

Public Accounts Committee

Meeting Venue:

Committee Room 4 – Ty Hywel

Meeting date:

Thursday, 3 April 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Committee Clerk

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Agenda

1 Introductions, apologies and substitutions (09:00)

2 Papers to note (09:00–09:05) (Pages 1 – 3)

Senior Management Pay: Letter from Richard Tompkins, Director of NHS Wales Employers (3 March 2014) (Page 4)

Senior Management Pay: Additional information from Peter Smith, The Hay Group (March 2014) (Pages 5 – 10)

Senior Management Pay: Amended paper from the Welsh Local Government Association (March 2014) (Pages 11 – 23)

3 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (09:05)

Items 4, 5, 6, 7, 8, 9 & 10

4 Senior Management Pay: Briefing from the Wales Audit Office and next steps (09:05–10:05) (Pages 24 – 97)

PAC(4)–10–14(paper 1)

PAC(4)–10–14(paper 2)

PAC(4)–10–14(paper 3)

Research Brief – Senior pay in the FE Sector

Research Brief – Levels of pay in the public and private sectors

Wales Audit Office Brief – Senior management pay

Legal Brief

Anthony Barrett – Wales Audit Office

5 Management of Chronic Conditions: Briefing from the Wales Audit Office (10:05–10:25) (Pages 98 – 156)

PAC(4)–10–14(paper 4)

6 The Welsh Government's location strategy: Briefing from the Wales Audit Office (10:25–10:45) (Pages 157 – 222)

PAC(4)–10–14(paper 5)

(Break 10:45–11:00)

7 Meeting the Financial Challenges Facing Local Government in Wales: Next steps (11:00–11:20) (Pages 223 – 230)

PAC(4)–10–14 (paper 6)

PAC(4)–10–14 (paper 7)

8 Forward work programme – Public Accounts Committee (11:20–11:50) (Pages 231 – 238)

PAC(4)–10–14 (paper 8)

9 Unscheduled Care: Agreement of final report (11:50–12:20)

PAC(4)–10–14 (paper 9)

10 Covering Teachers' Absence: Consideration of draft report (12:20–13:00)

PAC(4)–10–14 (paper 10)

Public Accounts Committee

Meeting Venue: **Committee Room 4 – Ty Hywel**

Meeting date: **Tuesday, 25 March 2014**

Meeting time: **09.00 – 11.00**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_500000_25_03_2014&t=0&l=en

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Concise Minutes:

Assembly Members:

Darren Millar (Chair)
William Graham (In place of Mohammad Asghar (Oscar))
Mike Hedges
Alun Ffred Jones
Julie Morgan
Jenny Rathbone
Aled Roberts
Sandy Mewies

Witnesses:

Martin Evans, University of South Wales
James Price, Welsh Government
Mal Drury, Welsh Government
Gillian Body, Assistant Auditor General, Wales Audit Office
Jeremy Morgan, Wales Audit Office
Matthew Mortlock, Performance Specialist. WAO
Gareth Morgan, Financial Reform, Welsh Government

Committee Staff:

Fay Buckle (Clerk)
Claire Griffiths (Deputy Clerk)
Joanest Jackson (Legal Advisor)

TRANSCRIPT

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

1.1 The Chair welcomed the Members to Committee.

1.2 Apologies were received from Mohammad Asghar. William Graham substituted.

2 Papers to note

2.1 The papers were noted.

2.1 Child and Adolescent Mental Health Services: Letter from David Sissling (10 March 2014)

2.2 Child and Adolescent Mental Health Services: Letter from the Auditor General for Wales (14 March 2014)

2.3 Covering Teachers' Absence: Letter from the WLGA to the Auditor General for Wales (10 March 2014)

2.4 Covering Teachers' Absence: Letter from the Auditor General for Wales to the WLGA

3 Intra-Wales – Cardiff to Anglesey – Air Service: Briefing papers

3.1 The briefing papers were noted.

4 Intra-Wales – Cardiff to Anglesey – Air Service: Evidence Session 1

4.1 The Committee questioned James Price, Director General – Business, Enterprise, Technology & Science, Welsh Government, Mal Drury – Head of Rail/Air Commitments Operations, Welsh Government and Gareth Morgan – Deputy Director, Delivery, Welsh Government on the Intra-Wales – Cardiff to Anglesey – Air Service.

