



Committee report

Committee	FULL COUNCIL
Date	2 SEPTEMBER 2015
Title	APPOINTMENT OF MANAGING DIRECTOR
Report of	HEAD OF HUMAN RESOURCES

EXECUTIVE SUMMARY

1. Employment Committee at its meeting of 17 August 2015 considered a number of options with regards to the future appointment to the post of managing director. In doing so, members of the Employment Committee have proposed recommendations. Full Council is asked to consider those recommendations for ratification.

BACKGROUND INFORMATION

2. Employment Committee, at its meeting of 23 February 2015, received two reports relating to proposals for the future senior management structure and appointment of the managing director (which incorporates the statutory role of head of paid service). These were specifically aligned to the delivery of the council's vision, priorities and budget strategy and to be responsive to the changing needs of the council in moving to a new business operating model, while maintaining sufficient expertise and stability in leadership through an extremely challenging period of on-going local government reform. These proposals, subject to a six month mid-way report to review progress and consider the arrangements for an appointment to the substantive post of managing director beyond 31 March 2016 were agreed by Employment Committee and ratified by Full Council at its meeting on 1 April 2015.
3. The mid-way report was scheduled to be tabled at the September 2015 meeting of the Employment Committee with a recommended approach going to Full Council in October. However, it was considered that if there was an intention to go out to external recruitment, this should be undertaken as soon as possible so as to avoid any delay. A special meeting of the Employment Committee was therefore arranged for 17 August 2015, where members received an officer report which provided options for members to consider in relation to the appointment to the post of managing director.
4. Members were provided with four main options open to them for consideration which included:

- Option 1: explore the potential for a combined managing director role
- Option 2: appoint an internal candidate
- Option 3: undertake a recruitment campaign
- Option 4: defer making an appointment and review once the financial landscape and future direction is better understood

5. For each of the options set out above, members were provided with details of their anticipated benefits and potential disadvantages. Underpinning these options were the following specific points for consideration and which will affect the ability for the council to attract candidates to the position.

a) The council's financial position

The council has a projected budget gap of £23 million over the two years 2015/15 and 2016/17 with very significant savings to be made. In the current financial year, there is already a forecast for overspending of some £3.3 million, resulting in further in-year savings being required. The chancellor's budget speech determined that the total savings nationally over the life of the Parliament will be some £37 billion with some £20 billion to be announced in the autumn in the comprehensive spending review. It is likely that local authority services will again feel the brunt of the savings required. The reduction in government grants the council receives in 2016/17 could therefore be more than the £3.2 million currently forecast. It is inevitable that there will also be further grant reductions in 2017/18 and beyond. This will add significant pressure to the delivery of the council's already extremely challenging budget strategy and we will have great difficulty in delivering a balanced budget for 2016/17. The budget review paper also being tabled to Full Council on 2 September 2015 will highlight the severity of the unstable financial situation the council faces, despite all the action taken to reduce spending and implement savings. With such a severe financial situation in mind, this would not necessarily be an attractive career option for any prospective candidate.

b) Devolution/combination

The council is also engaged in discussions with Hampshire, Portsmouth and Southampton local authorities for a potential devolution deal which could see the introduction of a combined authority for certain functions. Through these discussions continue to push the case for the Island to get a better deal through devolution and combination. Locally, these discussions are still in very early stages of consideration as to the potential benefits this route may bring and in particular whether it will assist the Isle of Wight in its budget challenges. It is imperative that the Island continues to afford due consideration to the potential of this option in seeking to secure future sustainability of the local authority and the Island whilst also being mindful of how this might affect the future senior management requirements of the council.

c) Political environment

Locally, the council's political environment is fragile whilst remaining in a position of no overall control. At a time when the future sustainability of the council is at threat due to the ever worsening financial climate and drive by central government to target local government as the source for achieving significant savings means that there are some serious and difficult decisions to be taken which will add significant pressure on the democratic decision making process for the council. Leading such discussions will be challenging and likely to strain member/officer relations. This in itself may present a barrier for any potential candidate.

