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## Report of the Director of Resources and Acting Deputy Chief Executive

### Corporate Governance and Audit Committee

Date: 17 March 2010

Subject: Remuneration Committee

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#### Electoral Wards Affected:

Ward Members consulted  
(referred to in report)

#### Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

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### Executive Summary

1. This reports provides information on national guidance regarding the establishment of a Remuneration Committee and seeks the view of the Corporate Governance and Audit Committee to inform the work programme.

## **1.0 Purpose Of This Report**

- 1.1 To update and consult the Committee on considerations for establishing a Remuneration Committee following a report on 13<sup>th</sup> January 2010 regarding the current arrangements.

## **2.0 Background Information**

- 2.1 As set out in the Code of Corporate Governance the Corporate Governance and Audit Committee has a responsibility for reviewing the Councils governance arrangements. Through its terms of reference, set out in Part 3 Section 2B of the Constitution, it is authorised to

- review the adequacy of policies and practices to ensure compliance with statutory and other guidance
- review the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management)

- 2.2 In this context the Committee received a report on 13<sup>th</sup> January 2010 outlining the national and local frameworks for determining and implementing senior officer remuneration packages. Observations were made in consideration of the Council's Code of Corporate Governance, recently updated guidance from the national Joint Negotiating Committee for Local Authority Chief Executives regarding salary frameworks and the amended Accounts and Audit Regulations.

- 2.3 Members concluded that there is a need to implement a clearer and more structured approach to the determination of remuneration. The Committee supported the appointment of a remuneration committee by the Council and resolved to:

- request further clarification about the new legislation, specifically how it affects employees of bodies such as ALMOs and Education Leeds, and in relation to the disclosure of compromise agreements;
- request that the Committee is consulted about progress on improved arrangements for determining remuneration, so that it can be satisfied that arrangements are satisfactory from a governance point of view; and
- continue to monitor the governance arrangements for the determination of senior officers' remuneration.

## **3.0 Main Issues**

- 3.1 The JNC for Local Authority Chief Executives published an updated National Salary Framework and Conditions of Service Handbook in September 2009. It made clear the important for good governance in demonstrating that decisions on pay and reward packages for chief executives and chief officers have been made in an open and accountable way.

- 3.2 Adoption of a Committee approach is optional to the authority and it is accepted that different models may suit different authorities. What is made clear is the need to provide a verified and accountable process for recommending senior levels of top salaries. The handbook provides guidance on the role of the Chief Executive and their employment and provides the following considerations for developing a remuneration committee/panel.

### **3.2.1 Composition:**

In order to be representative but viable the Committee needs to be small but it can be useful to have an odd number of members to ensure that clear decisions can be taken. Working by consensus is also a viable option. It is suggested that the Committee should have no more than 5 members.

- 3.2.2 The Committee can be composed entirely of elected members if this is the most workable solution in an authority but consideration may be given to having some external representation. Any external members should of course have no conflicts of interest and should be experience in managing large organisations. It would be best if members involved in appraising performance of officers whose remuneration is recommended by the committee were not themselves members of the committee.
- 3.2.3 **Remit:**  
The Committee will be responsible for providing advice and will have delegated authority for making decisions or recommendation to the full council (or another Committee) on pay and remuneration issues within its agreed remit in relation to chief executives.
- 3.2.4 To make properly informed decisions on pay policy the Committee will need to ensure that it has comprehensive relevant and reliable advice and market data provided by the JNC annual salaries and numbers database in conjunction with consultancy advice.
- 3.2.5 The remit of the Committee would include all those elements of the remuneration package, which are not set nationally (e.g. pensions) or overall council Policy including fixed salary, variable pay elements and some additional benefits within the context of overall pay.
- 3.2.6 It would also be responsible for oversight of any performance/contribution-related pay scheme for the chief executive (targets to be set and reviewed elsewhere as part of the chief executive's performance management process). The Committee would not be responsible for the actual operation of any appraisals processes which should be kept separate
- 3.2.7 **Process:**  
The Committee should meet at least annually to:
- Determine any requirement for a formal review of the relevant pay market;\_
  - (Where determined necessary) to commission relevant research and analysis and make recommendations thereon;
  - Review any remuneration issues arising from established local appraisal /performance related pay
- 3.2.8 The Committee's recommendations would be based on data / advice /evidence / views collected from a number of possible sources, including (not exhaustively):
- Council's own HR function, possibly in the form of a report on current issues
  - National and/or Regional Employers' Organisations
  - Independent external pay data/advice/facilitation from external consultancy organisations with relevant experience in pay market analysis.
  - Pay benchmark information (with local employers/other similar local authorities)
  - Performance data drawn from both council-wide performance management indicators.
  - Submissions made by the Association of Local Authority Chief Executives on behalf of their members.
- 3.2.9 The Committee would then make reasoned recommendations to the relevant Committee of the council or will have delegated authority, as defined within the constitution. In addition, in the first year of operation, the Committee would need to meet initially to agree the pay data to be collected and to agree its expectations of the process. The Committee will also need to determine what it would recommend

