

Tougher at the top?

Changes in the labour market for
single tier and county council chief
executives – a discussion paper



Local government

Discussion document

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 **audit**
commission

Summary

Background

- 1 The leadership challenge in local government, and hence the job of a local authority chief executive, has changed in recent years and is widely perceived to be more demanding. As a result, the post of chief executive has become the subject of a great deal of public and professional debate and contention.
- 2 This report summarises research carried out by the Audit Commission. It aims to identify the facts behind the anecdotes and headlines that currently surround chief executives, through an analysis of over 190 appointments to single tier and county councils (ST&CCs) from 1998 to 2007, combined with an investigation of salary trends. It focuses on:
 - changes in the labour market for chief executives;
 - the drivers of these changes; and
 - the effect on the types of individual appointed, local authority performance levels, and chief executives' salary levels.
- 3 The focus of this research is the chief executive labour market in ST&CCs, although some information is presented for district councils. The work was scoped in this way because the roles of district council and ST&CC chief executives are different and the job markets are largely separate.

A new leadership context

- 4 There have been a series of changes in local government in recent years which have affected the job of a local authority chief executive. These include:
- an emerging consensus that effective political and managerial leadership are fundamental in creating high-performing local authorities;
 - the need for a new facilitative style of leadership to reflect local government's role in delivering better outcomes for their areas in partnership with others;
 - greater public accountability for performance, including publication of Comprehensive Performance Assessments (CPA) of local authorities since 2002; and
 - specific changes in the scope and complexity of the role of chief executives.

Summary

The labour market for chief executives

- 5 The turnover of chief executives has grown in recent years – increasing from 11 per cent to 17 per cent between 1998 and 2007 for ST&CCs. This will have increased recruitment costs across the sector. The rise is due to:
- a 40 per cent increase in the numbers of chief executives leaving their post without immediately taking up another position, that is either retiring or losing their jobs; and
 - an increase in the number of job-to-job moves as authorities have increasingly filled their vacancies by recruiting chief executives from other authorities. The rate at which posts are filled in this way has more than doubled.
- 6 This latter process is the most marked development in this labour market since 1998. It suggests that experience is viewed as increasingly important by employers as a driver of improvement and consequently it has become highly sought after in the recruitment process.
- 7 The greater accountability for performance provided by CPA is associated with both of these processes. Poor scoring authorities are twice as likely to lose their chief executive to retirement or termination of employment as good performers, and are significantly more likely to recruit an existing chief executive.
- 8 Although some chief executives have paid the price for poor CPA scores, CPA may have played a more significant role in shaping the recruitment strategies of authorities once a vacancy has occurred, than in encouraging them to part with their incumbent chief executive in the first place.

There are 150 ST&CC posts in total. This increase represents an additional 11 people retiring or losing their jobs in the period 2005 to 2007 compared with 1999 to 2001.

Implications of labour market change

Patterns of recruitment

- 9 Higher turnover can generate increased costs through severance packages and recruitment costs, but it also provides an opportunity to bring in new ideas and to change the demographic mix:
- local authorities are still overwhelmingly recruiting from within local government, but they are now more likely to recruit from outside their authority; and
 - female employment rates at chief executive level have improved markedly from 10 per cent in 1998 to 20 per cent in 2007, but black and multi ethnic (BME) groups are largely absent¹.

Impacts on performance

- 10 Turnover rates, and the appointment of existing chief executives, have increased most rapidly in those authorities with lower CPA scores. This reflects their perception that the appointment of a chief executive with a good CPA track record is the best way to improve performance.
- 11 Across the sector as a whole, authorities that have appointed a new chief executive have improved at the same rate as those that have retained their incumbent. However, the rate of improvement in authorities with a new chief executive would not necessarily have been the same had the previous incumbent remained in post.
- 12 There is no statistical evidence that chief executives recruited from other authorities are any more effective than first tier officers promoted into the role in delivering improved CPA performance over the medium term.

¹ This data includes ST&CC and district authorities in England and Wales.