d) Senior management pay

(i) The council has set out its intention to keep its senior management salaries as low as possible in the current financial climate. In practice this means that there should be a maximum basic salary of no more than £100,000 which is well below the market rate. The current full time equivalent salary level for the managing director is £99,606 although this has now increased to £102,638 as a result of the national pay award and job evaluation exercise. To instigate a recruitment campaign, whilst there has been an overall reduction of around 11 per cent in chief executive/managing director salaries across the board in recent years, market research with recruitment agencies indicates that it would be necessary as a small unitary authority to offer a minimum salary of around £125,000 plus on costs and it may also be necessary to offer a salary that is much more competitive in order to attract suitable candidates. Increasing the salary of the managing director role will also provide a disproportionate step difference between this and other chief officer posts within the senior management team and the council's pay framework as a whole.

(ii) To undertake a recruitment campaign for the most senior officer position within the council will require the engagement of an external recruitment agency to undertake the necessary search and select activities. The costs associated with such a recruitment campaign will be in the region of £15,000 to £20,000. The appointment of an external candidate may also require re-location expenses to be provided of up to £8,000. There is no current budget provision for any of these additional costs.

6. While considering each of the options, members were also made aware that the current managing director and head of paid service has indicated that he does not wish to continue as Managing Director beyond 31 March 2016.

7. The head of finance and section 151 officer is also due to retire on 30 September 2015. The current managing director has offered to step down from his position early if this provides opportunity to facilitate an early resolution to the issues at hand through appointment of an internal candidate and would be willing to undertake the head of finance and section 151 officer

role to provide the council with the necessary leadership support to conclude budget preparations for 2016/17 and would put in place the necessary arrangements for the longer term management of the finance function and section 151 officer arrangements. It has been acknowledged by members that he has been instrumental in taking the council through local government reform over the last five years, based on his credible and extensive experience as director of finance and latterly as managing director. However, understandably, this offer will not be open to the council should an external appointment be made and the council will be faced with the need to secure interim arrangements. This will then require a further decision of Full Council for the designation of a section 151 officer.

8. A majority of members, after full consideration of each of the options made available to them concluded that:
 - a) a replacement to the existing post of managing director (to be renamed chief executive) should be agreed and a recruitment campaign be initiated as soon as possible;
 - b) a politically proportionate employment sub-committee be established to manage the formal appointment process, consisting of the Leader, Deputy Leader and the other members of the Employment Committee;
 - c) a minimum salary of £125,000 for the post be agreed and that Full Council determine where the resultant savings are to be secured or accept that the additional costs incurred by this decision will add to the existing budget gap.
9. Upon ratification of these recommendations, the current managing director has indicated that he will tender his resignation from his employment and provide three months' notice to allow for a new appointment to be made with effect from 1 January 2016.

STRATEGIC CONTEXT

10. The senior management structure of the council needs to reflect what is affordable while securing and retaining the highest possible calibre individuals necessary to provide strong strategic leadership in the delivery of the council's priorities as well as the stability necessary for the workforce as we move through a worsening financial situation and fragile political operating environment which may necessitate a change in direction for the future sustainability of the council and successful delivery of all its stated corporate priorities.

FINANCIAL / BUDGET IMPLICATIONS

11. The salary level for the current managing director was £99,606 but from 1 July 2015 as a result of the pay award and implementation of the council's new pay framework as an outcome of the job evaluation project it is £102,638 (with on-costs this equates to £138,126).

12. On the basis of the proposed minimum salary level of £125,000 (with on-costs this equates to £168,750) which will incur an additional recurring full year cost to the council of £30,624. In addition there are the one off costs of the recruitment campaign itself, which will be in the region of £15,000 to £20,000, plus up to £8,000 for any relocation costs incurred by the successful candidate. The appointment of an external candidate will therefore incur up to a total of £28,000 one-off additional costs to conduct a recruitment campaign.