as an overall executive pay policy, having regard to the general pay and employment strategy of the council.

3.2.10 The Committee may also need to hold additional meetings at the request of the council, when advice is required for example on changes to existing systems or if a new appointment is to be made.

#### 3.2.11 **Protocols**

It may well be advisable to agree a set of protocols for the operation of the Committee, to which members would be expected to adhere. This may include, for example, maintaining confidentiality whilst discussions are taking place and until decisions are published.

3.3 Local Government Employers (LGE) has produced a discussion document 'Setting rewards for Top Managers in Local Government'. This provides the national perspective and context with useful information to be considered. The report focuses most heavily on chief executives but identifies that all issues also relate to all chief officers.

3.4 The paper identifies key salient considerations and suggests approaches:

- The requirement for clear policies on the pay and conditions for most senior staff, sometimes known as remuneration policy.
- View that levels of pay for top managers must continue to be set locally
- Routine salary reviews for those in post and also for new appointments must be handled carefully and accountably
- The importance of remuneration committees

### **4.0 Implications For Council Policy And Governance**

4.1 Addressing the recommendations of the Joint Negotiating Committee for Local Authority Chief Executives and LGE will provide a framework for good governance for the council.

4.2 Matters of pay and reward form terms and conditions of employment and as such are Council (non-executive) Functions delegated to the Director of Resources. Any changes to the council's framework would require a report to the General Purposes Committee in the first instance.

4.3 In establishing a Remuneration Committee the relationship to Employment Committee would need to be clarified, especially as they currently have responsibility for hearing regrading appeals.

4.4 Clear terms of reference will be required which set out the remit of the Committee, whether making decisions or recommendations and if so to which body. The constitution of the Committee will need to be determined addressing the question of external members and political balance.

4.5 The council should also consider developing a Remuneration policy to support the work of a Remuneration Committee, this would form the initial work of the Committee.

### **5.0 Legal And Resource Implications**

5.1 Arrangements for determining and implementing senior officer remuneration need to comply with accounting requirements, employment legislation, legislation regarding

local government and laws relating to personal privacy. This may require changes to contracts of employment.

- 5.2 In establishing a Remuneration Committee HR resources would be identified to support the Committee. In the first year's work programme there would be intensive work to establish a policy and to provide baseline data.
- 5.3 In considering the membership of Committee the resource commitment will need to be identified. The arrangements for the Independent Remuneration panel for determining Members Allowances with a process of a four year rotation of membership to provide a consistency approach and ensures retention of knowledge provides a model which could be applied to a Remuneration Committee.

## **6.0 Conclusions**

- 6.1 There is clear guidance and good practice for Remuneration Committees in Local Government which are based on understanding of the local government context and would meet the requirements of good governance

## **7.0 Recommendations**

- 7.1 The Corporate Governance and Audit Committee to indicate its views on the matters discussed in this report to inform ongoing work and a report to General Purposes Committee on 22 March 2010.

### Background Documents Used

Code of Corporate Governance,  
Terms of Reference for Corporate Governance and Audit Committee  
The Constitution – Parts 2, 3 and 4  
JNC for Local Authority Chief Executives – Salary Framework and Handbook  
LGE discussion document 'Setting rewards for Top Managers in Local Government  
JNC for Chief Officers