

I hereby give notice that an ordinary meeting of the Council Controlled Organisations Governance and Monitoring Committee will be held on:

**Date:** Tuesday, 3 February 2015  
**Time:** 9.00am  
**Meeting Room:** Rooms 1 and 2  
**Venue:** Level 26, 135 Albert Street  
Auckland

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## **Council Controlled Organisations Governance and Monitoring Committee**

### **OPEN ADDENDUM AGENDA**

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#### **MEMBERSHIP**

<b>Chairperson</b>	Deputy Mayor Penny Hulse
<b>Deputy Chairperson</b>	Cr Calum Penrose
<b>Members</b>	Cr Anae Arthur Anae
	Cr Cameron Brewer
	Cr Dr Cathy Casey
	Member Precious Clark
	Cr Ross Clow
	Cr Linda Cooper, JP
	Cr Chris Darby
	Cr Denise Krum
	Cr Dick Quax
	Cr Penny Webster
	Member Glenn Wilcox
	Cr George Wood, CNZM
<b>Ex-Officio</b>	Mayor Len Brown, JP

(Quorum 7 members)

**Jaimee Maha**  
**Democracy Advisor**

**29 January 2015**

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## Governance Review for Auckland Council's Council Controlled Organisations (CCOs)

File No.: CP2014/18749

### Purpose

1. To review and make decisions to the governance and policy documents for Auckland Council's Council Controlled Organisations (CCOs).
2. To review specific sections from the Board Appointment and Remuneration policy and the Shareholder Expectation Guide (under development as the Governance Manual). Documents are available at <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Pages/Home.aspx>.

### Executive summary

3. The council is required, under section 57 of the Local Government Act 2002 (LGA 2002), to adopt a policy setting out an objective and transparent process for appointing and remunerating directors and reviewing the performance of council organisations. This report provides an overview of the recommended changes to the council's policy of appointing and remunerating directors.
4. The CCO Review has reviewed the way in which Auckland Council undertakes its governance programme. The key areas for improvement are:

#### Board Appointment & Remuneration recommended policy

##### (a) New appointments:

- (i) a Nomination Panel, made up of the Chief Executive of Auckland Council, Mayoral Chief of staff, Chair of the CCO, an independent governance professional and an IMSB member. The Nomination Panel is responsible for short-listing the candidates.
  - (ii) an Interview Panel, made up of the Chief Executive of Auckland Council, Chair or Deputy Chair of the CCO Governance and Monitoring Committee, Chair of the CCO, an independent governance professional and an IMSB member. The Interview Panel is responsible for interviewing up to three candidates and recommending the preferred candidate to the CCO Governance and Monitoring Committee for approval.
- (b) Fee Setting for board members to be amended from an annual review to once every triennium following council elections.
  - (c) Cross-pollination of directors would ensure better utilisation of director skills and expertise and encourage alignment among complimentary CCOs (e.g. Regional Facilities Auckland and ATEED).
  - (d) The appointment and remuneration of a CCO Chief Executive requires prior discussion with the Nomination Panel.
  - (e) In exceptional circumstances the Auckland Council's Chief Executive and his or her representative can be appointed to a CCO board
  - (f) Council employees would not be remunerated if they serve as a director of a CCO as the role is deemed to be part of the employees normal duties
  - (g) Elected members will be ineligible to serve as a director of a CCO

- (h) Incorporate a new section on Board Observers of substantive CCOs detailing the scholarship programme and the potential pathways for those successful candidates competing the programme

Governance Manual (formerly Shareholder Expectation Guide)

- (a) Board Performance review: a board-led review to be undertaken by the Chair once every triennium and on completion notification to the CCO Governance & Monitoring Committee

## Recommendations

That the Council Controlled Organisations Governance and Monitoring Committee:

