

2012

A ONE SOCIETY REPORT

# Leading the way on fair pay

## An assessment of principal local authorities in England & Wales

One Society draws on a wealth of research which shows that large divides in income at the top and bottom of society – beyond 'proportional rewards' – are damaging to our economy and society.

One Society works with policy-makers, employers, and other decision-makers and influencers who have significant power to affect rates of income inequality.

**ONE SOCIETY**  
*better for all*



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## Executive summary

*“One in ten local authorities acknowledge the key role their own pay policies have on the wellbeing of the local economy.”*

Although pay inequality in local authorities, and other parts of the public sector, is much less extreme than in the private sector, local authorities are rightly subject to public scrutiny about how they pay their staff and contractors. Regular reports about so-called ‘town hall fat cats’ formed a background to the government’s commissioning of the Fair Pay Review<sup>1</sup> which in turn led to requirements for local authorities to disclose information about pay rates and pay ratios. There has also been a growing movement to urge local authorities to adopt fair pay for staff and contractors at the bottom of the income scale.

The benefits of fair pay policies go beyond public relations, to include positive impacts on local citizens, the local economy, and the financial performance of the local authority itself.

This report is based on a review of the pay policy statements published by each of the 174 principal local authorities<sup>2</sup> in England and Wales, supplemented by a survey of the same authorities with a 96 per cent in-time response rate.

### Leading the way on fair pay: the growth of best practice

#### Reducing pay at the top

Well over ten per cent of local authorities made it clear in their pay policy statements that they have taken steps to reduce the pay of chief executives. Action taken includes:

- voluntary reductions of salary or other elements of remuneration on the part of post-holders,
- employing new chief executives at a lower rate than their predecessor,
- deleting the chief executive role entirely.

Overall pay for local authority chief executives has not risen in the year to March 2012.

#### Setting a limit to pay ratios – but misunderstandings of guidance could undermine this

Again, well over ten per cent of local authorities have stated a figure to which they will reduce or limit their pay ratios.<sup>3</sup> But, misunderstandings of ‘government recommendations’ mean that most ratios actually allow a significant increase in pay inequality and could incentivise a rise in chief executive pay.

<sup>1</sup> *The Hutton Review of Fair Pay in the Public Sector*

<sup>2</sup> *We looked at 173 pay policy statements: one local authority did not have a statement available when our research was carried out.*

<sup>3</sup> *In most cases either top-to-median or top-to-bottom.*

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£7.20  
UK Living Wage

£8.30  
London Living Wage

More information on the Living Wage can be found at [www.livingwage.org.uk](http://www.livingwage.org.uk). Paying the Living Wage does not necessarily equate to being a Living Wage accredited employer.

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### Raising pay for low-income workers

Despite serious budget constraints, 20 per cent of local authorities are committed to paying their staff the Living Wage. A further eight per cent are considering making this move.

Paying the Living Wage was once considered a mainly (inner) London phenomenon, but we found that 40 per cent of local authorities paying the Living Wage or more are outside London.

### Living Wage and contractors

Currently, seven per cent of local authorities require contractors to pay the Living Wage and a further ten per cent are considering it.

### Sustaining the local economy and promoting best practice to local employers

One in ten local authorities acknowledge the key role their own pay policies have on the wellbeing of the local economy. A number of local authorities are actively promoting good practice – for example, by paying at least Living Wage and/or managing levels of pay inequality – to local employers and contractors.

### Problems with reporting seriously undermine government accountability objectives

#### Pay policy statements: hard to access

All but two local authorities had complied with the requirement to publish a pay statement by early May 2012,<sup>4</sup> but the statements were often not accessible. The majority of authorities' statements are difficult to find, often buried in collected council papers in a form not searchable by search engines.

#### Inconsistent reporting means citizens – and local authorities themselves – cannot compare

The number one recommendation of the Fair Pay Review, that pay ratios are reported, has been fulfilled. Yet different local authorities use different ratios, don't show how pay is calculated and terms such as 'earn-back' and 'performance related pay' often appear to be used interchangeably.

<sup>4</sup> According to the Localism Act 2011, statements must be approved by the end of March 2012 and published as soon as is reasonably practicable thereafter. We examined 173 statements, one of which was not published, but was provided to us privately.

*“Local authorities and other public sector employers can, if they wish, appear to have low pay ratios and good pay for the lowest-paid by merely outsourcing low-paid work.”*

#### **Fair pay policy in the wider public sector: glaring omissions**

The Localism Act 2011 includes some of the key recommendations of the Fair Pay Review. But there are large parts of the public sector to which the Act doesn't apply. This includes, for example, higher education, in which pay inequality is typically higher than in local authorities.

Perhaps the most glaring omission is Government's failure to extend pay reporting requirements to the public services industry (as recommended by the Fair Pay Review);<sup>5</sup> given that public services are increasingly delivered by private contractors. The private providers of public services have far greater inequality in pay, the hidden costs of which are met by the taxpayer. Local authorities and other public sector employers can, if they wish, appear to have low pay ratios and good pay for the lowest-paid by merely outsourcing low-paid work.

These gaps in coverage limit the extent to which there is accountability to taxpayers about how their money is spent.

<sup>5</sup> *Hutton Review of Fair Pay in the public sector: final report, March 2011, p12 (www.hm-treasury.gov.uk/d/hutton\_fairpay\_review.pdf)*

**20%**  
of local authorities are committed to paying their staff the Living Wage

## Introduction and methodology

Fair pay in local authorities – and in the public sector in general – has been an issue that has attracted enormous attention in politics and the media over recent years.

The most obvious manifestation of this has been the concern about perceived excessive pay of senior staff. Newspaper reports about ‘public sector fat cats’ increased by nearly 400 per cent between 2004–05 and 2008–09,<sup>6</sup> despite rather more extreme levels of high pay and pay inequality in the private sector. Partly in response to this concern, the Government commissioned the Fair Pay Review<sup>7</sup> and later legislated, in the form of the Localism Act 2011, to require local authorities to publish pay policy statements. These statements must set out policies on high pay, low pay and pay ratios, alongside other data on employees’ pay.

This report looks at our findings on the pay policy statements of the 174 principal local authorities in England and Wales.<sup>8</sup>

Significant numbers of local authorities have gone beyond the requirements of the Localism Act 2011 – we are aware of local authorities taking innovative steps to establish a vanguard of good practice. These steps include raising low pay, reducing pay inequality and promoting these practices within their local area.

Local authorities were required to prepare and approve pay policy statements by the end of March 2012 and publish them as soon as was reasonably practicable thereafter.<sup>9</sup> We reviewed the statements that were then available, during April and May 2012.

Additionally, we surveyed local authorities in May 2012, asking about policies which were in place on 1st April 2012.<sup>10</sup> This resulted in a response rate of 96 per cent.

### Methodology

In our analysis of the data, where local authorities gave ‘pay’ as a range, rather than a single figure, we have used the bottom of that range unless otherwise stated. In general, for data comparison purposes, we considered figures for salary only. However, in some cases, pay figures may include elements other than salary – for example, pension.

When examining pay policy statements, we looked at information in the statement itself and information available via hyperlinks in the statement. If the statement merely referred to a website without giving specific links, we did not include the information.

All reasonable efforts have been taken to ensure accuracy. Statements and surveys were checked by two people, but accuracy of data cannot be guaranteed. Where examples of good practice are shown, this should not be taken to imply that similar good practice did not exist elsewhere.

<sup>6</sup> p54 Hutton Review of Fair Pay in the public sector: interim report December 2010 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>7</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>8</sup> In fact we reviewed 173 statements – one local authority had not published a statement by when research was conducted.

<sup>9</sup> s 39 (5) Localism Act 2011

<sup>10</sup> Some local authorities referred to policies which were under discussion at the time – this is made clear where relevant in this report.

