

**MINUTE EXTRACT FROM THE NON-PUBLIC MINUTES OF THE COUNCIL MEETING HELD ON TUESDAY
28 MARCH 2017**

C8 DIRECTOR REMUNERATION - DUNEDIN CITY HOLDINGS LIMITED

A report proposed an increase in directors' fees for Dunedin City Holdings Limited (DCHL) in line with the Institute of Directors survey and following a review of the performance of DCHL regarding their oversight of the Delta and Aurora Boards.

The Acting Chief Financial Officer and General Manager Strategy and Governance responded to questions from Councillors.

During the course of discussion the Chief Executive Officer advised that staff would review progress against the findings of the Larsen Report and report back to Council within six months.

Moved (Cr Mike Lord/Cr Doug Hall):

That the Council:

- a) **Notes** the response of the DCHL Board to Deloitte Aurora/Delta Report has been independently reviewed and was found to be appropriate.
- b) **Notes** that the Dunedin City Holdings Limited Board policy of using the independent survey endorsed by the Institute of Directors be reaffirmed for the 2016/17 year commencing 1 October 2016.
- c) **Approves** the increase of directors' fees by 2.9% for Dunedin City Holdings Limited (incorporating Dunedin City Treasury Limited) effective from 1 October 2016.
- d) **Agrees** that the information contained in the report remains confidential until Council has determined the level of fees and advised Dunedin City Holdings Limited of the outcome at which point the information can be made public.

Division

The Council voted by division.

- For: Crs David Benson-Pope, Rachel Elder, Doug Hall, Aaron Hawkins, Mike Lord, Damian Newell, Chris Staynes, Conrad Stedman, Andrew Whiley, Kate Wilson and Mayor Dave Cull (11).
- Against: Crs Christine Garey, Marie Laufiso, Jim O'Malley and Lee Vandervis (4).

The division was declared CARRIED by 11 votes to 4.

Motion carried (CNL/2017/084)

DIRECTOR REMUNERATION - DUNEDIN CITY HOLDINGS LIMITED

Department: Finance

REASONS FOR CONFIDENTIALITY

Grounds:	S48(1)(a) - The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.
Reason:	<p>S7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of a deceased person.</p> <p>S7(2)(b)(i) - The withholding of the information is necessary to protect information where the making available of the information would disclose a trade secret.</p>
In particular:	The information contained in this report remains confidential until Council has determined the level of fees and advised Dunedin City Holdings Limited of the outcome at which point the information can be made public.

EXECUTIVE SUMMARY

- 1 This report proposes an increase in directors' fees for Dunedin City Holdings Limited (DCHL) in line with the Institute of Directors survey and following a review of the performance of DCHL regarding their oversight of the Delta and Aurora Boards.

RECOMMENDATIONS

That the Council:

- a) **Notes** the response of the DCHL Board to Deloitte Aurora/Delta Report has been independently reviewed and was found to be appropriate.
- b) **Notes** that the Dunedin City Holdings Limited Board policy of using the independent survey endorsed by the Institute of Directors be reaffirmed for the 2016/17 year commencing 1 October 2016.
- c) **Approves** the increase of directors' fees by 2.9% for Dunedin City Holdings Limited (incorporating Dunedin City Treasury Limited) effective from 1 October 2016.
- d) **Agrees** that the information contained in this report remains confidential until Council has determined the level of fees and advised Dunedin City Holdings Limited of the outcome at which point the information can be made public.

BACKGROUND

- 2 The remuneration for DCHL directors was considered on 12 December 2016 where Council:

"Moved (Cr Aaron Hawkins/Cr David Benson-Pope):

That the Council:

- e) Notes that any decision on directors' fees for DCHL be deferred until the investigation into the Delta and Aurora Boards is resolved.*

Division

The Council voted by division.

For: Crs David Benson-Pope, Christine Garey, Aaron Hawkins, Marie Laufiso, Jim O'Malley, Conrad Stedman and Lee Vandervis (7).

Against: Crs Doug Hall, Mike Lord, Damian Newell, Chris Staynes and Andrew Whiley and Mayor Dave Cull (6).

