

REPORT HIGHLIGHTS

November 17, 2009

British Columbia Crown Corporations Executive Compensation Arrangements - A Work in Progress

Introduction

Crown corporations manage important public resources and services that British Columbians expect from their government. Recruiting and retaining talented managers is critical to ensuring these corporations operate effectively in the public interest. Both the government of British Columbia and Crown corporation boards have a role to play in planning and managing total executive compensation.

Purpose of the Audit

The purpose of our audit was to examine the extent to which government and a sample of Crown corporations have established appropriate structures and processes to ensure that Crown corporation executive compensation is well managed.

Overall Conclusion

Both the provincial government and Crown corporations have established clear direction to manage executive compensation, but improvements are required to foster consistency. Because of the relative newness of government executive compensation caps, it will be several years before the limits are fully implemented. In the meantime, practices to ensure executive compensation policies are followed need to be strengthened.

Key Findings and Recommendations

Government has provided high-level direction for Crown corporation executive compensation, but not the mechanisms to ensure it is consistently followed

The Public Sector Employers Council and the Crown Corporations Employers' Association are currently not operating as described in legislation. As a result, there is no effective forum in place to collaboratively plan, manage and monitor Crown corporation executive compensation.

We recommend that government:

- ensure appropriate mechanisms are in place to resolve executive compensation issues with Crown corporations;
- improve its compensation proposal submission and approval requirements and maintain a formal record of all decisions made; and
- put adequate monitoring systems in place to ensure compensation plans are followed as approved.

Government limits on executive compensation for Crown corporations will take several years to be fully implemented

54% of current Crown corporation Chief Executive Officers are compensated more than the cap established for their positions. This is mainly due to grandfathering when the caps were implemented. Government expects successors to be hired within the set compensation limit. Government did not consult with Crown corporations prior to establishing the caps, and they did not disclose the rationale behind their decisions.

Crown corporations have, for the most part, established frameworks to manage executive compensation in keeping with government direction

In the six Crown corporations that we reviewed, there are a few areas that could be improved upon, such as consistent sign-off of performance plans and appraisals and regular independent evaluation of performance pay programs.

We recommend that:

- Crown corporations offering performance-related pay as part of executive compensation conduct periodic reviews to ensure these programs continue to achieve intended objectives.

Most Crown corporations have aligned performance pay to organization goals and objectives, but the link between results and pay was not always evident

The Crown corporations we reviewed had ensured clear alignment between performance plans and organizational goals and objectives in 2007/08. Four of the six Crown corporations we reviewed provided evidence to show linkages between performance payments and results.

We recommend that:

- government require Crown corporations that offer performance-related pay as part of executive compensation to clearly demonstrate and document the link between performance payments and actual performance.
- Crown corporations offering performance-related pay as part of executive compensation develop performance measures that reflect the corporation's long and short-term objectives, and include measures that promote team and corporate results.

Crown corporation executive compensation reporting is generally consistent with good practice

There are a couple of overall areas of concern to us. One is that the Public Sector Employers' Council does not require a Crown corporation board to approve compensation disclosures before they are publicized. The second is that government does not review compensation disclosures to ensure they comply with the guidelines.

We recommend that:

- the information included in public disclosures of Crown corporation executive compensation be reviewed by the Public Sector Employers' Council Secretariat to ensure the information complies with reporting guidelines; and the Chair of Crown corporation boards sign executive compensation disclosure statements, providing assurance that executive payments are in accordance with board-approved compensation plans.

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