

Response to the Report of the National Assembly for Wales Public Accounts Committee Report on Senior Management Pay

We welcome and agree entirely with the report's recommendations and offer the following response to the 23 recommendations within it.

The recommendations are timely given work already in progress in this area, but are also challenging, in view of the resource constraints we face and the time it will take to implement some of the recommendations fully. In light of this, we propose to draw the attention of public sector organisations in Wales to the publication of the report, signalling our acceptance of the recommendations, and encouraging voluntary, early adoption. We will do this in advance of the next financial year.

We intend to implement a number of the recommendations, namely those related to definitions, guidance, and senior pay policies by taking them forward as part of work already in progress to develop a Welsh Public Sector Pay Policy. (This applies to recommendations 1, 3, 6, 9, 10, 11, 13, 15, 16, 17, 18, 19, 20, 21, 22, 23. Please see Annex 1 for an indicative timetable for this work.) The initial focus of this work would be extended to pick up and develop the additional senior management pay guidance, best practice and governance arrangements highlighted in the report. It will look to bring together existing pay related principles adopted by the Welsh Government and its sponsored bodies into a wider set of "umbrella" arrangements that would cover devolved public services. However, the Welsh Government's power to *require* organisations to conform is not uniform across the public sector. We will give this issue early consideration as part of Stage (1) of the Welsh Public Sector Pay Principles high level delivery plan, set out at Annex 1, and come back to the Committee as soon as we can on the scope of the policy.

Furthermore, as the report clearly sets out, local government reform and the planned establishment of a Public Services Staff Commission also presents an ideal opportunity to address some of the issues identified. The Welsh Government proposals for a Public Services Staff Commission have been set out in "Devolution, Democracy and Delivery White Paper – Public Services Staff Commission" on which consultation closes on 13 January 2015 (please see Annex 2 for an indicative timetable.) How the Staff Commission will assist in delivering the Government response to this report will depend on decisions on its role, remit and work programme in the light of this consultation.

Lastly, severe and ongoing pressure on our resources also means that, whilst we are committed to implementing the recommendations, this work will need to be scheduled with the Government's other priorities and the delivery of the Programme for Government in mind.

Recommendation 1. The Committee recommends that a clear definition of what is meant by a senior post in the public sector is produced and disseminated by the Welsh Government. This should have consideration to the level of remuneration, scale of the organisation and the level of responsibility of the post holder.

Accept - We accept that a clear definition of what is meant by a senior post in the public sector will help to support common understanding, help ease of comparison between posts, organisations and sectors, and ultimately improve consistency.

We also accept that all organisations are different and will have tailored terminology and practices. We welcome the committee's recognition that a 'one size fits all definition' is not necessarily required.

Development of the senior post definition will be taken forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy as set out in the indicative timetable at Annex 1.

Recommendation 2. The Committee recommends that the Welsh Government use the local government reorganisation work to consider the options for introducing consistency around senior management pay in Local Government. We would like to see a clear rationale published setting out how pay should be set in any new structure that is introduced. Given the recent decisions by some councils to consider voluntary mergers, this should be done with a matter of urgency. Furthermore, the process of voluntary mergers should be included in any consideration of pay structures.

Accept -Matters relating to senior management pay will be considered in taking forward the work on reforming local government, ensuring the involvement of relevant stakeholders, and feeding into the work of a planned Public Services Staff Commission on which the Welsh Government is currently consulting . The Staff Commission will identify and propose practical solutions to issues arising from reform which can be considered and implemented. To ensure the Public Services Staff Commission is able to provide support to any voluntary Local Authority mergers, in accordance with the timetable set out in the *Reforming Local Government White Paper*, we aim to establish it, on a non-statutory basis, by April 2015. Subject to the outcome of consultation, we will then bring forward legislation after the next National Assembly for Wales elections, to place the Commission on a statutory footing.

Recommendation 3. The Committee recommends that a glossary of terms relating to senior pay is produced and published by the Welsh Government, which sets out the most appropriate terms to be used in pay disclosures, as well as explanations for less frequently used terms. The Committee further recommends that narratives to accounts, particularly for unusual situations, contain adequate notes which are easy to interpret.

Accept - We accept that a glossary of the terms relating to senior pay should be produced, and will take this forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy as set out in the indicative timetable at Annex 1.

We will implement the second part of this recommendation as part of our response to Recommendation 19.

