HOUSE OF COMMONS

Communities and Local Government Committee

Oral evidence: Local government Chief Officers' remuneration, HC 191

Wednesday 4 June 2014

Ordered by the House of Commons to be published on 4 June 2014.

Written evidence from witnesses:

Panel 1 (Questions 136-188)

London Borough of Barking and Dagenham and Thurrock Council

Panel 2 (Questions 189-239)

Mike Cooke, Chief Executive, London Borough of Camden

Panel 3 (Questions 240-270)

Hay Group

Watch the session

Members present: Mr Clive Betts (Chair); Simon Danczuk; Mrs Mary Glindon; Mark Pawsey; and Chris Williamson

Panel 1 Questions [136-188]

Witnesses: **Graham Farrant**, Chief Executive of Thurrock and London Borough of Barking and Dagenham, and **Maggie Rae**, Corporate Director, Wiltshire Council.

Chair: Welcome to our second evidence session on local government chief officers' remuneration. Before we begin taking evidence, as members of the Committee we just need to put on record our declarations of interest. I am a vice-president of the Local Government Association.

Chris Williamson: A couple of members of the local authority are members of my staff.

Simon Danczuk: My wife is a councillor and three members of my staff are councillors.

Mark Pawsey: I have a member of staff who is a councillor.

Mrs Glindon: My husband is a councillor, as well as one member of staff.

Q136 Chair: Thank you for that. Turning to our witnesses, you are most welcome this afternoon. Could you just, for the sake of our record, say who you are and the organisation you represent?

Maggie Rae: I am Maggie Rae, and I am one of the corporate directors at Wiltshire council.

Graham Farrant: I am Graham Farrant, and I am the chief executive of Thurrock council and the London borough of Barking and Dagenham.

Q137 Chair: Thank you both for coming to be with us this afternoon. The very obvious question, given that one of you is, if you like, a shared chief executive and the other comes from an authority without a chief executive, is: does any council need to have its own chief executive?

Graham Farrant: If I could start, I think there is a valid role for a chief executive and the local authority should determine whether it needs to be stand-alone or not. Some of that is based on scale and complexity. To give you an example of a local authority I used to work at—Birmingham city council, serving 1 million people—it might be difficult to share, given the scale. Thurrock, at 160,000 population, and Barking and Dagenham at 190,000 population, are about a third of the size of Birmingham. I think there are opportunities for sharing in that sort of scale.

Maggie Rae: If I could add to that from my own perspective, I think that in whatever circumstances we are providing the leadership and management of the local government function, we have to be crystal clear and transparent about how that has been actioned and absolutely clear about the responsibilities of the function whether you have a chief executive or not, or whether you are operating a model like the one we are operating in Wiltshire where we have three corporate directors leading that function.

Q138 Chair: The chief executive of CIPFA has said to us that it is all right trying to save a few pounds here and there and making do without a chief executive, but actually a decent chief executive operating in the way they should can bring more savings to an authority, in helping it to transform the way it operates in these very difficult times, than the cost of their salary. You would obviously not agree with that, would you?

Maggie Rae: I do not think I am particularly here to disagree with CIPFA on how it runs its business. All I can demonstrate is that our local authority chose not to have a chief executive. I do not think the senior leadership of the organisation, both at the corporate level and in the tiers below, are inappropriate. I think they are appropriate to the business we are trying to run. We have been able to demonstrate over the last four years that we have saved in excess of £100 million, which I think is a pretty good outcome.

Q139 Chair: Might you have saved more if you had had a chief executive there driving it?

Maggie Rae: I do not think we would have saved more.

Q140 Chair: I suppose, Mr Farrant, that you would say the same from your perspective.

Graham Farrant: I have been a chief executive since 2000, first at the London borough of Barking and Dagenham, but then six years in the private sector, and then back in Thurrock, and then shared between Thurrock and Barking and Dagenham. I think the chief executive role adds an ability to bring things together, to meld issues together and to look at competing priorities and relative priorities. My sense is that some of the difficult decisions we have taken in Thurrock would not have been taken without that consistent and clear leadership.

I joined Thurrock as its sixth chief executive in five years, so it had had a lot of turmoil at senior management level. I believe that having a strong, experienced chief executive has enabled Thurrock to improve as a council, drastically improve services and make large budget cuts at the same time. I doubt that that could have been achieved without the chief executive. We got to a position in 2012 when it was sufficiently stable for me to be shared across two councils.

Q141 Chair: But still as a chief executive?

Graham Farrant: As a chief executive.

Q142 Chair: So you feel that an arrangement that did not have any chief executive at the head would not have delivered that change in those difficult circumstances.

Graham Farrant: And I think that in the current discussions we are having about budget reductions, both in Barking and Dagenham and in Thurrock, the role of chief executive is critical to making those savings and improving services across the board.

Q143 Chair: Right, but you have a different challenge, haven't you? You have not got a different person in the role of chief executive on a day-to-day basis. You have actually got one person having to be responsible to two authorities, one of which is now under no overall control, so it is not as easy as it was last week, is it?

Graham Farrant: I don't think it was particularly easy last week, actually. Before last week, Labour had 25 against an opposition of 24, so a clear and decisive majority of one, as I like to describe it.

Q144 Chair: But it was a majority.

Graham Farrant: It was a working majority. It is more complex; that has added complexity to it. There has been some difference of opinion politically about the role of the shared chief executive and with whom it should be shared. Having said that, I am still available to them full time as a chief executive. The way I operate is that wherever I am serving it is a single job to serve both councils. I do not say that on Monday and Tuesday I am in one and Thursday and Friday in the other. I say that Monday to Friday I am the chief executive of both councils and constantly available to them.

Q145 Chair: Okay, but you have highlighted a problem that there might be a different view of how a chief executive should operate in the two councils. Chief executive is a pretty political position, in that you are in constant dialogue and contact with politicians, who probably expect their chief executive to behave slightly differently according to political circumstances. Some people may say that you do one thing in one authority and another thing in another. Isn't that a really dangerous place to be?

Graham Farrant: I think I should be clear about the values and ethics and the way they operate. We value the political leadership and the democratic leadership that is given by local members. People respect that different councils will have different balances of political leadership.

Q146 Chair: What about a great fallout between the two authorities? Where does that leave you, if there is one?

Graham Farrant: If they decide to end the arrangement, I have a clear contractual agreement.

Q147 Chair: Or there might be a fallout over a policy decision. There might be a major planning issue or anything.

Graham Farrant: There could be, but equally within a council there can often be conflicts between different communities, which you have to resolve. We do not serve homogenous communities. Thurrock is not a single place; it is made up of eight or nine different communities that can sometimes have conflicting opinions about things that are happening.

Q148 Mark Pawsey: If I could follow up on that point, I will ask questions about remuneration levels. Mr Farrant, you said that the job had become more complicated in Thurrock because there is a hung council. You also said that you did not allocate your time evenly between the two authorities; that would mean spending two and a half days in one and two and half days in the other. Given the additional complexities that you are now going to face in Thurrock, are the residents of the London Borough of Barking and Dagenham going to get a pretty raw deal?

Graham Farrant: No, I don’t think they are. I do not allocate a Monday, Tuesday or specific days; I am working for both all the time. The question is: can you do the role in the time that is available? That has peaks and troughs. There will be peaks and troughs throughout any role. I think it is doable, provided people understand that it is a shared chief executive role, which is saving £200,000 across both councils—a saving of £100,000 each. Is that worth it? That is the question.

Q149 Mark Pawsey: But over the next year or so, as the new arrangements in Thurrock bed down, are the residents of Barking and Dagenham going to have to put up with a chief executive who has not been there quite as long as he might otherwise have been?

Graham Farrant: I don’t believe they will, because I think it is absolutely doable. If that were to turn out to be the case, then we would have a different discussion about the sharing arrangements and whether it was practical to do them.

Q150 Chair: Coming back to the situation in Wiltshire, is there not a danger that people do not know who is in charge from one week to the next?

Maggie Rae: I think we have worked very hard at the model and I am quite clear that our position is that we don't see our job as going round recommending our model to everyone else. Our model was chosen for the way to work in Wiltshire. We like working that way in Wiltshire and it requires very senior people. I and my two other colleagues are very experienced. We have a variety of skills and some of us have worked as chief executives of other organisations. It is a very high-value leadership team and that is the secret to it; we have got to work as a team and we have got to be very clear. We have spent quite a lot of time communicating—with staff, councillors and the relevant communities—how the model works. It requires us to work as a united team.

Q151 Chair: But occasionally you need an individual to say yes or no and not to call a committee meeting to decide what an appropriate course of action is.

Maggie Rae: Yes, of course.

Q152 Chair: Does anyone know who that individual should be at any one point in time?

Maggie Rae: Yes, we are always quite clear. For example, there is quite a lot of weight in local government around the function of the head of paid service. We have a four-month rotation on the head of paid service so at any one point, for the decisions that require the function of the head of paid service, we are very clear who it is.

Q153 Chair: But you can't be clear that the different individuals will always approach that decision with a similar nature and in a similar way, can you?

Maggie Rae: That is where we need the balance and the time given to actually assure ourselves that we are aligned in terms of the vision for the organisation and, of course, with our elected members. We are very much working in a council where the political leadership is coming from our elected members and the delivery of the management function and the delivery of the business comes from the three corporate directors.

Q154 Chair: So the leader of the council fulfils part of that vacuum left by the chief executive?

Maggie Rae: There isn’t a vacuum in terms of management and leadership of the management function of the organisation, but the leader of the council and the cabinet are fulfilling the democratic, elected leadership of the authority.

Q155 Mark Pawsey: You will be aware that our investigation is into remuneration in addition to the actual roles and remuneration appropriate to the roles. The TaxPayers Alliance states that there are at least 2,500 council employees who receive more than £100,000 a year. Is any senior officer worth more than £100,000 a year?