4.2 The Chair agreed to write to the Director General with a number of issues raised during this session and in Item 7.

5 Intra-Wales – Cardiff to Anglesey – Air Service: Evidence Session 2

5.1 The Committee questioned Martin Evans, Visiting Fellow – Faculty of Business and Society, University of South Wales on the Intra-Wales – Cardiff to Anglesey – Air Service.

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

6.1 The motion was agreed.

7 Intra-Wales – Cardiff to Anglesey – Air Service: Consideration of evidence

7.1 The Committee considered the evidence received on the Intra-Wales – Cardiff to Anglesey – Air Service and agreed that the Chair will write to the Director General requesting a number of clarifications and additional information.

Agenda Item 2a



Richard Tompkins
NHS Wales Employers
Ty Phoenix
8 Cathedral Road
Cardiff
CF11 9LJ

Mr Darren Millar AM
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

3rd March 2014

Dear Mr Millar

PAC – Follow up action from the meeting on 13th February 2014.

I refer to my attendance at the Public Accounts Committee on 13th February and the request to provide a note on the amount of protection paid to former senior officers following the NHS reorganisation in 2009.

The reform of the NHS reduced the number of NHS organisations from 31 to 10 and there are currently 13 former Directors of NHS Trusts and Local Health Boards who are in receipt of salary protection. This protection amounts to £188,642 per annum.

I trust that the further information provided is helpful.

Yours sincerely



Richard Tompkins
Director, NHS Wales Employers



NHS Wales Employers is hosted by and operates as a part of the Welsh NHS Confederation

Public Accounts Committee

Response to question about Finance Wales

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

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

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

The terms of reference of our review are as follows:

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

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

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

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

Peter Smith
Hay Group
March 2014

Public Accounts Committee

Response to question about local government pay

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

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

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

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

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

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

Peter Smith
Hay Group
March 2014

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

Public Accounts Committee

Performance management and pay in the public sector

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

Performance management

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

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

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

Public sector organisations which are good at performance management:

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

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

Links to pay

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

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

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

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

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

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

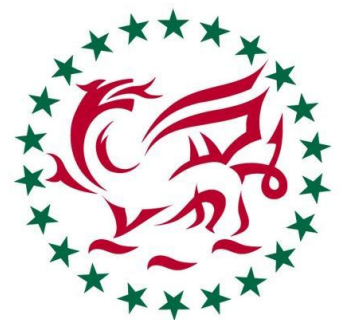
4. The relationship between performance and pay does not have to be the same throughout an organisation. It might vary by level or type of role.
5. The place to start is not the performance of the individual – even though that may be relevant – but the performance of the organisation. Changes in the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

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

Peter Smith
Hay Group
March 2014

Welsh Government Public Accounts Committee Inquiry into Senior Management Pay

WLGA Evidence Paper
13th February 2014



WLGA • CLILC

Introduction

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales. The three fire and rescue authorities and the three national park authorities are associate members.
2. The WLGA seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.

The Public Account's Committee's Questions

The decision making process for setting pay, particularly whether this is appropriate for achieving value for money across the public sector?

3. Senior pay in local government is set by democratically elected and accountable members. The exact method and governance structures may however vary from council to council. Examples of governance structures include Pay and Grading Committees, Referral to Executive and / or full Council, specific politically balanced committees to deal with Chief Officer appointments and remuneration and personnel committees. An enquiry last year also established that a few councils were intending to set up Remuneration Committees, but it is not known if these are now in place or not.
4. In terms of the methodology for setting pay, there were some national historic guidelines available through the Joint National Negotiating Committees for Chief Executives and Chief Officers. These provided benchmarks based on actual median population bands and actual median salaries for different types of authorities (district/ county/ unitary etc.). However, although these were never actually

withdrawn, they have not been updated since around 2007 as their usefulness has declined as the variance between councils as to the structure, size and remit of their senior jobs has increased considerably. It had also become increasingly impossible for councils to attract candidates using pay bands that were uncompetitive against any meaningful market comparisons. The Chief Executive's and Chief Officer's Handbooks provide detailed guidance on setting pay.

