



AGENDA

FOR CEO REVIEW COMMITTEE MEETING TO BE HELD ON

11 JULY 2017 AT 6:30 PM

IN COMMITTEE ROOMS, 12 JAMES STREET, SALISBURY

MEMBERS

Mayor G Aldridge (Chairman)
Cr S Bedford
Cr L Caruso
Cr D Pilkington
Cr D Proleta (Deputy Chairman)
Cr G Reynolds
Cr R Zahra

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 10 April 2017.

REPORTS

CONFIDENTIAL ITEMS

8.2.1 CEO Personal Evaluation System 2016/2017

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*
 - *Non-disclosure will protect interests relating to the personal evaluation of the CEO for the 2016/2017 period.*

*On that basis the public's interest is best served by not disclosing the **CEO Personal Evaluation System 2016/2017** 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.*

8.1.1 Annual Review of CEO Total Remuneration 2016/2017 5

CLOSE



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

10 APRIL 2017

MEMBERS PRESENT

Mayor G Aldridge (Chairman)
Cr S Bedford
Cr L Caruso
Cr D Pilkington (*via video/teleconference*)
Cr D Proleta (Deputy Chairman)
Cr R Zahra

STAFF

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

The meeting commenced at 7:08 pm.

The Chairman welcomed the members and staff to the meeting.

APOLOGIES

An apology was received from Cr G Reynolds.

LEAVE OF ABSENCE

Nil.

PRESENTATION OF MINUTES

Moved Cr L Caruso
Seconded Cr S Bedford

The Minutes of the CEO Review Committee Meeting held on 13
February 2017, be taken and read as confirmed.

CARRIED

REPORTS

Administration

8.0.1 CEO Key Performance Indicators Update

Moved Cr R Zahra
Seconded Cr L Caruso

1. Information be received.
2. Progress towards achievement of the endorsed 2016/2017 Key Performance Indicators be noted and endorsed.

CARRIED

8.0.2 CEO Annual Performance Review Process - 2016/2017

Moved Cr L Caruso
Seconded Cr D Proleta

1. The Performance Appraisal Survey be distributed to Elected Members on 16 May 2017, to be completed by 30 May 2017.
2. The results of the CEO Performance Appraisal Survey and the final CEO Key Performance Indicators Report be presented to the CEO Review Committee in July 2017, at which time the Committee determine the overall rating for the CEO Personal Evaluation System for 2016/2017.
3. The Hender Consulting Remuneration Advice Report be provided to the CEO Review Committee in July 2017, at which time the CEO Review Committee may determine, in accordance with the delegated authority it holds, any amendments to the CEO's employment arrangements and incentive payments as provided for within the contract of employment.

CARRIED

OTHER BUSINESS

Nil

The meeting closed at 7:56 pm.

CHAIRMAN.....

DATE.....

ITEM	8.1.1
	CEO REVIEW COMMITTEE
DATE	11 July 2017
HEADING	Annual Review of CEO Total Remuneration 2016/2017
AUTHOR	Gail Page, Manager People and Culture, Business Excellence
CITY PLAN LINKS	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.
SUMMARY	This report provides details of the 2016/2017 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 2017 anniversary of the CEO Commencement Date (effective 9 May 2017)]*

ATTACHMENTS

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

1. CEO Remuneration Advice July 2017 - Hender Consulting

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 2017 anniversary of the CEO Commencement Date (effective 9 May 2017).

CO-ORDINATION

Officer:

Date:



STRICTLY PRIVATE & CONFIDENTIAL



CITY OF SALISBURY

**CHIEF EXECUTIVE OFFICER
REMUNERATION ADVICE**

JULY 2017



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.

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.



3. CPI and Real Wage Movements

The well documented economic slowdowns have naturally brought inflation back within and even below the RBA target range and thus recent year CPI based 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 over the page :-

	Year Ended	CPI
March	11	3.3%
June	11	3.6%
September	11	3.5%
December	11	3.1%
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%
June	16	1.0%
September	16	1.3%
December	16	1.5%
March	17	2.1%

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. Wages growth in Australia is at or around record lows.



4. Findings & Recommendations

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

Salary cash component	\$295,811
<i>Total Remuneration</i>	<u>\$295,811</u>
Actual Superannuation Cost (9.8%)	\$28,989
Total Employment package	<u>\$324,800</u>

In 2013 John negotiated an additional 5 days leave in lieu of a remuneration increase. This naturally reduced the ongoing base on which future percentage rises are based. 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 strong over multiple years, and current benchmarking indicates his current package still remains below that for a number of comparable roles in the sector. However, we are still experiencing recessed economic conditions and low inflation rates continue to restrain executive remuneration growth. Therefore an adjustment too far above the equivalent to the Council's EBA and LGE increase of 2.5-2.75%, would appear hard to fully defend despite his ongoing strong performance. It is rare to see EBA increases much above 2.5% in the current climate.

Dramatic movements upwards and downwards on CEO packages in the sector due to internal appointments, or adjustments to further align with market factors when replacing continue to result in variations across remuneration for comparable roles. It remains difficult to obtain a definitive benchmark due to these inconsistencies. John would still be a very credible candidate in the sector (or beyond) for roles paying above \$330,000 p.a. and thus we remain of the belief that some minor adjustment is warranted from a moderate risk management and performance recognition perspective.

While there is some argument for an 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 2.0% - 2.5% to bring total base remuneration in the range of \$301,727 to \$303,205. This brings total cost of employment to no more than \$333,000. It also ensures the package assists with retention and is *broadly* competitive against the appropriate benchmarks.



It is important to note that he has received very minimal increments in recent years. This has ranged from 0% to on or around relatively low inflation rates.

Year	Remuneration Review
2012	4% increase (Total Employment Cost)
2013	No increase, additional one week annual leave
2014	2% increase (Total Employment Cost)
2015	Total Employment Package increase to \$320,000 (increase 3.185%)
2016	1.5% increase to Total Remuneration

5. Genuine Flexibility and Other Movements

We continue to see evidence of senior candidates rating genuine flexibility as a more important factor than remuneration. We advise that the organisation offers every flexible condition possible to ensure that, where remuneration is comparable, this creates a competitive edge. Do not hesitate to contact us if you wish to discuss this advice 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.

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