

Tougher at the top?

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



Local government

Discussion document

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commission

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Executive summary

Background

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

A new leadership context

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

-
- specific changes in the scope and complexity of the role of chief executives.

The labour market for chief executives

- 5** The turnover of chief executives has grown in recent years – increasing from 11 per cent to 17 per cent between 1998 and 2007 for ST&CCs. This will have increased recruitment costs across the sector. The rise is due to:
- a 40 per cent¹ increase in the numbers of chief executives leaving their post without immediately taking up another position, that is either retiring or losing their jobs; and
 - an increase in the number of job-to-job moves as authorities have increasingly filled their vacancies by recruiting chief executives from other authorities. The rate at which posts are filled in this way has more than doubled.
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- 6** This latter process is the most marked development in this labour market since 1998. It suggests that experience is viewed as increasingly important by employers as a driver of improvement and consequently it has become highly sought after in the recruitment process.
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- 7** The greater accountability for performance provided by CPA is associated with both of these processes. Poor scoring authorities are twice as likely to lose their chief executive to retirement or termination of employment as good performers, and are significantly more likely to recruit an existing chief executive.
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- 8** Although some chief executives have paid the price for poor CPA scores, CPA may have played a more significant role in shaping the recruitment strategies of authorities once a vacancy has occurred, than in encouraging them to part with their incumbent chief executive in the first place.

¹ There are 150 ST&CC posts in total. This increase represents an additional 11 people retiring or losing their jobs in the period 2005 to 2007 compared with 1999 to 2001.

Executive summary

Implications of labour market change

Patterns of recruitment

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

Impacts on performance

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

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

Impacts on salary levels

- 13** Basic salary levels for ST&CC chief executives have increased by 34 per cent between 2003/04 and 2007/08. This is above the level of their counterparts in organisations such as universities, hospital trusts and registered social landlords. It is also a significantly higher increase than in the basic pay of private sector chief executives (16 per cent)¹. However, direct comparisons can be misleading because the roles and remuneration packages vary greatly between organisations. For example, the additional (performance-related) pay of private sector chief executives has almost doubled so their total pay has increased by 78 per cent from 2002/03 to 2006/07.
- 14** Increased salary inflation amongst local authority chief executives from 2003 onwards is linked to:
- higher turnover rates – over the medium term appointing new chief executives is more costly than retaining incumbents, so the increase in new appointments resulting from the rising turnover is driving salary inflation;
 - increased appointments of existing chief executives – this is by some margin the most expensive recruitment approach and has become more prevalent as local authorities prioritise experience when filling vacancies;
 - increased competition for suitable candidates – rising demand (resulting from higher turnover) combined with a focus on a narrow band of experienced candidates has pushed up the market value of candidates; and
 - the ongoing process of pay review – this is informed by the salary ranges published each year. The availability of this information enables the increases achieved by new appointees to be translated across the sector. This has had a bigger influence on the lower-paid chief executives, so the gap between the higher and lower paid has narrowed.

¹ Comparison with FTSE 250 companies 2002/03 to 2006/07.

Executive summary

15 In absolute terms, ST&CC chief executives are better paid than their counterparts in a number of other local public sector institutions, with a median salary of £150,000 in 2007/08. However, they are paid less than university vice chancellors, and significantly less than chief executives in the private sector, where basic salaries are around £400,000, with bonuses of a further £586,000¹. All of these figures exclude the value of pension contributions.

Impact on individuals, authorities and the sector

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

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

¹ Comparison with FTSE 250 companies in 2006/07.

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

17 Overall, recent developments may have benefited many existing chief executives, and have allowed local authorities to be more targeted in their recruitment strategies as individuals' track records, as measured by CPA, are now more apparent. However, at the sector level, these developments may be seen as less positive. Higher rates of recruitment of existing chief executives have led to increased turnover rates, additional recruitment costs and wage inflation.

1 | Introduction

18 From private companies to hospitals and schools, the leadership of the person at the top is increasingly seen as crucial to organisational performance. In a competitive world where success is demanded and results are measured more rigorously and communicated more openly than ever before, changing the leadership is often seen as a key first step in turning around a failing organisation.

19 Local authorities differ from other organisations in that they are led by a partnership of elected members and appointed officials. However, they are not immune to these wider changes. The leadership of members has changed in recent years, for example with the advent of elected mayors, new cabinet structures and scrutiny committees. The role of a local authority chief executive has also changed as the emphasis has broadened from sound organisational management to include the different and complex task of leading the delivery of better outcomes for their areas in partnership with others.

20 This paper focuses on the role of the chief executive, specifically in ST&CCs. Its main objective is to examine the way in which changes in the significance, scope and complexity of this post have affected aspects of its labour market such as recruitment, retention and remuneration. Given the priority placed on leadership as a driver of improvement, it is important to understand the changes in these processes and to identify difficulties where they occur.

21 This focus also reflects the considerable public interest in the role of local authority chief executives. It is an issue frequently covered in the trade, national and local media. Within local government the view is that the job of a chief executive has become more challenging and pressured, less secure and less attractive.

22 Through an analysis of over 190 chief executive appointments made since 1998, combined with an investigation of salary trends, this paper seeks to cut through the anecdotes and headlines to identify key underlying features. This information will be useful to chief executives, current and future, the elected members who recruit them, and the sector as a whole.

23 The report has three main sections:

- *A new leadership context* reviews current debates on the role of chief executives and identifies a series of key research themes which are examined in the following chapters;
- *The labour market for chief executives* provides a statistical examination of changes in turnover rates, reasons for vacancies and recruitment strategies. The role of CPA in these processes is also considered; and
- *Implications of labour market change* examines whether changes in the chief executive labour market are associated with factors such as recruiting new types of individual, improved local authority performance as measured by CPA and salary increases.

2 | A new leadership context

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- 24** There has been a series of changes in local government in recent years that have affected leadership in general and chief executives in particular. These include:
- the identification of effective political and managerial leadership as fundamental components in creating high-performing local authorities;
 - the requirement for a new, more facilitative style of leadership to deliver local government's leadership role;
 - an increase in external assessment, meaning that local authority performance can be compared with previous years and with other authorities; and
 - specific changes in the scope and complexity of the role of chief executives.

25 This section discusses these developments, their implications for chief executives and identifies a series of research questions that are examined in this paper.

26 The analysis draws on research from the government and organisations such as the Society of Local Authority Chief Executives (SOLACE), and also from coverage of these debates in professional journals such as *Local Government Chronicle* (LGC) and the *Municipal Journal*. There is a great deal of interest in these topics, but much of the discussion on leadership and chief executives is informed by personal perceptions, anecdotal evidence and individual case studies rather than sector-wide, substantive research. Nonetheless, these sources are at the heart of ongoing debates around leadership and the role of

chief executives and provide the basis for the key research questions and themes to be explored in this research.

A new framework for chief executives

Growing importance of leadership

27 Effective leadership has been identified by government as a fundamental driver of improvement. The 2006 Local Government White Paper, for example, stated that 'Leadership is the single most significant driver of change and improvement in local authorities' (Ref. 1). This belief in the importance of leadership has influenced the ongoing local government modernisation agenda which has seen the introduction of elected mayors and new cabinet structures alongside a range of other innovations.

28 Although many of these changes relate to political leaders, they clearly have implications for local government managers and chief executives (Ref. 2). The LGA, for example, has stated that improved performance is frequently the outcome of 'political ambition supported by professional excellence' (Ref. 3).

A new type of leadership?

29 Chief executives are no longer just responsible for the actions and performance of their own organisation. Delivering outcomes through partnerships represents a significant challenge, where results are obtained by engaging with and influencing a diverse range of people, groups and

2 | A new leadership context

organisations to work towards jointly agreed goals, without direct control of their staff or finances (see Figure 1).

Figure 1 A new type of leadership?

The leadership task has broadened to recognise the importance of strategic local leadership as a factor in the improvement of local areas.

'places need clear vision and strong leadership if they are to deal with constantly changing economic, social and cohesion challenges'

Strong and Prosperous Communities: The Local Government White Paper, CLG

local government '...needs to adopt a leadership style that engages local partners, facilitating, advocating, arbitrating and influencing rather than dominating'

Lyons review

local authority leaders need '...to be able to build links with the many actors in the urban scene to become generators of effective and legitimate policies for the citizens of today's localities.'

CLG: Does leadership matter?

'facilitative leaders do not depend on a top down or authoritarian approach, but use their powers and abilities to draw citizens and stakeholders into a shared vision for the locality...'

Source: Ref. 1, Ref. 2, Ref. 4

Performance measurement

- 30** Local government leaders, both political and managerial, have been under greater scrutiny in recent years. There has been a general increase in inspection and the use of targets across local government including the introduction of CPA in 2002.
- 31** An authority's CPA score is often seen as a reflection on its leadership; 'ever since the introduction of Comprehensive Performance Assessments, local authorities have had a measurement of performance which they can now use to show the top brass the door' (Ref. 5). And in addition to direct job loss, CPA is also perceived to have made the chief executive position more stressful and less attractive to future candidates (Ref. 6).
- 32** But there is also a possibility that CPA has contributed to other outcomes for individual chief executives. In some cases, CPA may have created additional career opportunities for existing chief executives as more local authorities have sought to appoint candidates with an existing CPA track record and to offer increased salaries in order to attract them from their current employers (Refs. 5 and 7). There are also examples where strong CPA scores have been cited as a key factor in remuneration packages received by incumbent chief executives (Refs. 8 and 9). These have been offered both as a reward for strong CPA scores, and also as part of an effort to retain effective chief executives in post.