5. The rationale for remuneration at senior levels in local government is generally that used for staff at other levels. Once a job profile and description for a new role are developed the size and complexity of the job is determined. This may be via a recognised job evaluation scheme or as an assessment of the percentage of CEO duties. Available market data for similar jobs is checked to provide a benchmark remuneration level and consideration given to where the council wishes to pitch pay in terms of the market ranges, taking into account their own pay structure and affordability. Recommendations are then made to elected members through the appropriate governance structure.
6. Salary structures for Chief Executives and Chief Officers vary between councils. Some use incremental scales or pay ranges and others apply spot salaries. These are entirely local decisions.
7. Local authorities are large complex organisations with multi-million pound budgets. They have a very wide range functions and provide and /or commission a wide range of essential services. The primary aim of a reward strategy is to attract, retain and motivate suitably skilled staff so that the organisation can perform at its best. The biggest challenge for the council in the current circumstances is to maximise productivity and efficiency within current resources. Pay policy then is a matter of striking a sometimes difficult balance between setting remuneration levels at appropriate levels to facilitate a sufficient supply of appropriately skilled individuals to fill the authority's very wide range of posts, and ensuring that the burden on the taxpayer does not become greater than can be fully and objectively justified.

8. In this context it does therefore need to be recognised that at the more senior grades in particular remuneration levels must enable the attraction of a suitably wide pool of talent (which will ideally include people from the private as well as public sector and from outside as well as within Wales), and the retention of suitably skilled and qualified individuals once in post. In this respect the council will often be seeking to recruit in competition with other good public and private sector employers, who often pay more at senior levels.

The Method for Agreeing Pay Increases?

9. At a national level basic pay increases in local government are negotiated through the Joint National Committee on a collective bargaining basis and senior officers are never offered more than other staff. This arrangement allowed local government to introduce a basic pay freeze for senior staff during the downturn sooner and for longer than in the rest of the public sector. Chief Executives and Chief Officers in local government have not received a cost of living award since 2008.
10. All other responsibilities around setting remuneration packages as described earlier are exercised at the local level, including personal salary adjustments (e.g. due to increased responsibilities due to a restructuring). All decisions taken locally are made in various ways by elected members either directly through full council or through committees with powers delegated by full council.
11. Once an officer is in post decisions on pay progression through available incremental scales may depend on satisfactory performance in the role. However, most councils do not use fully-fledged performance related pay mechanisms as these have generally been found not to be effective in terms of efficiency issues. The complexity of collaborative roles has also made identification of individual performance more difficult in some cases.

The Transparency of Pay and Rewards / Benefits e.g. Pensions or Returning Officers Fees?

12. The Accounts and Audit Regulations (Wales) 2010 require that all 'local government bodies' publish information on senior salaries with their annual accounts. The regulations require publication of:

- i) the numbers of senior employees receiving salaries above £60,000 per annum in £5,000 bands, and
- ii) the individual remuneration details of senior employees earning between £60,000 and £150,000 per annum by post, showing i) salary (including fees and allowances), ii) bonuses, iii) expenses, iv) compensation for loss of employment, (v) pensions contribution and vi) any other emoluments

13. Detailed information is therefore available for all relevant senior local government officers on each authority's website on annual basis. Current pay frameworks thereby ensure that senior pay in local government is very transparent and decisions accountable.

14. In addition Councils are required to publish their Pay Policy Statements on an annual basis and these are required to contain information on a range of factors related to senior manager pay policy.

15. While there local government pay and rewards are extremely transparent, similar information does not appear to be so easily available for other parts of the public sector, and we believe there would be value in this being available.

The Quality and Level of Comparative Data that Exists for Senior Management Pay Across the Public Sector?

16. See our response to the previous question. We do not believe that comparable comparative data is available so readily in all other parts of the public sector as it is

in local government. In addition the WLGA participates in the National Regional Employer EPay-check online Market Pay Database. This is a low cost shared system for the local government sector which pools local data about the pay rates offered for jobs identified as being comparable (as far as possible). Current 10 Welsh authorities are participating members and 6 have uploaded senior pay data.

