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**REPORT 5**  
*(1215/11/IM)*

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

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**1. Purpose of Report**

To report on the outcome of a review of the remuneration of trustees and directors of Council Controlled Organisations (CCOs) and external appointments to Council subcommittees, and to recommend changes, where appropriate, to current levels of remuneration.

**2. Executive Summary**

The review of remuneration of external appointments to CCO boards and Council subcommittees was last carried out three years ago at the commencement of the previous triennium. At the time, it was agreed that remuneration would be reviewed every three years to coincide with the start of the new triennium and that the recommended levels be approved for the duration of the triennium.

An independent review by the Institute of Directors (IoD) of the remuneration paid to all trustees and directors appointed to CCOs and to external appointments to Council subcommittees was recently commissioned and has been received by Council officers. This review forms the basis of the recommendations included in this report.

The IoD report recommends increasing the remuneration of directors and trustees of 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.

Officers have recommended remuneration increases at a lower level than those suggested by IoD, to reflect the economic environment. The increases recommended by officers reflect the median remuneration change for directors over the past 3 years.

### 3. Recommendations

It is recommended that the Council:

1. *Receive the information.*
2. *Agree that the fees payable to chairpersons, directors and trustees of Council Controlled Organisations be increased as set out in bold in the table below, for the 2010-13 triennium, subject to the approval of Hutt City Council (Capacity) and the Greater Wellington Regional Council (Wellington Regional Stadium Trust):*

<b>CCO</b>	<b>Current Trustee/ Director Fee</b>	<b>Proposed Trustee/ Director Fee</b>	<b>Current Chair Fee</b>	<b>Proposed Chair Fee</b>
<b>Wellington Regional Stadium Trust</b>	\$15,000	<b>\$18,000</b>	\$30,000	<b>\$36,000</b>
<b>Positively Wellington Tourism</b>	\$13,000	<b>\$15,000</b>	\$26,000	<b>\$30,000</b>
<b>Wellington Museums Trust</b>	\$13,000	<b>\$15,000</b>	\$26,000	<b>\$30,000</b>
<b>Wellington Zoo Trust</b>	\$13,000	<b>\$15,000</b>	\$26,000	<b>\$30,000</b>
<b>Wellington Cable Car Ltd</b>	\$13,000	<b>\$15,000</b>	\$26,000	<b>\$30,000</b>
<b>Capacity Infrastructure Services Ltd</b>	\$15,000	<b>\$18,000</b>	\$30,000	<b>\$36,000</b>
<b>Wellington Waterfront Ltd</b>	\$19,200	<b>\$19,200</b>	\$38,400	<b>\$38,400</b>

3. *Agree that the fees payable to the chairperson and directors of Wellington Venues Limited be increased as set out in bold in the table below, from 1 January 2012 for the remainder of the triennium:*

<b>CCO</b>	<b>Current Trustee/ Director Fee</b>	<b>Proposed Trustee/ Director Fee</b>	<b>Current Chair Fee</b>	<b>Proposed Chair Fee</b>
<b>Wellington Venues Limited</b>	\$13,000	<b>\$15,000</b>	\$26,000	<b>\$30,000</b>

4. *Agree that the fees payable to the external appointees to the Audit and Risk Management subcommittee be kept constant as set out in bold in the table below, for the 2010-13 triennium:*

<b>Subcommittee</b>	<b>Current Member Fee</b>	<b>Proposed Member Fee</b>	<b>Current Chair Fee*</b>	<b>Proposed Chair Fee*</b>
Audit & Risk Management (ARMS)	\$10,000	<b>\$10,000</b>	\$20,000	<b>\$20,000</b>

*\*only applies if an external appointment is appointed as Chair*

5. *Agree that the fees payable to the external appointees to the Council Controlled Organisation Performance Subcommittee be kept constant as set out in bold in the table below, for the 2010-13 triennium:*

<b>Subcommittee</b>	<b>Current Member Fee</b>	<b>Proposed Member Fee</b>	<b>Current Chair Fee*</b>	<b>Proposed Chair Fee*</b>
Council Controlled Organisations Performance (CCOPS)	\$12,000	<b>\$12,000</b>	\$24,000	<b>\$24,000</b>

*\*only applies if an external appointment is appointed as Chair*

6. *Note that Council Controlled Organisations are expected to fund their own trustee and director fees.*
7. *Note that the Council is responsible for paying the fees of the external members of its subcommittees.*

#### **4. Directors/Trustees of Council Controlled Organisations**

##### **4.1 Methodology**

The New Zealand Institute of Directors (IoD) uses a number of criteria in reviewing CCO director and trustee remuneration, including the level of hours involved in the directorship role. These can vary significantly between organisations and tend to be underestimated. The IoD also considered the size of the CCOs as measured by staff levels, turnover and the value of the assets under management. Finally, the IoD considered the complexity, risk and nature of the organisation being governed.

