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Via E-mail
Reviewpanel@per.gov.ie

9th August 2022

Review Panel (Room 4.2)
Department of Public Expenditure and Reform
Government Buildings
Upper Merrion Street
Dublin 2, D02 R583

Re: Submission to the Independent Review Panel established to review Senior Public Service Recruitment and Pay processes

Attention of Review Panel Members

I refer to the Public Consultation by an Independent Review Panel by the Minister for Public Expenditure and Reform to review Senior Public Service Recruitment and Pay processes and attach submission on behalf of Shannon Group.

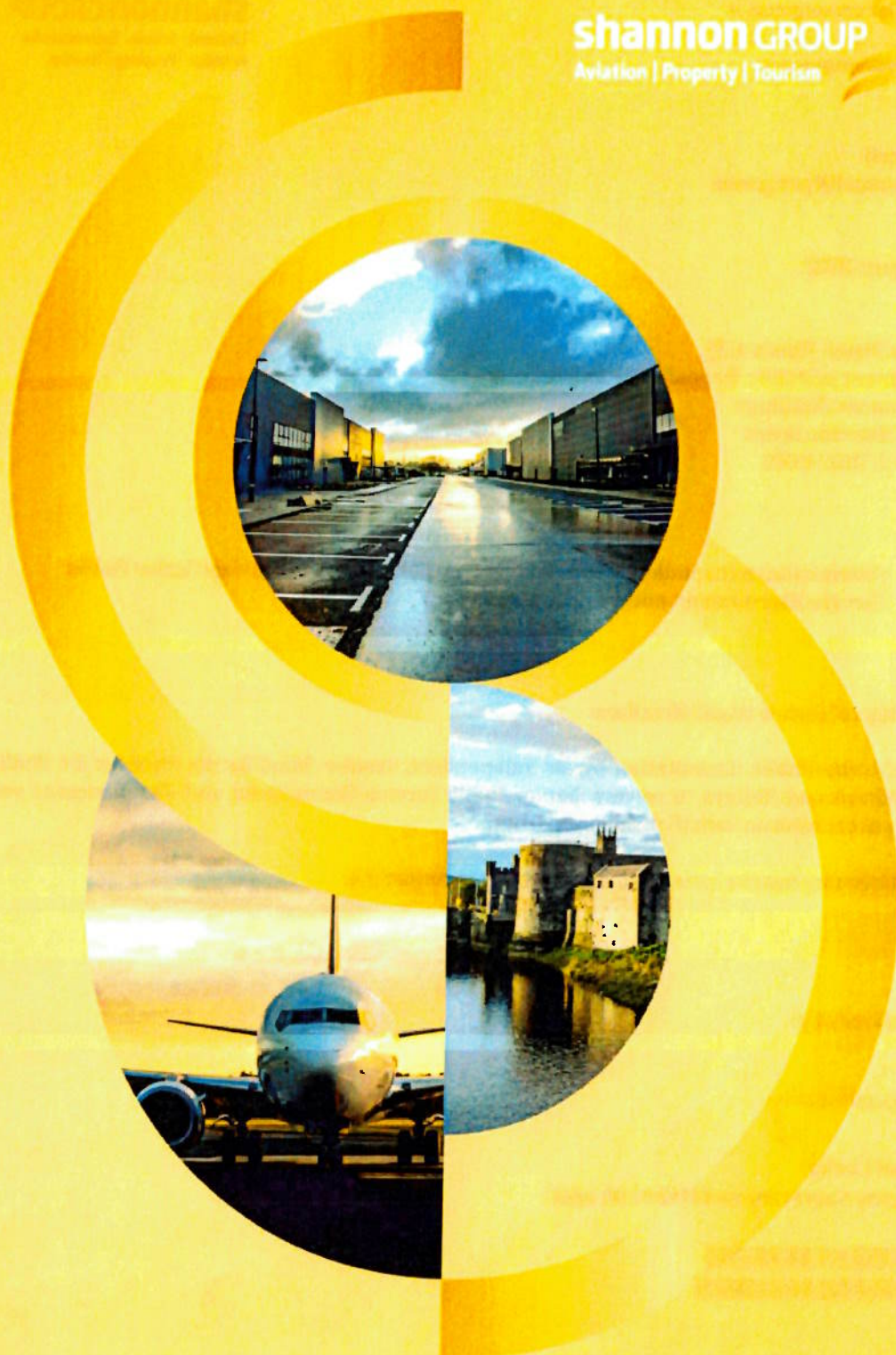
If you have any queries, please do not hesitate to contact me.