Changing role of chief executives

- 33** In addition to these general changes, there has been a set of more specific developments that have had particular impacts on chief executives, making the role broader, more complex and more challenging. For instance:
- a greater focus on delivering national targets means that chief executives increasingly serve two masters; their council and Whitehall. For instance, SOLACE states that chief executives are now expected to take personal leadership over some national programmes such as youth offending (Ref. 10);
- '...more and more central determination of policies, targets and priorities, and a growing regime of inspection and regulation, mean that chief executives are no longer simply working for local councillors.'
- SOLACE (2005), *Managing in a Political Environment: Leadership United* (Ref. 10)**
- the switch from representative to participative democracy implies that chief executives have dual accountabilities locally to council members and to appointed members of unelected groups (Ref. 10); and

2 | A new leadership context

- there are potentially increased internal tensions between the political leadership and chief executives. New chief executive accountabilities and responsibilities are not always welcomed by members who view chief executives as primarily accountable to the political leadership.

‘...the new responsibilities of chief executives and the changed role of political leaders mean that the interface between “bureaucracy and democracy” is changing, leading to increased conflict in this relationship.’

SOLACE (2005), *Managing in a Political Environment: Leadership United* (Ref. 10)

Implications of these changes - testing the theories

- 34** This analysis shows that there is a view across the local government sector that leadership in general, and the role of chief executives in particular, is increasingly important as a driver of improvement; centred on a new facilitative working style; subject to multiple lines of accountability; more dependent on the quality of relationship between the political leader and the chief executive; and subject to greater levels of scrutiny and accountability.

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- 35** These changes could impact on the labour market for chief executives in a number of ways. The following questions, reflecting some of the commonly held views on this subject, are examined in the subsequent chapters of this paper:

- *has turnover increased?* – an emphasis on improved performance combined with greater levels of scrutiny may have led to an increase in levels of chief executive turnover;
- *are chief executives being recruited from different backgrounds?* – the rapidly changing nature of the task facing chief executives may have enabled the appointment of individuals with different skills and backgrounds; and
- *is there an increase in salaries?* – salaries may have increased as local authorities seek to attract high quality applicants or retain existing chief executives.

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- 36** Our research examines the extent to which these theories are supported by evidence, with the intention of providing better information to those recruiting and developing the next generation of local authority leaders.

3 The labour market for chief executives

37 Much of the discussion on the role of chief executives has focused on the perception that it has become more difficult, more pressured and less secure. If so, this could lead to an increase in the turnover rate as individuals leave their posts (voluntarily or not) more rapidly. Equally, if the job has become less attractive to prospective chief executives, the supply of suitable candidates may have reduced, leading to a further increase in the turnover rate as authorities fill vacancies by recruiting the chief executives from other authorities.

38 Dramatic changes in the turnover rate will have implications for employers. Turnover is associated with various costs such as:

- severance costs (where a previous incumbent has been forced out). Total severance costs for the last three chief executives in one authority, who were in post for a combined total of 67 months, were an estimated £440,000 (Ref. 11);
- recruitment costs. These can be significant. Executive search firms are often used, and typically charge around 30 to 50 per cent of the post's salary package. Advertising a post at this level can cost over £10,000; and
- lost productivity and loss of continuity. Progress may be stalled while a new recruit acclimatises, or when an interim is in post while a new permanent chief executive is sought. The chief executive of the Association of Local Authority Chief Executives has commented on the

increase in interim chief executives in recent years (Ref. 5).

39 However, incoming chief executives may bring new ideas and have a better match between their skills and those required for the job than those they replace (Ref. 12).

40 The following sections examine turnover in the chief executive labour market in order to explore these issues.

What is labour turnover?

Components of labour turnover

41 Labour turnover is concerned with the rate at which individuals enter and exit jobs.

42 The number of ST&CCs has remained fixed at 150 over the period of this study, so turnover is not affected by any change in the number of top posts. An increase in turnover in a market with a fixed number of posts is driven by three main processes:

- *an increase in exits* – the rate at which individuals leave the chief executive job market altogether due to retirement, redundancy or to take up alternative employment. This can increase if the job role, conditions or salary become less attractive to employees, or if changes in the job make employee performance more critical and transparent to employers;
- *an increase in job-to-job moves* – individuals leaving one employer to take up the same post with another

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organisation. This can rise if changes in the job requirements make factors such as experience a more desirable commodity for employers; or

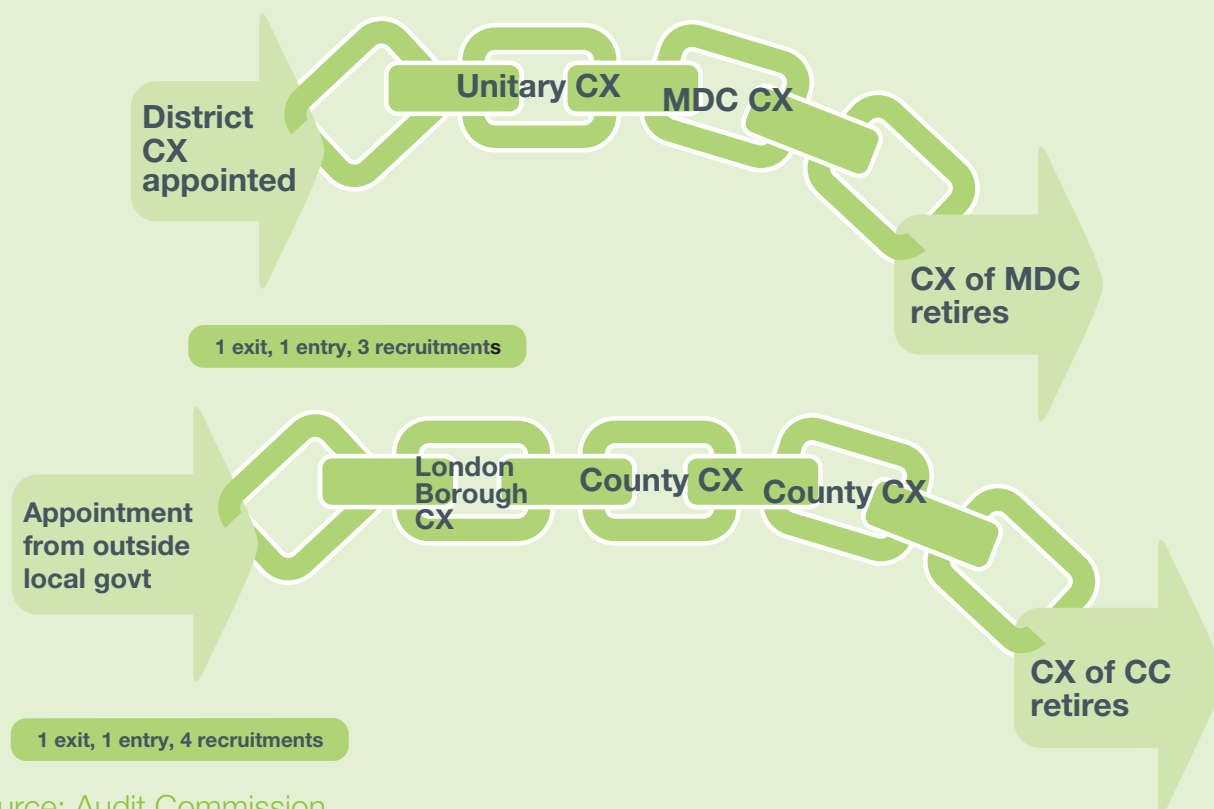
- *problems with the quality and/or quantity of new entrants* – the pool of suitable candidates becomes smaller. This can occur if the job is perceived as less attractive to new entrants, if career development arrangements are poor

or if changes in the job mean a more specialised skill set is required.

43 Exits can lead to the creation of ‘vacancy chains’. As one individual exits the labour market this creates a vacancy that can in turn be filled by an existing chief executive making a job-to-job move. This creates a further vacancy, and so on (see Figure 2). The chain continues until an opening is filled by a new market entrant.

Figure 2
Examples of vacancy chains among chief executives

Chains are created when a vacancy created by a market exit is filled by the appointment of another chief executive. Two real examples are shown here for illustration.



Source: Audit Commission

44 The length of vacancy chains can vary substantially. A vacancy can be immediately filled by a new market entrant or an exit can lead to a series of existing chief executives moving posts until the chain is finally ended by a new entrant. The longer the chain the greater the effect on turnover.

45 The length of a chain acts as a multiplier on the exit rate (Ref. 13). A labour market characterised by long vacancy chains will have a higher turnover rate than one with shorter chains even if their exit rates are identical.

How have we measured turnover?

The main source for the analysis in this paper is a database of chief executive appointments for ST&CCs constructed by the Audit Commission. This has been built from publicly accessible online sources such as the People section of the *Local Government Chronicle* and the *Municipal Journal*.

46 These sources have been used to construct individual chief executive histories for 146 of the 150 ST&CCs from 1998 to 2007. These include:

- the start date of each chief executive in any given year;
- their recruitment source and whether they were previously local authority chief executives; and
- the reason for the occurrence of a vacancy^I in any given year.

47 They include data on vacancies and appointments relating to over 190 moves.

48 Sources of recruitment have been categorised as:

- internal promotion – appointment made from internal staff;
- external promotion – appointment made from staff below chief executive level and from a different local authority;
- existing single tier or county council chief executive;
- district council or Welsh local authority chief executive^{II}; and
- other – appointment made from outside local government.

^I These data have been collected from 1999 onwards.

^{II} We found no instances where ST&CC chief executive vacancies had been filled by individuals from District Councils or Welsh authorities that were not already at chief executive level.