Graham Farrant: I think it’s a market. I think the appropriate rate to pay is generally determined by looking at the market and looking at competing markets. As I said, I spent six years in the private sector, having left Barking and Dagenham as chief executive. I earned more in the private sector running a business that had a smaller turnover and was less complex than the council and I came back into local government from a chief executive role on the same salary as I was earning outside, but without any of the opportunities to earn bonuses and so on—so without the enhancements that were available. My personal feeling is that it is about the right level, but that level must vary depending on local circumstances and complexity, not just scale.

Q156 Mark Pawsey: But, with the greatest respect, as the chief executive of a local authority, you do half of the job of somebody in the private sector. In the private sector it is all about income generation in addition to controlling expenditure. Local government is about controlling expenditure because the income is a given.

Graham Farrant: No, I think that is not true—or I would challenge that assertion, should I say. There are a range of factors. There are different pressures, so I don’t have the pressure that I had in the private sector about cash management. Cash is king, understanding cash flow is absolutely critical—that is much less of an immediate issue within local government. I don’t know what the figures are, but we do generate significant amounts of income. I think we could generate more. If we had a slightly more commercial attitude at times, then there would be more opportunity to do that. But council tax still has to be collected. It doesn't all get paid directly and we have many issues with collection rates, both council tax and rent income have similar sorts of levels. While Government grant comes on a monthly basis, quarterly basis or whatever, collecting the council tax, housing rents and sundry income all needs time to be worked through. So I think we have got that, but the pressures are different. I don't think I would say there is more or less pressure in either. My experience is that the immediacy of the pressure is greater in the private sector, particularly around cash.

Q157 Mark Pawsey: Mr Farrant made a case for local authority chief officers to be paid more than £100,000 a year. How about public servants in local government being paid more than the Prime Minister? Is that justifiable?

Graham Farrant: Are you asking me?

Mark Pawsey: No, I am asking Ms Rae.

Maggie Rae: I am quite keen to come back on your comment about grants because I cannot sign up to that statement either. I can only tell you from my own experience, and my view is that this role in local government as the leader, whether you are a corporate three model or trying to manage two different authorities, is the most sophisticated and challenging I have ever had in my career—

Q158 Mark Pawsey: More than the Prime Minister?

Maggie Rae: I think the hours would be equal to the Prime Minister's.

Q159 Mark Pawsey: More than the Prime Minister?

Maggie Rae: I think it is not a comparable job. I sometimes would like to compare the leader of my council to the Prime Minister. That is more a comparable job. Many of the councillors we work with are not there for financial reward or they would not be doing the job, quite clearly. Again, I am very much with the market. At the moment in Wiltshire we are paying middle-range salaries. At the same time, we have the ambition to be one of the most excellent councils in the country. At the moment, we are struggling to get staff into senior jobs, even at the salaries you are talking about, because people can earn much more money in the private sector. They can earn much more money as interims working across the private and public sectors. We have to work very hard to make sure that local government doesn't fall behind. I will just finish with my point about the grant. The amount of money that is coming directly from the Government is so low in comparison with the overall budget required to meet the future challenges in local government that we are almost getting to the stage of wondering whether it would not be better to run the business without that grant.

Q160 Mark Pawsey: I was not referring to the grant; I was referring to council tax, the level of which is determined by the rateable value of the property. In that sense, the local authority does not need to go out and sell its services in the way that the private sector does. Moving on from that, you both told us about the importance of the market in setting pay and your pay individually. But it is not the market that sets the pay; there is some body in each organisation that has set the pay. How did they do it? Who determined the pay of each of you?

Graham Farrant: In Thurrock council and in Barking and Dagenham there are slightly different processes. They both use consultants who look at the current market, both public and private sector, and quasi public sector as well. They look at the complexity and then take a view. They tend to determine it in quartiles and then we say where we want to sit on that, which is either our median or top quartile, but not in the top quartile. That is the process that we have used.

Q161 Mark Pawsey: When you say "we", is this a remuneration committee? Is this somebody outside the council? What I want to understand is the decision-making process to set pay at a set level.

Graham Farrant: Both my councils buy in that advice externally and then a panel of members review that and that goes to the full council for agreement. So any new post over £100,000 has member sign-up, including the salary. Certainly in Thurrock's case that goes to the full council for agreement before recruitment of any job over £100,000.

Q162 Mark Pawsey: As you know, we are taking evidence from those kinds of consultants later today. On the issue of shared chief executives, the evidence shows that shared chief executives earn 10% more than those serving just one council. Does that additional premium represent value for money given that, as you have told us, you are only spending half of your time in each authority?

Graham Farrant: I have a personal view that it probably does represent value for money simply because I have no more remuneration for running two councils than I had for running one.

Q163 Mark Pawsey: But chief executives of joint authorities are paid on average 10% more than chief executives of individual authorities.

Graham Farrant: I received no extra remuneration to go from my job as chief executive of Thurrock Council to become chief executive of both Thurrock Council and the London borough of Barking and Dagenham. I get no extra remuneration for that.

That is an issue about scale. Our salary is set by complexity and range of functions. That has not changed with me running two councils that are both top-tier authorities. I think if you were running a district and then went to run a unitary, maybe, but if you are just running two districts, that is just a larger scale. My own view is that that does not, generally, generate more salary.

Q164 Mark Pawsey: Ms Rae, you made a defence of the situation you are involved in, where there is no chief executive. Would you ever apply for a chief executive role?

Maggie Rae: In my career, I have led organisations as chief executive and at the moment I am extremely happy in Wiltshire and enjoying the job very much.

Q165 Mark Pawsey: But if a chief executive post came up nearby, would you apply?

Maggie Rae: I would not rule it out.

Q166 Chris Williamson: How do you think chief officers' salary levels can be made to balance the high public profile and political risks of the role with job security and enhanced pension provisions from working in the public sector?

Maggie Rae: I think that one of the reasons we have gone for a very transparent system—very similar to Graham's in terms of setting salaries—is that we have to be publicly accountable. Many of us in local government have had our pictures in the local paper, with our salaries. All of that is very transparent, and I think the justification has to be in the added value, the delivery of the business and the outcomes for the local population. In that sense, I think we are much more immediately accountable to our local population than you would be if you worked in the private sector or were working somewhere where there were a great deal of bonuses. I have not heard of anyone in local government getting bonuses in addition to their salary. Most of us in local government are working just for that very basic sum of money, and many people do not have income from other sources or bonuses. It is really important to keep that transparency and that is why, based on advice, our authority is setting at the median level, not at the high end, of the salary scale. With things being so difficult for everyone in society at the moment, the justification is really important because it is a very big reputational risk.

Graham Farrant: I think we have to be clear about what the formal remuneration package is. You have mentioned some things which I will perhaps come back to, like pensions, which I think used to be a reason to join local government as they used to be very valuable. At senior management level at the moment, given the current changes that have just taken place to the local government pension scheme, I have to say that it is not an attractive addition to the package. It has virtually zero value in my personal calculation, and in most of my colleagues'. When you look at the package as a whole with no bonuses, no private health care and mileage allowance—which, in Thurrock, if we took it, is 10p a mile rather than 40p a mile—it is effectively the base salary which is the key issue. We have had public meetings at which my salary and the salary of chief officers has been discussed. I have been in Tilbury in front of 70 or 80 people, when someone said, "Why is the chief executive paid what he's paid, and why is he worth it?" and had that discussion in public. It is a very different environment, I think, from most others.

I do think we need to be clear about the scale of jobs. One of the things I have done in Thurrock is look at the role of corporate directors, take out that management layer and have a layer below that, which costs the council less money overall by retaining the professional specialists on the management team. We have taken a different model from Wiltshire. Rather than having three people who cover a range of services, I now have probably nine directors who cover their specific things. I have reintroduced the good, old-fashioned job title of director of housing, and my director of housing does housing—not housing and environment, but just housing and our housing service is improving as a result of that. So I have taken a slightly different view, taken out that corporate director role, got specific directors and am very clear about the justification for those because they are reasonably easy to justify. You know what professions they are running and how they are running them. That is the view I have taken.

We have been very clear and very open about salaries. We publish everyone’s salaries above £50,000 and put their names on the website. We did have some people who were not keen on that and decided to be unnamed and, of course, the first job the press did was to find out who those two were who did not want their names released. It was fairly obvious because their job titles were on the website, but they then changed their mind and have since put their names on there. We are quite transparent and open about that. That is the way to go because it is public money and I think you have quoted in some of your earlier meetings: you have to follow the public pound. I am very happy to say, “That is what I earn. That is what I am paid for. That is the job I do.” With the market justification etc., I stand behind that.

Q167 Chris Williamson: You said, Graham, that you worked in the private sector. There is a degree of cynicism from organisations, such as the TaxPayers Alliance, who, in my view, are fairly pejorative about public servants and the role of public officials. As you have worked in the private sector, I suppose you have already got the t-shirt but in general—I would be interested in your comments as well, Maggie—what do you think about the skill set for senior public officers—chief officers? Do you think they could work in the private sector and, if so, at what level would you suggest that the skill set of somebody working in local government could transfer to the private sector?

Graham Farrant: Clearly, it depends on the individual but on the local authority as well because the scale of a district council is very different from the scale of a large, metropolitan council. County council is, again, very different. I think it depends on the individual and that experience.

My own experience of moving across the two was interesting because I went into a private equity-backed business—almost from one extreme to the other—but it was a business that sold services to local authorities, to people like Sport England and to some private companies. It was a leisure business so we had to have salespeople who sold leisure memberships etc., so it was a very different environment. I focus on the income generation bit because that is what I had to do for a living. I think the skills are transferrable but you have to have the right attitude, the right aptitude and the right approach.

Q168 Chris Williamson: Transferrable at what level? Do you think that somebody who is top of an organisation or department would be able to go into the chief executive role in the private sector?

