



Córas Iompair Éireann

Roinn Achmainní Daonna an Ghrúpa
Stáisiún Heuston
Baile Átha Cliath 8, D08 E2CV
Group Human Resources
Heuston Station
Dublin 8, D08 E2CV
T: 01 703 1715
F: 01 703 4724
www.cie.ie

Review Panel (Room4.2),
Department of Public Expenditure and Reform,
Government Buildings,
Upper Merrion St.,
Dublin D02 R583

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By email: Reviewpanel@per.gov.ie

Review Panel Members,

Córas Iompair Éireann (CIÉ) welcomes the opportunity to submit its views on relevant aspects of the Review Panel's Terms of Reference. CIÉ notes that the recruitment processes for CEOs of Commercial State Bodies are expressly excluded from the Panel's Scope of Work. CIÉ's submission is therefore restricted to pay determination points.

CIÉ believes the current practices around pay determination for CEOs of Commercial Semi States gives rise to material risks for the business and in the view of the Remuneration Committee of the CIÉ Board are in need of urgent change.

This submission is structured as follows:

- *Section 1: Commentary on Terms of Reference of the Review*
- Section 2: CIÉ Group CEO – case study identifying practical issues with current practices (*Confidential*)
- Section 3: Recommendations



Section 1: Commentary on Terms of Reference of the Review

Our initial response to issues to be dealt with in the terms of reference of the review are as follows:

1. Relevant legislation underpinning Ministerial power to set individual salaries, terms and conditions.

CIÉ have no issue with the established power of the Minister for Transport to sanction salary levels but the current system which sanctions one single salary point is inflexible. There should be a mechanism in place whereby a scale is established and where increments can be paid depending on tenure or performance in role.

2. Process for determining appropriate tenure for appointments to the post of Secretary General or Head of Office to ensure that terms of service are for a limited period so that individuals do not remain in posts for an indefinite period.

There should be flexibility to permit a limited extension of the 7-year term of Commercial Semi State CEOs by say 3 years, subject to the usual Ministerial approvals, in circumstances where there is a strong business imperative to do so. This would align with the typical duration of CEOs in non-commercial Semi States / State Agencies.

3. Consideration of processes applied to pay determinations outside of the existing pay structures.

CEO salaries are not linked to the existing grades or scales established within the organisation so are therefore outside of existing pay structures within the CIÉ Group.

Therefore, in recognition of this fact and in order to provide flexibility, there should be a delegated sanction to the CIÉ Board and the CIÉ Board Remuneration Committee to review the CEO salary against an approved incremental salary scale. Given the current 7-year term for a CEO of a Commercial Semi State, the application of a scale or increments will alleviate the current uncompetitive position of having a frozen salary for the entire duration of the contract, which ignores market movements, inflation and cost of living increases.

The current situation effectively makes CIÉ and other Commercial Semi State Organisations an unattractive prospect for high calibre candidates to join. Salaries for such fixed term roles should also over-compensate for the lack of permanency, rather than being sanctioned at rates that are well behind comparable market rates

This would provide the flexibility to reward performance during the tenure and the ability to react to inflation and market pay movements. This sanction would continue to comply with any overarching DPER guidelines on CEO remuneration.



4. Current and historical use of external bodies to provide independent analysis in determining terms and conditions of employment.

Salaries and benefits should be the subject of independent external analysis and assessment in order that we can attract and retain the best calibre candidate to support the delivery of ambitious Government targets for change within public transport. Terms and conditions would then be more reflective of current market conditions.



Section 2: CIÉ Group CEO – case study identifying practical issues with current practices (Confidential)

CIÉ, a statutory body set up under the Transport Act 1950, is one of the State's largest organisations and is engaged in a wide range of transportation activities including railway passenger and freight services, rural, provincial and city bus services, and the operation of Rosslare Port and CIÉ Tours. The Group also manages an extensive property portfolio.