3 The labour market for chief executives

49 Reasons for vacancies have been categorised as:

- other work – incumbent has moved to take up work outside local government;
- retired or lost their jobs – incumbent has left due to retirement, early retirement or as a result of termination of employment by either party. This group includes all individuals who have left their post for any reason other than to immediately take up employment elsewhere; and
- job-to-job moves – incumbent has left to take up a chief executive post at another authority.

50 Interim chief executives have been excluded from the analysis unless they were in post for over two years, or if they were eventually fully appointed.

51 Data have been collected on district councils using the same methods, but this only covers whether a move occurred or not, and only from 2000 onwards.

Is the turnover rate for chief executives increasing?

52 The annual turnover rate for ST&CCs has increased from 11 per cent in the three-year period **I** 1998 to 2000 to 17 per cent by 2005 to 2007 (see Figure 3) **II**. This means that the rolling average number of vacancies each year rose from 16 to 24.

53 District councils have also seen an increase in turnover, but overall turnover has been consistently lower than in ST&CCs.

I Given the relatively small number of chief executives of ST&CCs moving every year, it is not surprising that there are large swings in the year-on-year numbers. For example, the 24 moves seen in 2003 were followed by 12 in 2004 and then 25 in 2005. Hence the analysis uses rolling three-year averages.

II All three years from 2005 to 2007 have seen a turnover rate of over 16 per cent. The apparent jump in the last column is caused by the very low rate in 2004 (8.1 per cent) suppressing the rate in the three previous columns.

Figure 3
Annual turnover rates for local authority chief executives, 1998-2007 (three-year rolling average) (per cent)

In 1998 to 2000, around one in nine ST&CCs changed their chief executive every year. Currently it is one in every six.



Source: Audit Commission

54 Increasing turnover is an economy-wide trend, but it has increased more quickly for ST&CC chief executives than in the wider public or private sector workforce^I. A more valid comparison, however, is with turnover at senior level in other organisations.

55 Turnover rates for chief executives in the private sector have increased at similar rates to those for local government^{II}. For example, chief executive turnover rates amongst the world's 2,500 largest publicly traded firms increased from 10.5 per cent to 15.2 per cent from 2001 to 2006. An increased focus on performance has been identified as the primary driver of these increases in major firms.

^I Turnover in the public sector workforce rose by just 1.2 percentage points (12.5 to 13.7 per cent) between 2002 and 2007, and in the (private) service sector the increase was 2 percentage points (20.6 to 22.6 per cent). Over this same period chief executive turnover increased by 4 percentage points.

^{II} FTSE 100 companies chief executive turnover increased from 17.5 to 21.7 per cent from 2002 to 2007 (Ref. 14). Among chief executives of global corporations, in 1995 one in eight departures was involuntary, but by 2006 this had increased to one in three (Ref. 15).

3 The labour market for chief executives

56 There are marked differences between public and private sector labour markets. But local authority chief executives have also been subject to greater scrutiny with regard to performance, not least due to CPA. There is a perception in the professional press that this underlies the increase in chief executive turnover rates experienced by local authorities. This proposition will be explored in the following sections.

Why is turnover increasing?

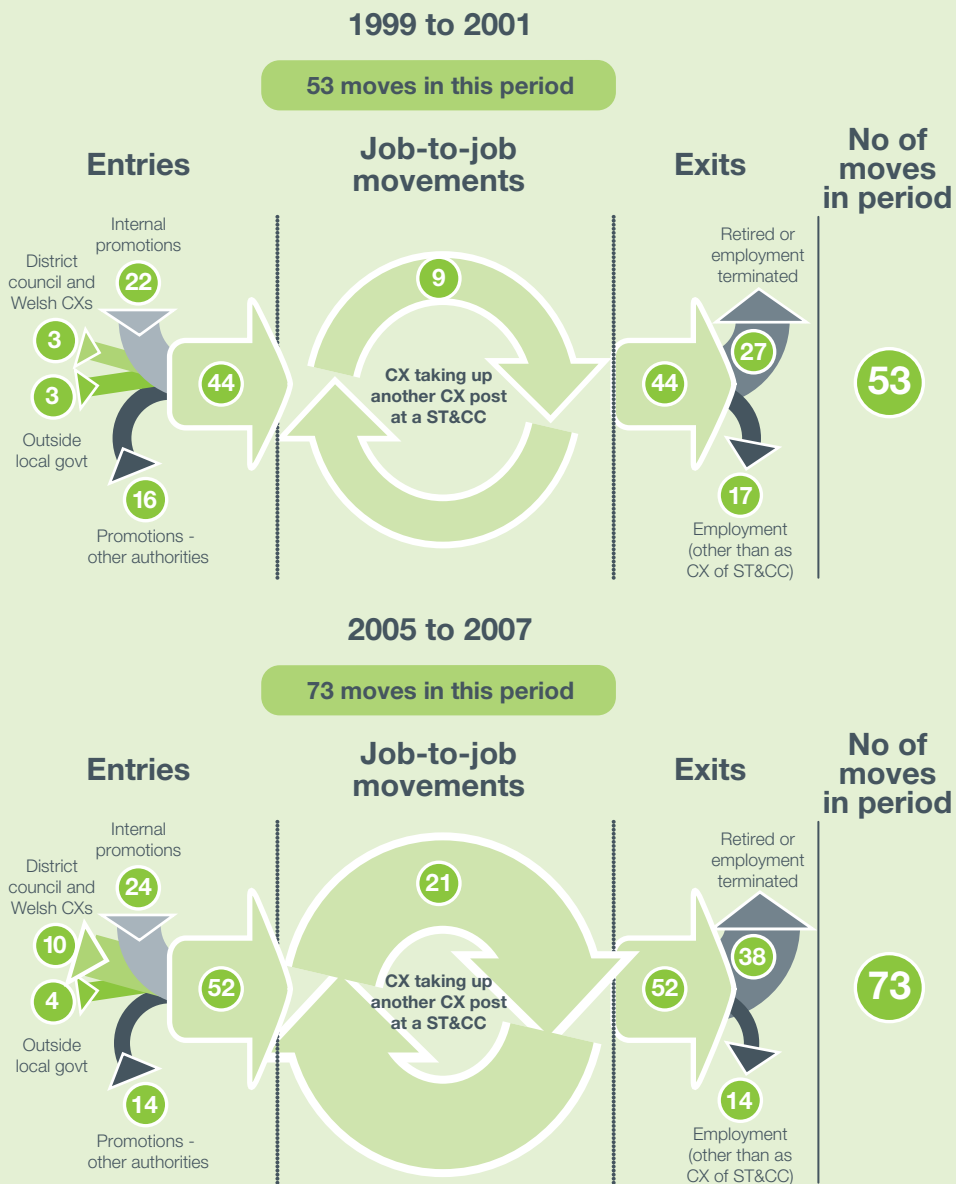
57 An increase in turnover can result from a range of labour market processes and is not necessarily simply the result of an increase in exits. Understanding which of these factors is at work in the chief executive labour market is essential in developing a clear picture of change.

58 Figure 4 compares levels of entries, exits and job-to-job moves for ST&CC chief executives in the two three-year periods 1999-2001 and 2005-2007¹. There are substantial changes taking place in some of the components of the model.

¹ Although these appear to be small numbers, there are only 150 chief executive posts in this job market, and these figures are based on an almost complete data set comprising the full chief executive employment histories for 146 of the 150 ST&CCs.

Figure 4
Components of change in the turnover of chief executives -
1999-2001 compared with 2005-2007

Increased turnover is partly driven by an increase in exits, but the biggest change is in the number of job-to-job moves, which has more than doubled.



Source: Audit Commission

3 The labour market for chief executives

More chief executives are being recruited by other local authorities

59 As Figure 4 shows, the rate of exit due to chief executives retiring or having their employment terminated has increased. The total number of chief executives exiting for any reason increased from 44 to 52 (18 per cent increase) between the two periods. This gross figure hides a fall in the number leaving to take up other types of employment (from 17 to 14), and a 40 per cent increase in those retiring or having their employment terminated (from 27 to 38).

60 The rate of job-to-job movement (that is one chief executive replaced by another current chief executive) has increased markedly:

- the number of job-to-job moves has more than doubled from 9 to 21 (a 133 per cent increase) between the two periods;
- this type of move has increased faster than the rate of exits and now represents a more significant component of turnover; and
- in the first period less than two in every ten vacancies was filled by another chief executive but by 2005-2007 this had increased to three in every ten. This means vacancy chains have become longer.

61 The sources of market entry are largely unchanged:

- the number of posts filled by internal promotions, promotions from other

authorities, or from outside local government has altered little; and

- the only significant change has been an increase in the numbers of district council and Welsh local authority chief executives (predominantly the former) recruited to ST&CC posts.

62 Overall, Figure 4 shows that the increased turnover among chief executives¹ is driven partly by an increase in exits due to retirement or the termination of employment, but that the most significant change has been an increase in the propensity of employers to recruit other chief executives. In practical terms this means that chief executives are either retiring or losing their jobs at a faster rate and that local authorities are increasingly filling these vacancies by recruiting current chief executives from other authorities.

Why are more chief executives retiring or losing their jobs?

63 There are two possible explanations for the increase in the rate at which chief executives are retiring or having their employment terminated:

- a bulge in the numbers reaching retirement; and/or
- a greater focus on performance, particularly through CPA, leading to chief executives of poor authorities losing their jobs.

¹ Analysis of data for the period 2002 to 2004 shows that the differences shown in Figure 4 represent a trend rather than simply being two distinct periods.