Yours faithfully

Rachael Leahy
Company Secretary and Head of Legal

T [REDACTED]
M [REDACTED]

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**Submission to the Independent Review Panel established to review Senior Public Service
Recruitment and Pay processes**

9th August 2022



1. Introduction

Shannon Group welcomes the establishment by the Minister for Public Expenditure and Reform of an Independent Review Panel to review Senior Public Service recruitment and pay processes and amongst other matters an evaluation of the pay determination processes for CEOs of Commercial State Bodies (CSBs).

In 2011 pay ceilings were introduced in response to the then severe economic conditions facing the country and the Government implemented a policy of pay restraint within the public sector, including the application of pay caps in the commercial state sector. It is noted that this review is in the context that CEO pay rates in CSBs have remained unchanged since 2011. Since that time performance related awards ceased and new appointees took up post on reduced or static rates. Taking the combination of a growing economy, the return of high levels of consumer price inflation, higher pay in the private sector, pay restoration in the public sector and issues relating to terms and conditions outstanding since 2011 into account, an appropriate approach to remuneration and related contract conditions of CEOs of CSBs is required in the context of current economic and market conditions and broader pay policy considerations. Continued restrictions, having served a purpose, are now outdated and proving counterproductive in a sector that is currently going through huge flux.

2. Observations

The following observations are made in this context:

1. Current CEO levels (including Performance-related awards)

An appropriate compensation policy is an important factor in an organisation's success and it not only shapes how executives perform, but it also determines what kinds of executives an organisation attracts.

Remuneration packages reflect what it takes to attract, retain and reward talented individuals undertaking demanding roles as chief executives of complex, multi-million euro organisations. Public service pay policy as determined by the Department of Public Expenditure and Reform does not allow individual CSBs the flexibility to offer competitive remuneration packages and therefore it is submitted that they are unable to fully compete in terms of reward and compensation with the private sector. Shannon Group would support a proper and comprehensive basis of comparability between the private sector and CSBs, being developed to enable these posts and equivalent posts in the private sector to be analysed and for pay structures to be determined from this analysis.

Competitive salaries help to attract and retain candidates with the experience and knowledge required to enable CSBs to compete and to achieve their objectives. There is little doubt that current pay restrictions have had a bearing on attracting and retaining candidates to such roles. To manage retention most effectively, CSBs need not only the ability to structure their own remuneration packages to attract the right candidate, but also the ability to shape their own retention initiatives.

It is contended that the CEO salary rates in CSBs are not competitive with the private sector and flexibility in offering salary pay rates does not exist to attract and maintain the right talent from the private sector to consider positions as CEOs in CSBs. The landscape for such corporate leaders is extremely competitive, particularly in the sectors in which many CSBs operates. In viewing the role of the CEO, matters which a Board is focussed on are not alone in attracting the right CEO, which is essential, but thereafter to provide a structure that motivates and rewards the CEO while in the role.

It is further noted that contracts which provide for performance related awards are demonstrated to align individual actions with an organisation's success. At present under the Code of Practice for the Governance of State Bodies 2016 (Remuneration and Superannuation) (the "Code") the terms and conditions of the CEO's contract of employment has no provision for performance related bonuses.