## Why does fair pay in local authorities matter?

*“Over three-quarters of adults agreed that the government should take action to reduce the gap between high and low earners in the UK.”*

### Public and political attitudes

There is widespread agreement that the public sector should be seen to be fair in its pay policies and that the excesses seen in some parts of the private sector are unjustifiable in organisations funded by the taxpayer. In establishing the Fair Pay Review, the Prime Minister acknowledged the need to be sure that pay in the public sector is fair.

Most people believe that the pay gaps current in the UK labour force are now disproportionate – that people at the top get much more than what they deserve and that people at the bottom get less than they deserve. Polling conducted in 2011 found that over three-quarters (78 per cent) of adults agreed that the government should take action to reduce the gap between high and low earners in the UK.<sup>11</sup> The same research found that there is “undeniable support for proper wage floors at the bottom of the labour market [...] this is a relatively uncontroversial area as far as the public is concerned.”<sup>12</sup>

### Local economies

Several local authorities pointed out in their pay policy statements that they are a major local employer, and therefore have a major influence on the economic wellbeing of their area. They recognise that many of their staff and contractors’ staff are direct recipients of services as well as people who contribute their spending to the wider economy. In-work poverty and inequality create direct and indirect costs which are often met by local authorities themselves and by other parts of the public sector.

### The (expensive) social consequences of excessive income inequality

Pay inequality is a major contributor to the overall income inequality, of which the UK now has one of the highest rates in the developed world.<sup>13</sup> High levels of income inequality are associated with a range of health and social problems,<sup>14</sup> for example, lower life expectancy, poor educational attainment, criminality, mental health problems and obesity, which are themselves expensive to address and can also have the effect of reducing economic performance.

High income inequality is also associated with low levels of social mobility. This matters for the economy and for society. The Sutton Trust estimates that low social mobility could cost up to £140 billion a year by 2050,<sup>15</sup> whilst the IFS found that “it is likely to be very hard to increase social mobility without tackling income inequality.”<sup>16</sup>

<sup>11</sup> K Lawton & T Lanning: ‘Getting what we deserve? Attitudes to pay, reward and desert’ 2011 IPPR. p23 ([www.ippr.org/index.php?option=com\\_ippr&view=publication&id=7617](http://www.ippr.org/index.php?option=com_ippr&view=publication&id=7617))

<sup>12</sup> K Lawton & T Lanning: ‘Getting what we deserve? Attitudes to pay, reward and desert’ 2011 IPPR. p6 ([www.ippr.org/index.php?option=com\\_ippr&view=publication&id=7617](http://www.ippr.org/index.php?option=com_ippr&view=publication&id=7617))

<sup>13</sup> UN Development Program. Human Development reports, 2003–6 ([hdr.undp.org/en/reports/](http://hdr.undp.org/en/reports/))

<sup>14</sup> Wilkinson R & Pickett K (2009) *The Spirit Level*, Penguin

<sup>15</sup> Sutton Trust (website press release) “£140 billion a year – the cost of low social mobility” ([www.suttontrust.com/news/news/140-billion-a-year-the-cost-of-low-social-mobility/](http://www.suttontrust.com/news/news/140-billion-a-year-the-cost-of-low-social-mobility/))

<sup>16</sup> Crawford, Johnson, Machin & Vignoles, “Social Mobility, a Literature Review” 2011, BIS, p1 ([www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/11-750-social-mobility-literature-review.pdf](http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/11-750-social-mobility-literature-review.pdf))

*“Below-living-wage pay costs the taxpayer around £6 billion a year in welfare benefits and foregone revenue”*

#### **Economic costs of low pay**

At the low end of the pay scale, low pay creates externalised costs. For example, the IFS estimate that below-living-wage pay costs the taxpayer around £6 billion a year in welfare benefits and foregone revenue.<sup>17</sup> To this should be added the effect of low pay to poverty-related health impacts. The healthcare costs of inequality are estimated to be over £5.5 billion a year.<sup>18</sup>

Low pay, especially where jobs are insecure, also contributes to keeping people in poverty<sup>19</sup> and to requiring many parents to work such long hours that family life is damaged.<sup>20</sup>

<sup>17</sup> Brewer & Phillips, “IFS analysis on the ‘living wage’” 2010, Institute for Fiscal Studies ([www.ifs.org.uk/publications/5244](http://www.ifs.org.uk/publications/5244))

<sup>18</sup> The Marmot Review “Fair Society Healthy Lives”, full report, 2010, page 18 ([www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review](http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review))

<sup>19</sup> We refer here to the low-pay, no-pay cycle, in which people become trapped in a cycle of low-paid short-term jobs and unemployment. This phenomenon is examined in T Shildrick et al, ‘The low-pay, no-pay cycle: Understanding recurrent poverty’ 2010, JRF ([www.jrf.org.uk/publications/understanding-recurrent-poverty](http://www.jrf.org.uk/publications/understanding-recurrent-poverty))

<sup>20</sup> As a recent report for UNICEF observed “UK parents find it difficult to spend time with their families for lots of different reasons. One of these was low wages. Where parents are paid at, or close to the minimum wage, they often must work long hours or take several jobs in order to make ends meet and this can impact on their ability to spend quality time with their children” (Ipsos Mori & A Nairn, “Children’s Well-being in UK, Sweden and Spain: The Role of Inequality and Materialism A Qualitative Study” 2011, p70 ([www.unicef.org.uk/Latest/News/Research-shows-UK-children-caught-in-materialistic-trap/](http://www.unicef.org.uk/Latest/News/Research-shows-UK-children-caught-in-materialistic-trap/)))

## Fair pay in the public sector: task incomplete

It is good that, through the Localism Act 2011 and other means, local authorities are required or encouraged to adopt some of the key recommendations of the Fair Pay Review. Some fair pay principles are also applied to other parts of the public sector, for example, a requirement for NHS organisations' annual accounts to report the ratio between the mid-point of the highest paid director and the median remuneration of the organisation's staff.

However, there remain many parts of the public sector to which the key recommendations of the Fair Pay Review do not apply, that is, they are exempted from pay policy reporting requirements. For example, the higher education sector is exempt, despite universities being substantially taxpayer-funded and identified in the Fair Pay Review as having higher top-to-median pay ratios than local authorities.<sup>21</sup>

The Fair Pay Review stated clearly that "it is important that the Fair Pay Code and as far as possible the other recommendations of this Review are extended into the public services industry."<sup>22</sup> This has not occurred and is a serious omission in public sector pay policy. The Government's ambition to "increase transparency about how taxpayers' money is used" and promote "fairness in the setting of local pay"<sup>23</sup> is undermined if providers of a substantial proportion of public sector services are beyond taxpayer accountability.

Given the hidden costs of private-sector delivery, met by the taxpayer,<sup>24</sup> and the higher levels of pay inequality in the public service industry, this is a matter of significant public interest.

<sup>21</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p33 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>22</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p12 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>23</sup> DCLG: "Openness and accountability in local pay: Guidance under section 40 of the Localism Act", paragraphs 9 and 11.

<sup>24</sup> Most obviously the subsidies through the benefit system to low-paid workers.

*“Well over ten per cent of local authorities had taken steps to reduce levels of chief executive pay”*

## Leading the way on fair pay: the growth of best practice

### Reducing Chief Executive pay

Local authorities have, overall, been exemplars of moderation in respect to chief executive pay and wider workforce pay.<sup>25</sup> Remuneration levels are typically much lower than for comparable roles in the private sector – including private providers of public services.<sup>26</sup> Research from Incomes Data Services, shows that there has been zero percent pay growth for local authority chief executives in the year to March 2012.<sup>27</sup> This means a real term pay cut.

Nevertheless, our research found that well over ten per cent of local authorities had taken steps to reduce levels of chief executive pay.<sup>28</sup> (See text box for examples.)

Ten per cent of pay policy statements gave information about how chief executive and/or chief officer remuneration compared to that in other local authorities. Kingston upon Thames and North Somerset reported that they had moved from seeking to pay at mid-market rates to lower-quartile and ten per cent below median respectively. Whilst we acknowledge one cannot ask all authorities to seek to pay below median levels found in comparator authorities, it is refreshing to see that some local authorities resist pressure to inflate top pay.