Graham Farrant: Into a similar type of role. I was able to go from chief executive of a London borough to chief executive of a private equity-backed business with a £60 million or £70 million turnover, focused on retail sales in the leisure market.

Q169 Chris Williamson: So would you argue that the skills are transferrable?

Graham Farrant: They are but I do not want to argue that the private sector is a homogenous market because people who are in retail tend to be in retail, not in manufacturing. There are sectors of the private sector where I think our skill set is most appropriate.

Maggie Rae: I think, building on what Graham has said, that the job these days is very much a leadership job—the ability to lead organisations and deliver whatever vision or function is required, to ensure that the staff are engaged with that and come with you because otherwise you are not going to deliver. Whether you look at the interchange between the private sector, I think the movement of staff through the system is a very good thing. I think we have all benefited, in our careers, from moving from different levels. I have certainly moved from local, regional and national government jobs. I have also worked with private sector.

Q170 Chris Williamson: With the private sector or in the private sector?

Maggie Rae: With the private sector. For example, I have quite a unique portfolio because I could probably go and run a private hospital if I chose to. To retain that ability to get the cross-fertilisation of leadership skills, we need to continue to make local government leadership an attractive job and that is why I am very keen. I am not here promoting the lack of chief executives in local government. All I am saying is that the model we have got works for us. If people want to come and see that, that is fine. We are not saying that everyone else has got to be like it. We could retain that ambition for leadership in local government and use the partnerships that we have got because we are going to need to continue those developments in order to get the best outcomes for our population because our partners now are across the whole sectors. We have to be able to lead in a way that makes those good peers—for us to be respected and bring the economy in, bring jobs in and get housing developments organised. That is the leadership job—it is a challenge—in local government these days.

Q171 Chris Williamson: It is underscoring value for money, then, which is something that a lot of people are very conscious of now with the funding reductions that local authorities are being subjected to. The TaxPayers Alliance argues that essentially we have to try to set the bar at a lower level—to try to set salary levels at the lowest possible level. It says in its evidence to us that there is little chance that local authority managers will leave for better-paid work because, essentially, they are career public servants, and therefore their prospects in the private sector are somewhat weak. I know that you have both said that you have worked with the private sector, or in the private sector. What do you say to that? Do you think that the bar should be set lower, or do you think that it is appropriate to offer a bit more in order to get better-quality candidates? What are your thoughts about that?

Maggie Rae: I would like to bring particular evidence to bear on the interim market at the moment.

Chris Williamson: On which market?

Maggie Rae: On the interim market—interim staff. We have a number of chief officer jobs and senior officer jobs in a variety of services: children's social care and adult social care. It is very difficult to attract staff to those jobs. You look at the advertisements and the salaries are going up and up and up for those jobs. Many of the qualified staff available to do those jobs and with the expertise to lead those functions are in the interim market, because they can earn a great deal more working as interims, wherever they are working, than they would if they joined local government.

One of the big drivers—similar to Graham, we have looked at all the tiers of our organisation, so we are not just cutting junior jobs. We have taken resources from every layer of management. We are constantly challenged whenever we look at our interim budget bill in order to deliver our function, because we are trying to attract staff to those functions when they can easily get jobs in the interim market. Some of the amounts we are paying—I am sure others may be able to ensure that I have got the facts right, but we are looking at anything up to £1,000 a day: £600, £800 and maybe more in London. It is a very buoyant market at the moment.

Graham Farrant: I am sure that there are people in local government who wish to spend their whole career in local government, who would not look outside and would not have the skills base to go outside. I am equally sure that there are plenty of people in the private sector who had a spell in local government and have been very successful in the private sector and decided to leave. My own career has been at the interface between the two.

I do not agree with that as an assertion for all local government officers by any means. Many of them have the skills and they have the ability. The question is what keeps them in the public sector. There is some significant reward for working in the public sector, working with a community and developing that community. The thing I missed most being in the private sector was the ability to shape a community as a whole. I could look at a service, deliver a service and become an expert in that service across the country, but what I could not do was to shape a whole community. One of the things I really enjoy about being back is helping to shape a community. That is a choice, and you make career choices all the time based on what you get reward out of, which is some financial, some personal and a whole mixture of all those things.

At the moment, my feeling is that the balance of remuneration for senior managers and the reward elsewhere is about right. I do not believe that the right approach would be to knock salaries right down so that if you do have people with the opportunity, aspiration and skills to go outside, they must take it in order to get any financial reward. That would be my balance.

Q172 Chris Williamson: Final question from me. What would you say to those who say that senior managers leading a programme of spending cuts should accept a reduction in their salaries in order to have the moral authority to lead that programme? What are your thoughts on that?

Graham Farrant: I think that is looking completely from the wrong perspective. You need very good people to do that. I think you need to reward them sufficiently to keep them in the organisation, and it is all about getting the appropriate pay level. I do not think that somebody taking a salary cut themselves is necessarily the right leadership, because you want to make sure that you keep the people. It is about the balance of judgment in somebody’s mind about whether they are there for financial reward or whatever. If you were to force something like that, you actually run the risk of upsetting that balance and losing good people.

Maggie Rae: Building on that and the message around the level of salary and transparency, there have not in effect been big increases in local government salaries over the last few years. We are now looking at the benchmarking and have seen that we have actually slipped to the lower quartile in some of our salaries when our policy says that we should be at the median level. People in the private sector work long hours too, but I know what my private sector and interim colleagues tell me, which is that if some in local government were getting paid by the hour for the amount of work done—I personally feel that there is a commitment because we want to do the job and to experience the joy of getting the community functioning in such a way that it is a great place to live and has great opportunities for the future. If people in local government are anything like the people I know in Wiltshire, I could not even begin that conversation when I see how hard our local councillors work and the hours that they put in.

Q173 Simon Danczuk: Let me start by saying that it sounds like you both do a very efficient and effective job in your roles. Starting with you, Maggie, how is your efficiency and effectiveness measured?

Maggie Rae: Being that we decided to go for quite a unique model at the time and being aware that people might have wondered how it would work, we chose to acquire the services of Solace—the local government chief officers group—and we asked them to come in and do some work on the standard tools that one would use for appraisal. The officer who was appointed to help us with that carried out a series of 360° assessments, helped us to set objectives and helped the council leader ensure that we were working on those objectives. Because we have a three-person leadership model, we actually have shared objectives to ensure that we deliver the overall outcomes of the organisation. I do not know whether we needed that outside scrutiny or not, but we chose to have it because we wanted to make it as transparent as possible.

Q174 Simon Danczuk: So how often does that scrutiny of how effective and efficient you are occur?

Maggie Rae: We have a meeting every week with our leader and then we have a twice-a-year appraisal process.

Q175 Simon Danczuk: With the leader?

Maggie Rae: With the leader and the deputy leader.

Q176 Simon Danczuk: You were saying that objectives are shared among the three of you. Should we assume that all three are performing at the same level?

Maggie Rae: I think we should assume that, but I am not giving you the benefits with a view to saying—I would never dream of telling anyone else in local government what leadership model they should use; that is not where I am coming from. I do think, however, that one benefit that we have found comes from having a greater skillset than one might get from one individual.

Q177 Simon Danczuk: I am just trying to get to the point—we will come to you in a minute, Graham—as to how the public in the local authority area in which you work understand how you, as a well-paid senior officer, are assessed in terms of effectiveness and efficiency. They will want to know whether they are getting value for money. You said that your photos appeared in the local paper and everything else and you mentioned reputational risk. How do the public know whether you are doing a good job?

Maggie Rae: It starts with the performance of the organisation. Like many other local government authorities, we have been part of the peer review process and we just had our peer review last September. It may be interesting for you to know that we chose to have two authorities that really felt that the model of chief executive was their preferred option; so it was actually quite good to have scrutiny from people who believed in slightly different ways of working.

At the end of the day, I think what people want demonstrated is delivery of performance outcomes, and the benefits that we have set out in our business plan that we are going to provide for the people of Wiltshire. Those are all reported on a regular basis through the democratic process.

Q178 Simon Danczuk: So there is nothing published, is there? The public have to rely on the leader and deputy leader to carry out the appraisals. Nothing is published in terms of your performance and whether it is effective or not.

Maggie Rae: Again, because we are very open and transparent, there would be absolutely no problem in demonstrating what our objectives are. Those are transferred all through the organisation. We are meeting our 98 councillors who, in effect, are the elected representatives of the general public, and I think the more transparent we are, the more confidence the public has in our ability.

Q179 Simon Danczuk: Your appraisal is published, is it?

Maggie Rae: The appraisals are not actually published, but I personally would have no problem in having them published.

Q180 Simon Danczuk: Okay. That is something they might consider. Graham, what happens with you?

Graham Farrant: Can I give two answers?

Simon Danczuk: One from each authority?

Graham Farrant: No, they are both from personal experience, if you like. The first is, if I can just give you the Thurrock example, we had a council that was in turmoil, that had no clear direction, that overspent by £4 million, that had not had a clean audit ever. KPIs were failing; there was an improvement board inserted with the agreement of government, because that just stopped it being imposed. What we now have is a council that has not overspent since, that has got a clean audit, that has got improving KPIs, etc.

So on the one hand I think there are a number of parameters by which people see that the performance of the council is better. If I talk about my personal appraisal process, I think it leaves something to be desired. That is an area that I have been talking to the leaders about and looking at. I do not think—if it is the point you are making—the closed annual performance appraisal is necessarily the appropriate way of doing it for the chief executive, and I do not have a better model in place at the moment. So I have two models at work. I deal with the two separately with each leader and we document that, and it is not particularly good, I do not think, as a process; and I am trying to find a better way of doing it.

Q181 Simon Danczuk: So you think there is room for improvement?

Graham Farrant: Yes, I think there is.

Q182 Simon Danczuk: Because it is not particularly challenging, or it is you going through the motions? I want to understand.