LEGAL IMPLICATIONS

13. The terms of reference of the Employment Committee makes provision for the following:
- Arranging for the appointment of the council's head of paid service and to make recommendations to the Full Council in this respect.
 - Making recommendations to Full Council in respect of the appointment of the head of paid service, the monitoring officer and section 151 officer.
 - Taking decisions affecting the remuneration, terms and conditions of service of the head of paid service.
 - Agreeing the recruitment to all posts at chief officer level or above. In the event of such agreement being given the committee can establish a politically proportionate sub-committee of five members, quorum of three, to make appointments to all such posts. The membership of this sub-committee may be taken from outside the membership of the Employment Committee.
14. Any proposal to increase the council's budget as a result of proposed changes to the remuneration of the post of managing director needs to be referred to Full Council by way of recommendation.
15. Part 1, section 4 of the Local Government and Housing Act 1989 sets out the duty of the council to designate an officer as the head of paid service and it is usual for the council to designate this statutory function to the managing director. Under the council's constitution, this appointment can only be made by Full Council.
16. Section 6 of the same legislation also sets out the requirement to make arrangements for the proper administration of the local authority's financial affairs and to ensure that an officer who is appropriately qualified is responsible for the administration of those affairs. This is commonly known as the Section 151 Officer and again this is an appointment that can only be made by Full Council.

EQUALITY AND DIVERSITY

17. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination,

promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The options presented within this report therefore are not considered to present a breach to the statutory duty.

RISK MANAGEMENT

18. The council is required to appoint a head of paid Service and the current and proposed options presented to Employment Committee made provision for this to be dealt with in the appointment to the post of managing director.
19. The corporate peer review action plan, approved by Full Council on 17 September 2014, identified the need for the council to make sure that there were appropriate succession plans in place at senior officer level. The current managing director in responding to that agreed action and with approval from Employment Committee and ratified by Full Council on 1 April 2015 put in place an option for members to secure an internal appointment, subject to satisfactory progress. In the managing director's view, there has been no evidence to suggest that this arrangement has been anything other than successful to date and it presents an option to the council that would allow for stability in leadership through an on-going difficult period within local government and the Isle of Wight. As well as not incurring any additional costs to the council, it would also have provided members with further potential savings to be made within the senior management structure.
20. However, in making the recommendation to initiate an external recruitment campaign it allows for the market to be tested and demonstrates that there has been a credible and robust selection process undertaken to secure an appointment. The main risk with this option is that it will incur significant additional costs to the council at a time when the financial viability of the council is in question and may not result in a suitable candidate being selected, despite the process instigated. This would then necessitate a further recruitment campaign to be undertaken with additional costs being incurred and/or other interim arrangements being necessary to put in place. The council is also required to appoint a section 151 officer and may be left in a position of needing to secure alternative arrangements for such an appointment beyond December 2015.

EVALUATION

21. Employment Committee has considered a range of options for determining the way forward for an appointment to be made to the role of managing director. As a result of these deliberations, and taking into account the associated risks with each of those options, it is making a series of recommendations to Full Council.

22. RECOMMENDATIONS

The recommendations of Employment Committee for Full Council consideration are that:

- a) a replacement to the existing post of managing director (to be renamed chief executive) should be agreed and a recruitment campaign be initiated as soon as possible;
- b) a politically proportionate employment sub-committee be established to manage the formal appointment process, consisting of the Leader, Deputy Leader and the other members of the Employment Committee;
- c) a minimum salary of £125,000 for the post be agreed and that Full Council determine where the resultant savings are to be secured or accept that the additional costs incurred by this decision will add to the existing budget gap.

LINKS TO EARLIER REPORTS

Employment Committee 17 August – Paper B: Appointment of Managing Director
<https://www.iwight.com/Meetings/committees/Employment%20Committee/17-8-15/Paper%20B.pdf>

Full Council 1 April 2015 – Paper C: Senior Management Structure and Appointment to Statutory Posts
<https://www.iwight.com/Meetings/committees/mod-council/1-4-15/Paper%20C.pdf>

Full Council 1 April 2015 – Minutes of the Meeting
<https://www.iwight.com/Meetings/committees/mod-council/1-4-15/minutes.pdf>

Employment Committee 23 February 2015 - Paper G: Appointment of Head of Paid Service
<https://www.iwight.com/Meetings/committees/Employment%20Committee/23-2-15/Paper%20G.pdf>

Employment Committee 23 February 2015 – Minutes of the Meeting
<https://www.iwight.com/Meetings/committees/Employment%20Committee/23-2-15/minutes.pdf>

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