Whether there should be a Body that has a Remit for Taking an Overview of Pay / Remuneration Across the Public Sector?

17. The view of the WLGA is that decisions on reward packages must be made by the local employer because they are most familiar with their operational needs and the labour markets that they recruit in. However we are aware that there will be views in support of, for example, a set of nationally prescribed pay bands for organisations serving similar population sizes or of a similar size. The difficulty with implementing such an arrangement would lie in determining the correct benchmarks due to the discrepancy between current rates of pay for senior managers in different parts of the public sector.
18. For example, in terms of organisations of comparable sizes - the spot salary for a Primary Care Trust Chief Executive in an area with of up to 150K population is £106,368 (without any performance bonus or additional responsibilities payments which may be in payment to actual post holders). Local authorities in Wales cover smaller populations than Primary Care Trusts, although the range of services are greater, and could be said to be delivered to higher numbers of those within the county. Current salaries for most local government CEOs of councils covering less than 150K population vary between around £105K and £146. However one authority has a CEO salary outside this range at just under £195K. Another case is that the published salary scale for the Permanent Secretary in the Welsh Government, an organisation of some 5,000 staff is £180 – 225,000. Local Government salaries for CEOs in the 9 Welsh councils with around 5,000 staff or less average around £132,000. Most are less than this and again it is just the one CEO salary in an

authority in this size range comes anywhere near that of the Welsh Government's Permanent Secretary.

19. In the university arena salaries of university Vice Chancellors are often twice that of local authority Chief Executives. For example in 2011 the Vice Chancellor of Cardiff University earned £246,000, of Bangor University £214,000 and Aberystwyth University's £196,000 (Source Times Higher Education Supplement). The highest paid public servants work in the BBC with the Director General receiving a salary of £450,000 per year and this impacting on other salary grades. One benchmark used by the media is that of the Prime Ministers earnings of £142,000. This is generally a misleading comparison and the Hutton Report has warned against its use. However it does show an historic fact that professions tend to be much higher paid than those who are located in the political arena. In the Cabinet Office there are 21 officials earning more than Rt. Hon David Cameron MP and the Head of the UK Civil Service earns in excess of £200k. When you widen this it applies to nearly every Permanent Secretary of Government Departments including in Wales where the post holder is remunerated to a higher level than the First Minister. If you take the NHS as a whole at a UK level it contains the highest number of staff earning over £100,000 in any part of the public sector, over 26,000. Nearly 6,500 NHS employees are paid more than the Prime Minister - 1,465 of them are GPs (Figures from the BBC Survey in 2011)

20. It can be seen therefore that the impact for local government of benchmarking salaries against the rest of the Welsh public sector (including for example BBC and further and higher education as well as NHS and Welsh Government) would actually demonstrate that local government is on the lower end of the high earners. Furthermore when you take into account the breadth of responsibility, the public and political interface, service and financial risks and the nature of the job role then it could be argued that legitimate scrutiny of the wage levels of local authority chief executives should also apply across the totality of the Welsh public sector. Why for example is the University Vice Chancellor of Cardiff with total estimated income for 2013/14 of £460m paid nearly £250,000 whilst the Chief Executive of Cardiff City

Council was recently advertised at £170k? The Council is the largest employer in the city and has a combined revenue and capital budget of nearly £1billion and a much greater breadth of direct public service responsibilities.

21. In addition there are a great many variant factors that need to be taken into account in determining pay other than just size of the organisation or population served. These will include relevant labour market relativities, size of the job and level and extent of the responsibilities. In particular there is now very wide variance between senior jobs in local authorities even between those of similar sizes due to successive re-structures that have seen senior teams cut from around 10 to 3 or 4 in the last 10-15 years. It would be difficult for any central body to be able to balance these factors effectively for all organisations across the whole public sector.
22. Finally on this point, senior managers within the public sector are employed on rates of pay to which they are contractually entitled, and their contractual relationship is with their employer. Any attempt to intervene in current individual contractual pay arrangements or impact on these could create breach of contract cases under employment law. Additionally the application of public sector wide pay rates that were not sensitive to the specific details of any particular job could risk equal pay claims.

WLGA Views on how Senior Management Pay is Set in the Public Sector?

