

GUIDELINES

FOR REMUNERATION OF CLUB EXECUTIVES



1. Purpose

The purpose of this Guideline is to provide Clubs with information regarding the key principles and processes that should be followed in remunerating Club executives, including CEOs/Secretary Managers.

2. Application

These Guidelines apply to all Boards of Clubs and their management teams from 1 July 2005.

3. Definitions

“Remuneration” means all monetary benefits conferred upon Club executives in return for their services, including but not limited to salaries, wages, leave entitlements, salary sacrifice arrangements, performance incentives or bonuses and other allowances or concessions, any Fringe Benefit Tax (FBT) paid on any element of the remuneration package, and any termination, severance or end of contract payments.

“EBITDA” means earnings before interest, taxes, depreciation and amortisation.

4. Background

Recent changes to legislation governing the Club industry in New South Wales mean Clubs are now required to publicly report the remuneration arrangements they enter into with their senior staff (top five and or those staff that are paid in excess of \$100,000 pa).

Many Clubs, particularly regional and smaller Clubs in NSW, employ their staff through relevant industrial awards. Generally these industrial awards serve the Club industry well and provide clear determination about work value, work standards, pay rates and employment conditions.

The Club industry has grown significantly over the last 20 years and many Clubs have become medium-sized or even large enterprises. Consistent with this business growth, many Clubs have concluded there is a need for a greater level of business skills and knowledge required of senior staff to effectively and efficiently manage the operations of their Clubs. Accordingly, in recent years some Clubs have tested the labour market and employed senior staff outside





industrial awards. Most Clubs have adopted fair, reasonable and justifiable remuneration with these staff. However anecdotal evidence suggests some Clubs may not have necessarily followed best practice in determining remuneration with their senior staff.

5. The Role of the Board

Boards are ultimately responsible for determining senior executive remuneration and monitoring performance. Boards must:

- a) establish and oversee remuneration policies for their Clubs;
- b) agree the remuneration package of the CEO/Secretary Manager;
- c) consider the CEO's recommendation for the remuneration of other executives;
- d) assess performance expectations and monitor to see if they are being met;
- e) meet all legal requirements in regard to disclosure of executive remuneration; and
- f) ensure that "value for money" is achieved.

6. Contracts of Employment¹

Club CEOs will have a contract approved by the full Board that details their roles and responsibilities and the level (and structure) of remuneration.

A club must not enter into a contract for the remuneration of a top executive unless the proposed

contract has first been approved by the Board of Directors.

7. Executive Remuneration Committee

Clubs paying any executive \$100,000 or more must establish an Executive Remuneration Committee. The Committee provides oversight of remuneration of senior executives and other key personnel. It makes recommendations to the Board on the Club's remuneration policy framework and specific remuneration packages for each of the senior executives and key personnel.

The Committee should:

- a) Develop and review remuneration policies in a way that rewards excellence and creates incentives for performance;
- b) Establish the remuneration packages for the Club CEO/Secretary Manager and other senior executives;
- c) Have regard to any legal requirements affecting remuneration;
- d) Establish performance targets and expectations for executives;
- e) Be informed about market rate of pay for various executive positions; and
- f) Ensure that all relevant disclosures are made and regulations are adhered to.

Note: The full Board must approve the relevant remuneration policies and packages based on the Committee's recommendations.

¹ The Club Managers (State) Award 2004 sets out the terms and conditions of employment for Club Managers, including remuneration.



8. Determining the Level of Remuneration

Generally, there are four key factors in determining remuneration:

- a) The work value of the position;
- b) The market rate of pay for a position of similar work value;
- c) The performance of the person occupying the position; and
- d) The capacity of the Club to pay, its business circumstances, and its dependence upon the person being employed.

a) Work Value

To accurately identify the true work value of any position the following steps need to be undertaken:

Step 1: Identify all components and elements of the position. This entails developing a job description which describes the primary activities the position carries out and is responsible for.

Step 2: Identify the level of complexity and difficulty associated with these activities and responsibilities.

Step 3: Identify the skills, knowledge and expertise required of the occupant of the position to effectively perform the activities and responsibilities of the position.

b) Market Rate

The best way to determine the market rate (pay) of the position is to compare the skills, knowledge and expertise required of the occupant with similar positions in the broader labour market. This should be done in total and by each element of the position.

c) Performance

An important aspect of remuneration design is to account for performance. Strong performance should be rewarded and be measurable against the Club's business objectives. The role of the Executive Remuneration Committee in this process is outlined below.

d) Capacity to Pay

The business and financial circumstances of the Club are a critical consideration in determining remuneration. Club Boards must have a clear and up to date picture of the Club's financial position and future prospects.

9. Disclosure and Transparency

Clubs must publicly report the remuneration arrangements they enter into with their senior executives.²

In Australia, disclosure issues have been a driving force behind changes to the Corporations Act 2001

² Under the Registered Clubs Act, Clubs are required to provide a written report to members each year on matters including:

- the number of top executives whose total remuneration is equal to or more than \$100,000 per annum disclosed in successive bands of \$10,000;
- details (including the main purpose) of any overseas travel by a director or employee of the Club including costs wholly or partly met by the Club for the director or employee and any other person; and
- details of any loan in excess of \$1,000 (or which added to other loans amounts to \$1,000 or more) made to an employee of the Club, the amount of the loan and interest rate if any;
- details of any contract for remuneration of a top executive approved during the financial year.



as well as several corporate governance initiatives such as the ASX Corporate Governance Council's Principles of Good Corporate Governance³. Board members must keep abreast of such developments and be informed regarding current best practice.

10. Review of Senior Executive Performance

The Board or its Executive Remuneration Committee must annually review the performance of the CEO for remuneration purposes. It must review the Chief Executive Officer's performance evaluations and remuneration recommendations of the other senior executives.

Senior executive performance must be measured against (quantitative) financial benchmarks such as Club profitability (measured by EBITDA) and the levels of working capital as well as qualitative benchmarks such as vision and leadership, accomplishment of long-term strategic objectives, and development of staff and management.

The criteria against which senior executive performance is measured must be clearly set out in the contract of employment.

³ http://www.asx.com.au/shareholder/CorporateGovernancePractices_as2.shtm