CEOs should be rewarded competitively, having regard to the comparative marketplace to ensure that they are motivated to deliver in the best interests of the Company and the shareholder (which is the State). The remuneration of CEOs should be structured towards an adequate and appropriate basic salary (together with appropriate and market competitive benefits i.e. pension, PHI, etc) and in addition a performance related scheme which allows CEOs to earn performance related bonuses. In selecting annual performance targets, the Board of the CSB should have the discretion to take into account the CSB's performance and by extension the CEO's personal performance against a list of performance targets. In selecting annual performance targets, the Board should have the ability to take account not only the personal performance of the CEO, but also the progress towards achieving the CSB's strategic objectives (and agreed objectives of the parent Department), short and long-term business priorities and key performance indicators. It is submitted that in viewing a CEO's value to a CSB, a CEO should benefit from an upswing or exceptional performance in a manner aligned to how the Company and its stakeholders benefit (but excluding results attributable external factors such as the economic climate).

It is noted that the Terms of Reference of the Independent Review provide that the statutory framework and the role of the Minister for Public Expenditure and Reform in the determination of terms and conditions for posts may vary, as set out in the legislation establishing an organisation. On that basis, any recommendations of the review panel regarding the pay determination processes for these posts should have regard to the relevant statutory framework.

Under the provision of section 198(5) of the State Airports (Shannon Group) Act 2014, the Chief Executive holds their office for such term and upon and subject to such terms and conditions (including terms and conditions relating to remuneration and allowances for expenses) as may be determined by the Board of Shannon Group. However, this is subject to the consent of the Minister given with the approval of the Minister for Public Expenditure and Reform and furthermore under to the provisions of the Code the Board is obliged to adhere strictly to Government policy on the payment arrangements for CEOs. While the legislation allows the Board to set the terms and conditions of the CEO's contract, the provisions of the Code effectively constrain the ability of the Board to make that determination.

It is noted that the UK Corporate Governance Code enhances the duties of the remuneration committee, setting a framework for how executive pay should be determined, for example by alignment to long-term objectives, company values and workforce pay. It also provides for greater use of judgment and discretion when approving remuneration outcomes; it provides that executive remuneration should be aligned to a company's purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

The role of the remuneration committee is central to bringing the focus and independent judgement needed on remuneration decisions, and allows an appropriate reward policy that attracts and motivates CEOs to achieve the long-term interests of the company (and the shareholder) and it is advocated that through enhanced emphasis on the role of the remuneration committees of CSBs, that greater authority should be given to the Boards for CSBs to make these decisions and that the Code should reflect this.

2. Effect on other executives in CSB

Given the current cap on CSB CEO salary, this has the effect of capping the ability of CSBs to attract and retain suitable senior management candidates below CEO level due to the requirement for a gap between CEO salary and next most senior post. The Code requires the salary of senior management to be set at a level that allows sufficient headroom between the CEO and the senior management. Again this is at odds with the private sector and caps the ability of CSBs to recruit appropriately talented individual below CEO level.

Organisations of the scale of Shannon Group and other CSBs should have the ability to pay remuneration sufficient to attract and retain a high-quality management team and be permitted to shape and decide on its



executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for the company.

3. Limiting contractual period

The use and management of fixed term contracts in the circumstances particular to CSBs with particular reference to length of standard term of appointment is a disincentive to attracting appropriate talent at the level of CEO in CSBs. Unlike other civil servants such as secretary generals where the current practice of offering an alternative appointment at a salary equivalent to Secretary General is provided, a CEO in a CSB has no security of tenure in their role. The Code provides that it is the policy and practice across all Departments that the term of the contract of a CEO of a CSBs is a single contract period of between five and seven years and the contract cannot be renewable. [REDACTED]

Shannon Group advocates for an examination of the use and management of fixed term contracts in the circumstances particular to CSBs with particular reference to length of standard term of appointment. Shannon Group would call for the provision of the Code specifying that such contracts are not renewable should be removed and it should be a matter for the Board of Directors to determine whether a CEOs contract should be renewed for a second term of five to seven years. Longer-term contracts offer CEOs protection from turnover, provides security and would encourage appropriate talent to seek out and retain positions as CEOs in CSBs.