23. The WLGA has no information on how senior management pay is set in the rest of the public sector, as there does not seem to be the same openness as there generally is in local government. However it appears that there are significant disparities in pay rates for doing similar roles in different parts of the public sector, with local government generally being at the lower end. In view of this we would wish to see greater public acknowledgement of the true position to counter the false public impression fostered by the continual media focus on local government's senior pay rates.

How Do You Think Public Sector Pay for Senior Management Should be Determined?

24. We are aware of views that pay bands could be set for small, medium and large organisations across the public sector in Wales or that a whole public sector job evaluation exercise should be carried out. While we are not totally against such approaches in principle the practicalities and cost of implementation (as explained in paragraph 17) would make these kinds of approach difficult to put into practice. We would therefore reiterate that decisions on local rewards packages best made by the local employer because they are most familiar with their operational needs and the labour markets they recruit in.

25. With regard to local government internally, there may be scope for agreement on suitable pay ranges for Chief Executives of newly merged authorities post Williams. This would need to take into account the considerable increase in the size and responsibility of these roles as a result of the mergers.

Do you think Senior Management Pay Needs to be Set Competitively to Attract the Best Candidates?

26. With the current budget cuts some senior local government roles are being filled by internal candidates as re-deployment opportunities. While this is entirely appropriate in the circumstances, it does mean that there has been only a limited internal competitive exercise to fill some posts, many of which have greater responsibilities than previously. With the major challenges facing local government currently and in the near future it will be important to be able to attract the best talent to work in Welsh Local Government, and while pay is not the only factor that will attract people it is an important one. Examining what the market pays for similar jobs should form part of the overall strategy for setting rates. However, there are other important considerations including the relationship between the pay of senior management and the rest of the organisation.

27. For Welsh local authorities there is also potentially an issue of the divergence of the Welsh and English local government agendas that may be a barrier to applying for local government jobs in Wales for some candidates. If the salary is not competitive and the opportunity for further career development is seen as uncertain, local government in Wales may well struggle to recruit from the wider pool of good candidates including those from the private sector. Indeed where senior management pay has been set below market rates the councils concerned have struggled both to recruit and retain.

Do you think senior management pay adequately reflects the levels of responsibility associated with senior management roles?

28. We cannot comment on this question from other than a local government perspective, apart from the seeming discrepancy between pay rates in local government and other parts of the public sector including health and higher and further education (with local government at the bottom end). However with regard to local government, pay rates have certainly become less competitive over the last 5 years due to the pay freeze which has seen no cost of living increases for Chief Executive's and Chief Officer's during this time. Some council's do report that they have experienced increasing difficulty in attracting and retaining the best people as a consequence. It is also empirically the case that salaries in English local government are higher than those in Wales. Lancashire County Council, which has more limited functions than a Unitary Council, are out to advert at the moment on a Chief Executive at £180,000. In the London borough the Chief Executives of Wandsworth earns £254,880, the CEx of Barnet collects £250,818 and at Bexley the post holder receives £244,897. WLGA is not for a moment advocating that such levels should apply in Wales but this does show the scale of regional difference.

29. In addition to their being no cost of living increase councils have also undergone successive restructures over the last decade to save money. These restructures have

seen many senior jobs taken out of the structure with the consequence that the remaining jobs are much bigger with far greater responsibility. While this situation has been addressed in some councils through job evaluation of the remaining senior jobs resulting in increased pay rates, this is far from being the situation in all cases. Indeed in the current financial climate it would be very difficult for any council to undertake an exercise of this kind, regardless of the extent of any underpayment of the senior managers in terms of the increased size of the jobs being undertaken, and the amount of money that had been saved by the restructure. It will certainly be the case therefore that many senior local government officers will not be receiving rates of pay that adequately reflect the levels of responsibility associated with their roles as would be assessed by any job evaluation exercise. This is not to say that they are not 'well paid' in comparison to many working people in the Welsh economy. However, the fact that they are comparatively well paid in this respect appears to completely mitigate against senior local government officers receiving any recompense for taking on considerably increased duties and responsibilities in a way that is not so apparent in relation to other parts of the public sector.

