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Confidential
 Review Panel
 Department of Public Expenditure and Reform,
 Via email

10 August 2022

Re: Senior Public Service Recruitment and Pay processes submission

Dear Sir/Madam,

I refer to the public consultation by the Independent Review Panel in respect of the review of Senior Public Service Recruitment and Pay processes. The Terms of Reference, include a section on the 'Process for Determining Terms and Conditions of Employment' encompassing the CEOs of Commercial State Bodies. I detail hereunder a submission in respect of this element of the consultation.

The COVID pandemic resulted in the most challenging years in the history of daa and the ramp up to a more normalised level of operations in 2022 has not been without its challenges in terms of passenger experience. It is key that we have appropriate remuneration frameworks in place to support the successful delivery of our strategy to rebuild the business and enhance its contribution to Ireland Inc into the future.

1. Remuneration for Equivalent Positions in the General Market

The benchmarking of roles to market is a critical tool to ensuring the attraction and retention of high calibre employees. This is a key process for roles at all levels within the organisation, including the position of CEO.

daa currently works with a global market leader in pay and remuneration matters, to benchmark all positions across our business. This process ensures appropriate starting salaries for positions and informs annual pay reviews thereafter. The remuneration package of Commercial Semi State CEO's should align to this process with a market benchmark conducted annually to ensure a remuneration level that reflects the size and complexity of the organisation and current market conditions.

An independent review panel should be established by the Department of Public Expenditure and Reform to conduct an annual benchmark of CEO salary rates which takes account of revenues, number of employees, diversity and complexity of the company and geographic breadth of the company in determining annual revisions to pay rates. This process should require input and engagement with the respective Remuneration Committees for the relevant Commercial State Bodies.

2. The Salary Cap and Pay Movement in the Wider Market

Median wage inflation within the Irish general market was 2.5% per year from 2015 to 2020, with this growing to 5% to 8% in 2021 and 2022. The Commercial Semi State CEO salary cap has remained constant since it was first introduced in 2011. This has meant that, in addition to general market wage growth outside of the annual salary review process via employees moving employers, the base salary cap lags salaries being offered to equivalent CEO positions in the general market. If the base salary cap had been subject to additional increases per the growth rate seen in the general market, it would support CEO salaries better aligning to market and positively impact retention.

3. The use of Fixed Term Contracts

Currently CEO's of Commercial State Bodies can only be recruited on a fixed term contract capped at a 7 year term.

A fixed term contract has a number of unintended impacts:

1. It creates uncertainty for the individual and the business at the fixed termination date, as the actual needs of the business are unlikely to coincide with a date arbitrarily fixed 7 years earlier
2. It may lead to turnover in the position at an earlier date as the individual begins a job search well in advance of his/her expected termination date
3. In the event that the individual is unsuitable for the role, it can lead to termination payments being required to compensate for breach of contract/ loss of office.
4. It could lead to CEO positions being less attractive to certain age cohorts who may perceive their age at termination to be an impediment to future employment opportunities of similar scope and responsibility.
5. In the event that a new CEO is an existing employee already on a contract of indefinite duration, he/she would need to move to a fixed term contract to accept the role. Note the age of the individual may be a concern here also as noted above.

In light of this, unless there are special circumstances, a CEO should be retained on a rolling service contract with normal termination provisions. The Board can then choose to extend or terminate based on performance.

4. Wider Workforce Considerations

The total remuneration package offered to a CEO of a Commercial Semi State also has repercussions for the total remuneration packages offered to the wider workforce within the Commercial Semi State in question.

Acknowledging the requirement that senior management remuneration should be set at a level to allow sufficient headroom between the CEO and senior management, the Commercial Semi State CEO salary cap limits the ability to source and retain both top executive talent and subject matter experts (SME) from the general market. This typically results in a requirement to hire talent from the general market at a lower level and then train the individuals in question over a number of years with a view to them transitioning into the executive or SME role over time.

While succession planning is recognised as a key concept in any organisation, the limited ability to competitively recruit individuals as the needs arise for these roles represents a substantial risk to achieving strategy objectives and operational efficiencies especially in circumstances when unforeseen gaps in experience and expertise arise from the loss of key employees. This is an ever-increasing risk as market pay inflation continues to rise at accelerated rates, and in the immediate term will have a significant impact on the ability to competitively remunerate roles at Executive and Executive minus 1 levels within the organisation.

This also links into achieving daa's wider people strategy to 2025 to focus on three goals – stabilising the business, shaping the future of work, and enabling everyday excellence. In order to achieve this, it is essential that daa has the ability to recruit and retain key talent at all levels of the organization.

5. Performance Related Pay (PrP)

PrP is an important part of the remuneration mix for CEO positions across all industries and sectors. The ability to use incentive structures, both short and long term, act as a mechanism to retain and incentivise executives to define and implement long term strategy.

Such incentive structures also align the executive's interests with that of the company with deferral, malus, and clawback scheme features allowing organisations to ensure short sighted and risky behaviour are not rewarded. The absence of PrP, when recruiting from a market where the offering of such incentive schemes is both normal and expected, greatly hinders attempts to attract and retain the quality talent required.

I trust that these points can be taken into consideration and incorporated as part of your review and am available to discuss should that be helpful to the review panel.

Yours sincerely,



Thomas Cusack
Group Head of Reward on behalf of daa plc