Graham Farrant: Because it is difficult to do, isn't it? As chief executive, what do you take responsibility for? How clear are you on accountability at the beginning of the year compared with the end of the year? Should it be on an annual cycle or should it just be ongoing? So we sort of fall into the artificial devices of using the annual cycle, because that is what we use for everybody; but actually it is not necessarily the best way of doing it.

It is, again, easier in the private sector, where, if it is about shareholder return, profit or whatever else—an EBIT figure or an EBITDA figure, or whatever—you can set that. When you have a private equity back and they say, "Well, actually, the process here is to sell it, and we want to get to this particular valuation, and these are the three parameters that affect the valuation," you can do that. It is much more complex in the public sector and particularly in local government. That is what I am struggling with—to get that clarity of assessment process that would say, "Well, this is what I personally contribute, and therefore I personally should be judged on it"; or do you just go for organisational judgment, and say, "Well, as the head of the organisation you take credit for everything that goes well and the blame for everything that goes wrong"? Clearly, the leader of the council takes credit for everything that goes right.

Simon Danczuk: Yes, of course he does. Quite right.

Graham Farrant: I will leave you with the assessment of our performance.

Q183 Simon Danczuk: We are short of time, so let me finish with this question. Could you just very briefly, both of you, tell me how angry you think the public are about chief officers' pay rises?

Graham Farrant: Pay rises, specifically?

Simon Danczuk: Yes. How the general mood is on salaries going up.

Graham Farrant: I can tell you it has been fed back to me that it was not raised at all on the doorstep in the last election cycle, but, equally, our senior managers have had no pay rise since the salaries were set four years ago. So when I joined Thurrock, my salary has not gone up at all. My salary is no longer mentioned as an issue within the borough, other than I have one or two people saying, "You should come back and be full-time."

Q184 Simon Danczuk: Fair enough. That is in terms of where you are working. What about you, Maggie?

Maggie Rae: When we implemented the model to ensure we were at the median level, which we have done in the last 18 months, that was in the public domain. It was in the local papers, as I said, with pictures.

We had scrutiny management go through all that. There was no negative correspondence.

Q185 Simon Danczuk: Nothing in the newspapers on the letters page, or anything like that?

Maggie Rae: Nothing. Because I run a lot of very big public services in my role as well as helping to lead the organisation, I am very proud to say I had a couple of letters, one of which said, "Dear Maggie, you're worth every penny!"

Simon Danczuk: Not from a relative, presumably?

Maggie Rae: You can probably hear from my accent that I haven't got many relatives in Wiltshire. That doesn't happen very often, I hasten to add.

Q186 Mrs Glindon: Do the public have a proactive role in determining your pay and assessing your performance?

Graham Farrant: They don't. I think it would be very difficult for them to play a role, because it is about giving them the contextual information in which to see salaries and so on. There has been lots of publicity in Thurrock, and lots of anger, over payoffs to previous chief executives, for example. I talked about the rotating door, and the fact that five of them had gone in a very short period. There was a lot of publicity around that.

As for the discussion I have had, it is interesting. At Tilbury public forum, where there were 70 or 80 people in the audience, they asked me to justify my salary, and we then had that conversation. They said, "Yes, that sounds fair enough," and we actually finished that quite amicably. But you could not explain at the same level to a population of 160,000, let alone 330,000, exactly what the job is. I think it would be very difficult. I think they have a role through their democratically elected representatives. That is what the councillors are, and that is what they do; they play a very strong role in representing the local electorate. My view would be that that is how the public channel their thoughts. They will be very clear to members if they think they are overpaying, or if they think the council is not performing. That is how we hear those messages.

Maggie Rae: I would echo that most of the public accountability comes through elected councillors, and I think we have to accept that. However, I would like to say, after my experience of having done a lot of big jobs in health before coming fully into local government, that it amazes me how accountable officers of local government are. We live and breathe public meetings all the time, and we live and breathe community engagement meetings, and I think that is a very different ball game. It is much more directly accountable than anything I have experienced in health jobs.

Q187 Mrs Glindon: Do you think that is the transparency and accountability that you have both described? Should the Government legislate to require councils to ensure that level of accountability and transparency?

Graham Farrant: I am always reluctant to recommend legislation where I think the organisation should be transparent anyway. To come back to the issue of taxpayers' money, it is public money and we should be accountable for it. In my organisation, we take a quite proactive role on that transparency, including by publishing the salaries of people on over £50,000, naming them and being clear about that. My personal view is that the authorities I represent do not need a legislative push. I do not know if that is the case across the board.

Maggie Rae: I would go with that. It would be better, I think, to tackle it where it is not open and transparent. I think in a lot of areas, what people earn is open and transparent.

Q188 Mrs Glindon: So that is more generally the case than not?

Maggie Rae: Yes. That is my understanding.

Chair: Thank you both very much for coming this afternoon. It is appreciated.

Panel 2 Questions [189-239]

Witnesses: **Mike Cooke**, Chief Executive, London Borough of Camden, **Councillor Sarah Hayward**, Leader, London Borough of Camden, **Paul Martin**, Chief Executive, London Borough of Wandsworth, and **Councillor Ravi Govindia**, Leader, London Borough of Wandsworth, gave evidence.

Q189 Chair: Good afternoon. Thank you very much for coming to give evidence to us this afternoon. For the sake of our records, could you say, moving along the line, who you are and what organisation you represent?

Cllr Govindia: I am Councillor Ravi Govindia; I am leader of Wandsworth council.

Paul Martin: I am Paul Martin; I am the chief executive of Wandsworth council.

Cllr Hayward: I am Councillor Sarah Hayward; I am leader of Camden council.

Mike Cooke: I am Mike Cooke, the chief executive of Camden council.

Q190 Chair: Thank you all very much for coming to give evidence to us this afternoon on chief executive and chief officers' remuneration and performance. May I ask the two leaders to explain the role you play in determining the remuneration of your chief executives and chief officers?

Cllr Govindia: I see my role as primarily getting the right team of officers to enable the council to provide the lowest cost and the highest quality services for the residents of the borough. I see the chief executive's salary and his team's senior officer's salary as one key component in that wider responsibility. Following on from that, the council runs a chief officers' remuneration and compensation committee, and I chair that. My role on that is to determine with colleagues the performance, and therefore the performance-related pay, of the chief officers.

Cllr Hayward: Similar to Ravi, we have a pay policy statement for our chief officers and we have a member-led appraisal for the chief executive every year, and the pay and remuneration is considered part of that. The other chief officers are considered by the chief executive in his performance appraisal.

Q191 Chair: When you are recruiting a new chief executive or chief officer, do you start with what you think the job is worth and see who you can get for it, or do you start looking for the best person and then decide how much you have to pay to get them?

Cllr Govindia: I wasn't the leader when Mr Martin was appointed, but I was on the panel that selected him. The process of the panel was, first, to determine what Wandsworth wanted from its chief executive, rather than what it could afford to pay its chief executive. What we wanted from a chief executive was the first thing for us to decide on.

Having decided on that, the advert elicited 18 candidates, and we chose the best for the job that we wanted done.

Q192 Chair: And where did pay come into that? Did you advertise the salary, or did you negotiate that afterwards?

Cllr Govindia: The advert carried a range of salaries for the post, and the selection panel determined where in that scale the job would be offered. We had to take account of the fact that Mr Martin was the serving chief executive at another local authority. His record of achievement there and in his previous jobs was all part of the mix when we came to the level we offered.

Cllr Hayward: We have a pay scale set for chief officers, which is available publicly, so jobs are advertised within those pay scales. We have done an exercise to work out what we think our chief officers—indeed, all our staff—are worth at different pay grades. Over the past four-year term—we have just been through our elections in London—we recruited three chief officers and reduced the pay of all of them in line with those pay scales. People apply knowing full well what they can expect. We are trying to bear down on the costs of our chief officers to be able to pay lower-paid people more.

Q193 Chair: Two slightly different approaches there. You both mentioned assessment. We will come on in a minute to how that might be rewarded. Is the process of assessing performance objective in any way? Mr Farrant gave a refreshing and honest explanation. He said he thought the method of assessing his performance in his authority could be improved. How objective is it? Is it really the council sitting round and saying, "I think you've done a good job in the past couple of years. Off we go—we'll give you an A-plus this time."

Cllr Govindia: Any process should always be capable of review and improvement. That goes for any process, and I would not say our process is beyond review or improvement. In our case, the chief officers remuneration committee is made up of myself, two of my colleagues from the majority side and the opposition leader. We have an assessment of the previous year's target and the performance against those targets, and we determine what the reward for that performance is. That is then reported to the full council where, on the two previous occasions, there has been an opportunity for a debate on the outcome of that decision. The same panel then also sets the future year's performance targets. The performance targets are derived from a public document, the council's own key issues document, which is made up of a whole series of what the council considers to be its priorities for the year. Some of them have been informed by political promises, but a lot of them will be informed by what needs doing.

Q194 Chair: Are they targets that can be measured in quantitative terms or are they all really qualitative judgments?

Cllr Govindia: Some. It is a mixture. Like all these things, it is a mixture. Let me give you an example: the council's commitment to deliver a Northern line extension from Kennington to Battersea power station was a key council objective. We were not the only ones pushing for it but we had the critical role to play. Our director of finance and the chief executive both had that as a target. So it was for them to deliver our share in the discussions and push for the delivery of the financial arrangements for the Northern line. So, I couldn't tell you what percentage of their input resulted in the outcome, but I can tell you that their input in that process resulted in a net outcome for the borough.

Cllr Hayward: You have to be able to have objective measures otherwise you don't really know what your organisation is doing. Obviously the chief executive has overall responsibility for those objective measures around all sorts of things such as safeguarding, house building and dealing with complaints effectively. But as Ravi says, obviously some of that ends up being qualitative as well as quantitative in terms of the relationships management of a team and what have you. We can all improve our processes. Performance management is constant and ongoing. I don't wait until the annual appraisal to raise issues with my chief executive. That would obviously be a rather stupid thing to do. So there is an ongoing and constant conversation about the performance of the organisation.