Recommendation 4. The Committee recommends that the Welsh Government work with local authorities to ensure that items pertaining to pay matters are listed clearly and separately on all agendas (Executive Board and Council Level). This may require an amendment to the Local Authorities (Executive Arrangements) (Decisions, Documents and Meetings) (Wales) (Amendment) Regulations.

Accept – We have made it clear to Local Authorities that the Welsh Government expects matters relating to senior officers pay to be handled in an open and transparent way. We have already legislated to give effect to this through the Local Democracy (Wales) Act 2013, our guidance on pay policy statements and the Local Authorities (Standing Orders) (Wales) (Amendment) Regulations 2014. In addition, we will write to Local Authorities to draw their attention to this report.

We will also take this forward as part of our work on reforming local government in Wales. We will consider carefully the best way to achieve the aims underpinning this recommendation. If legislative amendments are required, we will undertake these in line with the timetables for our wider programme of local government reform (See Annex 2).

Recommendation 5. The Committee recommends that clear guidance is issued by the Welsh Government to local authorities requiring any Returning Officers fees to be published in an easily accessible place alongside remuneration information. This should include clear explanations behind this entitlement.

Accept – We will write to all Local Authorities and draw their attention to this Report. We will also take this forward as part of the work on reforming local government in Wales. In addition, we will work closely with the Electoral Commission to ensure that best practice is followed in relation to the publication of Returning Officer accounts at elections to the National Assembly.

Recommendation 6. The Committee recommends that the Welsh Government, and other bodies issuing account directions, reviews their mechanisms, including grant conditions, for monitoring compliance with remuneration disclosures, and reports back to the Committee how it intends to ensure that full compliance is achieved.

Accept - We will undertake a review of the monitoring arrangements linked to Accounting Directions and report back to the committee in as set out in the timetable at Annex 1.

Recommendation 7. The Committee recommends that the Welsh Government produce and disseminate guidance on how to manage pay arrangements for joint appointments between local authorities, given the increasing moves towards these types of appointment. This should include the need for these salaries to be disclosed in all contributing local authorities' accounts.

Accept – The statutory Guidance published on the Welsh Government website on the preparation of pay policy statements makes clear that Authorities are obliged to include within these Statements the estimated annual salary of any joint appointments with other Local Authorities along with the resultant savings. Consideration will be given to whether the Guidance needs further updating. The Accounting disclosure requirements set out in the Accounts and Audit (Wales) Regulations are applied to staff who are employed on a temporary or part time basis. The level of disclosure is applied on a pro rata basis. We will consider whether further changes are required to these Regulations.

Recommendation 8. The Committee recommends that the Welsh Government consider the make-up and recruitment of the independent remuneration panel for Wales, as positions become available, to ensure it is representative of wider civil society.

Accept - We have a clear commitment to increasing diversity in local government and across the public sector and it is appropriate our public appointments reflect that ambition.

It should be noted that the Panel has, under its own initiative, taken steps to broaden understanding of its work amongst diverse networks in the hope of attracting interest from under-represented groups when vacancies occur for membership.

Recommendation 9. The Committee recommends that information on remuneration committees across the public sector and their decisions are published in an easily accessible and prominent place on the organisations website.

Accept - We accept that information on remuneration committees should be widely available with their decisions published prominently in an appropriate way. Ongoing attention is given to the effective presentation of this information on our own website. This will be taken forward as part of establishing directions within a wider Welsh Public Sector Pay Policy as set out in the indicative timetable at Annex 1.

Recommendation 10. The Committee recommend that the Welsh Government produce good practice guidance for remuneration committees setting out the key principles of openness and transparency. Alongside this guidance, we recommend that a number of seminars/training sessions are held which set out these principles and develop the important skills needed to be an effective remuneration panel member.

Accept - We accept that each sector is likely to have a different approach to operating their remuneration committees and that panel members play an important role in establishing senior management pay arrangements.

We also accept that in order to help encourage openness and transparency, a good practice guide for remuneration committees, and potential training interventions for

panel members, should be developed. This will be taken forward in line with the timetable set out in Annex 1.

Recommendation 11. The Committee recommends that best practice guidance is produced by the Welsh Government which sets out best methods for engaging with external consultants on senior management pay. This should include the need to have interaction with the relevant decision making group throughout the process.

Accept - We accept there are risks around using external consultants to provide advice on senior management pay, in particular where one supplier is dominant in the field. We also accept that best practice guidance should be developed in line with the timetable set out in Annex 1 to help ensure that where consultant advice is sought, value for money considerations remain at the forefront.