3. Summary

In conclusion, it is submitted that a number of factors including the legacy of the caps and limits imposed during the financial crisis, an emerging pay deficit with the private sector and growing complexity and public scrutiny of roles, are combining to present challenges to attracting and retaining suitable candidates at Chief Executive level and by association senior level leadership positions.

The current policy for pay determination continues to be dictated by caps and limits imposed over ten years ago. The significant upward pay pressure being applied and the recruitment difficulties that have been encountered at senior levels suggest that, given the effluxion of time, the caps and limits set during this time are out of step with the current market for talent. Without an objective mechanism for pay determination at these levels, it is submitted that it will become increasingly difficult to effectively manage CEO and senior leadership remuneration and provide an adequate remuneration package to attract and retain top talent.

Consideration must be given to commissioning a more comprehensive examination of underlying difficulties in recruitment and retention. To enable the recruitment, retention and motivation of high-calibre individuals and reward them appropriately the following recommendations are made:

1. An independent re-evaluation of the salary range for newly appointed Chief Executives of CSBs should be undertaken with the objective to recommend appropriate remuneration rates.
2. Increasingly CEO salary rates in CSBs are becoming less competitive with the private sector and current salary pay rates are a disincentive to attracting and maintaining the right talent from the private sector to consider positions as CEOs in CSBs. Consideration of the remuneration of senior posts in the private sector, it is submitted, is an important factor in assessing salary ranges and remuneration practices in companies in the private sector should be reviewed in the determination of salaries in CSBs and links by reference to benchmarking criteria to the private sector pay rates should be reviewed.



3. Performance-related pay arrangements should be reintroduced and should be determined by the Board of CSB subject to an overall limit as set by the parent Department in consultation with the Department of Public Expenditure and Reform. The Remuneration Committee of the Board should have the full oversight and control of this process and performance related pay, or awards should be related to the achievement of challenging performance criteria drawn up by the Remuneration Committee.
4. The provision of the Code specifying that contracts of employment of CEOs are not renewable should be amended and it should be a matter for the Board of Directors to determine whether a CEOs contract should be renewed for a second term of up to seven years.
5. Any changes to salary rates and the reintroduction of performance-related pay arrangements should be applied to the contracts of existing Chief Executives of CSBs contemporaneously.

4. About Shannon Group

Shannon Group is a commercial state group focused on driving and delivering economic benefits for the Shannon Region, the West of Ireland and the wider national economy.

Its vision is to *'reach further to build a thriving, connected place.'* Through its activities and infrastructure across Shannon Airport and the Free Zone, Shannon Group has played a leading role in developing and delivering economic growth in the Shannon Estuary and the Mid-West region. The connectivity that Shannon Airport provides for the Mid-West and West regions to North America, Europe and the UK is critical to economic development in these areas. It is an essential support for the business and tourism industries located in the region. Commercial, Cargo, Maintenance (MRO) and Business and General Aviation activity also takes place at the airport.

This airport activity is supported by significant levels of Group property activity. The property arm of the Group manages a substantial portfolio of 1.6 million square feet of building space and significant landbanks in the Shannon Free Zone and other sites in the region on behalf of the State. These assets provide appropriate, innovative, and competitive property solutions to indigenous and foreign clients.

The Shannon Campus is also home to a significant aerospace and aviation cluster, encompassing activities from aircraft leasing, maintenance and recycling to component manufacture, parts repair and business aviation and Shannon remains a global centre for the aviation industry. The campus also hosts companies in the med tech, life sciences and engineering sectors. These activities provide significant opportunities to support further economic development for the West of Ireland. The development of unmanned transport in Ireland is a key focus for Shannon Group, evidenced through its involvement in and support for Ireland's first test bed for future mobility, founded with the purpose of creating and delivering future mobility testbed facilities for stimulating research, development and innovation in the field of autonomous connected electric vehicles and participation to establish Ireland's first cargo and passenger vertiport on the Shannon Campus.