The Council supplied the IoD with relevant information for individual CCOs, including the number of meetings and average meeting times. The approach uses multipliers to take account of meeting preparation time and the added responsibilities and commitment of a Chairperson. These multipliers, together with detail of current market rates of remuneration, are derived from analysis of data obtained by the IoD both from its own members and from other industry sources.

The IoD report then benchmarked the CCO in question relative to comparative remuneration bands selected by the IoD for their relevance. For example,

Capacity was benchmarked against groups including *Public Company – SOE*; *Public Company – Council*; and *FTEs 50-99*.

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.

#### **4.2 Conclusions of review**

The main conclusions and observations arising from the IoD review are:

- Director and chairperson fees have increased steadily over the last five years. The median annual increase in the last three years has been 5.3% for chairpersons and 5.9% for directors.
- The roles of directors/trustees 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 public good while properly valuing the contribution of the best talent.
- It should be noted that the current levels of remuneration fall within the lower quartile of commercial organisations and government entities. This will still be the case after the recommended remuneration increases.
- As a result, Council officers are recommending remuneration increases that reflect the median annual movement in directors’ fees over the past three years.
- The market ratio of chairperson fees to director/trustee fees is a multiplier of between 1.8 and 2.0 across comparable organisations as selected by the IoD.
- This compares with the Council policy of a multiplier of 2.0. The IoD considers that a multiplier of 2.0 is appropriate given the nature of CCO activities and the additional demands placed on chairpersons.

#### **4.3 Institute of Directors Report Recommendations**

The recommendation of the IoD report, which has been considered by Council officers, is that in the main fee levels be increased by 38% subject to IoD consideration of any unique circumstances relevant to individual CCOs. This translates to roughly an 11.5% rate of annual growth over the three years.

There are some exceptions to this general recommendation:

- The IoD recommends a higher level of remuneration increase for Capacity Infrastructure Services, based on comparable information for a range of sectors and entities, including Manukau Water and the electricity, gas, water and waste sector. The IoD report recommends that the director fee for Capacity increase from \$15,000 to \$24,000 and the Chair fee from

\$30,000 to \$48,000. However, given current budgetary restraints, officers do not consider that this level of increase can be justified. In addition, there is an argument that some of the comparable sectors may not be entirely appropriate, given asset ownership and a high level of asset oversight and reputational liability remain with the Council in regard to the assets that Capacity manages.

- Wellington Waterfront Limited's current remuneration is considered to be in line with market by the IoD. Current directors' fees are \$19,200 and the IoD report recommends fees of \$20,000 (\$38,400 and \$40,000 respectively for the Chair).

Table 1 below summarises the IoD recommended fee structure:

Table 1	IoD Recommendation			Current		% CAGR Trustee*	% CAGR Chair*
	Trustee - Director Range	Trustee - Director	Chair	Trustee - Director	Chair		
Wellington Regional Stadium Trust	\$18,000- \$22,000	\$20,000	\$40,000	\$15,000	\$30,000	10%	10%
Wellington Venues Ltd	\$16,000- \$20,000	\$18,000	\$36,000	\$13,000	\$26,000	11%	11%
Positively Wellington Tourism	\$16,000- \$20,000	\$18,000	\$36,000	\$13,000	\$26,000	11%	11%
Wellington Museums Trust	\$16,000- \$20,000	\$18,000	\$36,000	\$13,000	\$26,000	11%	11%
Wellington Zoo Trust	\$16,000- \$20,000	\$18,000	\$36,000	\$13,000	\$26,000	11%	11%
Wellington Cable Car Ltd	\$16,000- \$20,000	\$18,000	\$36,000	\$13,000	\$26,000	11%	11%
Capacity Infrastructure Services Ltd	\$20,000- \$28,000	\$24,000	\$48,000	\$15,000	\$30,000	17%	17%
Wellington Waterfront Ltd	\$18,000- \$22,000	\$20,000	\$40,000	\$19,200	\$38,400	1%	1%

\* Annual change as measured over the three year period

However, it should be noted that officers are not recommending these increases.