30. It is the view of the WLGA that the current arrangements for senior management pay in local government have functioned to keep pay lower than would have been the case had an all-Wales approach been adopted to setting senior public sector pay. Clearly the publication of the Williams report and a possible local government reorganisation will require these issues to be revisited in the round.

Is there Adequate Accountability for Senior Management Pay?

31. It is the WLGA's view that there is generally very effective accountability for senior management pay in local government (we cannot comment on the position in other parts of the public sector save that they do not seem to come under the intense scrutiny on pay that local government does).
32. We accept entirely that there have been a few high profile cases where there has been poor practice and this has inevitably been the focus of much press and public

interest and has unfortunately cast some doubt on the whole sector's willingness and ability to regulate itself. However, such cases are actually very much in the minority and we believe the lessons have been learned.

Should there be more consistency in the pay awards of senior management within the public sector? Is there a formula which could be utilised depending on size/budget/level of responsibility? Should a panel be established to set pay levels?

33. As we have stated in previous answers we believe there should be a more consistent focus on senior management pay and far greater transparency across the whole public sector. This would put local government pay into a more realistic context and allow accurate comparisons to be made. However, had there been more consistent pay awards for senior management within the public sector local government senior pay could well have been higher than it is today.

34. With regard to a 'formula' that could be utilised to determine appropriate pay levels or ranges - there already exist job evaluations schemes that could be adopted and used on a whole public sector wide basis and these would provide the nearest to 'scientific' and equal pay-proofed outcomes that could be achieved in assessing appropriate pay rates. However, as previously explained, the difficulty would then be in implementation of any new pay structure, which could call into question the setting of a benchmark pay line, existing contractual pay arrangements, the impact on pay relativities between senior management and other staff within organisations and the increased costs in areas such as local government where rates might well rise. Establishing a panel to set pay rates would be a relatively simple matter. Resolving the issues this would raise would not be.

Anna Freeman

Director of Employment

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Agenda Item 4

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Agenda Item 6

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Agenda Item 7

Llywodraeth Leol a Chymunedau
Local Government and Communities

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair – Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Our ref: A6808412

18 March 2014

Dear Chair

Meeting the Financial Challenges Facing Local Government in Wales

Thank you for your letter of 19 February seeking a response from the Welsh Government to the report published by the Wales Audit Office on *Meeting the Financial Challenges Facing Local Government in Wales*.

The Welsh Government welcomes the report as an independent assessment of how Local Government in Wales is responding to the financial challenges it faces.

The report provides a helpful insight into some of the approaches individual Authorities are taking and the effectiveness of those approaches. It portrays a mixed picture in terms of the adequacy of financial planning by Local Authorities.

It is important to recognise each Authority is a separate, democratically accountable body which provides a wide range of services both statutory and discretionary. The well established funding and accounting framework provides Authorities with a large degree of flexibility to design the provision of services in a way which takes account of the needs and priorities of the particular Authority. Consequently each Local Authority has a wide range of tools at its disposal to support it in delivering its responsibilities. In addition to being able to raise council tax, each Authority can raise income through fees and charges hold reserves and undertake borrowing. The legislative provisions and the

requirements to follow proper accounting practices and governance arrangements ensure these tools are used in a prudent and appropriate manner and those responsible for such decisions are required to do so transparently and are accountable for the decisions they take. Ultimately, there is a fiduciary duty on the responsible Treasurer or Section 151 Officer to ensure an Authority's financial plans are sustainable and to report any unlawful financial activity or failure to deliver a balanced budget.

The report recognises Local Government in Wales has been protected from the worst of the cuts which have been applied to Local Government in England over the past three years. It makes it clear, between 2010-11 and 2013-14, revenue funding for Local Government in Wales increased whilst in England, funding for Local Government has been cut by around 10% in cash terms. In protecting the funding provision for Local Government during this period, Welsh Ministers made clear Authorities were to use the time and resources available to prepare for the challenges ahead.

The Report recognises there continues to be considerable variability between Authorities in their approaches to meeting the financial challenges. This, and previous WAO reports looking at transformational change, have recognised there is evidence of councils pursuing collaboration, taking steps to redesign services, introducing alternative delivery models and adopting other innovative approaches to secure the necessary savings. Nevertheless, the overall message from the Report is Authorities have not taken full advantage of the opportunities presented by the better financial settlements in Wales to prepare for the reductions in funding and more needs to be done.