Q195 Mark Pawsey: You are aware that we are looking at levels of remuneration appropriate to roles. I am sure you heard the exchange about the appropriateness of levels of remuneration in relation to the Prime Minister. We have two chief executives here: one who is paid slightly more than the Prime Minister and one who is paid rather a lot more than the Prime Minister. Yet the chief executive with the higher salary has a lower spending power and lower levels of remuneration than the chief executive with the lower salary. Do you think there should be a more systematic way of determining chief executives' salaries?

Paul Martin: I think that Will Hutton is interesting on this in his report published in 2011. He concludes that the comparison between the pay of senior officials in the public sector and the Prime Minister is not an especially helpful one. He suggests an alternative to take the debate forward: instead of comparing the pay of senior officials with that of the Prime Minister, we should consider looking at the ratio between the chief executive’s pay and the pay of lower-paid staff. Indeed, councils are now required to do this in their annual pay policy statement. We are required to publish openly the ratio of pay between the highest paid and the median.

Q196 Mark Pawsey: Let us put that on one side. We are talking about two London boroughs here: one with a higher level of expenditure and one with a higher level of remuneration and yet the chief executive of that authority is paid less. I am just asking whether that is appropriate.

Paul Martin: I think that each council needs to determine its own pay arrangements. No doubt we will come on to talk about that a little more. In trying to determine what is an appropriate and fair remuneration, I think that Hutton has sensible things to say.

Q197 Mark Pawsey: Most people would say that the local authority with the greatest challenges and the higher level of expenditure would expect their chief executive to be paid differently.

Paul Martin: I think there are a range of measures that would inform the pay assessment for a chief executive of an individual local authority. So I would say that the most important measure is in terms of outcomes and value for money for the taxpayer. I think taxpayer value is the key measure in terms of payment. There will be other measures that are to do with economic growth, the development of new jobs and the complexity of the local area that is being served. All those factors, and others, should be taken into account.

Q198 Mark Pawsey: Mr Cooke, given the levels of deprivation in your borough and the spending power that you are responsible for, you must look fairly enviously at Mr Martin’s lot.

Mike Cooke: Not at all. Like Mr Farrant in the previous session, I spent eight years in the private sector, and I returned to local government because I am a passionate believer in local government and the importance of decisions being made at a very local level that suit the particular circumstances. It is important to stress that when you look at my absolute salary, it sits within a range. Because I am a brand new chief executive of only two and a half years’ standing, it is going to be at the bottom of that range, but the range increases to £180,000.

Q199 Mark Pawsey: Mr Martin has only been there since 2010.

Mike Cooke: As I understand it, Mr Martin is an extremely experienced, very capable and very well thought-of chief executive.

Q200 Chair: And you are not?

Mike Cooke: I am considered to be a very inexperienced chief executive.

Q201 Mark Pawsey: But an objective approach would say that in relation to Mr Martin, you are pretty hard done by.

Mike Cooke: I would just want to speak about Camden. There was a question earlier about moral authority, and I am very proud to be associated with a reduction in the overall pay levels by 10% of chief officers in Camden, and to be a chief executive who started at the reduced pay level. When we were making the savings and cuts that we had to make, I think it was right that we gave a signal to the local community, led politically and supported by officers. I feel proud to be associated with that, so I do not feel envious of Paul whatsoever.

Q202 Mark Pawsey: If a vacancy came up for the chief executive of Wandsworth, would you go for it?

Mike Cooke: Absolutely not. Camden is the best place to work in the world.

Q203 Mark Pawsey: Mr Martin, I take it that there is no way that you would take the salary drop that moving to Camden would entail?

Paul Martin: I would not move to any other local authority.

Q204 Simon Danczuk: Mr Martin, what first attracted you to the quarter of a million pound-a-year job at Wandsworth?

Paul Martin: Wandsworth is renowned in local government for being one of the most remarkable councils in the country. The basis for that is that over decades it has achieved a reputation for having the highest possible quality of services and the lowest possible spend and tax.

If I could just illustrate what I mean by that, the current band D council tax rate in Wandsworth is £388. If the council were to double that—I should say that it has no intention whatsoever of doubling it—it would then be the third lowest council tax in the country. I say that simply to give a sense of the difference between Wandsworth and its generally commercial approach to the running of its services.

Q205 Simon Danczuk: So the salary did not interest you at all?

Paul Martin: Well, I think the salary is an indicator of the standards that the council has.

Simon Danczuk: Is it?

Paul Martin: Yes, I believe it is.

Q206 Simon Danczuk: So a higher salary means that the council has better standards?

Paul Martin: I think that the salary reflects the demands that the council makes on its senior officials. The council has taken a view over decades that the stability of good managerial leadership, accompanied by strong political leadership, is the secret to running good services at low cost.

Q207 Simon Danczuk: So what evidence is there that you are worth a quarter of a million pounds a year to Wandsworth residents?

Paul Martin: The job was advertised in the open market. The salary range has been unchanged since 2008. It was advertised in 2010 in the open market at the current range. Anybody could have applied for the post, and 18 people did. There was a recruitment process that resulted in an outcome. I think it was the product of the most open competition one could envisage.

Q208 Simon Danczuk: That is the only evidence that you are worth this amount of money?

Paul Martin: I think there are other components to it. The principal challenge of the job—there are many challenges—is currently: how do we maintain these extraordinarily low levels of spending and taxation at the same time as significant cuts to our Government grant? In common with other major urban authorities our grant—certainly our spending—has been reduced, by £85 million since I joined in 2010. That is difficult in any council; it is especially difficult where one’s spending is at a very low level, as Wandsworth’s is.

Q209 Simon Danczuk: Why shouldn’t you be paid £300,000 a year?

Paul Martin: The council has set its pay arrangements, I believe for the first time in 1989, through advice from Hay, who I think you are seeing later. It has reviewed those arrangements five times since then, always with the advice from Hay on what they believe the market rate should be. In fact, last year we instigated a further review, which is not yet complete. We are looking at what the appropriate rates are in the current circumstances.

Q210 Simon Danczuk: So Hay has continually said that your salary should not increase?

Paul Martin: That the salary should not increase.

Q211 Simon Danczuk: That’s what I am asking you.

Paul Martin: Since 2008 we have been in an unusual situation and quite obviously—

Q212 Simon Danczuk: So Hay has been saying that your salary should not increase.

Cllr Govindia: It’s the banding, the banding for the post, is what Hay has said does need to change.

Q213 Simon Danczuk: So they have been saying that you should not receive any more than you have been getting.

Paul Martin: You can ask them later, but I think their view would be that the range is appropriate for the level of the job.

Q214 Simon Danczuk: So it has been said that you are not worth anything more than you are getting at the moment.

Paul Martin: I think what Hay would do is provide advice.

Q215 Simon Danczuk: I am not asking Hay, Mr Martin, I am asking you.

Paul Martin: I think that at the moment with the range it would be completely unrealistic to consider that it should be paid any more.

Cllr Govindia: If Hay were to come back and say that they would recommend a change in the banding and extend it, or whatever—

Q216 Simon Danczuk: Or reduce it.

Cllr Govindia: Or reduce it—the decision then would be for the members to take, whether to accept Hay's advice, considering other factors.

Q217 Simon Danczuk: You have accepted their advice, haven't you?

Cllr Govindia: So far we have. When they come back with their new advice, we will have to make a decision on it.

Q218 Simon Danczuk: Mr Cooke, are Camden council taxpayers suffering from having a chief executive who, at £155,000, is paid less than many of his counterparts?

Mike Cooke: I absolutely do not think they are. Having a long career where I have spent time in the private sector as well as the public, I have been able to bring a huge amount of experience to bear. As a result of that, working with my elected politicians, we have been able to achieve some amazing things over the past few years. To illustrate that, net resident satisfaction has been increased by 12% in the past two years. I think this is about people being committed to the cause of the public sector and delivering great work.

Q219 Simon Danczuk: So what do you think Wandsworth can learn from Camden in terms of reducing the chief officer bill?

Mike Cooke: I really don't think I can comment, because as I understand it Wandsworth's policy and strategy, both politically and managerially, are very different from Camden's. In some ways it is like comparing chalk and cheese.

Q220 Simon Danczuk: What do you think you can learn from Camden in terms of reducing your chief officers' bill?

Cllr Govindia: What we have done in the past three or four years is to look at the cost of senior management in the borough, and we have reduced the number of senior managers by a third. The issue is how to manage the cost of senior management, and the next phase of that is to look at the remuneration of the number of chief officers we now think we need in order to run the council for the next four years. That is something that will be looked at.

Q221 Chair: If either of you failed in the job, would you walk away with a nice golden handshake?

Paul Martin: In the case of Wandsworth, the severance arrangements are identical for all staff from the most junior to the most senior. You just heard the leader say; I do not think that would be the case in Wandsworth.

Mike Cooke: The same is the case in Camden. The severance, the redundancy payment, the efficiency of service payment is exactly the same calculation for all staff. Clearly, the quantum would be increased because the salary is higher.

Q222 Chair: Have any of your chief officers walked away with more than their statutory redundancy pay in the last few years?

Paul Martin: It is certainly true that we have made a number of redundancies, including senior posts. Four years ago, we had seven departments and we now have four, so we had seven directors and now have four. There have been a number of redundancies at that level and at other levels. In those cases, they have received precisely the same treatment in terms of the policy as all other staff would have done. In fact, it is important to say that their redundancies were published openly, which is in accordance with CLG requirements when it is over a certain sum.

Mike Cooke: In Camden's case, there was one case in which we parted company with a chief officer on the grounds of efficiency of service and not redundancy. A payment was made and it is a matter of public record in our accounts that the payment was £85,000.

Q223 Chair: How was that determined?

