



## **AGENDA**

**FOR CEO REVIEW COMMITTEE MEETING TO BE HELD ON**

**12 JULY 2016 AT 6:30 PM**

**IN COMMITTEE ROOM 3, 12 JAMES STREET, SALISBURY**

### **MEMBERS**

Mayor G Aldridge (Chairman)  
Cr D Balaza (Deputy Chairman)  
Cr L Caruso  
Cr D Pilkington  
Cr D Proleta  
Cr J Woodman  
Cr B Vermeer

### **REQUIRED STAFF**

Chief Executive Officer, Mr J Harry  
Manager People and Culture, Ms G Page

### **APOLOGIES**

### **LEAVE OF ABSENCE**

### **PRESENTATION OF MINUTES**

Presentation of the Minutes of the CEO Review Committee Meeting held on 19 April 2016.

---

**REPORTS**

*Administration*

8.0.1 Annual Review of CEO Total Remuneration 2015/2016 ..... 7

---

**CONFIDENTIAL ITEMS**

**8.2.1 CEO Personal Evaluation System 2015/2016**

Pursuant to section 83(5) of the *Local Government Act 1999* the Chief Executive Officer has indicated that, if Council so determines, this matter may be considered in confidence under Part 3 of the *Local Government Act 1999* on that grounds that:

1. *Pursuant to Section 90(2) and (3)(a) of the Local Government Act 1999, the principle that the meeting should be conducted in a place open to the public has been outweighed in relation to this matter because:*
  - *it relates to information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead).*
2. *In weighing up the factors related to disclosure,*
  - *disclosure of this matter to the public would demonstrate accountability and transparency of the Council's operations*

*On that basis the public's interest is best served by not disclosing the **CEO Personal Evaluation System 2015/2016** item and discussion at this point in time.*
3. *Pursuant to Section 90(2) of the Local Government Act 1999 it is recommended the Council orders that all members of the public, except staff of the City of Salisbury on duty in attendance, be excluded from attendance at the meeting for this Agenda Item.*

**CLOSE**

**Confidential Item 8.2.1**





**MINUTES OF CEO REVIEW COMMITTEE MEETING HELD IN COMMITTEE  
ROOMS, 12 JAMES STREET, SALISBURY ON**

**19 APRIL 2016**

**MEMBERS PRESENT**

Mayor G Aldridge (Chairman)  
Cr D Balaza (Deputy Chairman)  
Cr L Caruso (from 8.36 pm)  
Cr D Pilkington  
Cr D Proleta  
Cr J Woodman  
Cr B Vermeer

**STAFF**

Chief Executive Officer, Mr J Harry  
Manager People and Culture, Ms G Page

The meeting commenced at 8.30 pm

The Chairman welcomed the members, staff and the gallery to the meeting.

**APOLOGIES**

Nil.

**LEAVE OF ABSENCE**

Nil

**PRESENTATION OF MINUTES**

Moved Cr B Vermeer  
Seconded Cr J Woodman

The Minutes of the CEO Review Committee Meeting held on 11 January  
2016, be taken and read as confirmed.

**CARRIED**

---

**REPORTS**

*Administration*

**8.0.1 CEO Key Performance Indicators Update**

Moved Cr B Vermeer  
Seconded Cr J Woodman

1. Information be received and progress towards achievement of the endorsed 2015/2016 Key Performance Indicators to be noted and endorsed.

**CARRIED**

**8.0.2 Appointment of an Independent Advisor**

Moved Cr B Vermeer  
Seconded Cr D Balaza

1. Hender Consulting is appointed as the Independent Advisor to the CEO Review Committee for the remainder of the term of the CEO Employment Agreement.

**CARRIED**

The meeting closed at 8.38 pm.

CHAIRMAN.....

DATE.....

---

<b>ITEM</b>	8.0.1
	<b>CEO REVIEW COMMITTEE</b>
<b>DATE</b>	12 July 2016
<b>HEADING</b>	Annual Review of CEO Total Remuneration 2015/2016
<b>AUTHOR</b>	Gail Page, Manager People and Culture, Business Excellence
<b>CITY PLAN LINKS</b>	4.2 Develop strong capability and commitment to continually improve Council's performance. 4.3 Have robust processes that support consistent service delivery and informed decision making.
<b>SUMMARY</b>	This report provides details of the 2015/2016 CEO Remuneration Review.