A bulge in the number of retirements

64 It is possible that the increase could be driven by a demographic feature of the chief executive workforce. This would imply that a cohort of older chief executives has recently worked its way through the system.

65 There are some grounds for thinking that this might be the case. Many unitary authorities were established in the mid-to-late 1990s and it is likely that the chief executives that have remained in place in these authorities from the outset have recently begun to retire (Ref. 16).

66 The rate at which chief executives from unitary authorities have retired or lost their jobs between 2005 and 2007 is twice that of the rate in 1999-2001, and is higher than in other authority types. This supports the theory that demography has contributed to the increase in exits.

The focus on performance has increased exits

67 Much of the press coverage on chief executive employment has identified the increasingly difficult nature of the job and has singled out the greater focus on performance, with CPA as a key component of this. There is a longstanding belief that chief executives are blamed for poor scores,

often leading to them parting from their employer. However, there have always been poor performers who have lost their jobs. This section explores the impact of poor organisational performance, and its more transparent measurement through CPA, on chief executive turnover.

68 An analysis of CPA scores and chief executive turnover shows that chief executives of poor scoring authorities are more likely to lose their jobs and less likely to be recruited at the same level in another authority. Figure 5 shows that;

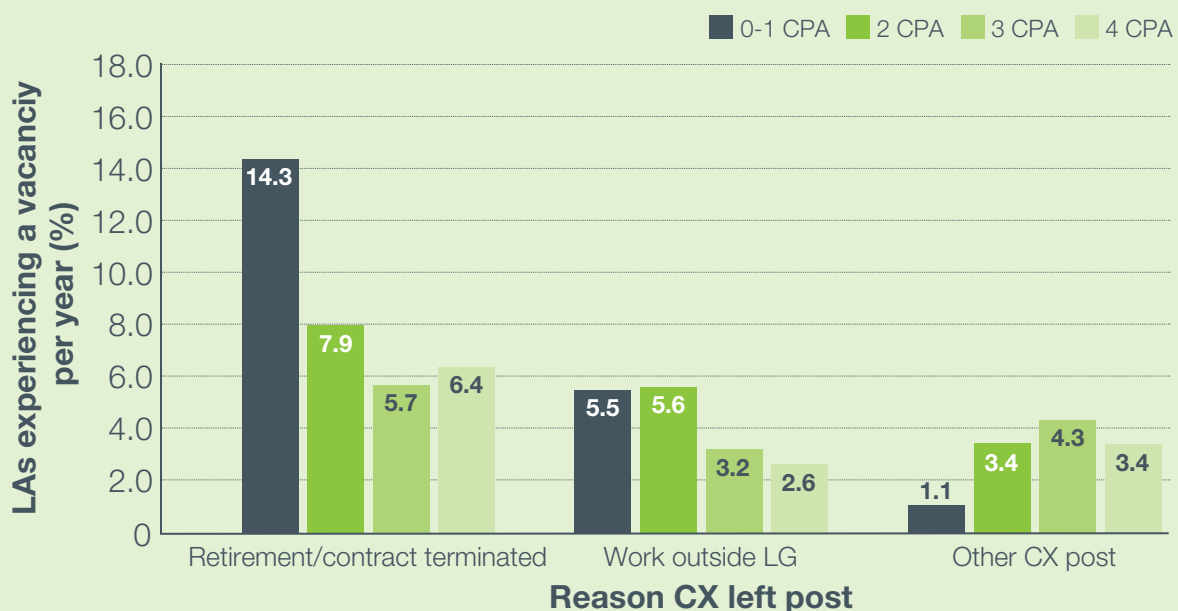
- an authority scoring a 0 or 1 in any given year is more than twice as likely to see its chief executive retire or have their employment terminated in that year than those scoring 3 or 4. This relationship is statistically significant and remains in place when factors such as authority type, size, and change in political control are accounted for in statistical modelling¹;
- authorities scoring 0-2 in any given year are more likely to see their chief executive leave to take up work outside local government; and
- the chief executive of an authority scoring a 0 or 1 in any given year is very unlikely to become a chief executive in another authority in that year.

¹ This multivariate modelling accounts for factors such as authority type and size, recent change in political control, and length of service of the incumbent CX. When all of these factors are accounted for then a score of 0 or 1 remains statistically associated with an authority seeing its chief executive retire or lose their job.

3 The labour market for chief executives

Figure 5
Reasons for the occurrence of vacancies in any given year by CPA score, 2002-2007 (per cent)

An authority scoring 0 or 1 in any given year is more than twice as likely to see its chief executive retire or lose their job in that year than one scoring 3 or 4.



Source: Audit Commission

69 Overall, this suggests that poor performance, as measured by CPA, contributed to some chief executives losing their jobs, but only in the poorest authorities where a 0 or 1 was scored. These scores only account for around 10 per cent of all scores given under

CPA, so the actual numbers of individuals involved is relatively small. We estimate^I that, between 2002 and 2007, poor performance, as measured by CPA scores, is responsible for fewer than ten chief executives retiring or losing their jobs^{II}.

- ^I Calculated by replacing the rate of exits due to retirement or termination of employment for authorities scoring a 0 or 1 with that for authorities scoring a 4 (where exits are less likely to be performance related) and converting rates into numbers of individuals.
- ^{II} These findings reflect recent work from Cardiff University that identifies a statistically significant, but nonetheless relatively small, association between poor CPA scores and chief executive turnover (Ref. 17).

70 There are two possible explanations for the relationship between CPA scores and exits from the chief executive job market. Either CPA is simply identifying the poor performers who would have lost their jobs regardless, or CPA is driving the removal of chief executives by making the performance of an organisation more transparent and comparable with others.

71 Assuming authorities that scored poorly when CPA first started in 2002 were also poor performers in the preceding three years, we can compare what happened to their chief executives against better performers, before CPA was a factor. This analysis shows that over the period 1999 to 2001, among authorities that scored a 0 or 1 in 2002, the annual rate at which vacancies arose due to retirements or unemployment was 9 per cent. However, amongst authorities that scored a 3 or 4 in 2002 the annual rate was 6 per cent over this period.

72 Hence, even before the introduction of CPA, weaker-performing authorities experienced higher exit rates due to retirement or unemployment than the better performers. However, as Figure 5 shows, this relationship has become more marked from 2002 onwards as it has strengthened amongst weaker authorities while remaining unchanged in stronger councils.

73 This suggests that while there is an underlying tendency for weak authorities to lose their chief executive, this relationship has become more pronounced following the introduction of CPA. The transparency and comparability provided by CPA has largely driven the processes shown in Figure 5.

Why are more posts being taken up by existing chief executives?

74 The second key component of the change in turnover rate is the increase in job-to-job moves. However, this change has not been uniform across the sector.

75 The growth in recruitment of existing chief executives has been most marked in weaker authorities. Overall, the proportion of vacancies filled by existing chief executives was generally lower in the pre CPA era, and was broadly similar across all levels of performance¹. However, from 2002 onwards a clear difference has developed between the recruitment patterns of the better and poorer performers. Since 2002, 46 per cent of appointments made by authorities with a score of 2 or below were of existing chief executives. In authorities with a 3 or 4 the rate was 32 per cent. This suggests that while the recruitment of existing chief executives has become more widespread across the sector as a whole, it has been particularly marked in weaker authorities.

¹ Amongst authorities that scored a 0 or 1 in 2002, some 27 per cent of vacancies in the period 1999 to 2002 were filled by appointing existing chief executives. Amongst authorities that scored 3 or 4 in 2002 this approach accounted for 24 per cent of vacancies in the same period.

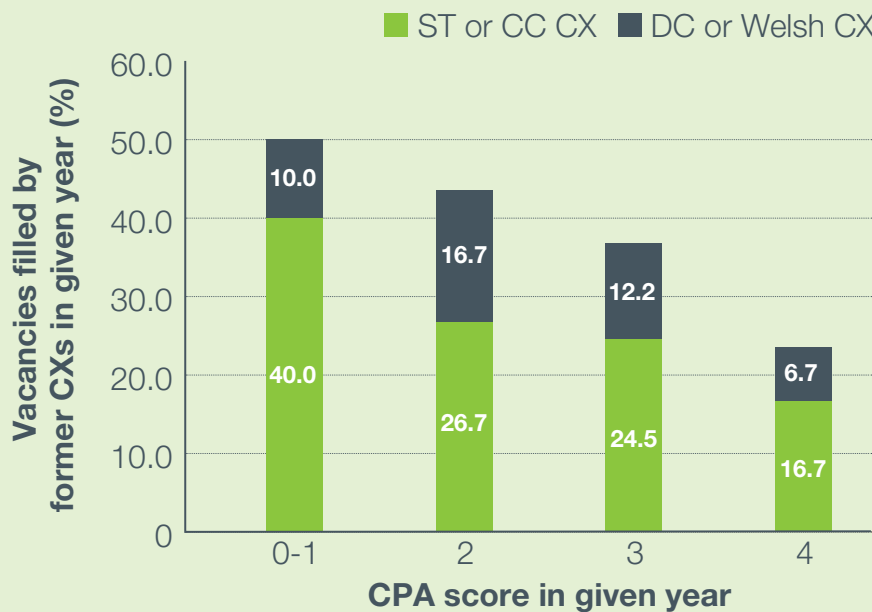
3 The labour market for chief executives

76 Figure 6 demonstrates the relationship between performance, as measured by CPA, and the recruitment of existing chief executives from 2002 onwards in more detail. There is a statistically significant relationship between CPA scores of 2 and

below with the appointment of existing chief executives (see Figure 6)¹. A vacancy in an authority scoring 2 or less is more than twice as likely to be filled by appointing another authority's chief executive as a vacancy in an authority where a 4 has been scored.