This is consistent with our own assessment of the situation and with the central messages of the Report of the Commission for Public Service Governance and Delivery. This work identifies the need for real and lasting change and for improvement in the delivery of services provided by Local Government and the wider public service.

The Minister for Local Government and Government Business has made clear she expects Local Authorities to continue to focus on continuous improvement in all areas and to consider all reasonable options for securing efficiencies and value for money. This includes working together, with other public services across Wales, to improve their performance through collaboration, share good practice and better joint commissioning of services where appropriate.

Whilst none of the recommendations within the Report makes specific reference to the Welsh Government, paragraphs 2.9 and 2.10 of the Report make specific reference to the timeliness of information on the funding settlement for Local Authorities for 2014-15. The Welsh Government has consistently provided Authorities with future indicative settlements in line with the published indicative

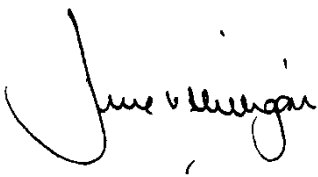
Welsh Budget. In the case of the most recent Budget, indicative allocations for individual authorities for 2014-15 were published alongside the announcement on the 2013-14 settlement. This was consistent with the Welsh Budget being published up to 2014-15. The subsequent reductions to the Welsh Budget as a consequence of changes to the UK Government Budget arising from the 2012 Autumn Statement, March 2013 Budget Statement and June 2013 Spending Round announcement meant Welsh Ministers needed to revisit the 2014-15 budget plans.

The Minister for Local Government and Government Business wrote to Local Authorities in May 2013 to set out the circumstances and to be as clear as possible about the implications for the 2014-15 settlement indicative allocations, recognising the need for Authorities to take account of this in their financial planning. I attach a copy of the letter for your information. This was followed up through discussions the Minister for Local Government and Government Business and the Finance Minister had with the leadership of Local Government in Wales in the meetings of the Finance Sub Group of the Partnership Council. The Finance Sub Group will continue to provide a formal mechanism for engaging Local Government in future funding considerations.

In keeping with previous years, Authorities in Wales received their detailed provisional allocations in October 2013 for the financial year 2014-15. This is well in advance of equivalent announcements in Scotland and England and the final settlement announcement in Wales coincided with the provisional announcement in England. It is also important to be clear, whilst the revenue settlement provided by the Welsh Government is a key component for Authorities' financial planning, it is not the only part. Authorities need to draw up their own planning assumptions taking account of a wide range of funding and spending factors.

I hope this provides the Committee with the information it needs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'June Milligan', with a stylized, flowing script.

June Milligan
Cyfarwyddwr Cyffredinol / Director General



Eich cyf/Your ref:
Ein cyf/Our ref: MB/LG/2300/13

23 May 2013

Councillor Aaron Shotton
WLGA Spokesperson for Finance & Resources

Dear Aaron

Thank you for your letter of 18 April regarding Central-Local Finance discussions.

I should be grateful if you would share this letter with all members of the WLGA Coordinating Committee which, I understand is meeting tomorrow.

I welcome your commitment to move forward the public service reform agenda and give greater emphasis to ways in which Local Government can enhance economic growth in Wales.

Collectively, public services in Wales face significant challenges in relation to the future funding outlook. This underlines the need for greater collaboration, innovation and transformation in the way services are delivered and the need to embed best practice across Wales. Our approach to the financial dimension of this is central to how we respond to these unprecedented challenges.

I agree we should complete the work set in motion as part of the review of the Partnership Council for Wales to reconfigure the arrangements for the formal discussion of finance matters. The new Finance Sub Group will have a remit to discuss key aspects of Local Government finance and to provide robust governance regarding the work on the distribution of the main local government settlement. It will also need to be firmly rooted in the agenda and governance for public service reform.

It is important to recognise the Group will not replace the need for Local Government to hold discussions about specific financial matters, and other aspects of policy development and delivery, with other portfolio Ministers and their officials. This is the only way in which fully informed and detailed discussions around, for example, demand pressures or legislative changes, can take place. Nor would it negate the need for discussion of financial matters with wider public service partners at the Partnership Council, including discussion about major schemes such as the council tax reduction scheme.

