

12. REVIEW OF CHRISTCHURCH CITY HOLDINGS LIMITED DIRECTORS' FEES

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PROPOSAL/PURPOSE OF REPORT

The purpose of this report is to obtain approval of the Council to a revised level of Directors' fees for Christchurch City Holdings Limited ('CCHL').

EXECUTIVE SUMMARY

CCHL has undertaken a review of its own directors' fees in accordance with the Council's policy on appointment and remuneration of directors. The last review was undertaken in 2001.

Market rates for directors' fees have moved significantly since the last review. Given the requirements of the new Council policy, and taking into account the considerations noted in this report, there is a reasonable case for applying the results of this review without adjustment. CCHL's role and profile is steadily developing and it is important that it presents a credible face to the business community and the wider public. To do this it needs to attract the best directors available (both external and Councillor).

CCHL strongly concurs with the Council policy which is for Councillor directors to be paid on the same basis as external directors. Differing levels of fees have been paid in the past. All directors have the same responsibility and liability for the direction of the business and it is important that all directors around the board table take the business with the same level of seriousness and are rewarded accordingly. This is in the best interests of the Council and the community in the long run as it is a critical ingredient in the ongoing performance of the company for the benefit of the city.

The CCHL Board is responsible for the oversight of a group of companies whose total assets are in excess of \$1.2 billion. The turnover of the group is \$387 million.

The role of deputy chairperson of CCHL is not any more onerous than that of an ordinary director and therefore no additional remuneration is sought for this position. Neither is additional remuneration sought for the chair of the special committees. However, if unrealistically low fees are paid to CCHL it would be necessary to reconsider this latter aspect.

CCHL considered using the methodology which it has applied in the past to subsidiary companies but decided that rather than recommend their own level of fees to the Council it would be more appropriate to obtain independent professional advice from the Auckland office of Sheffield Consulting who are experienced in assessing directors' fees. A full copy of their advice is attached to this report.

Sheffield have based their recommendations on the lower quartile market rates for the infrastructure sector rather than average or median rates across all companies. One of the reasons for choosing the lower quartile is to recognise that CCHL has an indirect role in managing CCTOs and its broader portfolio management charter.

The following table summarises the fees recommended by Sheffield Consulting and compares them with the fees currently paid. The table takes account of the fact that there are currently five Councillor directors whereas from next month this will be reduced to four.

Summary of Sheffield recommendations

Position	Current fees	Current totals	Proposed fees	Proposed totals
	\$	\$	\$	\$
Chairperson	28,000	28,000	52,500	52,500
External Directors	22,500	67,500	28,500	85,500
Councillor Directors	14,000	70,000	28,500	114,000
Totals		<u>165,500</u>		<u>252,000</u>

RECOMMENDATION

It is recommended that, with effect from the Annual General meeting on 8 December 2004, the directors' fees for Christchurch City Holdings Limited be \$52,500 for the chairperson and \$28,500 for all other directors.

BACKGROUND

The directors' fees for CCHL were last reviewed in 2001 following the Council elections in that year. In accordance with the Council's policy for the appointment and remuneration of directors they are now due to be reviewed again.

The current fees paid to CCHL Board members are:

Current	Number	Current fee	Total
Chairperson (Councillor)	1	\$ 28,000	\$ 28,000
External directors	3	22,500	67,500
Councillor directors	5	14,000	70,000
TOTAL	<u>9</u>		<u>165,500</u>

Council Policy re CCHL Board Remuneration

In May 2003, the Council approved a new policy on director appointment and remuneration for CCHL and other CCTOs and CCOs. In relation to CCHL, the policy states:

“Periodically, normally every three years but more frequently if considered appropriate, CCHL will review the level of remuneration being paid to the boards of the CCTOs.

As part of this function, CCHL will also review the levels of fees considered appropriate for the CCHL board after the triennial Council elections.

Effective from the scheduled review of remuneration in 2004, the fees for CCHL directors will be assessed using the same methodology that is used for other CCTOs, with no distinction made between external and Councillor directors.

CCHL will then report to the Council with a recommendation with regard to the level of fees for the CCHL board. When the Council considers this issue, those Councillors who are directors of CCHL or any other CCTO may not take part in discussions or vote on the issue

CCHL will arrange and pay for directors' liability insurance, and indemnify each of the directors.”

The above policy refers to the methodology used for other CCTOs. This policy relates to the use of average data from the published IOD survey and applied to the revenues, assets and equity of the companies.