Figure 6
Propensity to fill vacancies with existing chief executives by CPA Score, 2002-2007 (ST&CCs only)

The lower an authority's CPA score, the more likely it is to bring in an experienced chief executive.



Source: Audit Commission

¹ One way ANOVA sig=0.036. The relationship is also strong under multivariate modelling.

77 There are a number of possible explanations for the growth in job-to-job moves, particularly in weaker authorities, including:

- a growing reluctance among new candidates to apply for posts in authorities with low CPA scores;
- poor succession planning and development, particularly in weak authorities, leading to a shortage of suitable promotion candidates; and
- weaker authorities seeking to recruit experienced individuals.

78 These arguments are considered below in the light of the statistical evidence in this report.

Posts in weak authorities are unattractive to promotion candidates

79 Recent comments from SOLACE, local authority human resources directors and the professional press suggest that the task of filling vacant chief executive positions is becoming increasingly difficult for a variety of reasons (Refs. 18 and 19).

80 These commentators argue that the position of chief executive has become a relatively unattractive job given the pressures and scrutiny it brings from Whitehall, political leaders and CPA. A 2008 article in the *Municipal Journal* stated that: 'A chief officer in London can certainly be scraping a salary edging into six figures without anything like the aggro and loneliness a chief executive faces, plus the prospect of career and reputation intact. Once an ambitious chief officer puts their head in the noose for the top job, managing the potential risk to their

own brand becomes a serious issue.' (Ref. 6). Similar views were expressed as far back as 2003 when the then head of SOLACE ascribed one authority's failure to attract a chief executive with a record salary offer to the fact that: 'people are not prepared to put their heads into what feels like a noose.' (Ref. 20).

81 Given the increased pressures and responsibilities placed on chief executives the job may be viewed as less attractive in general. The task of turning around the fortunes of a poor-performing authority may be particularly daunting to those seeking their first chief executive job, making new candidates less willing to apply for posts in these authorities.

Poor succession planning and career development

82 Potential new entrants may not be being given the training and development in their current roles that they need in become credible chief executive candidates. They may, therefore, be less convincing in a selection process and less likely to be appointed.

83 New streamlined management structures are argued to have led to fewer posts for aspiring lower tier officers to work their way up to chief executive. In particular, the apparent fall in the use of deputy chief executives has made the gap between chief executive and first tier officers even greater (Ref. 21). Furthermore, the new cabinet system is thought to provide junior managers with less opportunity to work with politicians (Ref. 22).

3 The labour market for chief executives

84 There is also evidence that local government has been ineffective at both developing its own talent and identifying it from elsewhere. In 2006 only 9 per cent of local authorities had succession planning procedures in place, only 13 per cent had systems to fast track talent (compared to 23 per cent in the private sector), and only 17 per cent had a talent attraction plan (39 per cent in the private sector) (Ref. 23). Concerns about developing staff for working with politicians - a key element of a chief executive role - were raised by a SOLACE commission.

‘The commission was united in its concern that most local authorities were doing very little training and development in order to prepare managers and officers better for working in a political environment... even at senior levels established development activities were rare.’

SOLACE (2005), *Managing in a Political Environment: Leadership United* (Ref. 10)

85 It is possible that authorities that are weaker in general, as measured by CPA, may have weaker succession planning and development processes. This could explain the increase in job-to-job appointments by these authorities.

Change in the skills required for chief executives

86 A final line of argument suggests that job-to-job moves have increased due to a change in the nature of demand for chief executives. Principally, that the increased importance of leadership within local government has discouraged employers from recruiting new and untried candidates and has instead focused attention on experienced individuals. The imperative of delivering good CPA scores is a frequently cited factor in the process of selecting a chief executive. Some authorities, especially weaker ones that need to demonstrate improvement, are not prepared to risk untested leaders (Ref. 22).

87 There is some evidence to support all of these theories, and it is likely that they have all played a part in driving the changes in the job market for chief executives. However, the evidence from this research suggests that it is the desire to appoint experienced individuals that provides the best explanation for the increase in job-to-job moves observed since 2002. This accounts for both the concentration of this type of appointment strategy in weaker authorities, and the fact that it is much more prevalent in the CPA era, where poor performance has been more openly measured.

88 Overall, this analysis suggests that for poorly performing authorities, appointing chief executives with CPA experience as part of their strategy to improve performance, has been the most important driver of the increase in job-to-job moves.

4 Implications of increased turnover

89 The labour market for ST&CC chief executives has gone through a series of distinct changes in recent years. Specifically:

- the turnover rate has increased through a combination of more chief executives leaving the job market, and a growing tendency to recruit chief executives from other authorities rather than promoting someone from the level below; and
- individuals with experience at chief executive level have become increasingly prized, largely as a response to CPA.

90 This model raises a number of questions with important implications for the effectiveness of the chief executive role. Principally:

- to what extent has the increase in turnover rate allowed for the attraction of individuals from different backgrounds with new skills and knowledge?;
- what evidence is there that the strategy of changing chief executive is associated with improved performance?; and
- have these trends in any way affected chief executives' salary levels?

Are new types of individuals becoming chief executives?

91 Increased turnover provides an opportunity to recruit new individuals, perhaps from different backgrounds and with new ideas and approaches. It also has the potential to change the demographic mix at chief executive level. This section explores these issues, focusing on sources of recruitment and demographic change.

Sources of recruitment have changed (slightly)

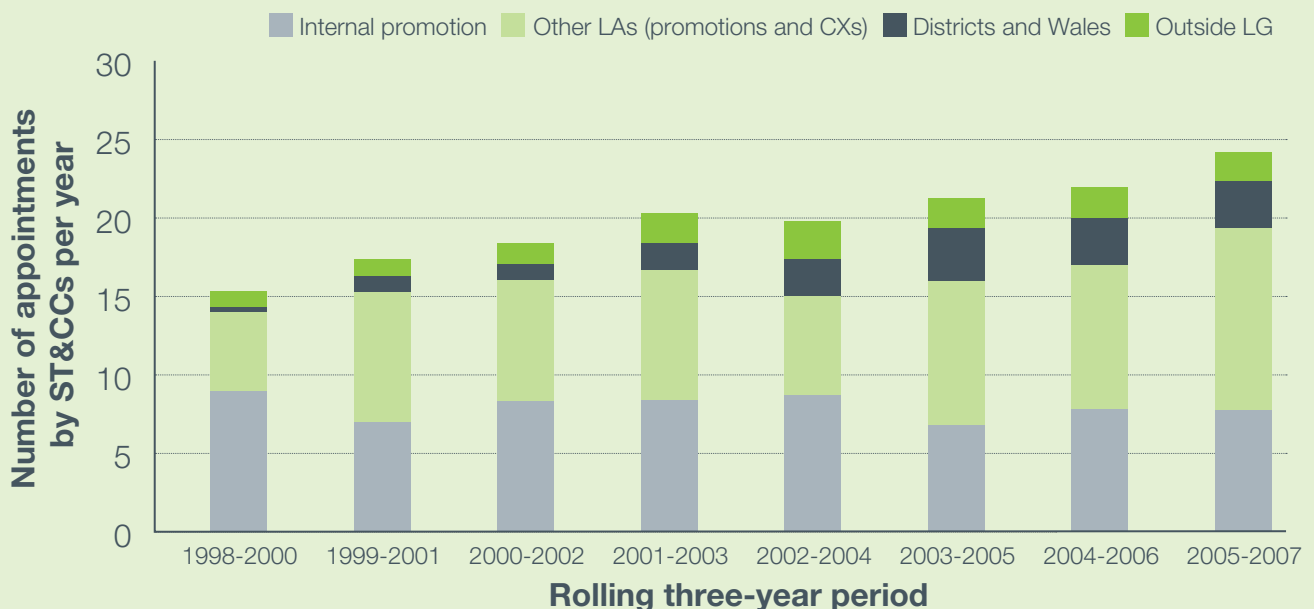
92 Local authorities are still overwhelmingly recruiting from within the local government sector although, as Figure 7 illustrates, they are now more likely to recruit someone from outside their own authority. This is almost exclusively due to the increased rate of recruiting existing chief executives.

93 There has been no change in the numbers of posts which have been filled by promoting staff from other local authorities, or by recruitment from outside local government.

4 Implications of increased turnover

Figure 7
Immediate prior employer of chief executives appointed in given year
(annual average of three-year rolling average)

Appointments from outside a local authority have become more common, but recruitment from outside local government remains low.



Source: Audit Commission

94 Analysis of the data underlying Figure 7 shows that all types of ST&CC authority, with the exception of Metropolitan District Councils (MDCs), have increased their propensity to fill vacancies by recruiting from outside their authority. MDCs have always had a tendency to recruit from outside, and recent changes have simply brought the other types of authority into line.

95 London Borough Councils and county councils have increased the rate at which they recruit from other types of authority. All types of authority, again with the exception of MDCs, are more likely to recruit from district councils.

96 Overall, there is a greater degree of mixing across tiers of local government and between different types of authority in terms of chief executive recruitment.

Demographic change

97 In 2007, 20 per cent of chief executives of all local authorities were women, and fewer than 1 per cent were from BME groups^I. To achieve a demographic mix at chief executive level that is representative of the general population, there needs to be a level of turnover and a broad pool of candidates from which to select at the level below. The situation for women and BME chief executives in all local authorities in England and Wales is analysed in the following sections.