### **RECOMMENDATION**

1. *[In accordance with Clause 13 of the Employment Agreement and the delegation of authority granted by Council to the CEO Review Committee, an amendment to the CEO Total Remuneration be made, with that amendment being [insert details] to apply from the 2016 anniversary of the CEO Commencement Date (effective 9 May 2016)]*

### **ATTACHMENTS**

This document should be read in conjunction with the following attachments:

1. CEO Remuneration Advice July 2016

### **1. BACKGROUND**

1.1. Council has delegated to the CEO Review Committee the power to:

- By agreement with the CEO, appoint an independent advisor to assist with the CEO performance appraisal process; and
- Determine any amendments to the CEO's employment arrangements and incentive payments as provided for within the contract of employment.

1.2 Annual Review of the Total Remuneration

1.2.1 Clause 13 of the CEO Employment Agreement indicates:

*"13.1 The Remuneration Package shall be reviewed annually and within one month of the performance review set out in Clause 12. Any change to the Remuneration Package will take effect from the anniversary of the Commencement Date.*

*13.2 The review of the Remuneration Package, which will be conducted by an appropriate external agent, will take into account an assessment of performance based upon the following:*

- 13.2.1 *The agreed criteria upon which the CEO's performance is assessed in accordance with the Personal Evaluation System; and*
- 13.2.2 *Movements in the Consumer Price Index as issued by the Australian Bureau of Statistics.*
- 13.3 *Notwithstanding Clause 13.2, the parties acknowledge that, in undertaking any review of the Remuneration Package, the CEO shall not be entitled as a right to an annual increase of the Remuneration Package."*

- 1.2.2 The Remuneration Package is currently comprised of Total Remuneration (base salary only) and Employer Superannuation contributions.
- 1.2.3 Sub-Clause 9.6 of the CEO Employment Agreement provides for the review of the CEO's Total Remuneration:  
*"The CEO's Total Remuneration will be reviewed annually. The CEO is not, as a right, entitled to an increase to the annual base salary each year."*
- 1.2.4 Any change to the Remuneration Package should be presented as an amendment to Total Remuneration (base salary excluding Superannuation).
- 1.2.5 A report regarding the Personal Evaluation System has been provided to the CEO Review Committee under a separate Item.

## 2. CONSULTATION / COMMUNICATION

### 2.1 Internal

- 2.1.1 No internal communication or consultation has occurred.

### 2.2 External

- 2.2.1 Andrew Reed from Hender Consulting has been appointed as the appropriate external agent to conduct a review of the Remuneration Package.

## 3. REPORT

- 3.1 Andrew Reed from Hender Consulting will be in attendance at the CEO Review Committee to provide advice in relation to CEO Remuneration and market conditions.

## 4. CONCLUSION / PROPOSAL

- 4.1 Council has delegated authority to the CEO Review Committee to determine any amendments to the CEO's employment arrangements and incentive payments as provided for within the contract of employment.
- 4.2 In consideration of the CEO Performance Review and the Remuneration Advice, the CEO Review Committee needs to determine whether any amendment to the Remuneration Package is warranted. This decision would be reported to Council for information.



- 4.3 If the Committee determines an amendment is warranted, proposed wording for that recommendation is as follows:

*In accordance with Clause 13 of the Employment Agreement and the delegation of authority granted by Council to the CEO Review Committee, an amendment to the CEO Total Remuneration be made, with that amendment being [insert details] to apply from the 2016 anniversary of the CEO Commencement Date (effective 9 May 2016).*

**CO-ORDINATION**

Officer:

Date:





**STRICTLY PRIVATE & CONFIDENTIAL**



**CITY OF SALISBURY**

**CHIEF EXECUTIVE OFFICER  
REMUNERATION ADVICE**

**JULY 2016**



## 1. Process Methodology

In order to obtain the information necessary to establish appropriate remuneration benchmarks for this position, we researched a number of comparable entities to determine salary packages for comparable positions. We also researched recent positions filled by our organisation (and recent individuals interviewed) as a further indication of current market rates. All participants were assured of their anonymity (where the information is not public knowledge) and the confidentiality of the process. In return for their contribution to the process, we may contact the participating organisations and individuals after the completion of this assignment and provide them with *limited verbal* feedback of the results. No specific remuneration data for your incumbent or others in the survey will be released to any party outside Hender Consulting under any circumstances.

