

**ADELAIDE HILLS COUNCIL
CEO PERFORMANCE REVIEW PANEL MEETING
Thursday 9 August 2018
CONFIDENTIAL AGENDA BUSINESS ITEM**

Item: 10.2

Originating Officer: Megan Sutherland, Executive Manager Organisational Development

Responsible Director: Andrew Aitken, Chief Executive Officer

Subject: 2018 CEO Remuneration Review

For: Decision

1. 2018 CEO Remuneration Review – Exclusion of the Public

Pursuant to section 90(2) of the *Local Government Act 1999* the Panel orders that all members of the public, except:

- CEO, Andrew Aitken
- Executive Manager Governance & Performance, Lachlan Miller
- Executive Manager Organisational Development, Megan Sutherland

be excluded from attendance at the meeting for Agenda Item 10.2: (2018 CEO Remuneration Review) in confidence.

The Panel is satisfied that it is necessary that the public, with the exception of Council staff in attendance as specified above, be excluded to enable the Panel to consider the report at the meeting on the following grounds:

Section 90(3)(a) of the *Local Government Act 1999*, the information to be received, discussed or considered in relation to this Agenda Item is information the disclosure of which would involve the unreasonable disclosure of information concerning the personal affairs of any person (living or dead), being the personal affairs of the Chief Executive Officer, in that details of his performance review will be discussed.

Accordingly, on this basis the principle that meetings of the Panel should be conducted in a place open to the public has been outweighed by the need to keep the information and discussion confidential.

2. 2018 CEO Remuneration Review – Confidential Item

SUMMARY

The Employment Agreement (the Agreement) between Council and the Chief Executive Officer (CEO) provides for the annual review of the Total Employment Cost Package (the TEC Package) in conjunction with the performance review process.

In undertaking a review of the TEC Package in accordance with the Agreement, the Panel will need to consider the outcome of the performance review, the CEO position description, movements in the CPI and remuneration paid to CEOs of similar sized councils.

The Panel will need to make a recommendation to Council regarding any changes to the TEC Package, with those changes to take effect from the anniversary of the commencement date or as agreed.

RECOMMENDATION

The CEO Performance Review Panel resolves:

1. That the report be received and noted
2. Recommends to Council to increase the CEO's TEC Package by 2.95% to commence from 1 July 2018.

1. GOVERNANCE

➤ Strategic Management Plan/Council Policy

Goal	Organisational Sustainability
Key Issue	Governance

We diligently adhere to legislative requirements to ensure public accountability and exceed these requirements where possible.

➤ Legal Implications

The CEO Performance Review Panel is a Section 41 of Committee of Council under the *Local Government Act 1999*.

The remuneration review process needs to be undertaken appropriately to ensure the CEO is provided with a fair and consistent approach to the review of his performance that directly affects decisions made in relation to the CEO's remuneration.

Section 91 (Minutes and release of documents), s96 (Council to have a chief executive officer) and s105 (Register of remuneration, salaries and benefits) of the *Local Government Act 1999* provide direction in this regard.

➤ **Risk Management Implications**

Undertaking regular review of the CEO's performance is an important control mitigating the risk of:

Deficient CEO performance review practices resulting in a lack of accountability and loss of stakeholder confidence in the organisation.

Inherent Risk	Residual Risk	Target Risk
Medium (3C)	Medium (3D)	Medium (3D)

Note: there are many other controls that also assist in managing this risk.

Non-achievement of CEO performance targets result in loss of community benefit and/or opportunities and/or stakeholder confidence in the organisation.

Inherent Risk	Residual Risk	Target Risk
High (3B)	Medium (3D)	Medium (3D)

Note: there are many other controls that also assist in managing this risk.

➤ **Financial and Resource Implications**

If any change is decided there will be a budget impact on any increase in the TEC Package. This would be incorporated into the annual budget.

➤ **Customer Service and Community/Cultural Implications**

There is a community expectation that the performance of the CEO is reviewed in a robust and comprehensive manner.

➤ **Environmental Implications**

Not applicable.

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

Council Committees: A confidential debrief between the consultant and the Panel on the draft 2018 CEO Performance Review Report occurred on Monday 30 July 2018.

Council Workshops: Not applicable.

Advisory Groups: Not applicable.

Administration: Not applicable.

Community: Not applicable.

2. BACKGROUND

CEO Performance Review Panel (the Panel)

The role and specific function of the Panel, as described in the Terms of Reference (1 September 2017) are:

‘2. ROLE

2.1 The Council is responsible for the selection, remuneration and management of the Chief Executive Officer (CEO). The overall role of the Panel is to provide advice to Council on matters relating to the performance and development of the CEO.

3. SPECIFIC FUNCTIONS

3.1 The function of the Panel is to provide advice to Council on the CEO’s performance and development, including the following matters:

- 3.1.1 Determining the Performance Targets for the forthcoming 12 month performance period;*
- 3.1.2 Monitoring the progress on the CEO’s agreed Performance Targets for the current 12 month performance period;*
- 3.1.3 Reviewing the CEO’s performance over the preceding 12 month performance period, in particular the performance against the agreed Performance Targets and position description requirements;*
- 3.1.4 Identifying development opportunities for the CEO; and*
- 3.1.5 Reviewing the remuneration and conditions of employment of the CEO.’*

CEO Employment Agreement (the Agreement)

On 28 March 2017, Council resolved to appoint Andrew Aitken as the Chief Executive Officer (CEO) of the Adelaide Hills Council for a term of 5 years subject to the execution of the second Agreement.

The development of the second Agreement included the renegotiation of the Total Employment Cost (TEC) Package commencing from 1 July 2017.

