

# Audit Overview



OFFICE OF THE AUDITOR GENERAL  
NEWFOUNDLAND AND LABRADOR



## Objective

To determine whether Nalcor Energy's employee compensation was comparable to government and industry.



**Audit Period:** January 2013 through December 2018.



## Why this Audit is Important

Employee compensation is the most significant cost for the public service. As a public sector corporation, it is critical that Nalcor pursue a prudent compensation approach that aims to achieve the best possible use of public money.



## Conclusions

Overall, Nalcor's management and executive employees' total compensation was, and continues to be, higher than the total compensation of comparable provincial government positions.

Nalcor's executive and management positions had the same accountability, problem-solving, and know-how ratings as equivalent government positions, yet they were paid more money. Nalcor continually increased or broadened salary scales, even after bonuses and incentive programs were removed. Nalcor's executive and management employees receive retiring allowances, higher insurance benefits, and better leave entitlements than government employees. We could not determine any business reason for this variance. It appears salary and benefit levels will not be comparable to government unless changes are made.

Nalcor's compensation for the majority of the positions we reviewed was higher than comparable positions assessed against industry benchmarks. While Nalcor executive and management staff may not have received general economic increases since 2016, the increases to salary levels, pay scales, bonuses and incentives, as well as employee benefits, over the past ten years has resulted in compensation costs higher than government.

The inherent conflict of being a public sector organization that has to compete with the private sector for human resources is a complicating and challenging factor for Nalcor, but also for government. When a public sector entity's salary and benefits practices are more lucrative than others, it creates disparity in the public service, adds to recruitment and retention challenges, and ultimately reduces the public's trust that public money is being managed appropriately.



## Recommendation for Nalcor

Nalcor should re-evaluate its compensation policies and practices to ensure the best possible use of public money, including consideration of alignment with government classification, pay scales, and benefits policies.



## After reading this report, you may want to ask the following questions of government:

1. How does government ensure consistency in executive and management compensation across the public service?
2. How will the findings in this audit influence how government manages its employee benefit costs and employee entitlements?



## What We Found

We found that Nalcor (and its subsidiaries) paid higher base salaries than the provincial government for all 35 management and executive positions we examined. Since accountability, problem-solving, and know-how ratings were the same, we could not determine any business reason why there were such differences in the salary pay scales.

Between 2017 and 2018, Nalcor's Board of Directors:

- Approved the implementation of executive salary scales higher than prior employment contract base salary levels and allowed executives to exceed the top of the pay scale by 20 per cent, and
- Approved a new management salary structure with less classifications and broader pay ranges, and allowed management to exceed the top of the scale by 10 per cent. For context, these changes happened when provincial government employees were under a pay freeze.

From 2013 to 2018, approximately 15 executive employees were given an average of \$46,000 each in incentive payments annually; approximately 70 senior management employees were given an average of \$16,000 each in incentive payments in lieu of bonuses; and approximately \$1.5 million in bonuses was paid to management employees who were at the top of their pay scale.

We also found significant differences with the benefits package offered:

Nalcor	Government
100% employer-paid group health and life insurance plan premiums	50% employer-paid group health and life insurance plan premiums
75% employer paid dental plan premiums	0% employer paid dental plan premiums
\$12,740 annual car allowance to executive employees or exclusive use of a fleet vehicle with a gas card	Mileage reimbursement for work-related travel
Retiring allowance of up to 26 weeks' salary	No retiring allowance; 20 weeks' severance policy ended in 2018
Up to 108 employer-paid leave days annually	25 to 35 employer-paid leave days annually, depending on years of service

We found that Nalcor's base salaries were above many of the benchmarks found in the industry. Specifically, we found that executive employee total compensation was at the high end of the range of Canadian industry markets. Management employee total compensation was also above Nalcor's benchmark of the Atlantic Canada electric utilities market. Canadian compensation planning surveys reported average increases ranging from 0.3 per cent to 4.4 per cent annually, while Nalcor employees received increases ranging from four to eight per cent annually.

While we were unable to compare many aspects of Nalcor management or executive benefits against industry benchmarks due to a lack of comparable data, we did note that the value of offering a defined benefit pension plan resulted in above-industry benefits for Nalcor employees.