It is critical we share a common view as to the financial pressures Local Government faces. Our discussion at the recent meeting of the Reform Delivery Group was useful, but I want to be sure we have a shared understanding of the seriousness of the financial situation next year and into the future.

This Government has been committed to supporting Local Authorities in their aspirations and efforts to change. This was one of the principles set out clearly in the Simpson Review which we followed with three financial settlements which gave a cash increase over the period.

However, recent UK Budgets have removed funding from our baselines and the next UK Spending Review is certain to reduce our budget further. Against this background, we will not be able to protect Local Authority budgets as we have in recent years. As I said in the meeting, the funding reductions experienced by Local Government in England signal the future financial reality for us in Wales.

Whilst I understand we set out indicative figures for 2014-15 as part of last year's Settlement exercise, the changes to the Welsh Government Budget we have already seen – and the further adjustments we are likely to see in June – mean those figures have been overtaken by events. Consequently, they can no longer be considered as a basis on which to plan.

Authorities need to engage immediately in decisive and radical short-term financial and service planning so as to align public services quickly to the lower levels of resources available in the future. In the longer term, the significantly lower levels of resource must drive deep transformational change which crosses geographical and organisational boundaries.

In this context, getting the right membership of the new group will be vital for effective governance, as well as providing the necessary balance of political, regional and sectoral representation. Members must be able to have an effective debate and reach conclusions that lead to clear action.

I suggest we arrange a first meeting ahead of the summer recess to discuss the Terms of Reference for the group and the future funding outlook. A further meeting towards the end of September would provide the opportunity to receive and consider the report of the Distribution Sub Group ahead of the preparation of the provisional settlement.

My officials have prepared draft Terms of Reference and I will ask them to liaise with yours to make arrangements for an initial meeting of the group and to draw up an agenda. In light of the discussions at Reform Delivery Group, I am copying this letter to the unitary authority members of the Group.

A handwritten signature in black ink, reading "Lesley Griffiths", enclosed within a thin black rectangular border.

Lesley Griffiths AC / AM

Y Gweinidog Llywodraeth Leol a Busnes y Llywodraeth
Minister for Local Government and Government Business

Pwyllgor Cymunedau, Cydraddoldeb a
Llywodraeth Leol

Communities, Equality and Local Government
Committee

Cynulliad
Cenedlaethol
Cymru
National
Assembly for
Wales



Bae Caerdydd / Cardiff Bay
Caerdydd / Cardiff
CF99 1NA

Darren Millar AM
Chair
Public Accounts Committee

25 March 2014

Dear Darren

Thank you for your letter of 19 February 2014, enclosing a copy of the report of the Wales Audit Office on the financial challenges facing local government in Wales.

This is an area of considerable interest to members of the Committee and you may be aware that we will shortly be hearing from Sir Paul Williams and some of his fellow Commissioners about the report on Public Service Governance and Delivery. You may also be interested in our [report](#) into progress with local government collaboration, published in December 2013. The purpose of the inquiry was to consider the extent to which local government collaboration is taking place, and to evaluate the success of this in terms of efficiency savings and the delivery of services. As part of the inquiry, we took evidence on the overall costs and benefits of collaboration in delivering local government services.

Members will be able to consider the matters raised by the Wales Audit Office, as well as the issues identified in our own report on collaboration, in the context of our consideration of the Commission's report.

We would, of course, be interested in hearing further from you should the Public Accounts Committee agree to undertake its own inquiry in this area. I will send you a copy of the transcript of our meeting with Sir Paul Williams for information.

Croesewir gohebiaeth yn y Gymraeg a'r Saesneg / We welcome correspondence in both English and Welsh
Pwyllgor Cymunedau, Cydraddoldeb a Llywodraeth Leol / Communities, Equality and Local Government Committee
Gwasanaeth y Pwyllgorau / Committee Service
Ffôn / Tel : 029 2089 8032
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Yours sincerely

A handwritten signature in cursive script, reading "Christine Chapman".

Christine Chapman AC / AM
Cadeirydd / Chair

Agenda Item 8

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