- a) agree the proposed changes to the Board Appointment and Remuneration policy including:
- i) amending Section 4.4.2 : New Appointments
    - 1.1 a Nomination Panel, made up of the Chief Executive of Auckland Council, Mayoral Chief of staff, Chair of the CCO, an independent governance professional and an IMSB member. The Nomination Panel is responsible for short-listing the candidates
    - 1.2 an Interview Panel, made up of the Chief Executive of Auckland Council, Chair or Deputy Chair of the CCO Governance and Monitoring Committee, Chair of the CCO, an independent governance professional and an IMSB member. The Interview Panel is responsible for interviewing up to three candidates and recommending the preferred candidate to the CCO Governance and Monitoring Committee for approval
- b) agree to amend Section 5.2 Fee Setting: Board members' remuneration will be reviewed once per triennium, following council elections
- c) agree to amend Section 4.7.4 Other exclusions: Board members may serve on the board of more than one substantive CCO where cross-pollination would provide for better utilisation of director skills and expertise and encourage alignment among complimentary CCOs (e.g. Regional Facilities Auckland and ATEED)
- d) agree to add to Section 4.7.3 Appointment *and remuneration* of CCO Executives : The appointment and remuneration of a CCO Chief Executive requires prior discussion with the Nomination Panel
- e) agree to amend Section 4.7.2 Appointment *and remuneration* of Council Officers : In exceptional circumstances Auckland Council's Chief Executive and his or her representative can be appointed to a CCO board. Council Officers will not be remunerated if they serve as a director of a CCO as the role is deemed to be part of the employees normal duties
- f) agree to add to Section 4.7.1: Elected members will be ineligible to serve as a director of a CCO
- g) agree to add to Section 6.0 Board Observers : Incorporate a new section detailing the Board observer (future director) scholarship programme and the potential pathways for those successful candidates following completing of the programme
- h) agree to the proposed changes to the new Governance Manual (formerly Shareholder Expectation Guide):
- i) amend Section 6 Board Performance Review : a board-led review to be undertaken by the Chair, with notification on completion to the CCO Governance and Monitoring Committee

## Comments

5. Auckland Council's CCOs are responsible for delivering on key strategic objectives for the Auckland Council.
6. Ensuring the CCO boards are competently equipped to deliver on their strategic objectives is a key governance mechanism for the CCO Governance & Monitoring Committee.
7. The Board Appointment and Remuneration policy and Governance Manual (under development, formerly Shareholder Expectation Guide) are two key policy documents that guide both the Council and the CCOs.
8. The two policy documents have been reviewed in the following areas : board appointments, remuneration, performance review, appointment and remuneration of staff and remuneration of elected members.
9. A desk-top review of similar policy documents and information from Nick Hill<sup>1</sup> has been provided to councillors for their information.
10. With a view to developing and implementing a best-practice approach to the criteria outlined in paragraph 8, staff recommend the following amendments outlined in the tables below.

### Board Appointment & Remuneration policy (the policy)

11. The policy was initially adopted in February 2011, with an in-depth review completed in December 2011, and a minor review in 2013.
12. The CCO Governance & Monitoring Committee agreed to incorporate a governance review into the *Working Better Together* work stream of the CCO Review.
13. The amendments to the Board appointment and remuneration policy are summarised below.

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<sup>1</sup> Nick Hill is a director of Martin Jenkins and a former chief executive of the Commerce Commission and Sport & Recreation New Zealand.

Appointment Policy

Issue	Current policy	Amendment to the policy	Benefits
Board appointments : shortlisting	Undertaken by CCO Governance & Monitoring Committee	Nomination Panel made of up <ul style="list-style-type: none"> <li>- Chief Executive of Auckland Council</li> <li>- Mayoral Chief of Staff</li> <li>- CCO Chair</li> <li>- An independent governance professional</li> <li>- An IMSB member</li> </ul>	Continuity of membership of the Nomination Panel will bring <ul style="list-style-type: none"> <li>- Greater focus on succession planning</li> <li>- Greater focus on complimentary skill mix on boards (reducing duplication of skills and better utilisation of directors expertise)</li> </ul> Other benefits <ul style="list-style-type: none"> <li>- Greater responsibility on the Nomination Panel (and Recruitment Agency) to identify quality directors and increase “diversity of thought” on board</li> </ul>
Board appointments : interviewing	Undertaken by CCO Governance & Monitoring Committee	Interview Panel made up of <ul style="list-style-type: none"> <li>- Chief Executive of Auckland Council</li> <li>- Chair or Deputy Chair of CCO Governance &amp; Monitoring Committee</li> <li>- CCO Chair</li> <li>- An independent governance professional</li> <li>- An IMSB member</li> </ul>	Continuity of membership of the Interview Panel will bring <ul style="list-style-type: none"> <li>- Greater focus on succession planning</li> <li>- Greater focus on complimentary skill mix on boards (reducing duplication of skills and better utilisation of directors expertise)</li> </ul> Other benefits <ul style="list-style-type: none"> <li>- Frees up councilors time commitments and committee timeline</li> <li>- Ensures an appropriate mix of political oversight and independent governance advice</li> </ul>

