

Illustrative Practice Note 1: Remuneration Committees

March 2015

Governing Body and Remuneration Committee Practice on Senior Staff Remuneration

1. The success of Higher Education institutions (HEIs) in the UK is based on both their high degree of autonomy compared with other countries, and the good governance framework that is in place. The Remuneration Committee is an important part of that governance framework. This practice note sets out key elements of the work of Remuneration Committees and has been developed to enable institutions to consider the material and adapt as appropriate to their own needs and outlook. By setting out the key points around a remuneration approach and raising pertinent questions, institutions can use this practice note to develop a strategy that both fits the organisation's character and addresses the demands and expectations of other stakeholders.
2. It is probably fair to say that in the eyes of wider society the reputation of Higher Education (HE) can be significantly damaged by pay packages for senior staff that are perceived as out of kilter with pay and conditions elsewhere. The Remuneration Committee faces a difficult challenge in responding to the global market for talent while ensuring that pay is clearly linked to performance and that increases are sustainable. This is very much a reputational issue and therefore an issue for the governing body.
3. Another risk to trust in organisations is the perception of secrecy surrounding pay decisions. To this end, and largely in response to increased media, government and public scrutiny of pay levels, organisations are becoming more transparent about the principles and guidelines for setting remuneration.

What does the HE Code of Governance say?

4. *Governing bodies must establish a Remuneration Committee to consider and determine, as a minimum, the emoluments of the Vice-Chancellor and other senior staff as prescribed by the governing body (2014 Higher Education Code of Governance, item 3.13, p.17).*
5. *The Scottish Code of Good HE Governance* published in 2013 sets out main principles which institutions in that jurisdiction are expected to comply with, together with associated guidelines that they are expected to follow closely. These are referred to where appropriate below.

Why is it important?

6. British Higher Education enjoys a world-leading reputation around the globe and is a major contributor to the UK economy, earning billions of pounds every year. Good governance is central to this success. As a sector HE strives to apply the highest standards of governance to itself and it is important to demonstrate transparency around those policies and processes in order to maintain itself as a world-class industry.

CUC

Committee of University Chairs

7. Good governance requires that the governing body has in place a policy and arrangements for determining the pay of senior staff which both ensure that such staff are appropriately remunerated in terms of their recruitment, retention and motivation, and which at the same time are seen by the institution's stakeholders (both internal and external) as robust and proportionate in their use of funds. This policy is a very important part of the institution's overall human resources policy, as the performance of the senior team is fundamental to the success of the institution and these are the most highly-paid members of staff. Senior staff remuneration, therefore, needs to be optimally aligned to achieve success while ensuring value for money.
8. Governing bodies and their Remuneration Committees have a clear role to play in protecting their institution's reputation. Senior pay is very much in the public spotlight, and as such institutions will want to ensure that any pay decisions taken are, and can be seen to be, justified, fair and equitable. To this end, Remuneration Committees will need very clear terms of reference which are approved and regularly reviewed by the governing body. The processes by which it reaches its decisions need to be clearly available to and understood by all stakeholders; confidential personal data should not be made available other than to those who need it; and decisions should be founded on evidence-based criteria related to performance, staff retention and behaviours as approved by the governing body.

Reporting

9. It is important that reports from the Remuneration Committee to the governing body provide sufficient detail of its deliberations to enable governors to assure themselves fully that a rigorous, fair and defensible process has taken place, since overall responsibility for this rests with the governing body and not the Committee.

Severance

10. The payment of severance is a complicated issue and can also be highly contentious. Governing bodies need to set out a clear policy framework on severance to their Remuneration Committees, based on the guidance provided by the funding bodies. When awarding severance the benefit to the institution needs to be balanced against the proportionate use of funds. The content of a severance policy will vary between institutions; good governance recommends that such a framework exists, whatever form it may take.

FAQs

What is meant by 'remuneration'?

11. 'Remuneration' refers to the full range of the reward package an individual receives whether in cash or non-cash, including pay, benefits (including pension contributions of all kinds), allowances and incentives/rewards. The terms 'remuneration' and 'emoluments' are often used interchangeably.

What does the Remuneration Committee do?

12. Its main functions are to agree the pay and conditions of the head of institution and other senior staff under its remit, and approve severance arrangements for such staff.

Durham

At Durham, because of the increasing importance of equality and diversity issues, the Remuneration Committee has been given the role of receiving, considering and discussing the results of the University's Equal Pay Audit; it receives both reports and a summary presentation, which covers all staff groups.

