



NORTHERN TERRITORY OF AUSTRALIA

REMUNERATION TRIBUNAL

REPORT

AND

RECOMMENDATION No. 3 of 2004

POWER AND WATER CORPORATION

INTRODUCTION

1. The Power and Water Corporation ("the Corporation") is a Northern Territory Government Owned Corporation. That ownership is established through an exclusive shareholding by the Treasurer.
2. By virtue of the *Government Owned Corporations Act 2001*, the Corporation is required to have board, comprising at least three directors, including a chief executive officer, appointed by the Administrator.
3. The remuneration and allowances paid to the non-executive directors is a matter for determination by the Treasurer (as the shareholding minister) from time to time under section 24 of the Act.
4. The Tribunal is established by section 6(1) of the *Remuneration Tribunal Act*. Section 10(1) of that Act enables the Administrator to request the Tribunal to inquire into and report with recommendations on the remuneration and allowances to be paid to a person or class of persons, as well as other entitlements to be granted for their services. Tribunal reports are required to be tabled in the Legislative Assembly within 6 sitting days next following their receipt by the Administrator.
5. On 23 April 2004 the Administrator issued a formal Notice of Request to the Tribunal, specifying directors of the Corporation as a class of persons to come within these arrangements. That Notice requests the Tribunal to inquire into, and report on with recommendations from time to time, the remuneration, and allowances to be paid, and the entitlements to be granted, to them. The report and recommendations will form the basis of the Treasurer's next determination of benefits.
6. Within this standing authority, each inquiry and report sequence of Tribunal activity is initiated by the written request of the Chief Minister of the Northern Territory. The current request was made on 30 April 2004.
7. The Tribunal has completed the inquiry and this report and recommendation completes the review.

CONDUCT OF THE INQUIRY

8. Comparative remuneration material was obtained from the States, and on 20 May 2004 the Tribunal passed a summary of this¹ to the Chairman of the Corporation with an invitation for him to supply or obtain factual material, a consolidated submission, and optional submissions from individual directors.
9. In response to this the Corporation provided a copy of their 2003 Annual Report, information on current remuneration levels, a copy of reports prepared by consultants suggesting appropriate remuneration rates for the Chairman and for directors of the Corporation, and a copy of the Corporation's 2004/2005 Statement of Corporate Intent. The Chairman highlighted the range size and importance of the Corporation as well as its achievements. He drew attention to the critical negotiations it is now engaged in for gas supplies post 2009.
10. Also on 20 May 2004, the Tribunal invited a submission from the Treasury, as the agency responsible to the shareholding Minister.
11. The Treasury submission made the following points:
 - (1) that remuneration of directors should be comparable to that set for bodies of similar size in the States;
 - (2) that there is an equivalence in the Northern Territory between the commerciality and accountability of the Corporation and the Territory Insurance Office.
12. Advertisements calling for submissions to the inquiry were placed in the major Northern Territory newspapers in the first week in June 2004. No submissions were received.
13. On 1 June 2004 directors were invited to raise any matters pertinent to the inquiry by way of personal representation.
14. The Tribunal set aside Friday 18 June 2004 in Darwin for the receipt of any personal representations. No personal representations were made.

¹ Included at Attachment A

GENERAL CONSIDERATIONS

15. The Corporation is a body that falls within the definition of a "statutory body" in the *Remuneration (Statutory Bodies) Act*. These bodies are bodies that are "constituted or established by name by an Act for a public purpose, the members of which are appointed by virtue of that Act or by the Administrator or by a Minister". The Corporation is established by Section 4 of the *Power and Water Corporation Act*. That Act also specifies the public purpose functions of the Corporation. The directors of the Corporation are appointed by the Administrator under Section 13(5) of the *Government Owned Corporations Act*.
16. The Tribunal has just completed an inquiry into the remuneration payable to members of statutory bodies in the Northern Territory. During the course of that review the Tribunal had to decide whether the Corporation should be included in its deliberations, report and recommendations. The unique position of the Corporation as the only body operating commercially outside of the shield of the Crown, and with the remuneration of directors decided by a shareholding Minister, gave cause for reflection. The reference from the Administrator specifically requesting the inquiry into the Corporation was made before the completion of the statutory bodies inquiry. From that point the Corporation was no longer considered within the statutory bodies inquiry.

REMUNERATION

17. The Corporation manages assets valued at over \$1 billion and receives commercial revenue of about \$400 million per annum. It is significant employer by Northern Territory standards, and contributes significantly to the local economy. The Tribunal accepts that this is a critical phase in the life of the Corporation, in particular with the need for it to bed down long-term gas supplies to its power stations on the best possible terms. Also, as the first government owned corporation under the new legislation, precedent setting policies in many fields are being developed. It is a complex business, but is currently without competition.
18. Directors of the Corporation are indemnified by the Northern Territory Government. They also have the favour of Directors and Officers Liability insurance.
19. For comparison, the Territory Insurance Office (TIO), the other large Northern Territory owned government business, has assets of \$814 million and revenue of \$162 million for the 2003 financial year. Thus the TIO is slightly smaller than the Corporation. However, it is in full commercial competition in the general insurance markets, and its board members do not have the favour of a government indemnity. On the other hand its operations are less critical to the

operation of the Northern Territory economy. The respective boards have a similar level of accountability. All contracts of insurance or indemnity and deposits placed with the TIO are fully guaranteed by the Northern Territory Government. The obligations of the Corporation are not guaranteed by the Government.