Other Policy Amendments

Issue	Current policy	Amendment to the policy	Benefits
Remuneration Review	Alternates between a full review to assess whether board remuneration is appropriate and market movement	Full review following council elections (one only per triennium)	<ul style="list-style-type: none"> <li>- Is consistent with current practices of other councils (WCC, TCC, CCC)</li> <li>- Is consistent with central government approach</li> <li>- Gives confidence to directors that remuneration is appropriately reviewed triennially</li> </ul>
Cross-pollination of directors	Board members may not serve on the board of more than one substantive CCO	Board members may serve on the board of more than one CCO	<ul style="list-style-type: none"> <li>- Would encourage greater alignment between complimentary CCOs ( e.g. RFA and ATEED)</li> <li>- Better utilisation of directors skills and expertise</li> </ul>
Appointment and remuneration of CCO Chief Executive	Silent	Requires prior discussion with the Nomination Panel	<ul style="list-style-type: none"> <li>- Opportunity to assist CCOs with executive appointments</li> <li>- Ensures CCOs are cognisant of Auckland Council's executive remuneration policy</li> </ul>
Council staff on CCO Board	Council officers are ineligible to serve as a director on a substantive CCO	In exceptional circumstances the appointment of Auckland Council's Chief Executive and his or her representative	<ul style="list-style-type: none"> <li>- Council risk is reduced if board appointment to a CCO is required (only in exceptional circumstances)</li> <li>- Amends the Board Appointment &amp; Remuneration policy to align with current CCO Constitutions (as reviewed in June 2012)<sup>2</sup></li> </ul>
Remuneration for council staff	Silent	No remuneration for council staff	<ul style="list-style-type: none"> <li>- Is consistent with current practices of other councils (WCC, TCC CCC)</li> </ul>
Elected members on CCO Board	Ineligible with the exception of Auckland Transport	Elected members ineligible	<ul style="list-style-type: none"> <li>- Best practice would be to not have elected members on CCO Boards due to the inherent conflict of interest</li> </ul>
Board Observers	Silent	Board Observer (Future Directors Programme) incorporated into the policy)	<ul style="list-style-type: none"> <li>- Updates the policy to reflect current practices</li> </ul>

<sup>2</sup> This policy change is recommended merely to align the policy with the CCOs Constitutions and would only be implemented in **exceptional circumstances**. Staff are of the view that governance best practice would not be to have staff or elected members on CCO Boards due to the inherent conflict of interest.

Governance Manual (formerly Shareholder Expectation Guide)

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14. The amendments to the Governance Manual are summarised in Table 2 below.

Issue	Current policy	Amendment to the policy	Benefits
Board Performance Review	Alternates between Shareholder review and board-led review (18months)	Board-led review with notification to the CCO Governance & Monitoring Committee on completion highlighting any high-level/critical areas for concern, if any.	<p><b>Ongoing Monitoring</b> : CCO Review (Working Better Together) will implement new mechanisms to provide confidence to the council that CCOs are responsive to shareholders expectations. Mechanisms include</p> <ul style="list-style-type: none"> <li>- adequate level of in-depth monitoring through quarterly reporting programme</li> <li>- audit and risk analysis</li> <li>- communication and collaboration</li> <li>- key relationships</li> <li>- as required strategic review</li> </ul> <p><b>Board-led review</b> : CCO Chair can share relevant information with the council (and Nomination Panel) to ensure skill-gaps and expertise requirements are adequately represented around the board table</p>

## Consideration

### Local board views and implications

15. Under section 57 of the Local Government Act 2002 (LGA 2002), adopting a policy that sets out an objective and transparent process for appointing and remunerating directors and reviewing the performance of council organisations is the role of the governing body.

### Māori impact statement

16. The recommended amendments to the policy incorporating IMSB representation on the Nomination and Interview Panels reflect the outcomes recommended in the IMSB Schedule of Issues of Significance, Principle Four : Partnership, by

i) assisting IMSB to build robust and meaningful relationships with CCOs at a decision-making level (Action 7.6); and

ii) advocating and assisting with the appointment of more Maori directors on boards of CCOs (Action 7.8).

