

Public bodies and organisations with a public purpose

Not-for-profit remuneration and remuneration committees

Good Governance Institute discussion paper

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We work to make sure that organisations are run by the most talented, skilled and ethical leaders possible and work to build fair systems that consider all, use evidence, are guided by ethics and thereby take the best decisions. Good governance of all organisations, from the smallest charity to the greatest public institution, benefits society as a whole. It enables organisations to play their part in building a sustainable, better future for all.

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This report has been prepared by GGI Development and Research LLP (T/A Good Governance Improvement - GGI) for the Good Governance Institute. Good Governance Improvement is the UK-based ethical consultancy that has carried out client work with about 750 organisations since it was set up in 2013 and is part-owned by the EU-based Good Governance Institute. Good Governance Improvement has specific expertise in governance reviews and development programmes in large, complex public sector organisations and a strong UK-wide reputation for its work in the public and third sectors. GGI's high-quality and ethical governance consultancy is carried out by its specialist staff team, supported by subject matter expert associates and partners. The Institute is an independent, international reference centre dedicated to promoting better governance practice and publishes research and open-source best practice guides. This report is of international relevance and has drawn particularly on guidance and best practice in the Republic of Ireland, the UK and the Republic of South Africa.



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Background

From large, complex bodies to a host of charities, social enterprises and not-for-profit organisations, there are myriad organisations that deliver a public purpose. These play a vital role in society, often delivering essential services and supporting vulnerable communities. Non-executive directors (NEDs) and trustees play a pivotal role in governing these organisations, ensuring that they are well managed and accountable to their stakeholders. Remuneration of these key roles is a potent issue and there is no level playing field, with non-executives in many public bodies being remunerated quite significantly and trustees of charities almost always receiving no fees at all.

While there is a lot of literature available on the remuneration of non-executives in the private sector, including benchmarks and guidelines for rates, there is much less for not-for-profit organisations, where the picture is generally far more obscure and complex. This paper addresses remuneration for board positions in organisations that are not registered charities and focuses on organisations with a public purpose where a fee could be paid to board members if the organisation felt this was necessary or merited.

Remuneration for board roles in any sector is often complex to evaluate and relies on consideration of a number of factors, including the board's role, committee remits, member responsibilities, market demands, organisational profile, the reputational impact of board remuneration and what the organisation can afford.

For not-for-profits, some of these are more significant and nuanced factors. The other factor at play for not-for-profit organisations discharging public functions and/ or operating primarily for public good or social purpose, is the expectation that they should hold themselves to elevated standards, with motivation and reward for NEDs/ trustees seen in terms of public and social duty.

Remuneration for NEDs and trustees is therefore a complex issue and there is no one-size-fits-all solution. However, there are a number of key principles that not-for-profit organisations should follow when developing and implementing their remuneration policies.

This short guide aims to provide some independent guidance to not-for-profit organisations with non-executive/ trustee remuneration and the effective operation of remuneration committees.



Guidance

Many not-for-profits are structured as companies limited by guarantee and as such fall under the UK Corporate Governance Code. This code is also noted in recommendations for similar organisations in the Republic of Ireland. The code has some helpful guidance for remuneration:

“ Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company’s long-term strategy.

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. ”

Extract from the UK Corporate Governance Code, July 2018

Non-executive directors play a critical role in the success of public purpose and not-for-profit organisations.

None of the UK government’s extensive guidance on public bodies and their governance, even in their guidance paper on NED appraisals, covers non-executive remuneration or so much as mentions it.

Principles for remuneration

Good practice for board remuneration of not-for-profit, public purpose organisations in the UK and the Republic of Ireland is based on the following principles:

- **Sustainability:** remuneration for NEDs and trustees should be sustainable for the organisation in the long term. This means that remuneration should be affordable and should not compromise the organisation’s ability to deliver its mission.
- **Proportionality and fairness:** remuneration for NEDs and trustees should be proportionate and fair, considering the size and complexity of the organisation, the skills and experience required for the role, and the market rate for comparable positions in other sectors.
- **Performance:** NEDs and trustees should be rewarded for their performance, both in terms of their individual contribution and the overall performance of the organisation. This can be achieved through a combination of fixed and performance-related pay elements.
- **Transparency:** not-for-profit organisations should be transparent about their remuneration policies and practices. This includes disclosing the total remuneration paid to each NED and trustee, as well as the criteria used to determine remuneration.
- **The market:** some public purpose organisations that want to attract particular skills argue that the recruitment pool is diminished if there are no fees attached to non-executive roles.
- **Diversity and inclusion:** making posts non-remunerated cuts out potential applicants who cannot afford to work for no pay, and favours better-off and retired people over those currently in work, who may be the very people the organisation wishes to appoint to non-executive positions.

