and give their comments, but if you take Rochdale, for example, they have not allowed people to film live in the council chamber, and you certainly cannot tweet in and tell them what you think. The point I am getting to is that, while we have good practice for local authorities like yours—and you are to be commended for it—there are some that are not doing that stuff and are not involving the public. Within the LGA, within the membership, you have got vast differences between involving the public and not involving the public.

Cllr McMahon: There is a minimum requirement, which is to establish a selection committee and to report the recommendation of that selection committee to full council, so the recommendation that is made is a matter of public record. It is open to scrutiny in that way, even if it is not visible at that moment in time. Eventually, most councils will do it.

Q102 Simon Danczuk: We just have to wait in Rochdale, do we?

Cllr McMahon: It can be difficult for local authorities to make the cash investment required to do that in a meaningful way. For it to make a difference, it has got to be interactive. That is certainly our experience.

Q103 Simon Danczuk: Will, should we involve the public more in these decisions on chief officers' pay? Do they have a role to play, or is everything more or less all right as it is?

Will Hutton: I have made my position clear on how I think executives should be paid. I believe in representative democracy; I do not believe in plebiscites and having flash crowds of citizens to determine executive pay. In this respect, we do have some pretty tried and tested mechanisms over decades that have worked out. Elected local councillors are pretty clear that there is going to be a kind of lash-back if they get this wrong. There is part of me that is attracted to it. You could imagine creating a kind of citizens' panel, or a citizens' jury. I can see what you are pushing at. God knows whether you would get the calibre of people you wanted as a result, but citizens would learn that themselves over a period. It would be very educative both ways.

Cllr McMahon: We would call that a council.

Will Hutton: I suppose, yes. A citizens' panel. It is not directly the citizen, is it? It is not directly having to confront the candle-maker, the cleaner, the nurse, or the doctor.

Q104 Simon Danczuk: The average age of a councillor is 60, so it is not going to be representative. Charles, what is your view on involving the public more?

Charles Cotton: I think that councillors should make more of an effort to communicate to the voters about how employees are remunerated in the council, and explain what is being done and why. Then it is for the voters to comment on that to the councillors, if they agree or disagree. There should be thought given to how the communication around pay is disseminated. Is it some kind of complicated document that is put in the libraries, or is it something that is put online. Also, how is it owned? When I have had to comment on executive pay for local government, it is because some story has leaked; nobody at the council will talk, and they go down the hierarchy and eventually they come to me, and I have to then talk about it in the round. Councils should give more consideration to trying to own this process, being proactive and saying, "Well, this is what we are paying, this is why, and this is how, and we are quite proud of what we are doing," rather than burying it and hoping nobody notices, and then suddenly it all explodes.

Simon Danczuk: That is right. Jim, let me just make some progress. Sorry, Will?

Will Hutton: In just a couple of minutes more, I will have to go.

Q105 Simon Danczuk: Jim, just very briefly, what is the LGA's broad position on low pay in local government? You touched on it earlier, but what is the LGA's position?

Cllr McMahon: The LGA's view on pay, full stop, is a national framework with local discretion. The living wage has really allowed local authorities to determine for themselves what an appropriate pay level is.

Q106 Simon Danczuk: What is the LGA's position on excessive chief officer pay?

Cllr McMahon: The LGA's view is that there are not any chief executives who are excessively paid.

Q107 Simon Danczuk: Oh, really? They think every chief officer is paid the appropriate amount?

Cllr McMahon: To local circumstance, within a framework.

Q108 Simon Danczuk: The LGA would not question a single chief officer's pay?

Cllr McMahon: One of the questions in the review terms of reference is, "Is it appropriate to pay a chief executive more than £250,000?" There is not a single chief executive of a local authority in the country who is paid that. The highest is £221,000.

Q109 Simon Danczuk: No, I think the chief executive of Kent is paid well in excess of that, and the one at Wandsworth is paid well in excess of that. Do you think they are excessively paid, or do you not?

