

REPORT 5

**REMUNERATION OF EXTERNAL APPOINTMENTS TO THE
BOARDS OF COUNCIL CONTROLLED ORGANISATIONS,
COUNCIL ORGANISATIONS AND EXTERNAL APPOINTMENTS
TO COUNCIL SUBCOMMITTEES**

1. Purpose of report

This report outlines the outcome of a review of the remuneration of trustees and directors* of Council Controlled Organisations (CCOs), certain Council Organisations (COs), and external appointments to Council subcommittees. It recommends changes to current levels of remuneration.

In addition, this report fulfils the requirement to report back to the Council at the commencement of the 2013/16 triennium on whether Council elected member appointments to Council Organisations should be permitted to receive director or trustee fees.

* Note that a reference to directors in this report should be read as a reference to directors and trustees.

2. Executive summary

The Council's Policy on the Appointment and Remuneration of Directors and Trustees for Council Organisations (Appointments and Remuneration Policy) requires the Council to review the remuneration of CCO directors at the start of each triennium.

An independent review by the Institute of Directors (IoD) of the remuneration paid to trustees and directors appointed to CCO and certain CO boards, and to external appointments to Council subcommittees has been commissioned. This review forms the basis of the recommendations included in this report.

The IoD report recommends increasing the remuneration of directors and trustees on CCO boards to reflect the current market environment for board appointments. The report also recommends that the remuneration paid to external appointments to Council subcommittees should not be increased from the current level.

To reflect the economic environment, officers have recommended remuneration increases at a lower level than those suggested by the IoD. The majority of these reflect the annual change in median director remuneration over the past three years.

In November 2012, the Council resolved to amend the Appointments and Remuneration Policy so that elected members appointed to CCO boards would not be remunerated in addition to their Council remuneration, with effect from the new triennium.

As a result, officers recommend that the Appointments Policy should be updated so that elected member appointments to CO boards are not entitled to remuneration in addition to their Council remuneration. This would bring any elected member appointments to the boards of Stadium, Zealandia or the Airport (where applicable) into alignment with the position for elected member appointments to CCO boards. Any board fees that the Council Organisation would have otherwise paid to the elected member will instead become payable to the Council.

3. Recommendations

Officers recommend that the Council:

1. *Receive the information.*
2. *Agree that the fees payable to chairpersons, directors and trustees of Council Controlled Organisations, Wellington Regional Stadium Trust and Zealandia be changed as set out in bold in the table below, from 1 January 2014:*

Organisation	IoD Recc for Director	Proposed		Current	
		Director	Chair	Director	Chair
Capacity	\$24,000 - 25,000	\$20,000	\$40,000	\$15,000	\$30,000
PWT	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
PWV	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Cable Car	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Museums Trust	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Waterfront	\$25,000	\$19,200	\$38,000	\$19,200	\$38,000
Zoo	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Stadium	\$22,000 - 25,000	\$19,000	\$38,000	\$18,000	\$36,000
Zealandia	\$15,000	\$13,000	\$26,000	\$13,000	\$26,000

3. *Note that any recommended change in fees for the Capacity Infrastructure Services Limited board is subject to the approval of Hutt City Council, Upper Hutt City Council and Porirua City Council.*
4. *Note that any recommended change in fees for the Wellington Regional Stadium Trust board is subject to the approval of Greater Wellington Regional Council.*
5. *Note that the Karori Sanctuary Trust Guardians have agreed to the recommended honorarium for Zealandia trustees.*

6. *Agree that the fees payable to the external appointees to the Audit and Risk Subcommittee be kept constant as set out in bold in the table below, for the 2013-16 triennium:*

Subcommittee	IoD Recc for Member	Proposed		Current	
		Member*	Chair*	Member*	Chair*
Audit and Risk	\$10,000	\$10,000	\$20,000	\$10,000	\$20,000

* Only applies for external member appointments.

7. *Note that, under the Council's Appointments and Remuneration Policy, elected members appointed to the boards of Council Controlled Organisations will not receive remuneration with respect to those appointments.*
8. *Agree that elected members appointed to the boards of Council Organisations, including the Wellington Regional Stadium Trust, Zealandia, and Wellington International Airport Limited (where applicable), will not receive remuneration with respect to those appointments.*
9. *Note that any remuneration that otherwise would have been paid to elected members on a Council Organisation board will be paid directly to the Council and included in the relevant grant fund.*
10. *Agree to update the Appointments and Remuneration Policy to reflect that elected member appointments to Council Organisation boards should not be entitled to additional remuneration, to ensure alignment with elected member appointments to Council Controlled Organisation boards.*
11. *Note that Council Controlled Organisations and Council Organisations are expected to fund their own trustee and director fees.*
12. *Note that the Council is responsible for paying the fees of the external members of its subcommittees.*

4. Background

Under the Council's Appointments and Remuneration Policy, the Council needs to review the CCO board director and trustee fees every three years (at the start of each triennium). The Institute of Directors has independently reviewed the Council's fees relative to the market and provided a recommended range of fees based on suitable comparisons.