The goal of the CIÉ Group is to deliver attractive public transport services, which supports the continued growth of the Irish economy and social cohesion. The Group has the unique capacity to manage a cost-effective delivery of high-quality public transport solutions across Ireland. Strategic co-ordination is provided by CIÉ Group whilst each subsidiary and business unit has a high degree of operating autonomy. In addition, CIÉ itself contains a Holding Company which provides professional shared services and manages its own commercial activities.

Scope of Group CEO Role

Reporting directly to the Group Chairman and to the CIÉ Board, the CEO is responsible for the coordination of the overall strategic vision of the CIÉ Group of companies working collaboratively with the Boards and CEOs of the three subsidiary companies.

Financial and Operational Highlights

In 2019 (pre-pandemic) CIÉ had:

- consolidated revenues of circa €1.4 Billion
- over 10,000 employees
- customer journeys exceeding 280 million

CIÉ CEO Salary History

A general pay ceiling was introduced by the Minister for Public Enterprise and Reform in 2011 for new CEOs of Commercial Semi State Companies of €250,000.

In 2013 the Department of Transport's Policy and Governance Co-ordination Division issued a letter to Commercial State Bodies under its aegis on future appointments of CEO's. This set the general starting salary for the CIÉ Group CEO at €240,448.



Performance in 2019-2021

The CEO has subsequently delivered on all objectives whilst managing the unforeseen challenges posed by the pandemic at both a strategic and operational level.



The CEO has successfully worked with key stakeholders to secure the financial stability of the Group and in making significant progress with the Trade Union Group in addressing Group pension issues (Assets >€2.5Bn, Balance Sheet deficit >€750m).

The Group's new Sustainability Strategy has been launched which aligns with the Government's Climate Action Plan. CIÉ's plans for various Transit Orientated Development opportunities including plans for Heuston Station (gross development value exceeding €1Bn) and Limerick Colbert (in partnership with the Land Development Agency) have been accelerated.

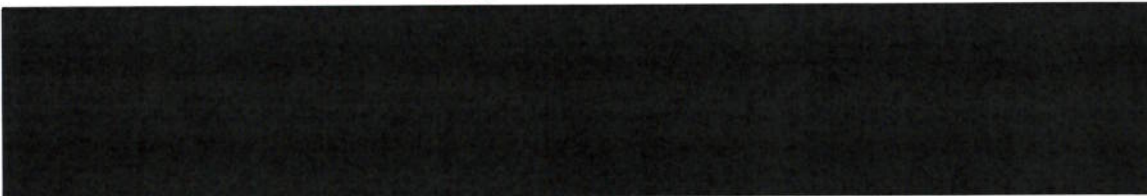
Salary Benchmarking Exercise



Objectives for 2022 and Beyond

Despite recent challenges, the opportunities for the Group over the coming years are significant. Ensuring a financially stable Group will be important to ensure CIÉ can expand its public transport services to assist the transport sector meet its climate change targets. With the accelerated development of CIÉ lands, based upon Transit Orientated Development principles, and the roll out of the new Sustainability Strategy, CIÉ will play an increasingly important role in contributing to the State's economic, environmental and social goals in the years ahead.

Current Process to Increase CEO Salary



Furthermore, the Code of Practice for the Governance of State Bodies states that "the salary of senior management should also be set at a level that allows sufficient headroom between the CEO and the senior management".



The CIÉ Board Remuneration Committee is concerned that this requirement is not met as direct reports to the CEO have been in receipt of cost of living or other increases due to progression on permanent pay scales or re-grading, for example.

The approval of the Minister of Transport was sought for the adjustment to the Group CEO remuneration package via letter on 19th April 2021 in line with Code of Practice for the Governance of State Bodies. However, a response to this request has been postponed pending the outcome of this Panel's Review.

The CIÉ Board Remuneration Committee are of the view that this outstanding request to review the CEO Salary is a material risk to the Group from a retention perspective.

The retirement of the long serving CIÉ Group CFO at the end of March 2022, along with the departure of the Dublin Bus CEO in June 2022 after 7 years, highlights the particular importance of continuity at senior levels within CIÉ and the risk this poses to the overall stability of the Group.