What is meant by senior staff in this context?

13. The term 'senior staff' refers to those individuals who form the senior management team of the institution and whose salaries are within the remit of its Remuneration Committee. The definition will vary between institutions and is a decision that rests with the governing body. However *The Scottish Code of Good HE Governance* states that this is within the remit of the Remuneration Committees of Scottish institutions.
14. The Remuneration Committee may also consider the pay of those staff who are paid more than the institution's chief executive.
15. In some institutions the remit covers the head of institution and his/her senior management team, in others deans and directors as well, and in others all professorial and equivalent staff. In practice the Committee is likely to concentrate its deliberations on the head of institution and a small number of senior managers, while at the same time ensuring that appropriate and robust arrangements are in place for determining salaries of other senior staff – with regard to professors, for example, a common practice is for the head of institution (in consultation with the senior management team) to make proposals to the Remuneration Committee.

Who should be on the Remuneration Committee?

16. Typically Remuneration Committees have a small membership and include the Chair, and senior lay members (not necessarily from the governing body) chosen for their experience of senior level leadership and management of human resources.
17. At some institutions the membership includes the head of Human Resources, a representative from the Finance Committee, or other delegated members of staff. Where this occurs, institutions should be mindful that lay members form the majority of the membership.
18. The head of institution may or may not be a member but, and if not, should be consulted on senior staff remuneration. Where they are a member they should, of course, withdraw from any discussion of their own remuneration, as should any other staff members whose emoluments are within the scope of the Committee.
19. *The Scottish Code of Good HE Governance* states that membership should consist of at least three independent members (not necessarily members of the governing body), one of whom should be a member of the Finance or equivalent Committee. The Scottish Code says that the head of institution should be consulted on senior salaries and should attend meetings, except when his/her own remuneration is being discussed.

Who should chair it?

20. Again practice varies. In many institutions this is the Chair of the governing body but there is an increasing trend (following private sector practice) for the Committee to be chaired by a lay member other than the Chair such as the Deputy Chair. This remains a matter for institutions to address individually though each should be mindful of the rationale for separating the two: as the governing body Chair appraises the performance of the head of institution and makes recommendations to the Committee in relation to his/her remuneration, some institutions therefore find it advisable that the Committee is chaired by someone who is independent of that process.
21. It should be noted that *The Scottish Code of Good HE Governance* (the Scottish Code) precludes the governing body Chair from also chairing the Committee.

York St John

Following its most recent governance effectiveness review, York St John has co-opted an external expert to their Remuneration Committee. It feels this person brings a measure of independence to the proceedings and an understanding of pay practices in other sectors.

Goldsmiths

In order to provide greater transparency Goldsmiths has appointed the Student President to its Remuneration Committee. It takes the view that students have a right to know how and why their fee income is spent. The student representative is bound by all normal rules of confidentiality in respect of detailed discussion within the Remuneration Committee.

22. If discussions affect the remuneration of the professional adviser, that adviser may provide a technical analysis, but would not normally make specific recommendations.

Robert Gordon

The Convenor or Vice-Convenor of the Staff Governance Committee (which approves, oversees and monitors the achievements of the human resources strategy) also currently convenes the Remuneration Committee. The latter also has an independent external member with a background in senior HR strategy/reward. The university has, on occasion, retained external consultants to inform the scope and terms of reference for reviews of senior pay policy and other arrangements.

The Scottish Code of Good HE Governance expects that the Chair of the Board will not convene, but will be a member of, the Remuneration Committee. This creates further 'distance' between the role of reviewing and reporting on the Principal's performance (and that of the most senior executive group) and the wider governance engagement in deciding remuneration and reward for performance. By ensuring that either the Chair or Vice-Chair of the Staff Governance Committee has the necessary knowledge, understanding and experience in senior reward, he/she is then able to bring that into the work of the Remuneration Committee.

An additional, separate external consultant's perspective/contribution from time to time, especially when fundamentally changing the reward strategy and policy arrangements, ensures that any risks, associated with personal conflicts of interest for those advising the Committee, are further mitigated.

Who should service it?

23. The Secretary to the Remuneration Committee would normally be appointed by the Committee itself. This would normally be the Secretary to the governing body but in some cases it is the director of HR. It is essential that the Committee is serviced by an officer of appropriate seniority to provide the necessary advice and guidance. The Secretary of the Committee will need the means to commission any external advice if members feel they need it.

How often should it meet?