Summary

Impacts on salary levels

- 13 Basic salary levels for ST&CC chief executives have increased by 34 per cent between 2003/04 and 2007/08. This is above the level of their counterparts in organisations such as universities, hospital trusts and registered social landlords. It is also a significantly higher increase than in the basic pay of private sector chief executives (16 per cent)¹. However, direct comparisons can be misleading because the roles and remuneration packages vary greatly between organisations. For example, the additional (performance-related) pay of private sector chief executives has almost doubled so their total pay has increased by 78 per cent from 2002/03 to 2006/07.
- 14 Increased salary inflation amongst local authority chief executives from 2003 onwards is linked to:
- higher turnover rates – over the medium term appointing new chief executives is more costly than retaining incumbents, so the increase in new appointments resulting from the rising turnover is driving salary inflation;
 - increased appointments of existing chief executives – this is by some margin the most expensive recruitment approach and has become more prevalent as local authorities prioritise experience when filling vacancies;

¹ Comparison with FTSE 250 companies in 2006/07.

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- increased competition for suitable candidates – rising demand (resulting from higher turnover) combined with a focus on a narrow band of experienced candidates has pushed up the market value of candidates; and
 - the ongoing process of pay review – this is informed by the salary ranges published each year. The availability of this information enables the increases achieved by new appointees to be translated across the sector. This has had a bigger influence on the lower-paid chief executives, so the gap between the higher and lower paid has narrowed.
- 15 In absolute terms, ST&CC chief executives are better paid than their counterparts in a number of other local public sector institutions, with a median salary of £150,000 in 2007/08. However, they are paid less than university vice chancellors, and significantly less than chief executives in the private sector, where basic salaries are around £400,000, with bonuses of a further £586,000[1]. All of these figures exclude the value of pension contributions.

Summary

Impact on individuals, authorities and the sector

16 The changes in the chief executive labour market have affected different groups in different ways:

- *Existing chief executives* – the task facing chief executives appears broader, more complex and has a higher public profile. CPA is part of this process in that it increases transparency by providing comparable information on organisational performance. However the direct impact on job security due to poor CPA results is relatively small and focused on the poorest performing authorities. In contrast, the increasing value placed on experience means that chief executives in all but these poorest performing authorities may have benefited. Those who were prepared and able to move have been in demand and have received correspondingly higher salary packages. Those who have stayed in post have seen sector-wide salary growth reflected in their salaries through pay reviews.
- *Future chief executives* – the rising turnover rate has resulted in more openings available to prospective chief executives, but many of these posts have been taken up by existing chief executives. The absolute number of individuals being promoted has changed little since 1998. Those taking up their first post are more likely to be in better-performing authorities, as poorer authorities are more likely to recruit existing chief executives.

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- *Individual local authorities* – There is no statistical evidence that existing chief executives are more effective at delivering improvement as measured by CPA than promoted first tier officers. Yet there is a perception that appointing a chief executive with a CPA track record is fundamental to delivering improvement. This has increased the demand for existing chief executives amongst weaker authorities; stronger authorities appear more able to identify and develop their own talent. There are direct cost implications for individual authorities as recruiting existing chief executives is markedly more expensive than retaining an incumbent or promoting. There are also costs for the authorities in the resulting vacancy chain that have to deal with additional salary and recruitment costs.
 - *The local government sector* – the trend towards recruiting existing chief executives has a number of sector-wide effects. Principally it increases turnover, driving up recruitment costs, increasing salary costs and causing disruption for other local authorities. The focus on experienced candidates also raises questions over the extent to which new ideas and individuals are able to enter the chief executive labour market.
- 17 Overall, recent developments may have benefited many existing chief executives, and have allowed local authorities to be more targeted in their recruitment strategies as individuals' track records, as measured by CPA, are now more apparent. However, at the sector level, these developments may be seen as less positive. Higher rates of recruitment of existing chief executives have led to increased turnover rates, additional recruitment costs and wage inflation.

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