As the City of Salisbury is unique in terms of its members, structure, turnover and staff, the organisations researched are therefore different in at least one of the above factors. We have endeavoured to allow for these differences and incorporated adjustments to our recommendations accordingly.

Nonetheless, some care must be taken when using these figures as universal benchmarks as recent packages negotiated have, at times, reflected a variety of circumstances such as the successful candidature by internal candidates, appointment of candidates with no local government experience to the sector and the necessity to pay premiums to attract interstate or overseas candidates.

Roles such as this also have a unique “stakeholder management” responsibility which commands a certain remuneration premium.

## 2. Factors Influencing Remuneration Levels

Salary packages across comparable roles are determined by factors (in no particular order) such as:-

- relevant qualifications;
- senior management experience;
- relevant industry experience;
- length of time in the role;
- management and budgetary responsibilities;
- financial performance and asset base of the organisation;
- demonstrated leadership capabilities;
- scope and complexity of responsibilities;
- head hunter activity in and outside the sector;
- contribution to strategic direction;
- difficulty and cost to replace;
- current market rates;
- succession planning;
- achievement of individual performance criteria set by the Board/Council;
- amount of organisation specific intellectual property controlled by the individual;
- the risk factor in the projects under management;
- internal pay relativities;
- degree of public accountability;
- personal profile of the individual;



- technical skill shortages and other demographics in the Adelaide market;
- remuneration relativities with the eastern states and WA;
- the existence of retention and attraction bonuses on offer for comparable positions;
- the timing of the salary review in the contract or tenure cycle of the incumbent;
- any bonus or at risk component;
- socio-economic outcomes demonstrated;
- increasing public scrutiny of executive remuneration in the currently economic climate.

We believe greater weight should be given to some of the factors above than any “national industry data” which will not have been adjusted for differentials in cost of living etc. That is, we recommend caution with using raw industry association data because it is indeed just data and lacks the contextual adjustments.

Thus, we have endeavoured to value the factors above and allow for them in our advice such that our recommendations are built around true context rather than being based on data alone. The final decision regarding remuneration should not be made without thorough consideration of the aforementioned dot point factors.

Of the organisations and individuals researched, all have salary packages that include a cash component and the compulsory superannuation contribution. A motor vehicle with full private use and maximum salary sacrifice benefits is also often provided. For the purposes of this review we have valued a fully maintained motor vehicle (unrestricted use) at \$15,000 p.a. \* (which could be considered conservative against a number of local and national remuneration studies). Some organisations value the vehicle slightly higher or lower.

Additional benefits vary from organisation to organisation and include the payment of business expense accounts, club and association memberships, overseas travel and seminar attendance, study assistance and sabbaticals. Tools of trade such as mobile telephones and laptop computers along with remote access and internet cost reimbursement are also commonly provided. These benefits are often standard as part of genuine executive packages and have therefore been excluded from the calculations as a *given*. It is important to note that senior executives are increasingly viewing remote access and reimbursement of broadband expenses as a *normal* condition and central to their work life balance objectives. It is also important to consider which party is paying the FBT attached to such non financial benefits.

*\*The paramount consideration in remuneration analysis is not the cost of the vehicle to the organisation but, instead, its implied value to the incumbent. There is a reasonably significant movement towards novated leasing and this seems a sensible pathway. Notwithstanding this, flexible vehicle packaging options are often named by candidates when we discuss their retention determinants. The FBT framework also prescribes that incumbents do not now have to cover as many kilometres per year to be eligible for the tax benefit and this may also have a marginal impact on the value of any car to John.*



### 3. CPI and Real Wage Movements

Until the first global recession/downturn, inflation rates for the last few years had remained stable and within or around the Reserve Bank of Australia (RBA) target band of 2-3% p.a. Recent yearly figures have been highly volatile and at times this has either increased or decreased pressure on wages. Nominal wages growth had often been above inflation in the range between 4% and 5% (and above). Senior executive salaries were generally rising at a higher rate than for lower positions and thus annual incremental changes of above 5% were very common until recent years. The well documented economic slowdowns have naturally brought inflation back within and even below the RBA target range and thus recent year CPI adjustments have not been as great. It is important to view any adjustment towards the market as separate from maintaining the real value of the package.