## Implementation

17. The CCO Governance & External Partnerships will implement the recommendations from this committee to amend the Board Appointment and Remuneration policy and Governance Manual. The CCOs will be advised of amendments to the policy documents.

## Attachments

No.	Title	Page
A	Martin Jenkins Advice	11

## Signatories

Authors	Josie Meuli - Senior Advisor
Authorisers	John Bishop - Treasurer and Manager CCO Governance & External Partnerships Stephen Town - Chief Executive

MARTIN  
JENKINS

22 January 2015

Josie Meuli  
Senior Advisor  
Auckland Council

Dear Josie

### CCO Board Appointment Practices

Auckland Council is reviewing its policies and processes for the appointment of board members to CCOs. You have asked Martin Jenkins for some advice on good practice. In particular, you are interested in the role Councillors ought to play in the process for appointing new board members and how frequently CCO Board Member remuneration should be reviewed.

The following is high level advice based on applying general principles and drawing on knowledge of approaches used elsewhere. It is not based on a detailed review of current practice in the Auckland Council.

### Board Member Appointment Processes

#### Current Auckland Council Practice

Under the Local Government Act 2002, "...a local authority may appoint a person to be a director of a council organisation if the person has, in the opinion of the local authority, the skills, knowledge or experience to (a) guide the organisation given the nature and scope of its activities; and (b) contribute to the achievement of the objectives of the organisation."

The CCO Governance and Monitoring Committee of the Governing Body is responsible for appointing board members.

The Committee identifies the skills, knowledge and experience required for a vacant position. A variety of methods is used to find suitable candidates. A full list of candidates is then assembled following a process of screening, and this list is provided to the Subcommittee with a recommended short-list of 2 to 3 candidates.

The Committee decides on the short-list and appoints a panel to interview the candidates. The panel comprises up to two Committee members, an IMSB member, the CEO, the relevant CCO Board Chair and an industry specialist (where appropriate). The panel recommends a preferred candidate to the Committee, which then makes the appointment.

The following provides two contrasting examples of central government board appointment processes; the UK government process (which is considered good practice), and the Treasury process.



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### UK government practice

The UK government provides a good example of a robust and transparent appointment process for central government ministerial appointments to boards. The UK has a Code of Practice with three principles to guide public appointments:

- *Merit: providing a choice of high quality candidates whose skills, experience and qualities have been judged to best meet the needs of public office.*
- *Fairness: selection processes that are objective, impartial and consistently applied to all candidates.*
- *Openness: information about the requirements of the post and the selection process must be publicly available.*

These principles are met in large part by separating the judgement of merit of candidates from the final decision to appoint.

A selection panel is used which identifies at least two suitable candidates for consideration by the Minister who will then make the appointment. The Minister is not a member of the selection panel.

### NZ Treasury Practice

In NZ, the Treasury process (previously COMU) for appointing board members to crown entities and SOEs involves the following steps:

- Treasury identifies the board member profile with the Chair of the entity or SOE
- The Minister agrees the profile
- Treasury manages the candidate search and develops a long-list
- The Minister agrees the short-list for "due diligence" interview
- "Due diligence" interviews are conducted by Treasury with the crown entity or SOE Chair and Treasury reports with a recommendation to the Minister
- The Minister confirms a preferred candidate which is formally agreed by Cabinet.

The Treasury process differs from the UK model in that the Minister continues to be a key decision-maker throughout the process, rather than approving a process that delegates to a selection panel the task of producing a short-list of quality candidates (whose skills, experience and qualities meet the needs of the entity or SOE) from which the Minister makes the choice.

### Board Member Remuneration Review Frequency

Finally, you have sought comment on how frequently the Council should review CCO board member fees.

Auckland Council's current practice is to undertake a full review of CCO board fees every two years, with a market update review each intervening year. The full review involves an assessment of whether a CCO's ratings against the remuneration criteria remain accurate taking into account (1) any changes within the CCO and (2) any new information available since the previous full review.



Given the current economic environment, where remuneration adjustments are tending to be more restrained, the Council could consider undertaking a full review every three years.

Yours sincerely

Nick Hill  
Director

DRAFT