More women are being appointed

98 The level of female employment at senior level across local government has reached the point where there is a large pool of candidates from which to appoint chief executives. Hence, the proportion of female chief executives, whilst still subject to annual fluctuations, has increased from almost none in 1991, to around 20 per cent (see Figure 8). The proportions of women at first tier and all other senior officer levels have also risen and remain higher than that for chief executives. This suggests that the upward trend can be expected to continue as there is an increasing pool of female potential chief executives.

Figure 8
Female employment in English and Welsh local authorities at different officer levels^{II}, 1991 to 2007

More women are being appointed to chief executive.



Source: Analysis and Research LGA 2007

^I This includes ST&CCs and districts in England and Wales.

^{II} 'All other senior officers' includes 2nd, 3rd and some 4th tier officers.

4 Implications of increased turnover

But BME groups remain under-represented

99 The picture is very different for BME chief executives. Fewer than 1 per cent of chief executives are from BME groups and the picture is very variable year-on-year (see Figure 9). As the population of BME chief executives is very small it will continue to be subject to large fluctuations caused by the movements of a few individuals.

100 This low level of representation is related to the relatively small pool of BME officers at

first tier level. When vacancies appear there simply is not a sufficiently large body of BME candidates from which to recruit.

101 There has been growth in the numbers of first tier BME officers since 1998. This has been relatively slow and it is likely to take some time before there are enough BME first tier candidates to sustain a reasonable population of BME chief executives.

Figure 9
Rates of BME employment at chief executive level in English and Welsh local authorities at different officer levels, 1998 to 2007

Despite more posts becoming available each year than in the past, the proportion of BME chief executives has not increased.



Source: Analysis and Research LGA 2007

! 'All other senior officers' includes 2nd, 3rd and some 4th tier officers.

Does recruiting a new chief executive improve performance?

102 The increased turnover rate among weak authorities suggests that new appointments are often made to improve CPA performance. Figure 10 looks for evidence that a change in chief executive is more likely to provide an improvement than retaining an incumbent. Clearly, any impact of a new chief executive will take time to emerge so the analysis compares improvement in CPA scores between authorities that recruited a new chief executive (from any source) in the previous three years, and those that retained their incumbent over this period^I.

103 Figure 10 shows that 18 per cent of authorities that changed their chief executive in the three-year period 2000 to 2002 experienced an improvement in CPA score between 2002 and 2003. A relatively similar proportion (24 per cent) of authorities that retained their chief executive also improved over these two years.

104 Overall, authorities that have changed their chief executive in any three-year period are as likely to have experienced an improvement in CPA score as those that have not. Over the entire CPA period, a change in chief executive in any three-year period has had a 30 per cent chance of producing an improvement in CPA score. Not changing chief executive has had a 29 per cent chance of producing a CPA improvement^{II}.

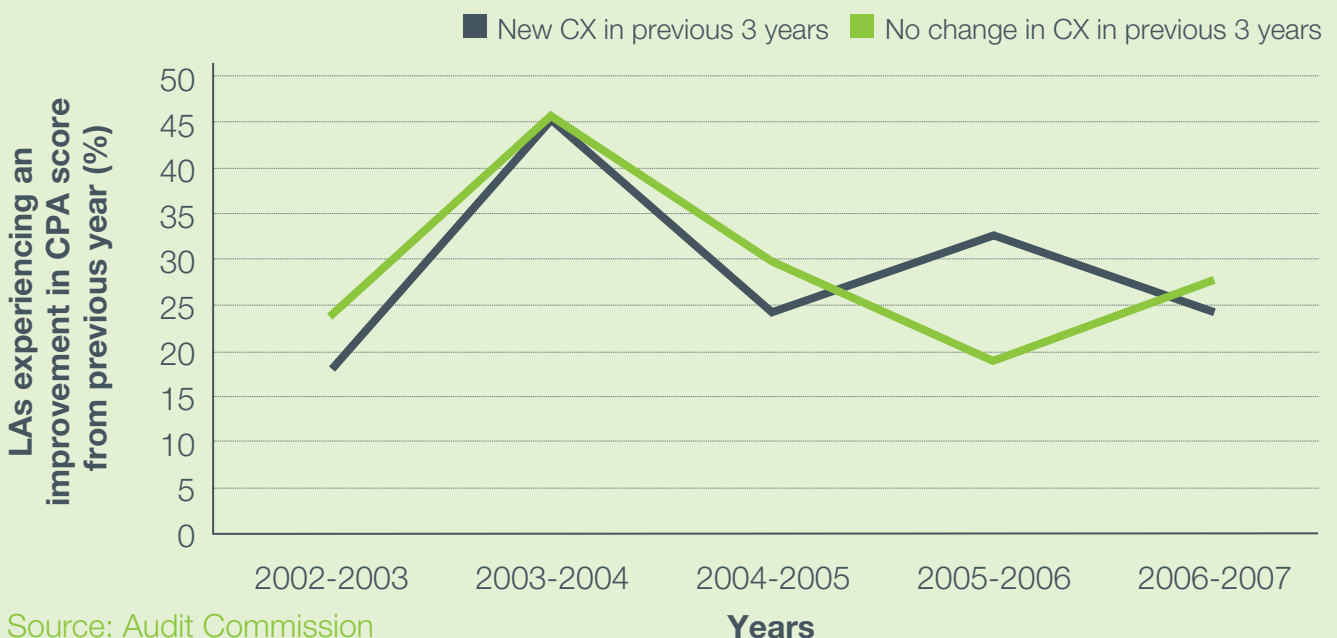
^I As the focus is on improvement in CPA score, only authorities with a score of below 4 at the start of each year were included. For instance, only authorities with a score of 3 or below in 2002 are included in the analysis of improvement rates between 2002 and 2003.

^{II} Analysis of a subset of authorities scoring 0-1 produces similar results.

4 Implications of increased turnover

Figure 10
Chief executive appointments and annual CPA improvement^I

Authorities that have changed their chief executive in any three-year period perform largely in line with those that have retained their incumbent.



105 The similarity in outcomes between appointment and non-appointment suggests that appointing a new chief executive does not have the desired impact on performance improvement. However, this analysis cannot account for what would have happened if a new chief executive had not been appointed. It can be argued that if the leadership had not changed, these authorities would have performed below, rather than in line with, authorities that retained their chief executive.

106 This suggests that whilst not delivering a marked difference in improvement compared to retaining an incumbent, the process of recruiting a new chief executive might be effective in halting decline in weaker authorities. There is some evidence for this in that following any three-year period, authorities that retained their incumbent had 9 per cent chance of experiencing a fall in CPA score. Amongst authorities that appointed a new chief executive the rate was 3 per cent^{II}.

^I Only includes authorities where a three or less has been scored (ie authorities where it is possible to register a CPA improvement).

^{II} This analysis only includes authorities with a score of 2 or less in a given year.

107 Moving from appointments in general to focusing on specific types of appointment also shows little variation in outcome. For instance, amongst all authorities with a score of 3 or below, the appointment of an existing chief executive in any three-year period has a 30 per cent likelihood of an improved CPA score. Filling a vacancy by promoting either internally or from another authority has had a 31 per cent likelihood of generating CPA improvement.

108 For authorities that were rated at 2 star or lower in any given year, the added value of appointing an existing chief executive is even less apparent. In these instances the recruitment of an existing chief executive in any three-year period has a 32 per cent likelihood of leading to an improved score, while filling a vacancy through promotion has a 37 per cent chance.

109 Overall, there is no evidence that appointing an existing chief executive is any more effective at driving CPA improvement than promoting either from within or from outside the local authority.

How has labour market change affected salaries?

110 Labour turnover is an indicator of the relative competitiveness of salary levels. In large, non-specialised labour markets, high turnover rates are associated with uncompetitive wage levels as workers move on rapidly in search of improved remuneration.

111 However, in highly specialised labour markets, such as those for chief executives, it is possible to combine both high turnover and rising salary levels. Markets that operate in this way are often characterised by high pressure to achieve results, and by a scarcity of those willing and able to do the jobs. This leads employers to offer higher salaries, either to attract new employees from other organisations or to give incumbents additional incentives to stay. These approaches can combine to drive salary inflation.

112 The chief executive labour market is not entirely driven by supply and demand. A joint negotiation committee, run by Local Government Employers, agrees annual cost of living increases for chief executives in the sector¹. In general, settlements over the last ten years have been around 3 per cent and this represents an ever-present and sector-wide driver of salary costs. However, the most significant salary drivers are associated with new appointments and salary re-grading, both of which are the outcome of exclusively local processes.

¹ A small number of authorities have opted out of this process, however.

4 Implications of increased turnover

113 Given that this labour market has seen an increase in turnover rates combined with a focus on a particular attribute – experience – it is likely that salary levels will have increased more rapidly. There is certainly a belief both in the public and professional press that this has occurred. The following sections examine these issues.

114 We have compared salary increases and levels for ST&CC chief executives with their counterparts in other public and private sector bodies. However, in interpreting this data it is important to be aware that the nature of the roles and the structure of remuneration packages in other organisations can be very different, making direct comparisons difficult.

115 This analysis is based on anonymised data on chief executives' salaries provided by Analysis and Research, Local Government Association (LGA) from its annual survey of chief executives and chief officers' salaries. Data have been provided for the financial years 1998/99 to 2007/08.

Growth in salaries over time

116 Median basic salaries paid to ST&CC chief executives have grown by 90 per cent from 1998/99 to 2007/08 (see Figure 11). Over the same period, salaries of district council chief executives have increased by 59 per cent. The salaries of first tier local authority officers in ST&CCs have grown by 75 per cent¹.

¹ This data is not included in Figure 11. Part of this growth may result from changes in the nature of the posts as chief officers have moved from having responsibility for a single function to several.