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### Reducing top pay is not a straightforward matter

As one local authority pointed out, “we can not arbitrarily impose a pay cut on these staff.” However, a number of ways of reducing top pay were identified in our research:

- Using the departure of a Chief Executive as an opportunity to reduce the pay for the role. Local authorities which employed this method included **Barking & Dagenham, Islington** and **Suffolk**.
- Voluntary pay cuts on the part of the chief executive him/herself. Voluntary initiatives for reducing pay included taking unpaid leave, voluntary salary reductions, refusing pay inflation, performance-related pay or pay for election duties.
- Deleting the role of chief executive. Local authorities taking this route included **Wiltshire**<sup>29</sup> and **Leicester**.

In addition to those named above, authorities who made a clear statement about reduced chief executive remuneration included: **Bedford, Blackburn with Darwen, Bristol, Dorset, Denbighshire, Ealing, Enfield, Neath Port Talbot, Newham, Sefton, Sheffield, Shropshire, South Gloucestershire, Stockton on Tees, Swindon and Wakefield**.

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<sup>25</sup> In some local authorities there is no chief executive, either because of different titles being used, vacancies or (in a small number of cases) there being no equivalent role. In these cases we have looked at the highest paid officer.

<sup>26</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p18 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>27</sup> Thomson Reuters “local authority chief executive pay grinds to a halt with 0% pay rises” (news release) March 2012. ([www.incomesdata.co.uk/news/press-releases/local-government-2012.pdf](http://www.incomesdata.co.uk/news/press-releases/local-government-2012.pdf)) NB: IDS research refers to 314 local authorities in England and Wales. (London boroughs, county councils, metropolitan boroughs, unitary authorities and district councils), rather than the principal local authorities which we examined.

<sup>28</sup> 20 of 173 statements.

<sup>29</sup> Wiltshire deleted the post of chief executive and one of the four corporate directors, adopted a new leadership model comprising the remaining three corporate directors working in conjunction with cabinet.



Local authorities who stated an intention to **reduce** their current pay ratios include **Newcastle** (“committed to reducing this [top-to-bottom] ratio where possible in future”) and **Brighton** (“working to reduce the pay gap between the highest and the lowest paid”).



Those who stated an intention **not to increase** their pay ratios from current levels include **Reading** and **East Sussex**.

### Reducing pay ratios

Although local authorities are not required to set target pay ratios, well over ten per cent of pay policy statements included a clear figure to which the relevant local authority committed to reducing their pay ratios (top to median and/or top to bottom). A further 27 per cent state that the relevant local authority will monitor these ratios. An additional five per cent include a recognition that remuneration for the highest paid employee should not be ‘excessive’.

A number of local authorities thought that they had little control over their pay ratios, arguing that each level of pay was set by evaluation processes and/or advice from pay consultants. Yet other local authorities have been able to develop and implement relevant policies.

### Unclear pay ratio guidance: creating perverse incentives and encouraging top pay inflation?

It is concerning that a number of local authorities have set a target to not exceed a top-to-bottom pay ratio of one to twenty. In over ten per cent of pay policy statements, explicit reference was made to the Fair Pay Review comment on a ratio of one to twenty, with a suggestion that this was recommended limit.

Although the one to twenty ratio was mentioned in the Fair Pay Review terms of reference, it is important to note the Review’s conclusion that such a ratio would be unhelpful because it “could create perverse incentives and even become a target for executives [who are currently] earning less” and that such a target would only affect 70 senior managers.<sup>30</sup>

### Increasing pay for the lowest-paid

Numerous local authorities are taking steps to raise the pay of their lowest-paid employees and/or contract staff. The budget constraints currently affecting local authorities mean that such initiatives are not easy and some local authorities have found it necessary to reduce pay overall, usually while protecting the pay of the lowest-paid.

### A Living Wage for directly-employed staff: a growing phenomenon

In addition to reviewing published pay policy statements, we also conducted a survey of principal authorities in England and Wales. Findings from this research show that a significant and growing number of local authorities now pay their staff at a level at least equivalent to the Living Wage.

<sup>30</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p10 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

*“Almost twenty per cent of respondents said that they pay their own staff at least the current official Living Wage.”*

Almost 20 per cent of respondents said that they pay their own staff at least the current official Living Wage (£8.30/hr in London £7.20/hr in the rest of the UK<sup>31</sup>) or are in the process of implementing such a policy. A further eight per cent are considering such a policy.

This phenomenon was once regarded as particular to Inner London boroughs. The figures in the text box, below, demonstrate that this is no longer just a London phenomenon. Living Wage pay policies are now firmly established in the Outer London boroughs, almost half of which reported having a Living Wage pay policy. Two-fifths of the local authorities named in the panel below are outside Greater London.

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Local authorities who said that as at 1 April 2012, they had “made a policy commitment to pay all directly-employed staff the Living Wage at the relevant hourly rate (£8.30 in London, £7.20 elsewhere) as a minimum” were: **Barking and Dagenham, Bedford, Birmingham, Bridgend, Brighton and Hove, Camden, City of London, Croydon, Ealing, Enfield, Greenwich, Hammersmith and Fulham, Haringey, Hounslow, Islington, Lambeth, Lewisham, Medway, Monmouthshire, Newham, Oldham, Portsmouth, Reading, Richmond upon Thames, Southampton, Southend on Sea, Southwark, Tower Hamlets and Westminster.** **Newcastle** said this policy will come into force in the near future.

In addition, **Bristol** have “committed to making a non-consolidated pay award to low paid employees for 2012/13” equivalent to Living Wage level, and **Surrey** noted that their “minimum Surrey Pay rate paid on grade SP1/2 is currently set at £7.38 per hour” which is above the current national Living Wage level.

It should be noted that the figures above do not imply that the local authorities named are accredited Living Wage employers,<sup>32</sup> although some are.

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<sup>31</sup> [www.livingwage.org.uk](http://www.livingwage.org.uk)

<sup>32</sup> Accreditation via the Living Wage Foundation  
[www.livingwage.org.uk](http://www.livingwage.org.uk)

*“Whilst some local authorities might fear that extending the Living Wage to contractors might have substantial adverse impact on budgets, those that have put this into effect have not found this to be so.”*

## Other initiatives to raise the lowest rate of pay

**Adopting local minimum wage rates.** Manchester has adopted a Manchester minimum wage of £6.84 per hour.<sup>33</sup>

**No longer using the lowest points on the nationally-agreed (JRC) spinal column.** Rutland’s pay policy statement says “Council agreed that spinal column points four and five would not form part of the local pay structure in order to provide a living wage above the national minimum wage.”

**Some local authorities said that they pay apprentices above the required minimum.** Examples of these include Tower Hamlets, which pays apprentices Living Wage, Islington, which pays “Young Apprentices a minimum of £5.88 for each hour they are employed compared with the national minimum wage for apprentices of £2.60 per hour”<sup>34</sup> and Rutland, which “pays apprentices above the national minimum wage levels set by HMRC, with minimum rates set locally at £9,992 for apprentices under the age of 22 and £10,886 for those aged 22 and over” and Poole, which “will pay the ‘normal’ n.m.w. rate of £3.68 per hour for 16/17 year olds rather than the statutorily permissible £2.60 rate.”

### External contractors

Significantly fewer local authorities apply Living Wage policies to their contractors, than to directly employed staff. However, over seven per cent have such a policy and a further 11 per cent are considering such a policy.

Whilst some local authorities may fear that extending the Living Wage to contractors might have substantial adverse impact on budgets, those who have put this into effect have not found this to be so.<sup>35</sup>

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Local authorities who stated that as at 1 April 2012 they had “made a policy commitment to require (some or all) external contractors to pay staff the Living Wage at the relevant hourly rate (£8.30 in London, £7.20 elsewhere) as a minimum” were: **Bedford, Ealing, Haringey, Hounslow, Islington, Lewisham, Reading, Southampton, Southwark, Staffordshire and Tower Hamlets.**

In addition, **Brighton and Hove** indicated that such a policy would come into force in the future.