Mike Cooke: Using the redundancy calculation.

Q224 Chair: And it can be justified that somebody gets £85,000 for not doing their job.

Mike Cooke: As I said in my written evidence, the justification is the need to take decisive, swift action in such situations, rather than have someone in post when there could be a risk of an important service, such as children's services, drifting over months as the underperformance is being tackled. That is the choice that all councils face in those situations, and the decision that was made locally in Camden was to be decisive.

Q225 Mrs Glindon: May I ask Mr Cooke and Mr Martin a question? Do your councils have sufficiently strong processes to link senior executives' pay with their actual performance? Who would like to go first?

Mike Cooke: I don't mind going first. In Camden, we adopted a chief officer pay scheme in 2005, seeking advice from the Hay Group, which I know you are seeing later. As part of that, we also introduced a new performance management system, which ensured that we specified very clearly annual targets both for the service and for each individual chief officer, so that we could identify not only what their service was achieving but what they were achieving personally.

Paul Martin: For Wandsworth, we believe strongly in performance-related pay and have an approach to it that penetrates to nearly every member of staff. We have 2,800 staff, of whom currently 2,300 participate in the performance-related pay scheme, by which there is some link between their payment and their personal contribution. The principle is one that we endorse, and it certainly applies to the chief executive post. You have heard Councillor Govindia say that he chairs the committee of councillors that will determine annually whether any performance-related payment is to be made to me and if so, what it should be, on the basis of both my self-assessment and the data and evidence that they have. I am quite clear that the level of performance-related pay can range from nothing to something that is reasonably significant, depending on my perceived performance.

Q226 Mrs Glindon: May I ask you all what you think about Hutton's notion of "earn back"?

Paul Martin: Shall I go first on that? We are very interested. First, he makes the point that relating some element of pay to performance is an important principle. That is a difficulty for political leaders, because it can be so often seen as a bonus, which is difficult for public sector organisations, because bonuses carry a certain tarnish. That point is good. He then talks rightly about the risk of performance-related pay being a one-way street. You get the payment if you achieve well, but there is no deduction if one's performance falls short of what is required. In summary, it is an interesting proposition and we are currently reviewing our pay arrangements and have specifically said to Hay that we would like to see whether that could be incorporated into our arrangements.

Mike Cooke: For myself, I support the view that at the top of the organisation in particular, a proportion of total earnings should be re-earnt every year. However, I would personally advocate and prefer the use of a one-off lump sum element of those total earnings. I personally believe that the concept of earning back salary is a bridge too far for employees and would not pass an acceptability test for them. It would be extremely difficult to get buy-in, support and commitment to that notion. However, that is very different from a concept of employees understanding that if they work hard and deliver excellent performance then they have the opportunity to earn a variable payment or a one-off payment.

Cllr Govindia: Mr Martin has said what we are interested in. From my point of view, I think it is important to be able to communicate to the public that if you are measuring senior officer pay based on performance then it should be possible, where their performance does not meet the mark, to reduce pay. It becomes much easier to explain to people that performance can be rewarded as well as that poor performance can carry a penalty. It makes life easier in terms of communications.

Cllr Hayward: Employees should be treated with respect and have a right to expect a certain basic level of salary and know that it is coming in every month or week, or however you have agreed to pay it. Beyond that, you recognise good or exceptional performance through the performance-related pay element or bonus system. I am not sure how motivated staff would be, at any level, if they were working under the cloud of uncertainty that they might lose some of their pay at the end of the year. I just don't think it is particularly motivational practice.

Q227 Mrs Glindon: So how would you tackle, in relation to reward, underperformance?

Mike Cooke: I am very clear. There are two types of underperformance. There is the underperformance in which you can intervene managerially and bring it back on track through the performance management process, by giving signals and not rewarding people at the end of the year. The second type of underperformance is so profound that there is a loss of confidence in that individual. I referred to a Camden example previously, and in that situation, the expectation is that quick and decisive action is taken to ask that person to depart from the organisation.

Cllr Hayward: I would go back to what I said earlier. Performance is not something that is measured or appraised in a single event once a year; it is a constant conversation. Councils are complex, multifaceted organisations. Things aren't always running perfectly and you have a conversation—I identify a problem and I expect it to be resolved. If it's not, then there is a further conversation to be had. That all feeds into the annual performance appraisal to decide whether or not to add an additional payment for good performance.

Paul Martin: I think I agree with that. I think there is a large measure of agreement on this. It is essential that there is clarity of expectation from all staff, but particularly from the most senior staff. The clearer and more highly specified the expectation, the clearer it will be if performance has fallen short.

Q228 Mrs Glindon: Should more be done to prevent underperforming staff from moving into other senior posts in the public sector, or even being redeployed as consultants within their own authorities?

Cllr Govindia: If there is catastrophic underperformance, clearly any local authority or any employer needs to take appropriate action and dispense with the services of that employee for the right and proper reasons, going through the right procedures. Where there is chronic underperformance that falls short of that disciplinary termination stuff, I would give a fairly clear and robust opinion if I was asked about the worth and value of that officer while they worked for Wandsworth. It would be for the subsequent employer to make a judgment on that.

Cllr Hayward: I think I agree with that. Local authorities are democratically accountable to their electorate locally, and you make decisions based on what you think senior managers can deliver and bring to the organisation. If you do not deliver, the voters will be pretty quick to tell you that. And, to refer back, people have a right to employment. If someone is not suited to Camden, it does not mean that they are not suited to any other type of work anywhere. It is not my job to destroy someone's career if they do not fit with Camden, and the next employer has to make a decision about whether they are then suited to that organisation, whether it is in the public or the private sector.

Q229 Chair: Coming back as consultants to your own authority? Do your local authorities have rules about senior officers going off the payroll and then coming back and being paid by some other means?

Mike Cooke: Yes, absolutely. We just would not tolerate it.

Paul Martin: One of the characteristics of Wandsworth Council is that it has a very low appetite for the use of consultants generally. The expectation of councillors is that the skills and expertise that are required should be found within its paid staff.

Q230 Chair: It seems that in both authorities where a senior officer does not do the job as well as you think they ought to, they get some money to ease their passage out of the authority. If it was a bus driver who kept crashing his bus or a bricklayer who built walls that fell down, or someone on the cash desk in the leisure centre who kept losing some of the income at the till, they would be fired, wouldn't they?

Cllr Hayward: Can we be clear about this? If Mike committed gross misconduct, he would be fired without a penny. The examples that you have given would fall into gross misconduct. If there is seeping poor performance that requires performance management, Ravi and I, as political leaders of our organisations, would have to take a decision about whether it was better to pull the plaster off quickly or allow a situation to continue in which services might drift for our residents.

Q231 Chair: But it does appear to the public that what constitutes gross misconduct for jobs that so-called ordinary people do in the workplace is sometimes a lot easier to determine than for high executive positions, where perhaps it is all a bit complicated and difficult, and the easy way is to say, "Here's a bit to go with; will you not create a fuss?"

Cllr Govindia: I see Mr Martin about four or five times a week. My colleagues see him maybe once or twice a week. We have, every fortnight, a leaders meeting at which he is present, and we spend two to two and a half hours together. If poor performance was endemic in his work, it would be noticed and steps would be taken.

Q232 Chair: It is not the chief executive I am talking about, but maybe the next tier down or the third tier down. It is at that sort of level where it is easier to pay a bit to get rid of someone.

Cllr Govindia: Indeed, Chairman, but my cabinet colleagues will meet their director and their director's executive teams, so there is a fair degree of exposure of very senior officers to members in very direct scrutiny of their performances against their own targets on a relatively regular basis, so poor performance will be noticed in my authority or in Camden or many others. It will be noticed and appropriate steps will be taken. If there is continuous poor performance and lack of improvement, clearly at some point it will not be rewarded, and, if necessary, they will have to be eased out.

Q233 Chair: On the issue of transparency, is there any role for the public in your authorities in determining chief officers' pay and assessing their performance, or commenting on what politicians have decided to do in this regard?

Cllr Hayward: I am a member of the public. I live in my authority and I am elected and I have to live there to qualify to stand. The role that we play is representative. Chief officer pay has never come up on the doorstep as an issue. I have never had a piece of correspondence about it, and I have just had a pretty resounding result at the ballot box. I think that overall my residents are quite happy.

Cllr Govindia: In Wandsworth it is different, because Mr Martin's salary has often been commented on in local and national press. Indeed, in the last elections, on two or three occasions it did come up on the doorstep, but it was surprising to me, having done hour upon hour of door knocking, that it did not come up at every door. None the less, it did come up.

Simon Danczuk: Not every door.

Cllr Govindia: The truth is that I have been knocking on doors for the last four months—at least an hour a day or so—and there have been two or three occasions when people have raised it with me. It is noticeable but not huge.

Q234 Simon Danczuk: May I ask a quick supplementary question? Why do you not just show some contrition and reduce the salary by £20,000? Mr Martin, why don't you take a pay cut and say, "Times are really tough and I should do the right thing"? You certainly would not get it on any door if you did that. Why don't you do that?

Cllr Govindia: Well—

Q235 Simon Danczuk: Let Mr Martin tell me. Why don't you do that?

Paul Martin: In the period that I have been here, the only increase that I could have had, I turned down. I am the only employee in the council who has not had a pay increase during that period. We are currently reviewing the pay—

Q236 Simon Danczuk: I understand that but, for argument's sake, why don't you take a £20,000 pay cut?

Paul Martin: As you heard earlier from Graham Farrant, there is a responsibility that we have for the whole framework of the council. I lead a team of staff, each of whom is—certainly, at senior levels—well remunerated and well rewarded for the jobs they do. My responsibility is as the leader of that team. I think that upholding the council's standards, policies and frameworks—this is what we do.

Q237 Simon Danczuk: But we keep the salaries high—that is what you are saying. The public will not be convinced by that answer. Councillor, have you not encouraged him to take a pay cut?