Why remuneration is worth attending to

The reasons why good practice in board remuneration is important for not-for-profit organisations in the UK and the Republic of Ireland include:

- Attracting and retaining talented NEDs and trustees: a fair and competitive remuneration package can help to attract and retain talented NEDs and trustees with the necessary skills and experience to govern the organisation effectively.
- Maintaining public trust and confidence: transparent and responsible remuneration practices can help to maintain public trust and confidence in the organisation and its leadership.
- Aligning remuneration with mission and values: remuneration should align with the organisation's mission and values, ensuring that NEDs and trustees are motivated by the organisation's social purpose rather than excessive financial rewards.
- Promoting long-term sustainability: sustainable remuneration practices can help to ensure the long-term financial health of the organisation and its ability to deliver its mission. They help attract potential board members from a more diverse base.

By adhering to good practice principles in board remuneration, not-for-profit organisations in the UK and republic of Ireland can strike a balance between attracting and rewarding talented individuals while maintaining public trust and ensuring the long-term sustainability of the organisation

Governing remuneration

The robust governance of remuneration is important for not-for-profits. There are some fundamental arrangements and activities that can help not-for-profits ensure effective governance of remuneration, including by:

- Establishing a remuneration committee: a remuneration committee composed primarily of independent NEDs or trustees should be responsible for developing and implementing the organisation's remuneration policy; the committee should be chaired by an independent NED or trustee with the necessary skills and experience
- Benchmarking remuneration levels: regularly benchmark remuneration levels against comparable positions in other not-for-profit organisations and the wider charitable sector to ensure that remuneration remains fair and competitive
- Conducting regular remuneration reviews: conduct regular reviews of the organisation's remuneration policy to ensure that it remains aligned with the organisation's objectives and the changing market landscape
- Seeking external advice: seek external advice from remuneration consultants or other experts when necessary to ensure that the organisation's remuneration practices are sound and in line with good governance principles
- Recognising that remuneration is a factor in attracting board talent from a broader, more diverse base.



Remuneration

In most not-for-profits, particularly charities, trustees are not remunerated. The same is not always true of trustees or non-executive directors of social enterprises, public bodies and non-governmental-organisations.

Where not-for-profits decide to pay for non-executive directors or trustees, one approach is to establish a notional day rate.

We do not believe that the pay rate greatly influences credible candidates who would put themselves forward as directors as there are many examples of high-calibre directors of significant not-for-profits who are unpaid. Not paying non-executive directors can be a powerful and beneficial signal outwards and for many organisations isn't a limiting factor on recruiting board members of the right level of seniority.

To note, company directors are neither contractors nor staff but officers of their company and in the UK HMRC guidelines indicate that any remuneration should be paid as part of payroll with PAYE etc. deducted at the relevant rate.

There are technical tasks to perform and personal accountability for these that are different to usual director duties.

Expenses

Expenses are an important public totem for not-for-profits and indeed any organisation with a public purpose. We would suggest that an expenses policy be adopted that is in line with mainstream public sector bodies. This is a great way for not-for-profits to insulate themselves from any challenges about their approach to expenses.

The usual rate would be mileage at the approved rate by the relevant tax authorities and, by default and unless otherwise justified, second-class travel. The expenses policy should be the same for staff and board members. We would recommend that board expenses and a register of hospitality be routinely published in the same way that a conflict of interest register would be maintained and published.



Remuneration committee

Remuneration committees are responsible for developing and implementing the organisation's remuneration policy. They also play a key role in determining the remuneration of individual NEDs and trustees.

Remuneration committees should be composed of a majority of independent NEDs or trustees. They should be chaired by an independent NED or trustee who has the necessary skills and experience to lead the committee.

Remuneration committees should have a clear and well-defined remit. This remit should include the following responsibilities:

- Developing and recommending the organisation's remuneration policy to the board of directors or trustees for approval.
- Determining the remuneration of individual NEDs and trustees, in line with the organisation's remuneration policy.
- Advising the board of directors or trustees on all matters relating to NED and trustee remuneration.
- Producing an annual remuneration report.

Conclusion

By developing and implementing a fair, reasonable, and transparent remuneration policy, and by establishing an effective remuneration committee, not-for-profit and other organisations with a public purpose can ensure that their NEDs and trustees are rewarded appropriately for their valuable contribution. Indeed, remuneration can become a tool for wider goals such as sustainability and attracting a diverse talent pool.



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