The agreed Total Employment Cost Package (detailed in Schedule 2 of the Agreement) is:

Annual base salary	\$219,178.08
Employer superannuation (9.5% of annual base salary)	\$20,821.92
Full and unrestricted use of fully maintained vehicle	\$10,000.00
TOTAL TEC	\$250,000.00

The Agreement contains the provisions for the review of the Total Employment Cost (TEC) Package in Clause 13 that must be used when considering any change in TEC as follows:

- 13.1 *The TEC Package specified in Clause 10 and Schedule 2 shall be reviewed annually in conjunction with the performance review process and outcomes.*
- 13.2 *The TEC Package review will be conducted each year following the performance review set out in Clause 12 (if reasonably practicable), and any change to the TEC Package shall take effect from the anniversary of the Commencement Date or as agreed.*
- 13.3 *The review of the TEC Package will take into account the following:*
 - 13.3.1 *The agreed key performance indicators;*
 - 13.3.2 *The CEO's Position Description;*
 - 13.3.3 *Movements in the Consumer Price Index (all groups) Adelaide as issued by the Australian Bureau of Statistics for the year ending in the quarter immediately preceding the review;*
 - 13.3.4 *Remuneration paid to CEO's of councils in South Australia; and*
 - 13.3.5 *Any other factors the Council considers relevant.*
- 13.4 *Notwithstanding Clause 13.3, the parties acknowledge that, in undertaking any review of the TEC Package, the CEO is not, as a right, entitled to any annual increase of the TEC Package.*

CEO's Position Description

The position description as contained in the Agreement is based on the requirements of s99 – Role of chief executive officer and is a standard used across many councils within the local government sector.

2018 Performance Review Process

The performance review is the subject of another agenda report (10.1 – 2018 CEO Performance Review) at the Panel's meeting. While it is not intended to prejudice the Panel's consideration of the matter, the performance review report proposes that the Panel consider making a recommendation to Council on the outcome of the CEO's performance of an overall rating of 'exceeded expectations'.

Consumer Price Index (CPI) – June Qtr

A baseline factor that is commonly considered is the movement in the annual CPI. The most recent report from the Australian Bureau of Statistics (ABS) shows the following annual CPI figures to the end of June 2018.

Quarter	National CPI	Adelaide CPI
June 2018	2.1%	2.7%

Wage Price Index (WPI)

WPI measures annual movements in remuneration nationally. Movement for the March 2018 quarter was 2.1% (the June figures are not yet available).

Remuneration of CEOs

Data is provided on CEO Remuneration for Group 2 Councils, the group Adelaide Hills Council is grouped by the SA Remuneration Tribunal in Table 1.

Council	Total Remuneration
Alexandrina Council	\$ 246,890
Campbelltown	\$ 294,000
Holdfast Bay	\$ 261,120
Mount Gambier	\$ 272,800
Prospect	\$ 244,664
Unley	\$ 267,849
Mount Barker	\$ 232,968
Barossa	\$ 247,810
Burnside	\$ 231,664
Norwood Payneham, St Peters	\$ 277,205
Murray Bridge	\$ 258,327
Gawler	\$ 249,462
Average	\$ 257,063

Table 1

Table 2 shows a smaller group of Councils that CEO remuneration has been compared against in the past.

Council	Total Remuneration
Alexandrina Council	\$ 246,890
Campbelltown	\$ 294,000
Unley	\$ 267,849
Mount Barker	\$ 232,968
Norwood Payneham, St Peters	\$ 277,205
Gawler	\$ 249,462
Average	\$ 261,396

Table 2

3. ANALYSIS

It is important to give consideration to the elements of the TEC, Clause 13.3 (stated above), the data related to those elements (provided above) and consideration of the outcome of the 2018 CEO Performance Review Report.

From the consultants '2018 CEO Remuneration Review Report' (Report), advice provided shows:

'It is clear from the Table (1) above that the current remuneration of the CEO at \$250,000 is below the average of the Group 2 Councils (about 2.7%).

Using the smaller number of Councils against which to benchmark increases the average CEO remuneration to \$261,396. This places the CEO for AHC about 4.6% behind that average.' (Table 2)

'The data presented above would indicate that the CEO is just below the market for remuneration when considering the Group 2 Councils. Council should also consider the positive performance review feedback contained in this report. It demonstrates the CEO has performed at a level of at least meeting expectation, but in most views he has exceeded expectation.

It is our view the CEO's increment should be within the range from 2.7% (the annual movement in CPI for Adelaide at June 2018), and up to 4.0% which would make remuneration more market competitive and reward positive performance feedback.'

The Panel must decide on whether to maintain the current TEC package or improve the TEC package in real terms.

4. OPTIONS

The Panel has the following options:

1. Having considered the factors listed in Clause 13.3 in relation to the review of the TEC Package, the Panel may resolve to recommend to Council to increase the TEC Package as per Schedule 2 of the Employment Agreement. (Recommended)
2. Having considered the factors listed in Clause 13.3 in relation to the review of the TEC Package, the Panel may resolve to recommend to Council to increase the TEC Package as per Schedule 2 of the Employment Agreement by a different percentage than recommended in this report.
3. Having considered the factors listed in Clause 13.3 in relation to the review of the TEC Package, the Panel may resolve to recommend to Council to retain the TEC Package as per Schedule 2 of the Employment Agreement. (Not Recommended)

5. APPENDIX

Nil

3. 2018 CEO Remuneration Review – Period of Confidentiality

Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing the Panel’s decision(s) in this matter in the performance of the duties and responsibilities of office, the Panel, having considered Agenda Item 10.2 in confidence under sections 90(2) and 90(3)(a) of the *Local Government Act 1999*, that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* that the report, related attachments and the minutes of Council and the discussion and considerations of the subject matter be retained in confidence until the CEO’s TEC Package has been resolved and the CEO has been advised in writing.