Cllr McMahon: The LGA's view is that it is down to local circumstance, and providing the frameworks that allow for accountability and transparency, but then it is for local people to hold their elected members to account if they disagree.

Q110 Simon Danczuk: You mentioned Rochdale council leaders' proposals to increase the chief exec's pay by £40,000, and that eventually got defeated, and you said that he was the lowest-paid chief executive in Greater Manchester. He had accepted that position and that amount of pay just 12 months before, had he not?

Cllr McMahon: I do not think it is reasonable for me to comment on a neighbouring authority.

Simon Danczuk: Well, it was you who raised it.

Cllr McMahon: It was in reference to the point around how we view an increase. If we take it as a percentage of a base salary, then on paper it can appear high. I was more adding the context that that was from a low starting point to begin with.

Q111 Simon Danczuk: Which he had accepted 12 months before, though. Did you not know that, and I am telling you now, or did you know?

Cllr McMahon: I do not think it is appropriate for me to comment on a neighbouring authority.

Q112 Simon Danczuk: You did not know? Fair enough. Let me finish, then. You are saying that the LGA's position is that there is no chief officer that is paid excessively. Being a Labour councillor, are you not embarrassed that you are really actively working on behalf of the top 1% of paid people in this country? Are you not embarrassed a bit by having to defend those people?

Cllr McMahon: I do not think it is for me to defend anybody. It is for me to explain the local circumstances; how decisions are made to justify salaries, and how the public can hold to account the people who make those decisions on their behalf. I think that the framework is

robust. It is like every conversation that you have around pay. The same conversation that you can have about chief executive pay, you can have about MPs' pay or councillors' allowances. It might be good fodder for the public, but it is not in context, and at the point at which you put that salary in the context of the responsibilities that come with that job, you have a more meaningful debate around the value of that public service. Increasingly, that relationship is getting more and more complex, and the demands on those individuals are actually increasing—not decreasing, even though budgets, in the round, are decreasing. For modern chief executives, you are looking at an exceptional group of organisational leaders at that point.

Q113 Simon Danczuk: Just on that, Jim, they have lost lots of responsibility for leisure services and for housing. They do not have responsibility for a whole range of different services. You are building them up to be something that they are probably not. Municipal responsibility at one stage was substantial, but it is not today.

Cllr McMahon: If we take my own chief executive as an example, because I can talk in slightly more detail about my own, she is the chief executive of my council, but she is also the Clerk to the Waste Disposal Authority, which has just completed a £25 billion PFI contract to build new power stations and recycling facilities. She is also the lead for the Greater Manchester combined authority on troubled families, on Universal Credit pathfinding, and a range of other government initiatives. Even though they primarily hold the job of chief executive at their home authority, their responsibilities are usually wider than just that home authority, and that does form part of the consideration when taking pay into account.

Chair: Will, I think you have to leave us.

Will Hutton: If there is any one thing you want to ask of me, I would be happy to take it, but I do have to leave.

Chair: I think we have to suspend this sitting while you leave. We have got one more question to follow up with the other two witnesses, if that is okay. Thank you very much for coming along.

Will Hutton: Thank you very much.

Chair: Okay, so we resume the sitting. Thanks very much for continuing with us.

Q114 Chris Williamson: I would perhaps take a slightly different tack, and Will touched on this, in terms of the budgets that local authorities are responsible for. For many of them, we are in the FTSE

100 territory, are we not? Could we not argue that, comparing them with an equivalent private sector organisation with a similar-sized budget, chief executives are considerably underpaid in comparison with what those people in the private sector are earning?

Cllr McMahon: The LGA's view is that chief executives are fairly paid for the job and responsibilities that come with that, in the context of it being public sector employment.

Q115 Chris Williamson: But do you take the point about the FTSE 100?