Cllr Govindia: In a fortnight, we will be meeting—the remuneration committee—and we will review last year's performance and come to a judgment.

Q238 Simon Danczuk: So far, on every other year, you have not said to him, "Listen: it would be smart, wise and politically astute to take a pay cut." You have not said that to him.

Cllr Govindia: What I actually say is that if Mr Martin was asked to or if Mr Martin voluntarily gave up £20,000 of his pay, I suspect the first thing would be that £20,000 is not enough; that would be much of the commentary. We would end up in a race to the bottom. What I am required to do—to be answerable to the local population—is ensure that we have a robust system of measuring his performance and getting the outcome that we promised our electorate. Our record, in terms of council tax, the savings we have achieved, what we have achieved in Nine Elms and what our ambitions are elsewhere speaks for itself.

Paul Martin: It is important to say that the way that our performance-related pay system works is that 10% of my salary is at risk at any time. It is, as Councillor Govindia suggested, entirely possible that the kind of sum that has been alluded to could well be withdrawn.

Q239 Chair: Both councils believe they have a good story to tell and some of you do tell it. Could you improve the transparency of what you do in any way? Should there be any requirements for councils to improve the transparency of what they do about pay and assessment? Should the LGA do more to promote information, nationally, about what different councils do?

Cllr Govindia: I am willing to. As part of the current review, we are looking further into how much of the information about the annual assessment and the annual target-setting is out in the public domain in a very straightforward—not only transparent, but easy to understand—way. At the moment all the salary levels are on the web, as well as the annual PRP decision. Our targets are discernible from the key issues but I think we could do better by making them more obviously apparent.

Cllr Hayward: We have been at the forefront of being really transparent. We were one of the first councils in the country to publish the individual details of our chief officer pay and all of our payments over £500. I think we should always be looking to see how much more transparent we can be about objectives, how they are set, and how and whether they are met. The individual details of performance appraisal could get into some quite difficult personal territory for individual staff members so I think there would need to be some boundaries and safeguards for individual employees, but we should always be looking to be more transparent.

Chair: Thank you all very much for coming in and giving evidence to us this afternoon.

Panel 3 Questions [240-270]

Witnesses: **Peter Smith**, Director, Hay Group, and **Martin Tucker**, Joint Managing Partner, Gatenby Sanderson, gave evidence.

Q240 Chair: I suppose the first, very obvious, question is: is there an efficient market in setting chief officers', chief executives', salaries and wider remuneration packages at levels that the public would say, "Yes, that gives us value for money. We are quite happy with those"?

Martin Tucker: Shall I go first? I guess it partly depends on what you mean by "efficient", but there is a definite market, certainly, within local government chief officer recruitment. It is open competition and each authority, as you have heard and know, is able to appoint from a wide pool of different candidates. I think that is a fairly general statement, and therefore true broadly speaking; however, I think there are going to be, and have probably traditionally always been, areas of speciality, which in different times and for different reasons are difficult to recruit to and for. Therefore, arguably, you could say in certain circumstances that the market is perhaps not as efficient or as open as it might be.

Peter Smith: A couple of things. First, on the efficiency of the market, I am not sure if it came up earlier but there are limits to the extent to which local authorities recruit from outside council employment. There are also limits to its access to skills in the private sector. You happen to have had the benefit of two or three people today who have actually moved from one sector to another, but I think it would not necessarily be the case that that is on view all the time; so from that point of view there is a relatively constrained pool that a lot of the recruitment is taking place in.

Just on the second part of your question, which was setting salary at a level that the public would accept, one of the things that came up earlier about that is about whether people understand the complexity of the council, and whether they understand what kind of a job it is to run a council. I think that is poorly understood and, actually, arguably, some of the people in this room, representatives of local authorities, have not done the best job in explaining what it is that makes it justifiable to pay chief executive salaries as they are, or director salaries as they are; but it is to do with the complexity of the role as well as the talent available.

Q241 Chair: I suppose what we do have, though, is a whole variety of different arrangements going on in authorities. You can look at relative levels of chief executives' pay and wonder how authorities arrive at such different figures for doing what, on the face of it, seem to be fairly similar jobs, or you can see some authorities increasing salary at times others are reducing. Presumably we would not have those differences if they all appointed the right consultants and got them to give appropriate advice.

Peter Smith: Certainly, from my point of view as an adviser to some of the councils represented here today, I would expect the councils to take local accountability—that is what councils are about—for performance and decisions. So I would not expect them all to have identical policies at all. That is not true in local government. It is not true in health. It is not true in listed companies. You come across a range of different approaches to remuneration, performance and outcomes, and that is what one would expect to see; and the local decision making, and continuity of local decision making, is inevitably going to lead to some differences, I would say.

Q242 Chair: Yes, but both of you must occasionally scratch your heads and think, "How on earth did that authority arrive at that level of pay for that job?"

Peter Smith: I think we are in the relatively early stages of remuneration committee activity. It is not that long since the legislation for publishing pay policy statements came in and I think in those areas and in transparency, which you have also asked about, there is still some room to find feet and room for improvement. You have some particularly articulate authorities here today, but you will find some variations that authorities themselves are not necessarily able to explain because they have what I would call a practice rather than a policy. They have something that they have always done but have not necessarily asked themselves why.

Q243 Chair: But I suppose there is a suspicion among some councils, as well as among members of the public, that management consultants are sometimes a bit closer to the managers than to the public who are paying their salaries, and that you will always be looking at reasons why pay should be increased rather than why the next appointee to a job might get less than the last one. Is that fair?

Martin Tucker: Not in my experience, and certainly not in my recent experience. In fact, my recent experience has been the reverse. I have had conversations with elected members of different councils and consistently, in the recent past, the mandate has been, "This was the salary of the previous, outgoing chief executive or senior officer and we are now looking to reduce that." The conversation then turned to what impact that might have. Will it impact on the quality or quantity of the field? What sort of people might it attract? What sort of people might we look for? In my recent experience, the debate has actually been about pay coming down rather than going up.

Q244 Simon Danczuk: A quick question—I am not sure if your company worked on the Rochdale remuneration package, Peter. Did it?

Peter Smith: They did.

Q245 Simon Danczuk: That is what I specifically want to ask about. You might know the figures better than I do and these are just rough calculations, but this is the gist of what happened. The chief executive there is recruited on about £130,000. Eighteen months later, you guys suggest he should get £170,000. He has just left the authority for a job at Salford, on about £150,000. The marketplace, as you guys would argue, set his salary at £130,000; that is what he was recruited on. It is then tested again within 18 months to two years at a more complex authority—Salford is a city and if Rochdale is difficult, Salford is probably even more difficult—and he gets £150,000. You guys were recommending he should get £170,000. How did you reach that conclusion when, on both sides of your recommendations, the market tests say it doesn’t come anywhere near your figure?

Peter Smith: We were involved in a debate with the authority about what market position they wanted to have and what the risks were of them not having a sufficiently competitive salary. That was what they wanted to look at. We looked at the mid-market rate for broadly comparable authorities, and that was where the £170,000 came from. We also looked at the mid-market rate in the public sector as a whole, for jobs of comparable size, and it is actually a bit higher than that—it was 180-something. So there was a range of figures to walk around and discuss. Our job is to help people with the information, to explore the risks and opportunities and to look at whether something is defensible or sensible.

Q246 Simon Danczuk: It clearly isn’t, is it, because it has been tested in the market and you were way out of kilter? The public—I think you charged Rochdale council tax payers about £20,000 for your inaccurate, poor advice—would describe what you offered as money for old rope. Some of the figures we have been presented with here today show that an outer London borough pays an average of £160,000-odd to a chief executive. This is a northern town on the outskirts of Manchester. Outer London boroughs are paying chief executives less than what you recommended. There is no logic to what you recommended. It is any level anywhere. There is no logic to it, is there?

Peter Smith: What happens in each of these authorities is that there is a discussion—generally with a panel of members, as we have heard—about what their concerns and wishes are in relation to remuneration policy. As we have also heard, that can result in some quite different remuneration policies in different places.

Q247 Simon Danczuk: So what you are saying is that the elected members were insistent on paying him well above what London local authorities were paying? They were insistent on paying him over the odds. Is that what you are saying?

Peter Smith: I have to be clear that I have not been involved in the Rochdale case at all, so I cannot say what was discussed in detail with the members. What I can say is that the characteristic arrangement with member panels is to begin with the process of benchmarking. Benchmarking itself, against a multitude of markets, is not that difficult once one looks at the range of jobs and the type of organisation. The question is how to reconcile the range of figures that you get from benchmarking with what the organisation wants to do and what, in that case, the remuneration panel is concerned about. If they are worried about whether they will be able to retain somebody whom they think is a very good chief executive, for example, they might want to make sure that they make a good remuneration offer. A proposition for somebody to get a big increase in one go has to be a local decision, but it would be to do with retention, I imagine.

Simon Danczuk: It would suggest that your industry needs regulating.

Q248 Mark Pawsey: In the previous evidence sessions, which I think you both attended, we pressed individual officers to justify their salaries, which they did very well. I suppose we could put much of the evidence into the, "They would say that, wouldn't they?" sector. I am hoping that you will be able to give us some independent, impartial advice because of the overview that you have.

I have two questions. First, do both of your firms operate in the private sector as well as the public sector?

Martin Tucker: Our firm doesn't, in the sense that it doesn't recruit for private sector organisations.

Peter Smith: We do. We work right across.

Q249 Mark Pawsey: That is fine. So you are public sector only. And you go out and recruit chief officers?

Martin Tucker: Correct.

Q250 Mark Pawsey: Is the amount that you earn dependent on the salary that the recruited officer is paid, a bit like an estate agent?

Martin Tucker: No. As in, is our salary dependent?

Q251 Mark Pawsey: Is the fee that you earn from recruiting a chief officer dependent on the salary level of the officer?