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<sup>33</sup> Survey response

<sup>34</sup> Pay policy statement

<sup>35</sup> LB Islington website: “Council leader celebrates Living Wage Campaign” May 2011 ([www.islington.gov.uk/islington/news-events/news-releases/2011/05/Pages/PR4412.aspx](http://www.islington.gov.uk/islington/news-events/news-releases/2011/05/Pages/PR4412.aspx))

## Sustaining the local economy and promoting best practice to local employers

### Statements of principle

Over ten percent of local authorities used their pay policy statements to set out their belief that the authority has a responsibility to promote, via pay policies, the wellbeing of their workforce, help support a strong local economy, reduce income inequality and/or to encourage local employers to adopt good practice in these areas.

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**Newcastle's** pay policy statement included a foreword from council leader Nick Forbes, in which increasing wellbeing and reducing inequality were the major themes. Forbes stated that "Newcastle City Council's values give us a desire to increase the standard of living for everyone. As the largest employer in Newcastle, the Council has a major influence on the economic wellbeing of the City and a direct impact on levels of inequality. We want to do all in our power to make Newcastle a fairer city. [...] We are committed to reducing inequality and it is right that we lead by example and do so through the way we operate as an organisation."<sup>36</sup> Newcastle's pay policy statement also spoke of "a commitment from the Council's leadership for Newcastle to be a city where all employers are committed to the principle of a living wage."<sup>37</sup>

In survey responses, four local authorities stated that they had established or were establishing Fairness Commissions (which explore how to improve equality outcomes in their areas). These were **Blackpool, Islington, Newcastle and Tower Hamlets**.

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### Local leadership: putting principle into practice

Often local authorities will lack direct power but can wield influence.

A key example has been set by the Greater London Authority (GLA), where the Mayor has written to large local employers to promote the Living Wage. Additionally, the GLA has called on the Mayor to promote a 'Fair Pay Mark' for organisations that commit to reducing or limiting the difference between their highest and lowest paid staff.<sup>38</sup>

<sup>36</sup> Newcastle City Council, 'Fair Pay; Pay Policy Statement for the financial year 2012/13' p3

<sup>37</sup> Newcastle City Council, 'Fair Pay; Pay Policy Statement for the financial year 2012/13' p10

<sup>38</sup> GLA: "Mayor urged to endorse 'Fair Pay Mark'" [press release, 7 March 2012 ([www.london.gov.uk/media/press\\_releases\\_london\\_assembly/mayor-urged-endorse-fair-pay-mark](http://www.london.gov.uk/media/press_releases_london_assembly/mayor-urged-endorse-fair-pay-mark))

*“One in twenty of local authorities indicated that they had contacted local employers to encourage them to pay a Living Wage or are planning to do so in future.”*

### Encouraging local employers to pay a Living Wage

One in twenty (five per cent) of local authorities<sup>39</sup> indicated that they had contacted local employers to encourage them to pay a Living Wage or are planning to do so in future. A further ten per cent are discussing such a practice.<sup>40</sup>

Local authorities who stated that as at 1 April 2012 they had “contacted any local employers to encourage them to pay the Living Wage as a minimum” or plan to do so in future were: **Birmingham, Brighton and Hove,**<sup>41</sup> **Camden, Ealing, Islington, Newcastle, Reading and Staffordshire.**

In addition, **Lambeth** stated that they had conducted a survey of suppliers with annual contracts with the borough worth £100,000 or more in October 2011, which included a question on Living Wage. (We also note that although **Warwickshire** answered “no” to this question, they then wrote “This was done in June – Awaiting responses.”)

### Encouraging contractors to publish or manage pay multiples

Three local authorities<sup>42</sup> (two per cent of total) had “contacted [their] contractors to encourage them to publish and/or manage pay multiples” or made “plans to do so in the future” as at 1 April 2012. These authorities were Islington, Southampton and Tower Hamlets. A further eight authorities<sup>43</sup> (five per cent of total) stated that they were discussing or considering such a policy.

### Encouraging local employers to publish or manage pay multiples

Islington and Tower Hamlets<sup>44</sup> (one per cent of total) had contacted “local employers to encourage them to publish and/or manage pay multiples” or made “plans to do so in the future” as at 1 April 2012. A further nine authorities<sup>45</sup> (six per cent of the total) stated that they were discussing or considering such a policy.

<sup>39</sup> Eight of 162 responses

<sup>40</sup> 16 of 162 responses

<sup>41</sup> Brighton and Hove have “established a living wage commission which includes representatives from local employers and the chamber of commerce”

<sup>42</sup> Three of 161 responses

<sup>43</sup> Eight of 161 responses

<sup>44</sup> Two of 159 responses

<sup>45</sup> Nine of 159 responses

**87%**  
of pay policy statements  
gave a figure for chief  
executive pay

## Pay policy reporting

### Pay policy statements – accessibility and comparability

#### Requirement to publish – almost total compliance

The Localism Act 2011 requires local authorities to publish pay policy statements on their websites. Our research found that all but two local authorities had done so by the end of May 2012.

#### Available, but not accessible

It is clear in both the Fair Pay Review and Government guidance that information on local authority pay policies should enable public debate and citizen accountability.<sup>46</sup>

However, in the majority of cases, pay policy statements could not be found easily. They were usually hidden among council minutes and agenda, rarely a stand-alone document and often unclearly labelled. In most cases, searching the authority's website for 'pay policy statement' produced no return. In a number of cases, the pay policy statement was just one part of a document of over a hundred pages. A number of statements required the reader to navigate to other parts of the relevant authorities' websites, via hyperlinks, which often did not work. Acronyms and jargon were common and information was not always in obvious sections. For example, one statement had information on low pay under a section on 'Job Evaluation'.

Such inaccessibility means citizens have to negotiate numerous barriers before even being able to attempt a comparison of local authority pay policy statements. Even where statements are accessible, comparison is not easy. Local authorities use a wide variety of methods to display their pay policy data. This means data from across the spectrum of local authorities cannot be compared.

#### Incomparability of data used

Problems of comparability include:

- Different terms and classifications used.
- Terms such as 'performance-related pay' and 'bonus' apparently being used interchangeably.
- Data referring to different periods or there being a lack of clarity as to which period is being referred to.
- Various different methods of calculating chief executive pay. For example, in some cases only salary is included, in others additional components, such as pension contributions, are included.
- A minority include school employees' pay in their calculations.

<sup>46</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p8 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

## Reporting Chief Executive pay<sup>47</sup>

### Reporting widespread, but data often unclear and not comparable

The Fair Pay Review thought it important “to enable citizens to understand executive remuneration and the nature of executive responsibilities.” The review recommended that “from 2011–12, the Government should require public organisations to submit executive pay data through an online template, and make this data available on [www.data.gov.uk](http://www.data.gov.uk), to allow citizens to access and analyse this data and thus have the information required to hold public service organisations to account.”<sup>48</sup>

As guidance which accompanies the Localism Act 2011<sup>49</sup> makes clear, local authorities should consider how the information in their pay policy statements fits with the data on pay and reward that they publish separately. We support this view.

In practice, almost 90 per cent (87 per cent) of pay policy statements<sup>50</sup> include a figure for chief executive pay.

However, it is currently impossible to use pay policy statements to compare top pay across local authorities, as what is reported is inconsistent. Some authorities report salary only, some report total remuneration and others something between the two. There is also a difference in the year reported against. Some authorities are forward looking – that is, they report on pay for 2012/13 – whereas others report on pay for the previous year and in many cases it is unclear which year is being reported against. In some cases, different figures were given for the pay of one individual in different sections of a single statement.

We believe that the proposals for transparency of private sector pay, on which the Department for Business Innovation and Skills is currently consulting,<sup>51</sup> can provide a model of good practice for local authorities’ pay policy statements, which allow comparability and clarity.