To illustrate the volatile national Headline CPI movements (year ended) over the last few years and to illustrate the importance of careful consideration of inflationary factors, we have included the recent results following :-

Year Ended	CPI	
March	12	1.6%
June	12	1.2%
September	12	2.0%
March	13	2.5%
June	13	2.4%
September	13	2.2%
December	13	2.7%
March	14	2.9%
June	14	3.0%
September	14	2.3%
December	14	1.7%
March	15	1.3%
June	15	1.5%
September	15	1.5%
December	15	1.7%
March	16	1.3%

*The SA figures (including the last quarter) have often been lower due to economic softness. In fact, the SA CPI actually decreased in the March quarter bringing the SA annual rate to just 0.7%. This is one of the lowest results on record.*

We are conscious that some of the above figures may be unusual results, but nonetheless stress that any increases above them are technically real increases. However, strong performance by incumbents, interstate differentials and difficulty to replace factors do provide good support for higher increments.



#### 4. Findings & Recommendations

We understand the current composition of John's package is:

Salary cash component	\$291,439
<i>Total Remuneration</i>	<u>\$291,439</u>
Actual Superannuation Cost (9.8%)	\$28,561
<b>Total Employment package</b>	<b>\$320,000</b>

In 2013 John negotiated an additional 5 days leave in lieu of a remuneration increase. He currently receives an annual leave entitlement of 25 days per year and a minor benefit toward professional fees of up to \$1,000.

John's performance has again been assessed by elected members to be consistently high over multiple years, and current benchmarking indicates his current package still remains below that for a number of comparable roles in the sector. However, the recessed economic conditions and falling inflation rates continue to have a downward effect on executive remuneration growth. Therefore an adjustment too far above the equivalent to the Council's EBA increases of 2.75% for administration staff (MOA) and proposed 2.5% for field staff (LGE), would appear hard to fully defend despite his continuing strong performance.

The sector has also seen dramatic movements upwards and downwards on CEO packages over the last 18 months due to internal appointments, or adjustments to further align with market factors when replacing. It is difficult to derive a definitive benchmark due to these inconsistencies. John would still be a very credible candidate in the sector for roles paying above \$320,000 p.a. and thus we remain of the belief that some minor adjustment is warranted from a moderate risk management and performance recognition perspective. It also ensures the package assists with retention and is *broadly* competitive, should the organisation be in the market to replace him in the next few years.

While there is some argument for a well above CPI increase, the continuing cooling of executive remuneration does not present a favourable climate, therefore based on the above factors we recommend Council look to the EBA and CPI as a guide. Given his consistently strong performance we believe an increase aligned to the EBA can be objectively defended.

It is our recommendation an amendment to total remuneration is considered, applying an increase of 1.5% - 2.5% to bring total remuneration in the range of \$295,800 to \$298,700.



**5. Genuine Flexibility and Other Movements**

Senior candidates are increasingly rating genuine flexibility as a more important factor than exact remuneration. We advise that the organisation offers every flexible condition possible to ensure such that, where remuneration is comparable, this creates a competitive edge. For example, care should be taken that any vehicle policy does not actually inconvenience incumbents when it was supposed to be an incentive. Do not hesitate to contact us if you wish to discuss these points further or if you would like some input (at no additional consulting fee) regarding remuneration decisions.

Should you have any queries related to any aspects of this report, please do not hesitate to contact me.

Assuring you of our objective, independent and considered advice.

With kind regards and thanks for the opportunity to facilitate this important process.

Andrew Reed  
**Principal Consultant**

Direct line: (08) 8100 8836  
Email: [andrew.reed@hender.com.au](mailto:andrew.reed@hender.com.au)