The division was declared CARRIED by 7 votes to 6

Motion carried"

- 3 Following the Council meeting in December 2016, Deloitte were engaged to review the performance of DCHL with regard to Aurora/Delta. They have provided the outcome of the review to the Chief Executive by way of letter, which is attached.
- 4 The letter outlines the actions undertaken following the Deloitte Review of Aurora and Delta and then considers the issue of whether DCHL "has done enough?"
- 5 The conclusion Mr Cameron from Deloitte states that "we believe DCHL has responded in an appropriate way", and the letter provides examples to support this belief.
- 6 Council has an established process for calculating the quantum of fees for each Council Controlled Organisation using the annual Institute of Directors (IoD) survey. This system has been in effect since 2004.
- 7 The Larsen Report dated February 2012 made the following comment on Directors fees for Dunedin City Holdings Limited:

"To attract the appropriate people to these roles remuneration levels would need to be in the upper quartile. It is unlikely the required candidates would be attracted below \$75,000 p.a. with the chairman paid at twice that rate."

- 8 Based on the current board membership, this would represent a total annual financial commitment of \$450,000.

DISCUSSION

- 9 The IoD surveys actual payments made across a wide range of organisations. The 2016 survey includes information about 2,174 directorships covering 730 members and 1,624 organisations.
- 10 This year, overall median fee levels have moved at a similar, but slightly lower level than 2015, moving from \$41,610 to \$42,994, which represented a 3% overall increases, rather than the 4% seen in 2015 (*Institute of Directors Fee Report, 2016*). Median fees for non-executive chairs increased 2.9%, which was the same rate as 2015.

Overall there was a 22.5% increase in participation from organisations, compared to the number of organisations surveyed last year.

- 11 When comparing director remuneration practices, it is important to compare "like" organisations in terms of size. IoD fees are therefore calculated according to four size criteria:
- annual turnover;
 - asset value;
 - shareholder's funds; and
 - staff numbers.
- 12 Fee movements are then broken down by industry, annual revenue and organisation type. We note the following increases for organisations of a similar size to Council companies:

IoD Overall measures	DCHL applicable measure	% increase
Revenue	\$200.1 - \$500 million	2.9%
Organisation type	Council controlled organisation	6.1%
Industry	N/A	N/A

- 13 There is no information relating to an industry that represents a relevant comparison for Council companies. Therefore only information relating to revenue and organisation type has been relied upon.
- 14 Given the low inflationary environment, an increase of 6.1% would seem to be in excess of what would be deemed a fair and reasonable increase in Directors' fees. Therefore it is recommended that directors' fees for Council companies should be increased by 2.9%.
- 15 The table below sets out the current directors' fees in total for Dunedin City Holdings Limited, along with the proposed increase if the 2.9% was applied – note the proposed figure has been rounded down to the nearest \$00.

	Current Director Fees	Proposed Increase %	Proposed Director Fees	# Directors
Dunedin City Holdings (including Dunedin City Treasury)	313,607	2.9%	322,700	5
Chair per annum	96,824		99,630	1
Directors per annum	54,192		55,765	4

OPTIONS

Option One – Recommended Option

- 16 That the directors' fees for Dunedin City Holdings Limited be increased by 2.9% effective from 1 October 2016 in line with previous practice.

Advantages

- Process of setting fees consistent with previous years.
- Fee level increase consistent with other group companies.

Disadvantages

- Increase in excess of CPI.

Option Two – Recommend an alternative level of increase

- 17 There is the option to set an alternative level of increase, noting that this would be a departure from historical practice.

NEXT STEPS

- 18 Advise Dunedin City Holdings Limited directors of the proposed fee level.

Signatories

Author:	Gavin Logie - Acting Chief Financial Officer
Authoriser:	Sandy Graham - General Manager Strategy and Governance

Attachments

	Title	Page
A	Letter from Deloitte regarding DCHL response	

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This report relates to providing an administrative function for the continuing operation of Dunedin City Holdings Limited.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Economic Development Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Environment Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3 Waters Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Spatial Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Integrated Transport Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Parks and Recreation Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other strategic projects/policies/plans	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

There is no contribution to the Strategic Framework.

Māori Impact Statement

There are no known impacts for tangata whenua.

Sustainability

There are no implications for sustainability.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

There are no implications.

Financial considerations

There are no direct financial implications for Council.

Significance

Not applicable.

Engagement – external

The fee increase is supported by the Institute of Directors Annual Survey.

Engagement - internal

Not applicable.

Risks: Legal / Health and Safety etc.

If director fees do not keep pace with the market, retention and/or recruitment of directors could become problematic in the future.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

There are no implications for Community Boards.