We suggest that local authorities should provide two figures for the pay of each chief officer – one for salary only, and another for total remuneration.<sup>52</sup> Figures should refer to the financial year that follows publication of the pay policy statement. We also support the Fair Pay Review recommendation that the Government should require public organisations to submit executive pay data through an online template and make this data available on [www.data.gov.uk](http://www.data.gov.uk).<sup>53</sup>

<sup>47</sup> In some local authorities there is no chief executive, either because of different titles being used, vacancies or (in a small number of cases) there being no equivalent role. In these cases we have looked at the highest paid officer.

<sup>48</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p8 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>49</sup> DCLG, “Openness and accountability in local pay: Guidance under section 40 of the Localism Act”, Feb 2012, paragraph 18 ([www.communities.gov.uk/publications/localgovernment/guidancelocalpay](http://www.communities.gov.uk/publications/localgovernment/guidancelocalpay))

<sup>50</sup> 148 of 173 statements

<sup>51</sup> BIS “Directors’ Pay; Consultation on revised remuneration reporting regulations” June 2012 ([www.bis.gov.uk/assets/biscore/business-law/docs/d12-888-directors-pay-consultation-remuneration-reporting.pdf](http://www.bis.gov.uk/assets/biscore/business-law/docs/d12-888-directors-pay-consultation-remuneration-reporting.pdf))

<sup>52</sup> Using the definition provided in the Localism Act: “(a) the chief officer’s salary or, in the case of a chief officer engaged by the authority under a contract for services, payments made by the authority to the chief officer for those services, (b) any bonuses payable by the authority to the chief officer, [including performance related elements, if all targets are met] (c) any charges, fees or allowances payable by the authority to the chief officer, (d) any benefits in kind to which the chief officer is entitled as a result of the chief officer’s office or employment, (e) any increase in or enhancement of the chief officer’s pension entitlement where the increase or enhancement is as a result of a resolution of the authority, and (f) any amounts payable by the authority to the chief officer on the chief officer ceasing to hold office under or be employed by the authority, other than amounts that may be payable by virtue of any enactment”. (Localism Act 2011, s43(3))

<sup>53</sup> Hutton Review of Fair Pay in the public sector: final report, March 2011, p8 ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

*“Future guidance on the Localism Act should clearly explain the difference between earn back, performance-related pay, bonuses and performance-dependent progression.”*

### **Earn back, performance-related pay and bonuses: not popular and often misunderstood**

#### **Earn back**

Guidance accompanying the Localism Act 2011 suggests that “authorities should consider Will Hutton’s recommendations on the value of a system of ‘earn back’ pay”, in which senior staff have an element of their basic pay ‘at risk’, to be earned back each year through meeting pre-agreed objectives.<sup>54</sup>

Earn back is not, so far, a popular policy and there appears to be some confusion as to its meaning. Of the 173 pay policy statements examined, only one (Westminster) has in place a policy which appeared to meet the above definition of earn back policy in place. In six other cases, policies which were referred to as earn back were ambiguous, and appeared to refer to performance-related pay, that is pay in addition to salary, rather than a subtraction of an element of salary, or performance-dependent progression.

A number of pay policy statements (six per cent)<sup>55</sup> suggested that earn back was not necessary or appropriate to them, typically arguing that “performance management arrangements are in place to ensure high performance from its senior officers.” This argument has some merit and there is some academic evidence that financial incentives may encourage an over-narrow focus on targets rather than the role as a whole.

#### **Performance-related pay and bonuses**

Performance-related pay appears to be a rare phenomenon among local authority chief executives. Only seven per cent of pay policy statements clearly indicated that such a policy was in place, and of those 42 per cent stated that performance-related pay was suspended or had been refused by the postholder at the time of reporting. A similar picture applies to bonuses – only three local authorities referred to a bonus scheme and two of those said it did not currently apply.

As with earn back, there appeared to be a number of different understandings of the meaning of the various terms. Our research identified 25 per cent of pay policy statements as not clear on performance-related pay<sup>56</sup> and 21 per cent were not clear on whether or not bonuses were paid. A number of local authorities who said they had a performance-related pay scheme in place, gave further details which suggested that this was in fact performance-related progression. This suggests that future guidance on the Localism Act 2011 should clearly explain the difference between earn back, performance-related pay, bonuses and performance-dependent progression.

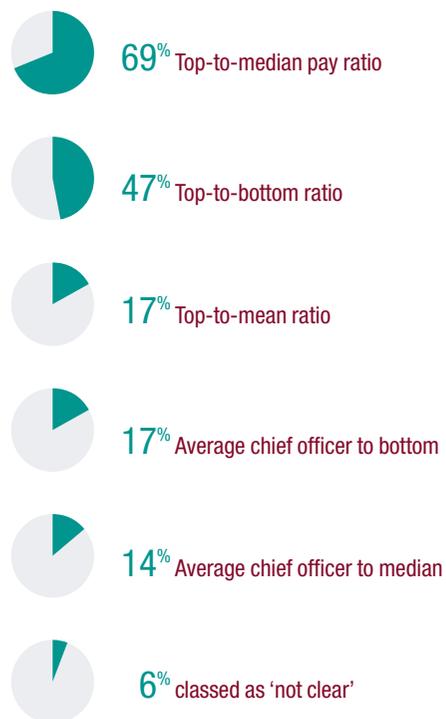
<sup>54</sup> DCLG: “Openness and accountability in local pay: Guidance under section 40 of the Localism Act”, paragraph 23

<sup>55</sup> 11 of 173 statements

<sup>56</sup> 44 of 173 statements

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### Quoted pay ratios



### Pay ratio reporting

The Fair Pay Review recommended that local authorities publish their top to median pay multiples on an annual basis.

The Localism Act 2011 requires that pay policy statements “must set out the authority’s policies for the financial year relating to [...] the relationship between [...] the remuneration of its chief officers, and [...] the remuneration of its employees who are not chief officers.”

While the Act does not require pay policy statements to publish an actual figure for pay multiples, other guidance suggests that “the ratio between the highest paid salary and the median average salary of the whole of the authority’s workforce”<sup>57</sup> should be included within the minimum set of data that authorities should publish. Government guidance on the Localism Act 2011 states that “while authorities are not required to publish data such as a pay multiple within their pay policy statement, they may consider it helpful to do so, for example, to illustrate their broader policy on how pay and reward should be fairly dispersed across their workforce.”<sup>58</sup> (Similar wording appears in Welsh guidance.)

The vast majority of pay policy statements (97 per cent) reported a pay multiple of some sort, either directly or via a hyperlink.

However, the differences in the comparisons and data used means that pay policy statements cannot be meaningfully compared. The majority (69 per cent)<sup>59</sup> state a figure for a top-to-median pay ratio. A further six per cent, which we classed as being unclear,<sup>60</sup> usually quoted top-to-average.

<sup>57</sup> DCLG: “The Code of Recommended Practice for Local Authorities on Data Transparency”, September 2011, paragraph 12

<sup>58</sup> DCLG: “Openness and accountability in local pay: Guidance under section 40 of the Localism Act”, paragraph 21

<sup>59</sup> 120 of 173 statements

<sup>60</sup> 10 of 173 statements

**89%**  
of pay policy statements  
gave a figure for the  
remuneration of the  
lowest-paid employee

<sup>61</sup> 82 of 173 statements

<sup>62</sup> 29 of 173 statements

<sup>63</sup> 29 of 173 statements

<sup>64</sup> 25 of 173 statements

<sup>65</sup> "Localism Act: Pay Policy Statements Guidance from the JNC For Local Authority Chief Executives" (Distributed by LGA & ALACE), paragraph 14 ([bit.ly/OXzHlp](http://bit.ly/OXzHlp))

<sup>66</sup> East Sussex's pay policy statement says "Until comparative information is available to establish a target for the pay multiple, it is the Council's intention to maintain the pay multiple at its current level, or better in 2012/13."

<sup>67</sup> Windsor and Maidenhead's pay policy statement says "At this stage we have no data to compare our current pay multiple against other local authorities. However, we will do this for the 2013/14 statement."