Cllr McMahon: I do. If you look at local authorities, they are the most efficient arm of government in the UK, in terms of providing value for money. The breadth of responsibilities is a point that needs repeating. It is not just about the services that fall under the direct remit and control of that local authority; it is about leadership of a place. For chief executives and political leaders who are doing the job properly—and I think the vast majority are—they are trying to make sure that every pound of public money in that geographical area is spent to the public good and is providing value for money. It cuts across the Department for Work and Pensions; it cuts across the acute sector; it cuts across the educational institutions, and the skills that are required for that are different. But, even after that, I still would not compare it to the FTSE 100. You want the same quality and standard, but it is a very different environment

Q116 Chris Williamson: In terms of the scope and the scale of their responsibilities, 20 local authorities, at the moment, share chief executives. Do you think there is any evidence to suggest that is a way to go, in terms of driving out savings for the local communities that they are serving?

Cllr McMahon: There is evidence that shared services can save money.

Chris Williamson: I was asking about shared chief executives.

Cllr McMahon: In some ways, the only rationale for sharing a chief executive would be on the basis that you will share other things beneath that. If you are just going to share a chief executive, the savings are marginal, given what you would have to give up in terms of direct accountability to the individual governing body of the council. You would share chief executives as part of a wider review of the organisations involved that brings together services further down the organisation, and the evidence says that where councils are at one on what outcome they want and are willing to give up elements of control, then it can work well, but it does require a great deal of uniformity, and a shared view about what that is going to be is not always able to be

achieved. My own local authority, by way of example, did explore whether or not to look at a shared chief executive.

Q117 Chair: With Rochdale, presumably?

Cllr McMahon: With Rochdale. The view that we arrived at was that, for the savings that could be realised from that, it probably was not worth giving up the democratic control that we had over an individual chief executive, particularly because we felt that local government was becoming increasingly complex. In Manchester's case, the combined authority was taking on more of a role.

Q118 Chris Williamson: One way that you could get some significant savings, if you did not necessarily want to formally push down the road of requiring local authorities to share their chief executive, is to scrap the two-tier local government system in many counties. It is incredibly bureaucratic and expensive, and de facto you would have, would you not, a more effective chief executive role with responsibility for a more coherent arrangement?

Cllr McMahon: Increasingly, local government is talking about reorganisation. It is not mass reorganisation on a national level; it is happening at a local level upwards. If you look at the emergence of city regions and combined authorities, that is happening because groups of authorities have decided that they want to come together and share elements of governance and some service delivery, some control over public spend in an area, but those arrangements do not create another level of managerial leadership. So, with the Greater Manchester Combined Authority and the emerging West Yorkshire Combined Authority, it is actually the chief executives of the component authorities who come together and share the workload that is derived from that. You could argue, on that basis, by taking more responsibilities and power down from central government, taxpayers are getting more value for money.

Q119 Chris Williamson: You think that is the way to go. We can leave the two-tier system in place, then.

Cllr McMahon: Again, the Local Government Association's view is that it is what is right for the locality. It is so complex: what is right for a major city conurbation might not be right for a more rural county, or where a unitary might sit in the middle of that.

Q120 Chris Williamson: Do you have any thoughts on this, Charles, in terms of sharing chief executives and maybe looking at moving towards an executive team; perhaps getting rid of the chief

executive post as such and having an executive team, or, indeed, sharing the chief executive between authorities? Do you have a view about what would be a better way, or whether they are both equally as good as one another, or both are hopeless?

Charles Cotton: We have not done research in this area. I suppose I would just reiterate what Jim has said: big is not necessarily beautiful, and merging various local authorities into one large organisation will not necessarily deliver you economies of scale. It may be more appropriate for councils to work together and work out how they can get greater efficiencies by sharing services. That is what has been happening in the private sector, and that is what is happening in local government now, as well: sharing of services, and spreading the cost.

Q121 Chris Williamson: If a local authority were to get rid of its chief executive and go down the road of an executive team, do you think there are any arrangements that need to be put in place to secure long-term continuity, in terms of service provision, and staff and service development?