Given the requirements of the new Council policy, and taking into account the considerations noted in this report, there is a reasonable case for applying the results of this review without adjustment. CCHL's role and profile is steadily developing, and it is important that it presents a credible face to the business community and the wider public. To do this it needs to attract the best directors available (both external and Councillor).

THE OPTIONS

Option 1 - Status Quo

This option would be inappropriate since no review has taken place for three years and the policy of Council anticipates such a review. In addition it is important that the directors are rewarded in accordance with market trends because skilled directors are important to the effective direction of the Council's portfolio of companies and they are entitled to be awarded in accordance with the responsibilities which are undertaken.

Option 2 - Application of Data from IOD/Strategic Pay Annual Directors' Fees Survey

This is the methodology anticipated in the Council Policy. CCHL generally applies this methodology to the subsidiary trading companies. The survey data is published annually and application of the average results to the various factors produces an average fee which is in line with the similar sized companies in New Zealand in the past year (i.e. one years lag). The factors which apply to CCHL (parent company accounts only) are:

Nature of company	Local Government
Turnover	\$47 million
Total Assets	\$974 million
Shareholders Funds	\$815 million
Staff	NIL.

An argument could reasonably be mounted for the group account figures to be applied and this is more normal (see comments in attached letter from Sheffield).

Applying the results of the 2004 IOD/Strategic Pay survey without adjustment would result in the following fee levels:

2004 IOD survey	Number	New fee per IOD survey	Total
		\$	\$
Chairperson (external)	1	47,200	47,200
External directors	3	25,200	75,600
Councillor directors	4	25,200	100,800
TOTAL	<u>8</u>		<u>223,600</u>

Option 3 - Independent Advice

The staff calculated the fees set out in option 2 above and placed them before a recent meeting of the CCHL Board for review. The Board was concerned to ensure that the fees sought should be assessed on a more independent basis and as result advice was sought from the Auckland office of Sheffield Consulting who have experience in this field and a good data base of current practice.

The full advice received from Sheffield is set out in the attached letter and can be summarised as follows:

Summary of Sheffield recommendations

Position	Current fees	Current totals	Proposed fees	Proposed totals
	\$	\$	\$	\$
Chairperson	28,000	28,000	52,500	52,500
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Councillor Directors	14,000	70,000	28,500	114,000
Totals		<u>165,500</u>		<u>252,000</u>

It is worth noting that Sheffield have based their recommendations on the lower quartile market rates for the infrastructure sector rather than average or median rates across all companies as applied in option 2 above. One of the reasons for choosing the lower quartile is to recognise that CCHL has an indirect role in managing CCTOs and its broader portfolio management charter.

External Comparisons

There are not many directly comparable entities to CCHL. Dunedin City Holdings Ltd would be the closest model in New Zealand, and its board remuneration is summarised below. However, while the fees of the DCHL parent directors are low, this is partially compensated for by the fact that the directors also sit on the majority of the subsidiary company boards as well.

Dunedin City Holdings	Parent	Aurora	Delta	Citibus	City Forests	Total
Chairperson	17,600	21,300	18,400	9,200	17,800	84,300
Directors	10,800	10,800	10,300	6,200	10,100	48,200

NB These figures include simplifying assumptions and should be treated as a rough guideline only

The Preferred Option

Having received the independent advice the CCHL Board considers that this is the most appropriate fee level and recommends it to Council for adoption.

There are significant differences from the current fees but to put them into some context it is relevant to refer to the following table which summarises the current fees paid to the CCHL subsidiary boards:

Current	ONZ	CIAL	LPC	RBL
Chairperson	55,500	43,000	47,000	39,360
Deputy/Committee chair	36,500	31,000	29,000	24,600
Directors	31,500	21,500	23,500	19,680
TOTAL	250,500	160,000	170,000	123,000

The CCHL Board strongly concurs with the Council policy which is for Councillor directors to be paid on the same basis as external directors. This has not been the case in the past.

All directors have the same responsibility and liability for the direction of the business and it is important that all directors around the board table take the business with the same level of seriousness and are rewarded accordingly. This is in the best interests of the Council and the community in the long run as it is a critical ingredient in the ongoing performance of the company for the benefit of the city.

The role of deputy chairperson of CCHL is not any more onerous than that of an ordinary director and therefore no additional remuneration is sought for this position. Neither is additional remuneration sought for the chair of the special committees. However, if unrealistic fees are paid to CCHL it would be necessary to reconsider this latter aspect.

Report Approval

This report has been reviewed and approved by the Board of Christchurch City Holdings Limited.