Recommendation 12. The Committee recommends that the Welsh Government works with the WLGA and the Wales Audit Office to produce guidance on the role of senior officers in local authorities in providing advice in relation to pay matters.

Accept - The legislation referred to in respect of Recommendation 4 has already partly addressed this issue. Legislation forming part of the Reforming Local Government Programme to be introduced into the National Assembly for Wales in January 2015 will further strengthen openness and transparency in this area. As the Reforming Local Government Programme progresses we will work closely with the Wales Audit Office and the planned Public Services Staff Commission on this issue.

Recommendation 13. The Committee recommends that the Welsh Government work with local government, higher education, further education, health, and registered social landlord sectors to ensure that training and guidance on senior pay is consistently delivered to all sectors.

Accept - We accept that Welsh Government Departments do have a role in providing training, advice and guidance on senior management pay.

The Welsh Government will do all it can to ensure training is delivered consistently across the public sector, subject to constraints where bodies have autonomy over pay. In these cases we will seek to influence where we cannot direct.

While we would, for example, anticipate that HE and FE be included in the guidance, training would not be appropriate as universities and colleges are autonomous bodies. The Welsh Government will monitor the FE position and we will ask HEFCW to monitor senior pay in the HE sector as part of the Ministerial remit letter for 2015/16.

This work will be taken forward as part of establishing Directions within a Welsh Public Sector Pay Policy.

Recommendation 14. The Committee recommends that the Welsh Government reminds local authorities out of the importance and independence of the role of the monitoring officer, and the need to ensure that this role operates effectively across the organisation at a senior level. This should also remind monitoring officers of methods for reporting any concerns either internally or if necessary externally.

Accept – Local authorities have a duty to appoint one of their officers as the Council's Monitoring Officer. They have an important role to ensure that the authority follows legal requirements. Authorities should therefore ensure that they appoint persons of sufficient knowledge and seniority to sometimes deliver unwelcome advice.

The National Assembly approved the Local Authorities (Standing Orders) (Wales) (Amendment) Regulations 2014 in June of this year. They provide a level of protection to the Monitoring Officer (and certain other senior posts) from unfair disciplinary processes. The Welsh Government has ensured that local authorities, including monitoring officers, were made aware of these regulations.

We will write to all Local Authorities to draw attention to this Report.

Recommendation 15. The Committee recommends that the Welsh Government undertake a study into different pay mechanisms, and produce a report setting out what is considered good practice. This should consider how best to deal with senior management in failing organisations.

Accept - We expect there to be a number of studies already published on this issue. A review in line with the timetable set out in Annex 1 would therefore draw on existing material.

Recommendation 16. The Committee recommends that public sector organisations are required by the Welsh Government to set out their approach to performance related pay and internal talent management in their pay policies.

Accept - We agree consideration should be given to developing and nurturing internal talent wherever possible, and accept there will be instances where career progression provides better value for money over paying higher salaries to attract external appointments.

Where the Welsh Government is not in a position to direct public sector organisations to conform, we will seek to encourage adoption of the recommendation. This work will be taken forward as part of establishing a wider Welsh Public Sector Pay Policy.

Recommendation 17. The Committee recommends that the Welsh Government issues advice and guidance to the Welsh Public Sector, including those sectors receiving significant funds from the Welsh Government (e.g. registered social landlords, further education and higher education) on the requirements for publication of remuneration information and pay policies, taking account the recommendations in this report.

Accept - As outlined in previous responses we accept that clear guidance on the requirement for remuneration and pay policies should be developed. Where the Welsh Government cannot direct, we will seek to encourage public sector organisations in Wales to conform. This work will be taken forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy.

Recommendation 18. We recommend that public sector organisations are required to publish information on the number of employees with a remuneration package of more than £100,000 in bands of £5,000.

Accept - We accept current disclosure guidelines have varying thresholds and banding requirements. We also accept that a more consistent approach will help support comparisons. We note the Committee's reference to the use of bands of £5,000 or £10,000 in the report.

Where the Welsh Government is not in a position to direct public sector organisations to conform, we will seek to encourage adoption of the recommendation. This recommendation will be considered and taken forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy.