Martin Tucker: No, it is not.

Q252 Mark Pawsey: And in your case, sir?

Peter Smith: We do not do recruitment—we do pay advice—but no, it is not related.

Q253 Mark Pawsey: Okay. I was trying to determine whether the advice that you give us will be impartial or whether your remuneration depends on the amount that chief officers receive. If that were the case, both your firms would have a vested interest in driving up salaries. You are telling us that that is not the case.

Peter Smith: It is not the case.

Martin Tucker: It is not the case.

Q254 Mark Pawsey: Peter, since you operate in the private sector, how do you assess the skill and ability of chief executives in the private sector compared with those in the public sector?

Peter Smith: At the technical level, we have a job evaluation process, a set of factors and a process of analysis, which looks at the complexity and accountability of the role, essentially. To pick up the sense of one of your earlier questions, we certainly would take account of the range of services provided, the organisation's governance arrangements—how decisions are made, where strategy is formulated and so on—and the range of activities that make success. Is it about, as it is in the case of some organisations, taking an allocated sum of money and spending it wisely, or is it about creating something from scratch? Those would all be factors influencing one’s assessment of how big the job is.

Q255 Mark Pawsey: I think you have both told us that the market is not very efficient, and that candidates of sufficient quality are not coming forward. Why would that be?

Martin Tucker: I think what I said was that it partly depends on what sort of jobs are being sought. It depends on the context. In my experience, talking specifically about local government, you will find some jobs where I would say—for example, as has already been mentioned, children’s social services—you have a defined pool of people who are operating within the country, and that pool is not substantial. If, for example, you wanted to hire an IT director, it is quite possible in my view that you could look well beyond the local government sector. It is not impossible that you could look beyond national borders. It depends how you define efficiency. I guess what I am trying to say is that your available pool of people and talent is much greater in sum for some jobs than it is for others.

Q256 Mark Pawsey: For the country as a whole, is that a training issue? Are we not training people up and bringing them through to be able to compete for these senior roles?

Martin Tucker: It depends, because there are different factors at play. If we take children’s social care, as it has been already mentioned, there are a range of factors at play that are causing a particular pinch point right now in terms of the quality and the calibre of people we require to do the jobs that have to be done. I suspect part of that is about how we have trained and developed social workers over the years. Part of it is the inspection regime to which children’s services are now subjected. There is also something about the actual roles themselves, and the reputational issues and reputational risks that people are subject to in those roles.

Q257 Mark Pawsey: Are you suggesting that the level of scrutiny that these roles now have is putting people off?

Martin Tucker: Yes, and there is scrutiny from different parts of the public focus. There is local public scrutiny and there are organisations like Ofsted that provide very particular scrutiny. We have seen that well documented cases result in people’s careers and people’s jobs disappearing.

Q258 Mark Pawsey: There is a view among our constituents that people working in the public sector have greater job security and enhanced pensions compared with those in the private sector. Is that a fair view to take?

Peter Smith: In relation to pensions, to take the second bit first, there is no doubt that the value of public sector pensions as a proportion of the annual salary, which is the sort of valuation you can do, is high compared with the defined contribution schemes that are now common in the private sector. That is confused slightly at chief officer level by all the changes in pension and tax rules, which have diminished the value of some of the schemes of people who are further on in their careers, as we heard earlier. That is certainly true.

In terms of job security, it depends on what you are looking at and what you mean by job security. In the past probably 10 years, the top of the public sector—I am thinking here not just of local government but of places like the NHS—has become much more of a hire-and-fire place than it used to be. It has become less secure than it used to be. You have heard examples today of underperformers being moved on, and that certainly did not happen decades ago in local government. As you look further down the organisation, while on the one hand a council is going to be there and there is a good deal of security, one may think, you only have to look at the level of cuts that have already been made in local government and the level of cuts that still have to be made in the coming couple of years to see that many people there would justifiably be worried about their jobs.

Q259 Mark Pawsey: Sticking with the private sector skill base, would you agree with the assessment that senior private sector managers can transfer into the public sector, but the route cannot go the other way? Senior executives from the public sector really would not be of any value to people in the private sector.

Peter Smith: No, I am not sure I see that at all, actually. I think there are some things in the skill base that are extremely valuable, and it depends, of course, on what they are running. As you know, there are some quite commercial or operational bits of local government, for example, which are easily transferable.

Q260 Mark Pawsey: So would the average local authority chief executive be a strong candidate in an application for the MD of an equivalent-sized private sector business?

Peter Smith: No, that is pushing it a bit. If they have no prior private sector experience to fall back on and they haven't run a major, measurable service or commercial service—

Q261 Mark Pawsey: But easier for the private sector chief executive—

Peter Smith: It is not easier for them to come into the local government chief executive role. No, as we were saying a minute ago, there are some transfers that are more easily visible to some service director and corporate director roles, but there are some that are off limits.

Q262 Mark Pawsey: Do you think it would be a good idea if there were more transfers between public and private sectors at a senior level in these organisations?

Martin Tucker: I think it would be very beneficial, but part of the difficulty we have started to explore is that it is a bit like, for example, saying a chief executive of a pharmaceutical business is suitable to run an oil and gas company. That is possible but unlikely and I think the same probably applies here.

Q263 Mrs Glindon: Do you think councils have strong processes to link senior executives' pay with their actual performance?

Peter Smith: I think they are getting better at performance management but typically local authorities don't have very close links between performance and pay. You have taken evidence from some that do, but lots of local authorities, as I would put it when I am being critical, would pay the same whether people perform or not. I would tend to advise that there should be more of a link between performance and pay than they traditionally put in.

Martin Tucker: That is not an area of expertise for me.

Q264 Mrs Glindon: How do you think the public sector addresses underperformance?

Peter Smith: Again, it is an area that is improving but not traditionally one of huge strength. So if you take a council, the starting point is to have a clear view about what the council wants to do and what success would be like for the council and for local residents. If you have a clear strategy and annual plan then you can pull down from that a picture about what you want chief officers, and others for that matter, to contribute. That is the starting point. We see that better represented in some organisations than others. When you then get into more personal detail, which I think is what you are asking about with underperformance, organisations need to be willing first of all to be clear with people about how they have done, and they need to be quick to take remedial action on performance and, in cases of real disaster, get people out of the door. It is not just local authorities. The public sector generally has been weak on those performance disciplines. There are employee surveys available for the NHS and for the whole of central Government. In both cases failure to address poor performance is one of the leading things that emerges from the surveys.

Q265 Mrs Glindon: We talked at an earlier session about the Hutton earn-back approach. Do you think that is a useful way of tackling this issue?

Peter Smith: Like Duncan Brown, whom you heard from a few weeks ago, I was one of the expert advisers to the Will Hutton inquiry. I don’t think any of us particularly took to his earn-back proposal. It is not because it wasn’t in principle interesting. In fact, it is used in some posts in the New Zealand Government and it is in some ways another way around describing what some of us call bonuses or variable pay. But it is hard to see how you could introduce it without increasing salaries. If you have someone on £50,000 already, in order to get them to take an earn-back arrangement you will have to offer them potentially more. In the current environment I don’t know how that is going to work, to be honest. It is an idea that has not been picked up. Interestingly, central Government was sent away to look at earn-back and to come back with a proposal, but Gus O’Donnell moved on as head of the home civil service without saying anything more about it. People have looked at it and have found it difficult to make practicable.

Q266 Mrs Glindon: It has limitations?

Peter Smith: Yes.

Q267 Mrs Glindon: Have you any evidence that senior appointments are becoming politicised? When a new administration comes into power, for example, there is the potential for a clearing out of senior officers.

Martin Tucker: I do not think there is any evidence to say that that has been increasing. It is a generally accepted truth that sometimes when there is a change of political administration there is a change of direction and emphasis and a whole new suite of policies. Elected members probably quite rightly feel that those policies and that direction of travel are best achieved with some different officers. As long as I have been doing this job, which is since 2000, I think I have seen that happen. Equally, and probably more often, I have seen changes to political control, which is possibly what we are talking about, where the same set of officers and indeed the chief executive have remained, so I do not think that there has been any increase in that as far as I can see.

Q268 Chair: To pick up on this earn-back issue, you were not objecting in principle; you were just saying that the timing was about as bad as it could be in the current circumstances. Would it be possible to introduce an earn-back arrangement at some point as the financial situation improves and salaries start to edge up again? Instead of simply paying extra on top of existing salaries, any extra could be put into an earn-back arrangement.

Peter Smith: It would be possible to do that in principle. When we look forward at what might be earnings inflation, it is going to be very slow, so it would be a tortuous process. However, my own view, just so it is perfectly clear, is that it is a complication too far. If you want to relate pay to performance, which I would, it is cleaner and clearer for people to take a decision first of all about what the salary range is and then to adjust the position in range based on performance, so that salary increases depend on performance. As a lot of organisations do, a view could be taken about the total compensation that you're targeting for the role and a proportion of that could be non-consolidated. That is what most people would call a bonus arrangement, but the whole of the private sector works with that system. It certainly does not expect people to earn their entire bonus, but does expect some bonus to be paid. Earn-back is just another way of describing that arrangement. It sounds more acceptable to the public, but might actually be more complicated to operate. That would be my view.

Q269 Chair: But even if you have someone on a flat-rate salary now and you are going to move to some sort of bonus arrangement, the likelihood is that that would be salary inflationary.

Peter Smith: The likelihood is that it would be salary inflationary. That is right. The discussion that one gets into more recently if organisations want to introduce a bonus arrangement—this is if it is easier than earn-back—is about what happens if we froze salaries for three years and put that money into a non-consolidated payment and whether that would be a way of introducing a scheme.

Q270 Chair: Or introduce it when a new person is appointed to the job.

Peter Smith: And then you can reset and recalibrate the base, which is certainly what has been happening in local government.

Chair: Thank you both very much indeed for coming this afternoon and for giving evidence to us.