<sup>68</sup> "Localism Act: Pay Policy Statements Guidance from the JNC for Local Authority Chief Executives" (Distributed by LGA & ALACE), Appendix, p15 ([bit.ly/OXzHlp](http://bit.ly/OXzHlp))

Other ratios quoted were:

- Almost half (47 per cent) quoted a top-to-bottom ratio.<sup>61</sup>
- Almost a fifth (17 per cent<sup>62</sup>) quoted a top-to-mean ratio.
- Almost a fifth (17 per cent of pay policy statements<sup>63</sup>) quoted an average chief officer-to-bottom ratio.
- Fourteen per cent quoted average chief officer-to-median ratio.<sup>64</sup>

Other factors which compromise comparability include the different ways pay rates are calculated. Relevant guidance suggests pay ratios should be calculated on the basis of all taxable earnings.<sup>65</sup> However, it is clear that the pay multiples quoted in pay policy statements are often not calculated on this basis – some refer to salary only, while others are unclear which elements of remuneration have been included. Some, of which Hackney is an example, do make it clear that "The calculation of the pay multiple will be based on all taxable earnings for the year...".

In most cases, it was not clear which year the pay ratio quoted referred to. Some local authorities, for example East Sussex<sup>66</sup> and Windsor and Maidenhead,<sup>67</sup> made explicit statements about their wish to see comparative information in order to assess and/or manage their pay ratios. These aspirations will remain frustrated until such time as local authorities, with help from those who publish guidance, adopt more standardised reporting. And it will remain difficult, and extremely time-consuming, for them and for ordinary citizens to compare data unless information is lodged in a central location as the Fair Pay Review recommended. Recommendations on these matters are contained later in this report.

JNC guidance states that it "may be a useful element of good practice" to "track, publish and explain pay multiples over time."<sup>68</sup> As this was the first year of reporting, most pay policy statements do not contain this information. One that did was Windsor and Maidenhead, which reported a "small decrease" in their top-to-bottom pay ratio from 2009/10 to 2010/11.

#### **Misunderstandings of recommended upper pay ratios may create perverse incentives and encourage inflation of top pay**

It is concerning that a number of local authorities have set a target to not exceed a top-to-bottom ratio of one to twenty. While these targets suggest good intentions to cap the level of pay inequality, it is likely that the figure used was prompted by knowledge that the Fair Pay Review "was asked to consider whether a public sector pay multiple, in which no manager could earn more than twenty times the lowest paid person in the organisation, would be helpful as the core of a fair pay system in the public sector."

Although the ‘twenty times’ idea was contained in the Review’s terms of reference, it is important to note the Review’s conclusion that such a ratio would be unhelpful<sup>69</sup> because it “could create perverse incentives and even become a target for executives [who are currently] earning less” and that such a target would have scant impact because “a 20 to 1 maximum multiple would impact as few as 70 senior managers [across the public sector as a whole].”<sup>70</sup>

Concerns about a misunderstanding of the conclusions of the Fair Pay Review are further raised by claims of this type: “The Hutton Report ‘Fair Pay in the Public Sector’ included a recommendation that the Chief Executive’s salary should not be more than 20 times that of the lowest paid employee. Pay ratios for the current period are well within the 1:20 ratio recommended by Hutton”<sup>74</sup>, which appear in ten per cent of pay policy statements.<sup>71</sup> Another three per cent refer to the one to twenty ‘limit’ in the context of the Fair Pay Review’s terms of reference, without explicitly stating that they regarded this as a suitable target.<sup>73</sup>

One pay policy statement said “The Council does not have a target for the ratio between the pay of the highest earners and other employees [...] accepting the judgement as summarised on page four of the Hutton Report, that such targets serve no useful purpose.”<sup>74</sup> We consider this a misreading of the Fair Pay Review. What the Review said was “a hard cap would be inoperable across a diverse public sector workforce [because] people at the top of very large and complex organisations, but with low paid workers, could earn less than people running simpler bodies but whose bottom workers were better paid.”<sup>75</sup> However, it does not oppose targets within individual public sector bodies.

Aside from encouraging complacency about pay ratios (or even encouraging chief executives to lobby for higher pay) such statements also risk giving the public a false impression of ‘acceptable’ levels of pay inequality in local authorities.

### Reporting low pay

Although the Localism Act 2011 “requires authorities to develop their own definition of ‘lowest paid,’”<sup>76</sup> guidance produced by JNC for Chief Executives says “the simplest and most easily understood definition would be to use the lowest pay point routinely used by the council for its substantive roles, calculated at full time equivalent. This should not include grades or pay points put aside as trainee or development scales but should relate to the minimum point used for a competent employee taken on a defined role.”<sup>77</sup>

<sup>69</sup> *Hutton Review of Fair Pay in the public sector: final report, March 2011, p4* ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>70</sup> *Hutton Review of Fair Pay in the public sector: final report, March 2011, p10* ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>71</sup> 18 of 173 statements

<sup>72</sup> A Metropolitan District Council

<sup>73</sup> 5 of 173 statements

<sup>74</sup> A Metropolitan District Council

<sup>75</sup> *Hutton Review of Fair Pay in the public sector: final report, March 2011, p4* ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>76</sup> *Hutton Review of Fair Pay in the public sector: final report, March 2011, p4* ([www.hm-treasury.gov.uk/d/hutton\\_fairpay\\_review.pdf](http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf))

<sup>77</sup> “Localism Act: Pay Policy Statements Guidance from the JNC for Local Authority Chief Executives” Distributed by LGA & ALACE), Appendix, p15 ([bit.ly/OXzHlp](http://bit.ly/OXzHlp))

Eighty-nine per cent of pay policy statements do give a figure for the remuneration of the lowest-paid employee.<sup>78</sup> The vast majority do report a figure with respect of “the lowest pay point routinely used by the council for its substantive roles, calculated at full time equivalent,” but one authority reported the average salary of their lowest-paid ten per cent of employees, and another reports the average salary of the bottom grade.

The overwhelming popularity of reporting a figure for, and using a common definition of ‘lowest paid’, suggests that this should become standard practice for all local authorities, to aid comparability.

It is notable that in the vast majority of cases, where a figure for low pay is reported, it is a figure for salary only and not total remuneration (there were some exceptions which, for example, also gave a figure for pension contribution). We would recommend that for the lowest-paid employee, figures should report on both salary only and total remuneration (the latter as outlined in the legislation).

### Gaps in the information

#### External contractors

Government guidance makes clear that “authorities can include any additional information relating to their policies on pay that they consider is appropriate to do so [...] for example, an authority which has or develops a local policy towards the pay of staff working for external contractors with whom the authority has contracted to perform services, may wish to articulate that policy in their pay policy statement.”<sup>79</sup>

Very few pay policy statements do mention contractors (some that do are shown above in this report). We regard this as a significant omission.

The Department for Communities and Local Government has made it clear that the Localism Act 2011 seeks to “increase transparency about how taxpayers’ money is used” and is about “increasing accountability, transparency and fairness in the setting of local pay.”<sup>80</sup> It would therefore be inconsistent if, where services are delivered by contractors on behalf of the local authority, taxpayers were unable to assess whether their money was being used in a way which was compatible with good standards of value and fairness. The case for more consistent transparency is strengthened by the consideration that the costs of excessive pay inequality in the public services industry are often met by the public sector, through benefit payments to low-paid workers and the financial costs of the social impacts of wide income inequality. For this reason, we make recommendations with regard to reporting on pay and external contractors.

<sup>78</sup> 154 of 173 statements

<sup>79</sup> DCLG: “Openness and accountability in local pay: Guidance under section 40 of the Localism Act”, paragraph 31–2 (similar wording appears in Welsh guidance)

<sup>80</sup> DCLG: “Openness and accountability in local pay: Guidance under section 40 of the Localism Act”, paragraph 9 and 11.

There are limits to the powers of local authorities with regard to their contractors, as we have pointed out above. But there are matters (such as the pay of staff working on behalf of the authority) where there is contractual power which some authorities have used effectively.