117 Comparisons with the senior post in other public sector bodies show some marked differences. Comparable data for other local bodies is only available up until 2006/07. Over the period 1998/99 to 2006/07, when ST&CC chief executives' median salary grew by 81 per cent, their counterparts in NHS hospital trusts experienced growth of 72 per cent. Chief executives of registered

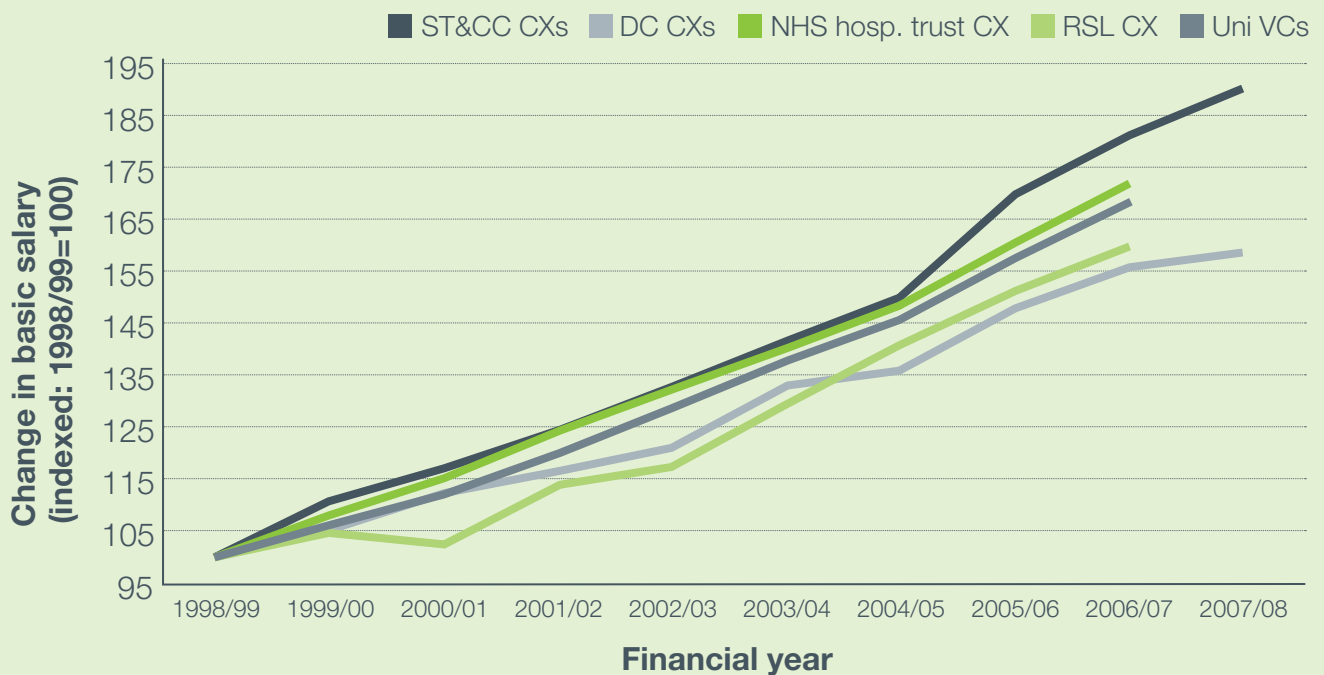
social landlords saw salary growth of 60 per cent over the same period, while university vice chancellors' salaries saw a 69 per cent increase.

118 It is clear from Figure 11 that the growth in ST&CC chief executive salaries has accelerated somewhat since 2003/04. Over the five year period 2003/4 to

Figure 11

Change in basic salary for ST&CC chief executives and comparator posts, 1998-2007

Salaries for ST&CC chief executives have grown more rapidly than their public service counterparts, particularly since 2003.



Source: Analysis and Research LGA, Income Data Services, Times Higher Education Supplement, Social Housing

4 Implications of increased turnover

2007/08, their salaries increased by 34 per cent. First tier officers have experienced growth of 26 per cent over the same period, while district council chief executives saw a rise of 19 per cent.

119 Over the five year period 2002/03 to 2006/07, when ST&CC chief executives saw growth in basic salaries of 37 per cent, salaries of hospital trust chief executives grew by 30.5 per cent, registered social landlords by 35.5 per cent and university vice chancellors by 31 per cent.

120 Comparisons with private sector, profit-making bodies are hard to make given the different nature of the roles and the context in which the organisations operate. However, for illustration, comparisons have been made with the salaries of FTSE 250 chief executives - the chief executives of the 101st to 350th largest companies listed on the London Stock Exchange. These companies are comparable in that they may have similar turnover or staff numbers to ST&CCs.

121 Growth in basic salaries at chief executive level across all these public sector bodies has been much higher in this period than among FTSE 250 companies. The basic salaries in these companies have only grown by 16 per cent in the period 2002/03 to 2006/07.

122 This slow rate of growth in basic pay is the outcome of an ongoing change in the pattern of remuneration for chief executives in the private sector, where performance-related additional pay has become substantially more important. From 2002/03 to 2006/07, the low increase in basic salary for FTSE 250 chief executives was offset by a large increase of 179 per cent in additional pay. As a result, total salary increased by 78 per cent – more than twice the rate of increase received by any of the public sector comparators.

123 Chief executives of ST&CC authorities have seen salary rises in excess of their counterparts in local hospital trusts, universities and registered social landlords since 2003. Over this period, growth in total chief executive salaries in the private sector has been much greater than that of most local public sector bodies.

Level of salary

124 Table 1 demonstrates that ST&CC local authority chief executives are paid more than their opposite numbers in NHS hospital trusts and registered social landlords. However, they are paid less than university vice chancellors. They are also paid significantly less than their counterparts in similarly sized private sector organisations.

Table 1
Median basic salaries of chief executives of major local public and private sector bodies, 2006/07

Institution	Median basic salary
English ST&CC Authorities	£143,300 ^I
English District Councils	£95,700
Hospital Trusts (UK)	£132,500
Universities (UK)	£177,000
Registered Social Landlords (England)	£125,800
FTSE 250	£400,000 ^{II}

Source: Analysis and Research LGA, Income Data Services, Times Higher Education Supplement, Social Housing

125 Comparisons with chief executives in major public corporations illustrate the large differences between the public and private sectors - both in terms of the absolute values of the remuneration packages, but also in the way their packages are structured. Chief executives of FTSE 250 firms receive a much higher proportion of their pay in the form of bonuses linked to performance. In addition to the median basic pay of £400,000, FTSE 250 chief executives received median additional payments of £586,000. This represents 59 per cent of their total pay. In contrast, evidence from the Analysis and Research

LGA survey suggests that additional pay for ST&CC chief executives was substantially below this figure^{III}.

Why have salaries increased?

126 Unpacking the factors underlying the increase in salaries in the last five years is a complex process. However, there appear to be a number of factors involved including:

- higher turnover rates;
- increased competition for experienced candidates; and
- pay reviews.

^I The median salary for local authority chief executives for 2007/08 was £150,000.

^{II} This does not include median bonus payments of £586,000.

^{III} The survey indicates that additional pay accounts for 2.7 per cent of the total pay of ST&CC chief executives. However, data on local authority chief executives' additional salaries is patchy and should be used advisedly. This figure is based on 54 responses to the 2007 Analysis and Research, LGA survey. Pension contributions are excluded from these figures.

4 Implications of increased turnover

Higher turnover rates and increased competition for candidates

127 Higher turnover rates mean more new appointments each year. Each time an appointment is made there is an opportunity to adjust the pay for that post. Compared to retaining an incumbent, appointing a new employee can cost more or less. This will depend largely on the appointee's previous salary, which is usually a reflection of their experience and status. However, incumbents are periodically subject to salary review, and these reviews are influenced by the salaries on offer in the marketplace. Consequently, the true cost of a new appointment compared to retaining an existing employee can only be judged over the medium term, rather than simply in the year in which an appointment is made.

128 To reflect this, Figure 12 looks at the costs of different appointment strategies, relative to retaining an incumbent over two four year periods: 1999 to 2002 and 2003 to 2006^I.

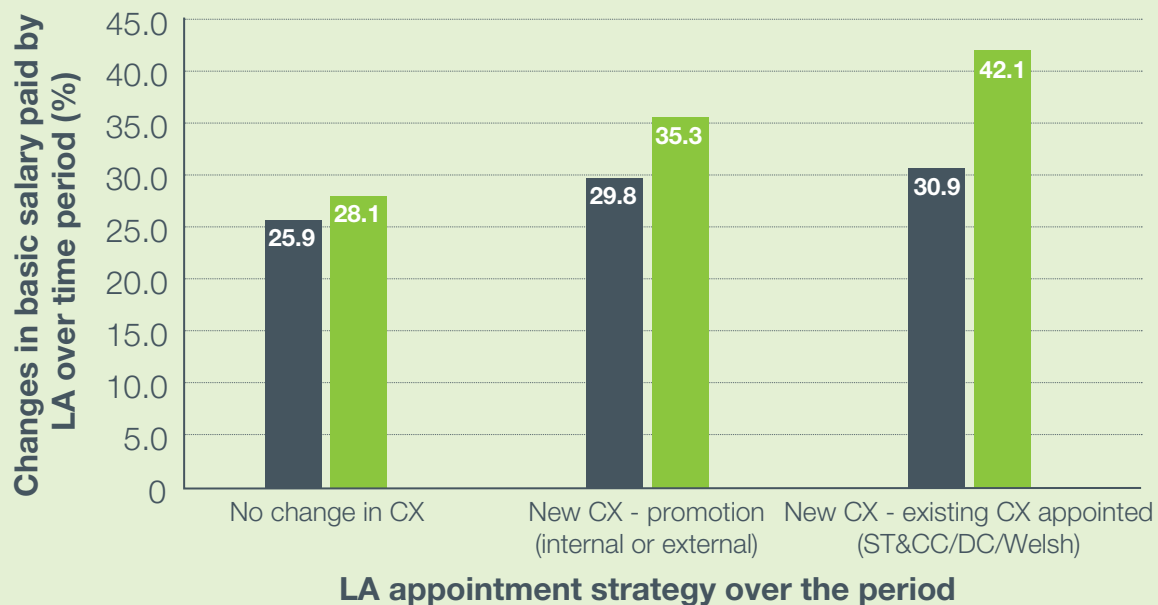
129 This analysis shows that an appointment of any kind is a more expensive option than retaining an incumbent. In authorities that did not change their chief executive in the four years from 2003 to 2006, salaries increased by 28 per cent. However, authorities that appointed a chief executive either via promotion or by hiring an existing chief executive saw salary increases of 35 and 42 per cent respectively^{II}.