Cllr McMahon: The LGA would argue that is already in place. Professional and organisational development is central to any good local authority, so in terms of growing staff, to support them to come up through the organisation and to make sure that you have got a continuous supply of talent within a local authority, that does happen. If you look at the crossover, you do see that there are regional circuits where people move between clusters of councils in a particular geographical area where they gain that experience more widely as well. I would say, broadly, you would need to go further. If you were going to scrap the chief executive post and go down, you would require a different view about what the role of a councillor is at that point. The UK is quite confused about what a modern councillor is—whether it is a volunteer Scout leader or whether it is a semi-professional, full-time role. At the point at which you have a wider executive, you do need somebody that gives organisational leadership where the buck stops, because when something goes wrong, the public, quite rightly, will demand that the person at the top is held to account.

Q122 Chris Williamson: My final query is in relation to merging the role of the chief executive with the volunteer council leader. As I understand it, the DCLG are open to representations on allowing elected council leaders to take over the role and responsibilities of the chief executive. What are your thoughts about these volunteers, as the DCLG now refer to councillors, actually taking on that role of chief executive—scrapping it, and the leader taking it on?

Cllr McMahon: From a personal point of view, there is no contract of employment, so there is no security of employment that would come with that. There is no pension anymore. There is no redundancy payment. There are no resettlement allowances, so effectively you would want me as a council leader—as a member of my community—to take on responsibility for 6,000 members of staff, £500 million of spend, and the complex relationships in the town that generates, and at the same time be able to maintain being a political leader of a conurbation of nearly 250,000 people. That would be a very difficult ask.

Q123 Chris Williamson: Is the LGA hostile, then, to this notion that the DCLG are taking soundings on?

Cllr McMahon: Again, the LGA's view is to allow for local discretion, so the LGA does not impose on any local authority what form of governance it should take.

Q124 Chris Williamson: Does it have a view?

Cllr McMahon: The view is that the local circumstances will determine that.

Q125 Chris Williamson: Charles, what about you? What are your thoughts about these volunteers, as the DCLG now deem local elected members to be, taking on that role?

Charles Cotton: If they are going to take on that role, or be asked to take on that role, you have got to think about whether it is going to be appealing to them, and Jim has just gone through all the reasons why it might not be.

Q126 Chris Williamson: Is it sensible?

Charles Cotton: If, perhaps, conditions of employment were to change and the council leader was going to have reasonable protection of their employment rights and reasonable money, I do not see why, necessarily, you should exclude them from that. If they wanted to do it, then yes, we should promote the idea.

Q127 Chris Williamson: Promote the idea in the context that they are appropriately remunerated, then? Is that what you are saying?

Charles Cotton: Yes, and also allow that to happen. I do not see why council leaders should be excluded from that post just because, if they do take it, they will end up on next to nothing. You could just roll posts together.

Q128 Chris Williamson: In what way would it be rolling together? Would it be rolling the council leader into the chief executive, or the other way around? I am not quite sure what you are saying there.

Charles Cotton: I imagine it would be rather like an elected mayor.

Q129 Chris Williamson: Given the changes, the driving-down of conditions of employment, if you want to call it that—I know the DCLG do not deem elected members to be employees, as such, and they are obviously not allowed to get pensions now, or severance arrangements—if we were going to go down the road of a leader taking on the role of a chief executive, do you think that should be addressed, so they should be entitled to them?

Charles Cotton: Yes.

Q130 Chris Williamson: But only in that context?

Charles Cotton: Yes. If you want to attract good-quality candidates, that is another route.

Chris Williamson: I understand what you are saying. Thank you.

Q131 Bob Blackman: We heard evidence earlier about concerns about the scale of payoffs to chief officers when they leave. They can leave for a number of reasons. They can leave to go to another job; they can leave because of alleged underperformance, or they can leave because they have fallen out with the political establishment. Now, one of the issues can be whether it should be a decision taken by the full council to dismiss a chief officer, or should it be left to a cabal of individuals who determine this behind closed doors, possibly with gagging clauses put in to any agreements? What is the LGA's position on this particular issue?