20. There are currently four non-executive directors of the Corporation, including the Chairman and the Deputy Chairman. Their remuneration was determined by the Administrator on 1 June 2000 before the Corporation took on its current form on 1 July 2002. Transitional legislation preserved the directors' positions across the threshold from the old Authority to the Corporation. It is presumed that the shareholding Minister used his powers under Section 24 of the *Government Owned Corporations Act* to formally continue the level of remuneration and other entitlements being paid or available to the directors under the superseded instrument.

21. The current annual remuneration is as follows:

Chairman	\$50,000
Deputy Chairman	\$30,000
Other Director	\$25,000

22. On 16 October 2001 the Power and Water Authority obtained a report on Director remuneration from KPMG Chartered Accountants. That firm recommended a base annual fee of \$75,000 for the Chairman and \$30,000 for each other Director, including an unspecified component for committee work. These recommendations were not implemented.

23. In the 2003 financial year there were seven full board meetings of the Corporation and four committee meetings.

24. Having examined comparative State and ACT rates of remuneration to the directors of commercial government entities, and having regard for the report of the consultants to the Corporation and all other evidence presented, the Tribunal recommends that the remuneration of directors of the Corporation should be the same as that paid to the members of the board of the TIO. If the relevant recommendation in respect of the TIO contained in Tribunal Report No. 2 of 2004 is adopted then that annual remuneration will be:

Chairman	\$65,000
Deputy Chairman	\$50,000
Director	\$35,000

plus an additional sum of \$6,000 annually to each of them for Committee duty.

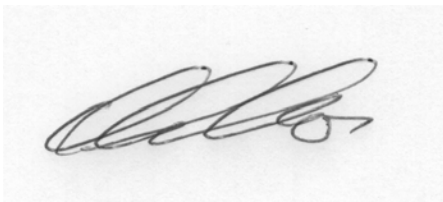
OTHER ENTITLEMENTS

25. The other entitlements made generally available to members of the many statutory bodies in the Northern Territory include travelling allowance at public sector employee rates or actual cost differential, transport costs for business travel (economy class), and reimbursement of receipted business expenses.
26. Three of the four non-executive directors of the Corporation are very senior industry figures residing interstate. The Corporation submits that it would prefer that director business expenses be a matter for direct payment by the Corporation in the normal commercial business course of events and/or by reimbursement of approved business expenses, rather than being covered by prescriptive entitlements.
27. Given the nature of the Corporation and the composition of its board of directors, the Tribunal agrees with the Corporation submission in this regard. The Minister has the right to call for information on costs incurred at any time.

RECOMMENDATIONS

28. The Tribunal recommends that the shareholding Minister determine:
 - (a) that the remuneration of non-executive directors of the Power and Water Corporation, including the supplementary annual allowance for committee work, be at the same rates as the Tribunal has recommended for the equivalent members of the board of the Territory Insurance Office; and
 - (b) that business expenses incurred by those directors be met by or reimbursed by the Corporation on a commercial basis within proper accounting controls, rather than through determined standards and rates.

Dated this thirtieth day of July Two thousand and four.



O. Alder
Member of the
Northern Territory Remuneration Tribunal

TRADING CORPORATIONS AND FULLY CORPORATISED GOVERNMENT BUSINESS ENTERPRISES.

New South Wales

ATTACHMENT A

Annual fees originally determined in bands of assets/turnover/profit. All Corporations are now assessed individually.

For fee setting and review the Corporation makes a case to the Statutory and other Officers Remuneration Tribunal which looks at comparisons, impact, complexity and special factors, then informs the Premier and makes recommendation to the shareholding Minister.

Victoria

A range of annual fees are set for each of the following brackets

	Turnover or assets	or	Profit
A1	\$1B +		\$100M +
A2	\$500M - \$1B		\$50M - \$100M
A3	\$50M - \$500M		\$5M - \$50M
A4	< \$50M		< \$5M

No sitting fees apply. Travel costs met or by reimbursements only. Deputy no extra unless acting Chair. May be extra lump sum to cover committee work if Minister approves. Remuneration must be paid in to the personal account of the director. Cars may only be provided on a salary sacrifice basis. Public servants may receive payment in certain cases.

Queensland

Daily rates are set for three categories of corporations:

1. Complex and diverse operations and large budgets/resources
2. Complex and diverse operations and moderate budgets/resources
3. A range of operations and small budgets/resources

Daily rates are converted to annual rates where the work commitment is 3 or more days per fortnight. The calculation converting to an annual fee is based on the actual or anticipated workload.

All travel expenses paid directly by the Corporation. No extra pay to Deputy unless acting as Chair. Lump sum for Committee work as approved by Minister. Vehicles to Chairs on salary sacrifice only.

Tasmania and Western Australia

	Tasmania	WA
Sets of annual rates for \$M turnover/assets brackets :	0 – 49	0 - 99
	50 – 149	100 - 249
	150 – 449	250 - 499
	450+	500 – 999
		1,000+

Sets are based on degree of competition faced by the Corporation – Full, Part, Monopoly.

South Australia

Annual fee ranges in the same \$ brackets as Victoria.

Committee work paid for at up to 15% of the annual fee. Individuals to be paid through the payroll system with tax deducted, unless they are a representative of a non-government entity chosen by the government to have a director on the Board. Out of pocket expenses met on a reimbursement basis.