In line with the Appointments and Remuneration Policy, the Council must consider the following factors when setting director/trustee fees:

- The need to attract and retain appropriately qualified people to be directors of its CCO boards;
- The external market for directors' remuneration, including the levels and movement in comparable organisations;

- The objectives of the CCO, particularly whether it is a charitable trust; and
- The financial situation of the CCO.

There is an obvious “community service” element to an appointment on a CCO board that the officer fee recommendations try to take into account. However, the IoD report also notes that the pressure on directors is particularly high in the current climate with an emphasis on financial accountability and a high level of director responsibility for issues such as health and safety. There is, therefore, a trade-off between acknowledging the element of community service in our director roles and ensuring we can attract and retain a high calibre of applicants wishing to undertake these roles.

Historically, the Council’s remuneration levels have been set towards the lower quartile of the market. All of our current director fees sit in the lower or lower to median quartile relative to comparable organisations. Board chairs have historically been paid twice the director fee to reflect the greater work level involved with that role. Looking at Chair fees, those for Museums Trust, Stadium Trust and Zoo Trust currently sit at the median quartile and the others are all in the lower or lower to median quartile relative to comparable organisations.

In general, director fees paid by Wellington City Council are typically lower, sometimes significantly, than CCO director fees paid in Auckland and Christchurch. Any increase in director and trustee fees has been funded in the past by the CCO directly from its operating budget.

It is worth noting that, should the Council consider a restructuring proposal in relation to any of the CCOs referred to in this report, the Council will have the ability (if necessary) to revisit the appropriate level of director fees for the board. In particular, should the Council agree to future governance changes resulting in fewer board positions, there are likely to be net savings, even accounting for the increased level of fees recommended in this report.

Finally, in November 2012, the Council resolved to amend the Appointments and Remuneration Policy so that elected members appointed to CCO boards would not be remunerated in addition to their Council remuneration, with effect from the new triennium. The Council also resolved to consider the issue of whether elected member appointees to Council Organisation boards should be remunerated at the commencement of the new triennium.

5. Discussion

5.1 Institute of Directors Review - Methodology

The New Zealand Institute of Directors uses a number of criteria in reviewing CCO director and trustee remuneration, including the number of estimated hours involved in the directorship. These can vary significantly between organisations and are often under-estimated. The IoD review considered the size of the CCOs as measured by staff levels, turnover, and the value of the assets under management. Where available, it also considered fees paid by

comparable organisations. Finally, the IoD considered the complexity, risk and nature of the organisation being governed.

This approach is consistent with industry practice and is similar in approach to that taken by the Council at the time of the last review, albeit in more detail.

5.2 Institute of Directors Review – Recommendations

Some key points arising from the 2013 IoD review are:

- Director and chairperson fees have increased at a modest rate over the past three years. The annual median fee increase over the last three years has been 7.7% for chairpersons and 1.9% for directors.
- The roles of directors in organisations similar to the CCOs are not necessarily less responsible, onerous or demanding than purely “for profit” organisations. The IoD recognises that a “public good” element is accepted by most public sector directors. The challenge is to find a way of remunerating directors that acknowledges this element of public service while properly valuing the contribution of the best talent.
- While the risk associated with being a director has always been there, in today’s environment it is much more prominent with far more at stake. The IoD notes that the current environment makes it particularly important that a director is rewarded appropriately.

As a result, Council officers are recommending remuneration increases that, in the main, reflect the annual movement in the median director fee over the past three years. It should be noted that the current levels of remuneration fall within the lower or lower to median quartile relative to comparable organisations. This will still be the case after the recommended remuneration increases.

The IoD notes that its recommended multiplier to calculate a chairperson fee is between 1.8 and 2.0 times the director fee. Historically, the Council has used a multiplier of 2.0. The IoD considers that this multiplier remains appropriate given the nature of CCO activities and the additional demands placed on the chairpersons.

The table below outlines both the IoD report fee recommendations and officer recommendations:

Organisation	IoD Recc for Director	Proposed		Current	
		Director	Chair*	Director	Chair*
Capacity	\$24,000 - 25,000	\$20,000	\$40,000	\$15,000	\$30,000
PWT	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
PWV	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Cable Car	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Museums Trust	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Waterfront	\$25,000	\$19,200	\$38,000	\$19,200	\$38,000
Zoo	\$18,000 - 20,000	\$16,000	\$32,000	\$15,000	\$30,000
Stadium	\$22,000 - 25,000	\$19,000	\$38,000	\$18,000	\$36,000
Zealandia	\$15,000	\$13,000	\$26,000	\$13,000	\$26,000

It is worth noting the following points:

- The Council has previously decided that positions on the **Basin Reserve Trust** board should not be remunerated. Trustees have been appointed on this basis and officers recommend no change to the existing situation.
- The Council is not responsible for setting the fees of the **Wellington International Airport Ltd** board.
- The IoD report recommends a significant increase in fees for the **Capacity** board. This reflects the greater scope of responsibility the board will have under the outcomes-based business model and with Upper Hutt and Porirua City Councils joining as shareholders and customers.
- It should be noted that in 2010 Wellington City Council resolved to increase the **Capacity** director fees to \$18,000. Hutt City Council did not approve this increase at the time and therefore it did not become effective. As a result, Capacity director fees have not increased for six years, which has widened the gap between the current Capacity director fees and the IoD recommendation based on its market review.
- A change in fees for the **Capacity** board is subject to the approval of Hutt City Council, Upper Hutt City Council and Porirua City Council.
- Given the existing Council resolution to bring **Wellington Waterfront** back in-house as of 30 June 2015, officers do not recommend increasing director fees at this point.
- A change in fees for the **Wellington Regional Stadium Trust** board is subject to the approval of Greater Wellington Regional Council. Consistent with the recommendation for the majority of the CCO boards, officers recommend an increase in Stadium trustee fees in line with the annual movement in the median director fee over the past three years. This is to keep trustee fees more closely aligned to market rates, particularly during the period when the board will be dealing with significant matters such as

membership and corporate box renewals and the implementation of the Stadium Master Plan.

- Under the updated Zealandia trust deed, the honorarium for **Zealandia** trustees is to be agreed with the Karori Sanctuary Trust Guardians. As background, the Council resolved in December 2012 to note the preference of the Guardians that Sanctuary trustees be remunerated at a modest or nominal level and to agree that a report should be brought back to the Council on remuneration if any. The Guardians have formally agreed to the WCC proposal to retain trustee honorarium for Zealandia at the current levels.

5.3 External appointments to Council subcommittees

The IoD report recommends that the remuneration level of external appointees to the Audit and Risk Subcommittee should remain the same, as follows:

Subcommittee	IoD Recc for Member	Proposed		Current	
		Member*	Chair*	Member*	Chair*
Audit and Risk	\$10,000	\$10,000	\$20,000	\$10,000	\$20,000

* Only applies for external member appointments.

5.4 Fees for elected members

In November 2012, the Council resolved to amend the Appointments and Remuneration Policy so that elected members appointed to CCO boards would not be remunerated in addition to their Council remuneration, with effect from the new triennium. The Council also resolved to consider the issue of whether elected member appointees to Council Organisation boards should be remunerated at the commencement of the new triennium.

As a result of these resolutions, officers recommend that the Appointments Policy should be updated so that elected member appointments to CO boards are not entitled to remuneration in addition to their Council remuneration. This would bring any elected member appointments to the boards of Stadium, Zealandia or the Airport (where applicable) into alignment with the position for elected member appointments to CCO boards. Any board fees that the Council Organisation pays that would have been paid to the elected member will instead become payable to the Council and will be applied to the relevant grant fund (eg Wellington Regional Stadium Trust fees will be applied to the Social and Recreation Fund).

5.5 Consultation and Engagement

The IoD has been requested to provide an independent review of board director fees. In a number of instances, the Council needs to agree any changes to board fees with other entities; these have been discussed separately in this report.

5.6 Financial considerations

CCOs and COs fund their own trustee and director fees. The Council funds the fees payable to external appointees to Council subcommittees. If the recommendations of this report are agreed, there should be no additional cost to the Council, as there is no change recommended to the fees for external appointments to subcommittees.

5.7 Climate change impacts and considerations

There are no specific climate change considerations relating to the recommendations in this report.

5.8 Long-term plan considerations

There are no additional Long Term Plan consequences of the recommendations in this report.

6. Conclusion

The IoD review has recommended that a general increase in the remuneration of the members of the CCO boards, commensurate with workloads and consistent with market rates, is appropriate.

Officers have recommended remuneration increases at a lower level than those suggested by the IoD, to reflect the economic environment. The increases recommended by officers reflect the annual change in the median level of director remuneration over the past three years.

The IoD report recommends that the remuneration level of external appointees to the Audit and Risk Subcommittee should remain the same. Officers support this recommendation.

Contact Officer: *Danny McComb, Manager, CCOs and City Growth Projects*

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The CCOs outlined in this paper contribute to the City over a broad range of the Council's strategic objectives.

2) LTP/Annual Plan reference and long term financial impact

There is no financial impact on the Council from the recommendations in this paper.

3) Treaty of Waitangi considerations

There are none.

4) Decision-making

This is not a significant decision.

5) Consultation

a) General consultation

The recommendations are informed by the results of an independent review of trustee/director remuneration commissioned from the New Zealand Institute of Directors.

Greater Wellington Regional Council has been consulted in relation to Wellington Regional Stadium Trust. Hutt City, Upper Hutt City, and Porirua City Councils have been consulted in relation to Capacity Infrastructure Services Ltd. The Guardians have been consulted in relation to the Zealandia honorarium.

b) Consultation with Maori

Not required.

6) Legal implications

There are none.

7) Consistency with existing policy

This report is consistent with the WCC Policy on the Appointment and Remuneration of Directors and Trustees. The recommendations are informed by the results of an independent review of trustee/director remuneration commissioned from the New Zealand Institute of Directors.