**Trainees, interns and apprentices**

Although we support the practice of the majority of local authorities in defining the lowest paid member of staff excluding “trainee or development scales”, the pay of trainees, interns and apprentices is a matter of legitimate public interest. We therefore suggest that it is good practice for pay policy statements to outline their policies with regard to these classifications of workers.

**Fair pay and fair conditions**

At the bottom of the pay scale, hourly rates of pay do not always give a full picture of whether someone has an adequate and reliable income. In the private sector, insecure employment status (such as that which results from zero-hours contracts) is not uncommon. This means that workers and their families often do not have reliable income, the lack of which can result in them being trapped in a ‘low pay, no pay cycle’. Insecure employment status can also lead to individuals being effectively paid less than the National Minimum Wage if, for example, they are not paid for periods of necessary travel between work sites.

## Recommendations

### **Government should:**

- Extend the Fair Pay Review to all parts of the public sector and the public services industry.
- Issue explicit guidance clarifying that local authorities are not restricted in their ability to set pay policies.
- Ensure guidance clearly states that a one-to-twenty pay ratio is not the government-recommended acceptable maximum top-to-bottom pay ratio.
- Clearly define 'earn back', 'performance-related-pay', 'bonuses' and 'performance-dependent progression'.

### **Local authorities should:**

- Carry out economic impact assessments of their own pay policies and those of their main contracted providers. This should include an assessment of the degree to which the pay of staff of contracted providers is subsidised by the benefits system. The outcome of these assessments should be made publicly available.
- Require data on pay inequality from contractors.
- Campaign to stamp out National Minimum Wage evasion or avoidance in their area.
- Establish a Fairness Commission.
- Commit to reducing their highest to lowest pay ratios by 2015.
- Commit to increasing the pay rates of their lowest-paid staff by 2015.
- Commit to using the pay ratios of organisational peers when determining pay policies.
- Publish their pay policy statements as a stand-alone document on their website. The words 'pay policy statement' should appear as part of the document's title. Jargon and hyperlinks should be kept to a minimum.
- All local authority pay policy statement data should be made available centrally on the DCLG website.

- Local authorities should include the following, in a clear and accessible format, in their pay policy statements:
  - The remuneration of the lowest-paid employee.
  - The remuneration of the chief executive (or highest-paid employee where this post does not exist or is vacant).
  - The remuneration of the median-paid employee.
  - The ratio between the total remuneration of the chief executive (or equivalent) and the total remuneration of the median-paid employee.
  - The ratio between chief executive (or equivalent) and lowest-paid employee.
  - Pay policies that relate to trainees, interns and apprentices or an explanatory statement as to why these policies do not exist.
  - Pay policies that relate to outsourced staff or an explanatory statement as to why these policies do not exist.
  - Employment security policies or an explanatory statement as to why these policies do not exist.
  - Remuneration figures used should refer to the financial year following the publication of the pay statement.
  - The remuneration figures given for the lowest-paid employee, chief executive (or equivalent) and employee paid at the median rate should be total remuneration, that is, they should include pension entitlement and all other benefits.



## Appendix 1: Pay reporting good practice: list of local authorities named in this report

### Pay reporting good practice: list of local authorities named in this report

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|                               |  |
|-------------------------------|--|
| <b>Barking &amp; Dagenham</b> | Reducing chief executive pay, commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Bedford</b>                | Reducing chief executive pay, commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum.   |
| <b>Birmingham</b>             | Commitment to pay all directly-employed staff the Living Wage or more, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum.   |
| <b>Blackburn with Darwen</b>  | Reducing chief executive pay.  |
| <b>Blackpool</b>              | Established /establishing a fairness commission.   |
| <b>Blenau Gwent</b>           | Statement on the impact of the local authority pay policy on local economic wellbeing.   |
| <b>Bridgend</b>               | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Brighton and Hove</b>      | Target to reduce pay ratios, commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum, statement on the impact of the local authority pay policy on local economic wellbeing, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum. |
| <b>Bristol</b>                | Reducing chief executive pay, making non-consolidated pay award to low-paid employees equivalent to the Living Wage level.   |
| <b>Camden</b>                 | Commitment to pay all directly-employed staff the Living Wage or more, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum.   |
| <b>Ceredigion</b>             | Statement on the impact of the local authority pay policy on local economic wellbeing.   |
| <b>City of London</b>         | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Conwy</b>                  | Statement on the impact of the local authority pay policy on local economic wellbeing.   |
| <b>Croydon</b>                | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Dorset</b>                 | Reducing chief executive pay.  |
| <b>Denbighshire</b>           | Reducing chief executive pay, statement on the impact of the local authority pay policy on local economic wellbeing.   |

*NB: this list should not be taken to imply that similar good practice was not undertaken by other local authorities who are not named here. For example, we are aware of other local authorities where Fairness Commissions have been set up, but these were not mentioned in the authorities' pay policy statements or responses to our request for information.*

|                               |   |
|-------------------------------|---|
| <b>Ealing</b>                 | Reducing chief executive pay, commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum.  |
| <b>East Sussex</b>            | Target not to increase pay ratios.  |
| <b>Enfield</b>                | Reducing chief executive pay, commitment to pay all directly-employed staff the Living Wage or more.  |
| <b>Flintshire</b>             | Statement on the impact of the local authority pay policy on local economic wellbeing.  |
| <b>Greenwich</b>              | Commitment to pay all directly-employed staff the Living Wage or more.  |
| <b>Hackney<sup>84</sup></b>   | Based calculation of pay multiple on all taxable earnings.  |
| <b>Hammersmith and Fulham</b> | Commitment to pay all directly-employed staff the Living Wage or more.  |
| <b>Haringey</b>               | Commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum.  |
| <b>Hounslow</b>               | Commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum.  |
| <b>Isle of Anglesey</b>       | Statement on the impact of the local authority pay policy on local economic wellbeing.  |
| <b>Islington</b>              | Reducing chief executive pay, commitment to pay all directly-employed staff the Living Wage or more, pays apprentices above legal minimum, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum, statement on the impact of the local authority pay policy on local economic wellbeing, established / establishing a fairness commission, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum, contacted or plan to contact contractors to encourage them to publish and/or manage pay multiples, contacted local employers to encourage them to publish and/or manage pay multiples or plan to do so in future. |
| <b>Kingston upon Thames</b>   | Moving from median to below median when setting chief executive pay levels.   |
| <b>Lambeth</b>                | Commitment to pay all directly-employed staff the Living Wage or more, surveyed suppliers about the Living Wage.  |
| <b>Leicester</b>              | Reducing chief executive pay.   |

<sup>84</sup> We understand that Hackney exhibit other aspects of best practice, but a survey response was not received in time.

NB: this list should not be taken to imply that similar good practice was not undertaken by other local authorities who are not named here. For example, we are aware of other local authorities where Fairness Commissions have been set up, but these were not mentioned in the authorities' pay policy statements or responses to our request for information.

|                             |  |
|-----------------------------|--|
| <b>Lewisham</b>             | Commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum.   |
| <b>Manchester</b>           | Adopted a Manchester minimum wage, statement on the impact of the local authority pay policy on local economic wellbeing.  |
| <b>Medway</b>               | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Merthyr Tydfil</b>       | Statement on the impact of the local authority pay policy on local economic wellbeing.   |
| <b>Monmouthshire</b>        | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Neath Port Talbot</b>    | Reducing chief executive pay, statement on the impact of the local authority pay policy on local economic wellbeing.   |
| <b>Newcastle</b>            | Target to reduce pay ratios, commitment to pay all directly-employed staff the Living Wage or more, statement on the impact of the local authority pay policy on local economic wellbeing, established /establishing a fairness commission, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum.  |
| <b>Newham</b>               | Reducing chief executive pay, commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>North Somerset</b>       | Moving from median to below median when setting chief executive pay levels.  |
| <b>Oldham</b>               | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Poole</b>                | Pays apprentices above legal minimum.  |
| <b>Portsmouth</b>           | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Powys</b>                | Statement on the impact of the local authority pay policy on local economic wellbeing.   |
| <b>Reading</b>              | Target not to increase pay ratios, commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum, statement on the impact of the local authority pay policy on local economic wellbeing, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum. |
| <b>Richmond upon Thames</b> | Commitment to pay all directly-employed staff the Living Wage or more.   |
| <b>Rutland</b>              | Does not use lowest points on national pay spine, pays apprentices above legal minimum.  |
| <b>Sefton</b>               | Reducing chief executive pay.  |
| <b>Sheffield</b>            | Reducing chief executive pay.  |