It is the view of the CIÉ Board Remuneration Committee that the length of time this issue has been unresolved is becoming untenable and needs to be urgently addressed.



Section 3: Recommendations

1. Competitive Environment for Talent: Introduce salary ranges

There is a backdrop of a very competitive employment environment for senior leadership talent. Commercial Semi State Organisations need to remain competitive with non-public sector roles to ensure that we can compete for talent now and in the future.

Commercial Semi State CEO salary arrangements are not linked to public sector pensions and there is no link between granting exceptional salary arrangements and future pension liability agreements, as the CEO has private pension arrangements.

Therefore, CEOs with private pensions need not have their salary levels curtailed and more flexibility should be therefore available in future salary negotiations.

Formal CEO Salary Sanction should be based upon a range within which relevant Boards and Remuneration Committees can determine specific arrangements.

2. Fixed Appointment Terms: Introduce limited flexibility

The accepted practice of CEO's having to vacate the role after 7 years does need to be revisited, it often takes up to two years for a good CEO to get to grips with a complex organisation which leaves little time to make significant contributions overall and seems counterproductive. This is especially true given the nature of the CIÉ Group and our mandate to support the delivery of Project Ireland 2040, major infrastructural plans, regionalisation plans, long term sustainability agenda and Transit Orientated Developments all of which require long term vision and leadership at CEO level

There should be flexibility to permit a limited extension of the 7-year term of Commercial Semi State CEOs by say 3 years, subject to the usual Ministerial approvals, in circumstances where there is a strong business imperative to do so. This would align with the typical duration of CEOs in non-commercial Semi States / State Agencies.

3. Cost of Living: Incremental salary increases should be permitted

The 7-year contract for a Commercial Semi State CEO should be adjusted in line with CPI, otherwise a frozen salary only serves to increase the gap with what is available in the market, thus becoming a retention issue. There is the prospect that a high performing CEO establishes themselves only to be headhunted into a better paid public sector or private sector job.

There is an inherent inequity in the fact that the 7-year fixed term contract does not take Inflation or the cost of living into account with the 'flight risk' only increasing as the contract goes on.

4. Role of Board and Remuneration Committee: Address current anomalies



The current practice around pay determination for CEO's of Commercial Semi State Organisations severely limits the role of a Commercial Semi State Board or their Remuneration Committee in this area.

Taking CIÉ as an example, the CIÉ Board Remuneration Committee which is chaired by a Non-Executive Director, only has the ability to review the CEO's performance but has no power to reward good performance.

The CIÉ Board Remuneration Committee should have the power to benchmark the CEO salary with market rates and review it appropriately. There is sufficient and robust governance already in place as the CIÉ Board Remuneration Committee has always followed Government guidelines on the remuneration of CEO's, along with the additional control mechanism which is in place under the Code of Practice for the Governance of State Bodies; the requirement for Ministerial consent.

Furthermore, the Department of Transport and Department of Public Expenditure and Reform sign off on the appointment of the CEO role in any event and the same process applies to any salary review. Fundamentally, the question is why have a Board or Remuneration Committee if pay cannot be determined and reviewed by it?

Conclusion

The mechanism for reviewing CEO salaries and conditions of employment within the Commercial Semi State Sector needs to have more flexibility where Board Remuneration Committees have the ability, on a delegated basis, to move through an incremental salary scale during the fixed term contract of a CEO. Salary scales also need to be more reflective of current market conditions to attract and retain the best candidates. Other conditions outside of salary should be subject of independent benchmarking with the external market as the CEO roles are not part of the applicable public sector pension schemes.

We are both available to meet with the Panel to discuss the issues raised above should that be of assistance.

Yours Sincerely,

A handwritten signature in blue ink, which appears to read 'Brian Fitzpatrick', is written over a horizontal line.

Brian Fitzpatrick

Chair of the CIÉ Board Remuneration Committee

A handwritten signature in black ink, which appears to read 'Aidan Grogan', is written over a horizontal line.

Aidan Grogan

Head of CIÉ Group HR & OD