^I Appointments in the two periods 1999 to 2002 and 2003 to 2006 are examined in relation to salary costs on 1 April 2000 and 2003 and 1 April 2004 and 2007 respectively.

^{II} These difference are statistically significant at the 5 per cent level- one way ANOVA, sig=0.028.

Figure 12
Change in basic salary by LA appointment strategy^I between 1999 to 2002, and 2003 to 2006

Over the medium term, appointing a new chief executive has always been more expensive than retaining an incumbent. But new appointments have become relatively more expensive, especially when former chief executives are appointed. ■ 1999-2002 ■ 2003-2006



Source: Audit Commission analysis of Analysis and Research, LGA data

130 The increase in turnover rates means that more authorities have incurred the higher salary costs associated with new appointments. Authorities have also increasingly opted for the most expensive recruitment strategy of appointing an existing chief executive.

131 A final inflationary driver shown in Figure 12 is that not only is turnover likely to generate

increased salary costs, but that these costs are relatively greater than in previous years. Authorities filling a chief executive vacancy by appointing an existing chief executive in the period 1999 to 2002 will have experienced a median salary cost increase of 31 per cent over this period. But the same strategy in the second period has given rise to salary increases of 42 per cent^{II}.

^I Where an authority has made multiple appointments in a given time period then the most recent appointment only is included.

^{II} In 2007 the median salary for chief executives that had been in post since 2003 and had been promoted into post was £149,639, while for those who had been appointed from an existing chief executive role at another ST&CC as £169,999.

4 Implications of increased turnover

Pay reviews

132 There are clearly inflationary pressures for individual authorities when hiring new chief executives. However, these individual decisions also have an effect across the sector as a whole, as they increase the mean and median comparator figures used by all authorities to set salaries. This then influences the salary review process for chief executives that have remained in post.

133 Salary review is likely to have most effect in low-paying authorities where salary levels have fallen behind their counterparts. Since 2003/04 salary growth has been most rapid amongst the authorities paying the lowest salaries. The lower quartile boundary¹ has grown roughly 10 per cent faster than the upper quartile boundary since 2003/04. As a result, pay disparities across ST&CC chief executives have reduced over this period.

Link between CPA performance and pay

134 Given the increased focus on performance, and the introduction of CPA as a measure of local authority performance, it is worth examining whether the salary increases since 2003 have been influenced by the improvements in CPA scores over this period.

135 Figure 13 presents indexed growth in median salary levels from 2003/04 to 2007/08 for ST&CC authorities broken into four types based on their CPA performance across the entire CPA period. These groups are:

- always strong - started with a 3 or 4 and have had multiple 4s;
- steady performers - started with a 3 or 4 but have never had more than one 4;
- always weak - started with a 0-2 and have improved by no more than 1 over the whole period; or
- fast improvers - started with a 0-2 and have improved by 2 or more over the whole period.

136 Figure 13 shows that there is little difference in the growth rate of salaries paid by authorities with differing levels of performance.

¹ Authorities falling below the lower quartile boundary represent the 25 per cent of authorities with the lowest CX salary levels in any given year. Those above the upper quartile boundary contain the 25 per cent with the highest salaries.

Figure 13
Median basic salary for ST&CC chief executives compared by
CPA performance group^I, 2003 to 2007

By 2007 the levels of basic pay do not appear to be related to the CPA performance of local authorities although there were variations in the early years.



Source: Audit Commission analysis of Analysis and Research, LGA data

137 The lack of a relationship is perhaps unsurprising for two reasons.

138 First, this analysis uses basic pay. Some authorities may be using additional pay as the mechanism to reward their chief executives for performance achieved. Current data on additional pay are too partial for this analysis.

139 Second, it is too simplistic to expect there to be a direct relationship between pay and performance in any given year owing to the turnover of chief executives. Many individuals will have been in post for only a short period^{II} and their salary will reflect their employer's expectations of what they will contribute in the future rather than the performance of the authority before their appointment.

^I Median salaries. Indexed: 2002=100.

^{II} On average, in each year from 2002 to 2007 40 per cent of chief executives had been in post for three years or less.

4 Implications of increased turnover

140 This is shown in the data for 2004 and 2005 in Figure 13 where authorities that had performed the worst in the first year of CPA saw the fastest rates of salary growth. This was driven by the fact that in response to their poor scores many of these authorities adopted the relatively expensive strategy of changing their chief executive, frequently for an existing chief executive. In contrast, more successful authorities retained their chief executives and consequently experienced lower salary growth.

141 As a result, the median salary increase from 2003 to 2005 for 'always weak' and 'fast improving' authorities, all of which had scored 0 to 2 in 2002, was 24 per cent. In contrast, 'always strong' and 'steady performers', all of which had scored 3 or more in 2002, saw increases in median salaries of 18 and 16 per cent respectively.

142 These early differences have evened out to a degree as the stronger-performing authorities have either changed chief executive over the longer term or have re-graded salaries to catch up with those in weaker authorities.

5 | Conclusions

143 This report set out three propositions drawn from the various debates surrounding the position of local authority chief executive. These were that:

- turnover rates have increased because the job is more pressured;
- recruitment sources have changed as the nature of the job has changed; and
- salaries have increased due to increased competition for candidates.

144 The following sections present the conclusions on each of these issues.

An increase in turnover rates

145 Turnover rates for ST&CC chief executives have increased to above the level of the public sector as a whole. They have been driven on the one hand by an increase in the rate at which incumbents are either retiring or having their employment terminated, and on the other by a marked increase in the propensity of employers to fill vacancies by appointing existing chief executives.

146 This latter process is the most marked development in this labour market since 1998. It suggests that experience is viewed as increasingly important by employers as a driver of improvement.

147 CPA is associated with both of these processes. Poor scoring authorities are more likely to lose their chief executive to retirement or termination of employment and are more likely to recruit an existing chief executive.

148 The impact of CPA has been relatively strongest in terms of promoting job-to-job moves, rather than in increasing retirements or terminations. This indicates that it has played a more significant role in shaping the recruitment strategies of authorities once a vacancy has occurred, rather than in encouraging them to part with their incumbent chief executive in the first place.

149 The impact of CPA has therefore been relatively small in terms of the total number of chief executives affected, but given the small size of the labour market it has had a noticeable effect on the turnover rate.

A change in sources of recruitment

150 Chief executives continue to be recruited almost exclusively from within local government. However, the focus on recruiting existing chief executives means that authorities are now relatively more likely to appoint from outside their authority. This has generated an overall increase in movement rates between district councils and ST&CCs, and between different types of ST&CC authority.

151 However, the general focus of recruitment strategies appears to be on identifying experienced individuals with a CPA track record.

5 | Conclusions

152 There is no statistical evidence that former chief executives are any more effective than first tier officers promoted into the role at delivering improved performance as measured by CPA.

153 The representation of women at chief executive level continues to improve across all authority types. This reflects growth across all other senior officer tiers which has created a large pool of potential candidates. Ongoing growth in the number of female senior officers suggests that the number of female chief executives will also continue to increase.

154 BME groups are largely absent at chief executive level. This is a result of a very limited presence at first tier officer level which provides most of the new entrants to the chief executive group. Slow growth in BME representation at first tier officer level suggests that the presence of BME groups at chief executive level is likely to remain low for some years to come.

An increase in salary levels

155 Basic salary levels for ST&CC chief executives have increased since 2003 at above the level of their counterparts in organisations such as universities, hospital trusts and registered social landlords.

156 Salary growth since 2003 has been driven by a number of factors. First, making an appointment is more expensive over the medium term than retaining an incumbent in this labour market. Hence, an increase in turnover rates has increased salary costs across the sector. Second, authorities are increasingly adopting the most expensive appointment option, appointing an existing chief executive. Thirdly, not only is appointment more expensive than retaining the incumbent, but it has become more so as higher turnover rates and an increased focus on existing chief executives have raised the market value of suitable candidates.

157 Salary growth has also been driven by the ongoing processes of salary review. Salary reviews provide opportunities for the inflationary impacts of appointment strategies to be passed into the chief executive salaries of authorities that have retained their incumbents.

158 Across the sector as a whole, the largest contributor to salary growth has been the lowest-paying authorities raising salaries to levels closer to those of other authorities.

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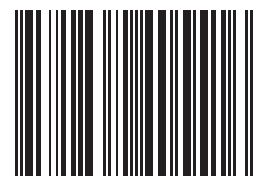
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