Recommendation 19. We recommend that a full remuneration report is produced by all organisations within the Welsh public sector annually, and published on a prominent place on the organisations website. This should set out in full the following information about all senior staff, with due regard to the Committee's previous recommendation about ensuring published information is easily interpreted:

- **Salary;**
- **Pension;**
- **Benefits in kind;**
- **Non-taxable benefits;**
- **Severance packages;**
- **Returning Officer fees/additional fees;**
- **Pay ratio between highest and lowest paid officer;**
- **Gender make-up of the senior team.**

Accept - We acknowledge that remuneration details should follow existing disclosure practices and be included within published Annual Accounts. We also accept that published information relating to bodies receiving public funding should be easily accessible and in a consistent and prominent format. This recommendation will be taken forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy.

Recommendation 20. We recommend that all organisations in the Welsh public sector are required to publish a pay policy statement, in line with the requirement

on Local Authorities and Fire and Rescue authorities in the 2011 Localism Act.

Accept - We accept that all Welsh public sector bodies should be required to produce and publish a pay policy statement.

Where the Welsh Government is not in a position to direct public sector organisations to conform, we will seek to encourage adoption of the recommendation. This work will be taken forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy.

Recommendation 21. The Committee recommends that all information on an organisations pay is published in a single, easily accessible place on their website and sets out the information in a clear and transparent fashion. To achieve this, we recommend the Welsh Government produce guidance on the format for this disclosure. We believe this will achieve maximum transparency and ultimately accountability.

Accept - We accept that all published remuneration details should be easily accessible. We also accept that guidance on the format of disclosures will help support transparency. This work will be taken forward as part of establishing Directions within a wider Welsh Public Sector Pay Policy.

Recommendation 22. We recommend that the Welsh Government make these requirements a condition on any grants or funding which are provided to those organisations which do not explicitly fall within the public sector (e.g. higher education/further education/registered social landlords)

Accept - We entirely endorse the view of the committee that funding recipients should be encouraged to conform to these requirements. However, we will need to balance this objective against placing disproportionate burden on relatively small organisations. We would like to explore this further and return to the committee. We will do this in line with the timetable in Annex 1.

Recommendation 23. The Committee recommends that the Welsh Government collate the information on senior pay across the Welsh public sector in line with that produced by the Wales Audit Office for the Public Accounts Committee to include those sectors receiving significant funds from the Welsh Government (e.g. RSLs, Further Education and Higher Education) on an annual basis and publish this on their website.

Accept - We accept that compiling and publishing an annual senior management pay report will provide a further level of transparency and support wider monitoring arrangements. This will be taken forward in line with the timetable in Annex 1.

Annex 1

Welsh Public Sector Pay Principles: High Level Delivery Plan

Stage 1 – Mobilisation

Planning – by Spring 2015

- Competence? (Guidance, Policy, Code or Best Practice)
- Definitions? (i.e. Senior Management Pay)
- List of Public Sectors
- Planning Next Steps
- Establish Resources

Stage 2 – Public Sector Pay Principles

Pay Award / Pay Principles – by Spring 2015

- Staff
 - Scope of future Pay Awards
 - Progression Pay
 - Living Wage / Zero Hours Contracts
 - Focus for Awards
 - Line on redundancy
 - Focus on Total Reward / Salary sacrifice
- Senior Management

Stage 3 – Defining Change

Guidance, Policy, Code or Best Practice – by Autumn 2015

- Preparation
 - Study into pay mechanisms (15)
- Guidance
 - Definitions (1)
 - Glossary of Terms (3)
- Best Practice
 - External Consultants – best practice guide(11)
 - Remuneration committee – best practice guide / training (10)
- Policy / Code
 - Publish info on all employees earning over £100k (18)
 - Detail required; Easy to find (19, 21)
 - Publish a pay policy statement (20)
 - Reporting remuneration committee decisions (9)
 - Performance Related Pay and Internal Talent Management (16, 17)
 - Grants (22)

Stage 4 – Embedding Change / Business As Usual

Governance / Change - Late Autumn 2015

- Ensure Compliance (6, 13)
- Compile WAO type report (23)

Annex 2

Reforming Local Government Programme: Outline Timetable

January 2015

Local Government (Wales) Bill 2015 introduced into the National Assembly for Wales

Consultation on the Public Services Staff Commission ends

February 2015

Publication of a further White Paper in the Reforming Local Government Series

April 2015

Consultation closes on the further White Paper in the Reforming Local Government Series

Non Statutory Public Services Staff Commission established

November 2015

Local Government (Wales) Bill 2015 scheduled to receive Royal Assent

Second Local Government (Wales) Bill published in draft for consultation

January/February 2016

Orders made for Voluntary Mergers

Consultation closes on the draft of the second Local Government (Wales) Bill