

Cherwell District Council

Council

8 November 2016

Remuneration for Councillors Appointed as Non-Executive Directors on Graven Hill Companies

Report of Head of Law and Governance

This report is public

Purpose of report

To determine the levels of the allowances to be paid to elected Members who are Non-Executive Directors of Graven Hill Companies for the remainder of the 2016/2017 financial year following the submission of the report of the Council's Independent Remuneration Panel (IRP) and to approve a mechanism to ensure the legality of any remuneration that might be paid, in future, to councillor directors on council owned companies.

To consider the size of the Independent Remuneration Panel and the remuneration the Panel members should receive.

1.0 Recommendations

The meeting is recommended to:

- 1.1 Consider the proposed allowances and whether the Panel's recommendations should be adopted or modified in any way
- 1.2 Authorise the Head of Law and Governance to prepare an amended allowance scheme, for Councillors appointed as Non-Executive Directors in accordance with the decisions of the Council for implementation
- 1.3 Authorise the Head of Law and Governance to take all necessary action to publicise the Scheme pursuant to The Local Authorities (Members's Allowances) (England) Regulations 2003 (as amended).
- 1.4 Thank the Independent Remuneration Panel and agree to increase the size of the Panel to seven members and to introduce a revised fee for IRP members of £300 for each consultation, capped at a maximum of £1200 per annum.

2.0 Introduction

- 2.1 During the 2016 review of Member Allowances the Panel were asked to consider remuneration for councillors appointed as Non-Executive Directors of the Graven Hill Companies. At that meeting, the panel were of the view that it was not part of their remit to set these allowances as at the time it was proposed that allowances would have been paid by the companies as opposed to by the council.
- 2.2 At a special meeting of Executive on 18 July 2016, members considered a report on “Cherwell’s Approach to Working with Council Controlled/Influenced Companies” and agreed in principle that non-executive directors and Chairmen of Council owned/influenced should be remunerated by the council (recharged to the companies through a management charge levied on the companies for supplying non-executive directors.) Council remuneration helps ensure transparency; all payments would be made by the council as part of an evaluated and open reported process. The process would not involve non-executive directors on a Board setting their own remuneration. It is in this context the Independent Remuneration Panel (IRP) has been requested to consider the level of allowance to be paid.
- 2.3 A special meeting of the Panel was therefore set up to consider remuneration for councillor’s appointed as Non-Executive Directors on the Graven Hill companies.
- 2.4 The Council is required to have regard to the Panel’s recommendations, but is under no obligation to accept them if they are deemed to be inappropriate. It is open to the Council to decide the levels of the recommended allowance payments for the remainder of 2016/2017 financial year as is considered appropriate.

3.0 Report Details

- 3.1 In the report “Cherwell’s Approach to Working with Council Controlled/Influenced Companies” considered by the Executive on 8 July 2016, the Council set out its approach with regard to appointments to council/owned entities.
- 3.2 Since the Council set up the Graven Hill Companies over two years ago, both the Council (as the majority shareholder of the holding company and, via that company, the controlling shareholder of the development company) and the companies themselves have further developed their attitudes to governance and commercial practice. The companies are focussed on delivering a major mixed use development, including a significant amount of self-build, including affordable housing space and community facilities generating profit that can ultimately be returned to the Council.
- 3.3 It is accepted that through the creation of commercially operating companies controlled by the Council it is encouraged to introduce governance arrangements that reflect best practice of potential private sector competitors, and that recommended by the UK corporate governance code (published by the Financial Reporting Authority), and not to be guided solely by traditional public service values. This particularly extends to the composition and remuneration of a Company Board of Directors

- 3.4 The Graven Hill companies were created with a view to being highly profitable and commercial organisations. In addition a conscious decision was made by the council that the companies would recruit non-executive directors from both the paid executive officers and serving elected members of the Council. This core principle was translated into the articles of association of the companies.
- 3.5 From time to time the question has arisen “should Company (non-executive) directors be remunerated for their responsibilities and contribution to running the business?” At present the non-executive members of the Board of Directors, including the Chairman, of the Companies are not. From discussions with the company and Directors it has become apparent that the level of work and responsibility of non-executive directors is significant and is more akin to the role of a councillor or officer holding a responsible position within the Council, particularly where that non-executive director has taken on the role of Chairman, Vice Chairman or responsibility for finance. For these reasons it is recommended that the Council should remunerate the non-executive directors it nominates.
- 3.6 As the companies have developed the role of the board and the requisite skills, knowledge and experience of non-executive director’s has become clearer. As a result of this the council has adopted a revised way of appointing non-executive directors to ensure that they have a clear expectation of what the role entails and are able to meet the needs of this role. With the introduction of remuneration for non-executive directors the council feels that it is a suitable time to review its existing director nominees and propose further directors to fill vacancies on the boards. In order to carry this out the council has adopted a role profile for non-executive directors (set out at Appendix 2) against which all potential non-executive directors will be independently assessed and recommendations made to the shareholders as to their suitability for the role, prior to the council proposing non-executive directors to the boards of the companies.
- 3.7 It is noted that in order to address the skills and knowledge needs of the boards of Council owned/influenced companies, Boards may want to appoint independent Non-executive Directors and their remuneration and appointment should be a matter for the company themselves to determine.
- 3.8 It should be noted that there are limits to the level of remuneration that a councillor director on a council owned/influenced company may receive. In accordance with the Local Authorities (Companies) Order 1995 any remuneration that a council controlled or influenced company might pay to its councillor directors must not exceed the amount payable to councillors in respect of a comparable duty under the Members’ Allowances Scheme.