Cllr McMahon: Again, the LGA's view will be that, providing that transparency and accountability is in place, it is for individual councils to make their own arrangements within a framework.

Q132 Bob Blackman: Is the LGA's position, then, that it is acceptable—from the perspective of transparency and concern for the public—for such decisions to be taken in closed rooms, with gagging clauses added to agreements, so the public cannot know why a chief officer has left?

Cllr McMahon: It is very difficult, because at the point at which that conversation takes place, it is not a conversation between the public and the press and an individual; it is a conversation that is taking place

between an employer and an employee, and there are obligations and responsibilities that come with that.

Q133 Bob Blackman: Are you saying, then, that the leader is the employer, or is it the council, or is it the wider public, who are receiving services led by this chief officer? It could be the chief executive; it could be another director.

Cllr McMahon: Ultimately, the employer is the council, as in full council, but that is obviously delegated through the constitution—usually to a selection committee, and usually via the head of paid service, depending on the level of responsibility. But when it comes, in particular, to the chief executives, the packages that are pointed to can seem very high from a public point of view. Some of them are high, but there will be a calculation that is made based on loss of pension, loss of service, and a range of other things that ultimately will have to be signed off by the district auditor and then reported through. There is a process to go through. It is not as easy as a couple of people going in a room and shaking hands and a deal being stitched up. There is still a serious process to go through, and it has to be signed off, ultimately, as value for public money by the district auditor. If there was any notion that people were getting excessive payoffs and that the calculation was not right, or could not be evidenced, it would not be signed off.

Q134 Bob Blackman: What about the rationale for the decision? Clearly, the auditor will say that if it is numerically correct and so on, then it is fine. What about the basis behind the decision-making?

Cllr McMahon: If you look at any other large organisation, the chairman and the chief executive overall would have an understanding: "If this is not working, then it is better that it be resolved quickly than for it to affect the organisation more broadly." I think it is reasonable that, if there are any differences of opinion—if there is a breakdown in relationships, in particular—then there is a conversation that takes place, and I think a legitimate part of that conversation is about the quickest way of doing it which, on balance, provides value for the taxpayer. Part of that consideration will be what the risks are of an employment tribunal or a payoff at a later date. It is that balance of risk and cost in the short, medium and long terms that will drive the decision that is ultimately made, but there is no notion that deals are made behind closed doors in a way that gives people large payoffs because that happens to be the quirk of the people in the room at that time. There is a process and a framework for that. To be honest, the same conversations take place in the private sector, and they take

place at different levels in councils, and in other public sector organisations as well.

Q135 Bob Blackman: If it is a publicly quoted company, the shareholders can go to the annual general meeting and challenge the basis of these decisions. How does an ordinary resident in a council's area get to challenge the decision-making that has been taken, probably, by a small group of individual councillors, compared with the full council, which might be much larger?

Cllr McMahon: They can use their democratic vote, and if they significantly disagree with the local authority, then they can cast their vote in a different way at the ballot box. Ultimately, there is a degree of delegation to the council to conduct the business of the council in a way that fits with the judgment and the framework that they are operating in. Most councils do that, and do a good job. If there is a poorly performing chief executive, we first of all need to define what poor performance is. Is it just that they have not maintained a relationship, or is it that they were very good at a previous job and have been promoted slightly above their station, or is it as simple as a breakdown in relationships?

If you are to go through any employment practice and do a performance competency process, that is a very damaging and time-consuming process for any organisation. To be honest, at that level, by even attempting to embark on that, most people will know what the outcome is going to be. Having that conversation says there is something not right with the relationship. I do not think you can be simplistic; I am not suggesting that you are, but I do not think you can be simplistic and say that, if it is not working, you have to demonstrate that, and go through a long-winded process of giving them the opportunity to step up and do X, Y and Z, and if, at the end of all that, it does not work out, they can exit. That can damage an organisation, with no actual tangible difference in outcome.

Chair: Thank you both very much indeed for a long session. We appreciate you coming in and giving evidence to us.