*NB: this list should not be taken to imply that similar good practice was not undertaken by other local authorities who are not named here. For example, we are aware of other local authorities where Fairness Commissions have been set up, but these were not mentioned in the authorities' pay policy statements or responses to our request for information.*

|                                 |   |
|---------------------------------|---|
| <b>Shropshire</b>               | Reducing chief executive pay.   |
| <b>Southampton</b>              | Commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum.  |
| <b>Southend on Sea</b>          | Commitment to pay all directly-employed staff the Living Wage or more.  |
| <b>South Gloucestershire</b>    | Reducing chief executive pay.   |
| <b>Southampton</b>              | Contacted or plan to contact contractors to encourage them to publish and/or manage pay multiples.  |
| <b>Southwark</b>                | Commitment to pay all directly-employed staff the Living Wage or more, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum.  |
| <b>Staffordshire</b>            | Commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum, contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum.   |
| <b>Stockton on Tees</b>         | Reducing chief executive pay.   |
| <b>Suffolk</b>                  | Reducing chief executive pay.   |
| <b>Surrey</b>                   | Currently pay above the Living Wage level at minimum.   |
| <b>Swansea</b>                  | Statement on the impact of the local authority pay policy on local economic wellbeing.  |
| <b>Swindon</b>                  | Reducing chief executive pay.   |
| <b>Tower Hamlets</b>            | Commitment to pay all directly-employed staff the Living Wage or more, pays apprentices the Living Wage, commitment to require (some or all) external contractors to pay staff the Living Wage as a minimum, established /establishing a fairness commission, contacted or plan to contact contractors to encourage them to publish and/or manage pay multiples, contacted local employers to encourage them to publish and/or manage pay multiples or plan to do so in future. |
| <b>Wakefield</b>                | Reducing chief executive pay.   |
| <b>Warwickshire</b>             | Contacted or plan to contact local employers to encourage them to pay the Living Wage as a minimum.   |
| <b>Westminster</b>              | Commitment to pay all directly-employed staff the Living Wage or more   |
| <b>Wiltshire</b>                | Reducing chief executive pay.   |
| <b>Windsor &amp; Maidenhead</b> | Reported year-on-year (downward) change in pay ratios.  |

*NB: this list should not be taken to imply that similar good practice was not undertaken by other local authorities who are not named here. For example, we are aware of other local authorities where Fairness Commissions have been set up, but these were not mentioned in the authorities' pay policy statements or responses to our request for information.*

## Appendix 2: high pay, low pay & top-to-median multiples

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| Chief executive pay                             |                    |                   |                    |                    |
|---|--------------------|-------------------|--------------------|--------------------|
|   | Highest            | Lowest            | Median             | Mean               |
| <b>Metropolitan Borough Councils</b>            | £205,000.00        | £121,807.00       | £159,800.00        | £158,413.58        |
| <b>Unitary Local Authorities</b>                | £200,000.00        | £87,446.00        | £153,478.50        | £153,429.61        |
| <b>County Councils</b>                          | £210,000.00        | £147,875.00       | £173,226.00        | £179,440.71        |
| <b>Welsh Local Authorities</b>                  | £176,376.00        | £91,211.00        | £121,530.00        | £121,761.78        |
| <b>All London Boroughs</b>                      | £200,976.00        | £150,000.00       | £176,531.00        | £176,627.52        |
| <b>Inner London Boroughs</b>                    | £200,379.00        | £160,000.00       | £192,387.00        | £183,876.29        |
| <b>Outer London Boroughs</b>                    | £200,976.00        | £150,000.00       | £167,532.00        | £172,638.40        |
| <b>England &amp; Wales not including London</b> | £210,000.00        | £87,446.00        | £155,724.00        | £154,939.06        |
| <b>All local authorities</b>                    | <b>£210,000.00</b> | <b>£87,446.00</b> | <b>£160,000.00</b> | <b>£157,950.33</b> |

This table shows the highest, lowest, median and mean figures given for chief executive salary across each type of local authority where figures were reported. Where a salary range was given, the lower figure was used for our calculations. If the local council had no named 'Chief Executive' position, the highest paid member of staff's salary/salary range was used in our calculations. We have included City of London as an Inner London Borough.

| Low pay   |                   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Highest           | Lowest            | Median            | Mean              |
| <b>Metropolitan Borough Councils</b>            | £14,319.00        | £11,961.00        | £12,145.00        | £12,351.00        |
| <b>Unitary Local Authorities</b>                | £14,733.00        | £12,145.00        | £12,145.00        | £12,397.58        |
| <b>County Councils</b>                          | £13,251.00        | £12,049.00        | £12,145.00        | £12,285.79        |
| <b>Welsh Local Authorities</b>                  | £12,489.00        | £12,145.00        | £12,145.00        | £12,243.26        |
| <b>All London Boroughs</b>                      | £18,030.00        | £14,697.00        | £15,182.00        | £15,508.18        |
| <b>Inner London Boroughs</b>                    | £18,030.00        | £15,036.00        | £17,040.00        | £16,414.43        |
| <b>Outer London Boroughs</b>                    | £15,579.00        | £14,697.00        | £14,697.00        | £15,083.87        |
| <b>England &amp; Wales not including London</b> | £14,733.00        | £11,961.00        | £12,145.00        | £12,377.09        |
| <b>All local authorities</b>                    | <b>£18,030.00</b> | <b>£11,961.00</b> | <b>£12,166.00</b> | <b>£12,826.00</b> |

This table shows the highest, lowest, median and mean figures for reported 'low pay' across each type of local authority. Where a salary range was given, the lower figure was used for our calculations. We have included City of London as an Inner London Borough.

| Top to median multiples                         |              |          |             |             |
|---|--------------|----------|-------------|-------------|
|   | Highest      | Lowest   | Median      | Mean        |
| <b>Metropolitan Borough Councils</b>            | 10           | 5.66     | 8.56        | 8.02        |
| <b>Unitary Local Authorities</b>                | 11           | 4        | 6.97        | 7.28        |
| <b>County Councils</b>                          | 11.88        | 6.74     | 9           | 9.21        |
| <b>Welsh Local Authorities</b>                  | 11           | 5        | 6.54        | 6.94        |
| <b>All London Boroughs</b>                      | 10           | 5        | 6.8         | 6.74        |
| <b>Inner London Boroughs</b>                    | 8            | 5        | 6.40        | 6.25        |
| <b>Outer London Boroughs</b>                    | 10           | 5.6      | 7           | 7.04        |
| <b>England &amp; Wales not including London</b> | 11.88        | 4        | 7.80        | 7.78        |
| <b>All local authorities</b>                    | <b>11.88</b> | <b>4</b> | <b>7.02</b> | <b>7.53</b> |

This table shows the highest, lowest, median and mean reported top-to-median pay ratios. This only includes figures which were explicitly described as top-to-median ratios. We have not included any ambiguously described figures such as top-to-average.

*N.B. Figures must be treated with caution. As has been explained in the report, not all local authorities reported top pay, bottom pay or top-to-median ratios and there are inconsistencies around what figures were taken (e.g. for chief executive pay, some reported figure from 2011-12, others reported for 2012-13 in many cases the year taken was unclear). All reasonable efforts have been taken to ensure accuracy: statements and surveys were checked by two people, but accuracy of data cannot be guaranteed.*



**One Society**

32–36 Loman Street

London SE1 0EH

020 7922 7921

[www.onesociety.org.uk](http://www.onesociety.org.uk)