#### 4.4 Officer Recommendations

Officers are cognisant of the current difficult economic environment and the fact that the CCOs typically fund directors' fees out of their existing operating budgets, with no equivalent increase in grant funding. As a result, officers recommend an increase based on the 5.9% median annual movement for non-executive directors over the past 3 years as outlined in the IoD report.

Table 2 below summarises the recommended fee structure of officers:

Table 2 CCO	Officers Recommendation*		Current		% CAGR Trustee**	% CAGR Chair**
	Trustee - Director	Chair	Trustee - Director	Chair		
Wellington Regional Stadium Trust	\$18,000	\$36,000	\$15,000	\$30,000	6%	6%
Wellington Venues Ltd	\$15,000	\$30,000	\$13,000	\$26,000	5%	5%
Positively Wellington Tourism	\$15,000	\$30,000	\$13,000	\$26,000	5%	5%
Wellington Museums Trust	\$15,000	\$30,000	\$13,000	\$26,000	5%	5%
Wellington Zoo Trust	\$15,000	\$30,000	\$13,000	\$26,000	5%	5%
Wellington Cable Car Ltd	\$15,000	\$30,000	\$13,000	\$26,000	5%	5%
Capacity Infrastructure Services Ltd	\$18,000	\$36,000	\$15,000	\$30,000	6%	6%
Wellington Waterfront Ltd	\$19,200	\$38,400	\$19,200	\$38,400	0%	0%

\* Officers have applied the 5.9% annual increase and rounded to the nearest \$'000 (where relevant)

\*\* Annual change as measured over the three year period; differs slightly due to rounding

Given the current Wellington Waterfront Ltd remuneration is considered to be in line with the market by IoD, officers recommend it remain unchanged.

As the Board of the new merged venues CCTO, Wellington Venues Limited, has only just been appointed and has been designed to be in a transitory state until 1 January 2012, it is recommended that no remuneration increases be applied until after that date.

Councillors should note that the agreement of the Hutt City Council is required to implement the proposed increase in fees for Capacity.

Councillors should also note that the agreement of the Greater Wellington Regional Council is required to implement the proposed fee increase for Wellington Regional Stadium Trust.

The trustees of the Basin Reserve Trust are not included in the above table as they do not receive fees for their services.

## 5. External Appointees to Council Subcommittees

### 5.1 Methodology

The IoD report also looked at the remuneration paid to external appointees of Council subcommittees. It used a similar methodology to that used for CCOs, but also including a reference to the director fees of the organisations being monitored in the case of the Council Controlled Organisations Performance Subcommittee (CCOPS).

### 5.2 Institute of Directors Report Recommendations

The IoD report recommends that fees remain the same for external appointments to CCOPS.

Similarly, the IoD report concludes that the remuneration level of external appointees to the Audit and Risk Management Subcommittee should remain the same, in line with the CCOPS recommendation.

The table below summarises the recommended fee structure:

Table 3	Proposed		Current		% Change Trustee	% Change Chair
	Member	Chair*	Member	Chair*		
Audit & Risk Management (ARMS)	\$10,000	\$20,000	\$10,000	\$20,000	0%	0%
CCO Performance (CCOPS)	\$12,000	\$24,000	\$12,000	\$24,000	0%	0%

*\*only applies if an external appointment is appointed as Chair*

## 6. Funding of proposed increases

CCOs 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 the subcommittees.

## 7. 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. The exception is Wellington Waterfront Limited, which is considered to be in line with market by the IoD.

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 median remuneration change for directors over the past 3 years.

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

Contact Officer: *Danny McComb, Manager, Treasury and Council Controlled Organisations*

## **Supporting Information**

### **1) Strategic Fit / Strategic Outcome**

*The work of the Boards of CCOs and the Council Subcommittees contribute to a wide range of strategic outcomes.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*The changes indicated in this report will not change Council funding requirements.*

### **3) Treaty of Waitangi considerations**

*There are none.*

### **4) Decision-Making**

*This is not a significant decision and is within the Council's discretion to make.*

### **5) Consultation**

#### **a) General Consultation**

*The proposed increases in remuneration will be included in the draft 2011/2012 annual plan for public consultation.*

#### **b) Consultation with Maori**

*Not required.*

### **6) Legal Implications**

*There are none.*

### **7) Consistency with existing policy**

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