Non-Executive Director Allowances: Elected Members

- 3.9 Based on the information provided to the Panel as detailed in appendix 1, it recommends that with regard to elected members serving as non-executive directors on the Graven Hill companies:

(a) the following rates which are comparable to that of the Chairman of Planning Committee, should apply for the remainder of financial year 2016/17 to:

	2016/17
Non-Executive Directors Graven Hill Village Holding Company Limited (HOLDCO)	£4200
Non-Executive Directors Graven Hill Village Development Company Limited (DEVCO)	£4200

(b) the following rates which are comparable to that of an Executive Lead Member, should apply for the remainder of financial year 2016/17 to:

Non-Executive Director appointed to both HOLDCO and DEVCO	£6300
Non-Executive Director of either HOLDCO or DEVCO who is also Chairman of the Board	£6300

(c) the following rate which is comparable to that of an Executive Member holding portfolio who holds more than one responsibility

Chairman of one company who is a Non-Executive Director of the other	£8400
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- 3.10 It is assumed that no Non-Executive Director would be Chairman of both HOLDCO and DEVCO
- 3.11 When the Council considers making recommendations to the companies regarding remuneration levels, consideration should also be given to whether the travel, subsistence, and carers allowances for members attending approved relevant company meetings should be paid. The amount cannot exceed the equivalent rate under the Members' Allowance Scheme and should be submitted on a separate form from those incurred for council business as they will be reclaimed from the appropriate company and not funded by the local authority.
- 3.12 It is recommended that all allowances payable under the Members' Allowance Scheme, namely, travelling, subsistence, dependent carer's and childcare should be at the same level for councillor appointed Non-Executive Directors. It is assumed that remuneration would increase in-line with Member Allowances

The Independent Remuneration Panel

- 3.13 When the fee for Independent Remuneration Panel members was last reviewed (over six years ago), the fee was reduced to £300 as it has become the norm for the Panel to only meet once a year as the members allowance scheme had stabilised since it was introduced in its current form in 2003.
- 3.14 In the last year the Panel has been requested to meet more frequently due to the changes in the way that the local authority is arranged and governed, considering complex information regarding boards and companies. With the creation of further local authority trading companies it is likely that the Panel will continue to be asked to meet more frequently and required to assess the level of remuneration for members serving as non-executive directors of different companies.
- 3.15 It is recommended that due to the increasing workload of the Panel and the possibility of conflicts of interests, the size of the Panel should be increased by two members and it is suggested that a revised fee for IRP members of £300 for each consultation, capped at a maximum of £1200 per annum.

4.0 Conclusion and Reasons for Recommendations

- 4.1 It is the view of the Independent Remuneration Panel that the proposals represent realistic and fair levels of allowance and recommend their adoption.
- 4.2 Any travel, subsistence and carers allowances paid to councillor directors of controlled or influenced companies by the Council should be recharged to the relevant company to which they relate.
- 4.3 Non-Executive Director allowances for elected members should be reviewed annually alongside Member Allowances
- 4.4 The size of the Independent Remuneration Panel should increase to 7 to reflect the increasing workload of the Panel and possible conflicts of interest.
- 4.5 A revised fee for Independent Remuneration Panel members of £300 for each consultation, capped at a maximum of £1200 per annum to reflect the increasing workload of the Panel.

5.0 Consultation

- 5.1 Details set out in appendix 1, Panels Report.

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To accept the Panel's recommendations

Option 2: To modify the Panel's recommendations. This is within the Council's discretion as the Panel recommendations are not binding. However it is not recommended as the Panel has considered and justified the recommendations that they have made.

7.0 Implications

7.1 Financial and Resource Implications

The cost of the allowances and expenses claims will come from the companies and will be submitted for processing and recharged to the companies and will be of no additional cost to Cherwell District Council.

- (1) to adopt the recommendations of the IRP; or
- (2) to alter the levels of the allowances under or over and above those recommended by the IRP

The cost of recruiting additional Panel members and paying for additional allowance consultations can be met from existing budgets.

Comments checked by:
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7.2 Legal Implications

It is a legal requirement of the Council to consider the recommendations of the Independent Remuneration Panel before setting the level of allowances.

Comments checked by:
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7.3 Risk Implications

The Council has invested considerable resources in the Graven Hill project. In order to preserve the Council's interest, it is important to ensure that the companies have suitably skilled and knowledgeable directors.

The proposal set out in this report helps to mitigate that risk through ensuring that members serving as directors are appropriately remunerated. These risks will be managed as part of the services operational risk register and escalated to the corporate risk register as and when necessary.

Comments checked by:
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8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

Sound budgets and a customer focused council

Lead Councillor

None

Document Information

Appendix No	Title
1	Report of the Independent Remuneration Panel on Non-Executive Director Remuneration
2	Non-executive Director Role Profile
Background Papers	
None	
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