24. Many Remuneration Committees meet twice per annum and at other times as needed, while others manage with an annual meeting supplemented by correspondence if necessary. It is essential that it should meet often enough and for long enough to ensure that the business is transacted with thoroughness and attention to detail.

What information should be provided to the Committee?

25. In its deliberations the Remuneration Committee will need to take account of a range of information. In the case of the head of institution and senior managers this will include evidence of performance against agreed objectives measured by appraisal. It is important for the Committee to differentiate between personal and institutional performance. This is especially relevant where pay rises above the average or performance bonuses are being awarded.

26. The Scottish Code states that views of the entire governing body should approve the policies and processes used to determine the remuneration of the Principal/Vice-Chancellor of institutions in Scotland. It should also be able to satisfy itself that these policies have been applied.
27. The Committee should also have a range of benchmark information allowing it to make comparisons with other institutions in the sector. The main sources of such information are the Committee of University Chairs (CUC) Vice-Chancellors' salaries survey, data provided by the Universities and Colleges Employers' Association (UCEA) and the annual survey undertaken by the *Times Higher Education (THE)*. It should be noted that the CUC survey (which provides to the Chair detailed comparative information) and the UCEA Senior Staff Remuneration Survey (published every February based on salary data as at 1 November the previous year) are current whereas the *THE* report is based on data from the previous year. The usual caveats apply to the use of benchmark data, namely that benchmark data gives indications and a framework for the exercise of judgement and should not be used in a mechanistic or formulaic manner. It is also important for benchmarks selected to be regularly reviewed by the Remuneration Committee.
28. The Scottish Code requires that comparative information is sought and identifies the CUC and UCEA data as possible sources of such data.
29. Internal benchmarks may also be used. For example, comparing remuneration as a multiple of median academic or professorial salaries over time.
30. A few institutions do use professional HR consultants to provide additional support and a wider perspective but this is not widespread.

What reports should be made to the governing body?

31. Here again there has been a variety of practice in the sector. The HE Code of Governance states that the Remuneration Committee *'must report on its decisions and operation at least annually to the governing body; such a report should not normally be withheld from any members of the governing body'* (2014 Higher Education Code of Governance, item 3.15, p.17).
32. Where the governing body delegates decision-making on individual salaries to the Remuneration Committee on its behalf, it should receive sufficiently detailed reports to provide the necessary assurance to other governors not involved in the process, and to stakeholders and the public more generally.
33. While it would be unusual (though not unknown) for detailed salary information to be provided to the governing body (other than that for the head of institution which appears retrospectively in the annual financial statements), the governing body should be given information about the Committee's approach and methodology, and the resulting overall levels of increase in the wage bill.
34. It should be noted that *The Scottish Code of Good HE Governance* introduces another important guideline which governing bodies in other jurisdictions might consider. This is that the Remuneration Committee should identify those posts in the senior team which are regarded as forming the senior executive team, and it should publish the salaries of this group of staff by salary band.

Durham

Durham uses UCEA pay data reports for all staff pay comparisons and looks particularly at information on pay of Vice Chancellors (VCs) in the Russell Group. It supplements this with data from external advisers looking at international comparisons, the *THE* pay survey and also considers other industry pay data as appropriate.

Keele

At Keele, the Remuneration Committee has developed an explicit remuneration framework, which sets out how it will look at comparators, affordability and exceptionality. It has clearly delegated authority to set salaries for all of the executive group, all senior managers and professorial staff.

What reports should be made to institution stakeholders?

35. Institutions will identify for themselves who their stakeholders are, but this would normally include the staff and student populations, trade unions and the media.
36. Disclosure of the chief executive's remuneration is required by the regulators and is stated in the annual accounts direction issued by each funding council and is available on their websites.
37. Transparency – of both decisions and the thinking behind them – serves to maintain trust in an organisation and institutions should think carefully about what information they can place in the public domain and what form is most appropriate. This is a sensitive subject, with commercial and personal confidentiality at odds with the legitimate interest in how public funds are used. Institutions have adopted a range of practices to try to find the right balance, from maintaining strictest confidentiality to the full publication of Remuneration Committee minutes.
38. Some institutions publish a report of the decisions of the Committee, not least so that they can take the lead in any stakeholder or public scrutiny. The Remuneration Committee itself should determine how best to report and should ensure that the report is easily accessible.
39. With regard to Freedom of Information requests, recent decisions by the Information Commissioner and the General Regulatory Chamber have stipulated that the salaries of some senior members of staff should be published, albeit in an anonymised form indicating the salaries relating to specific job roles. Institutions should be mindful of the *Definition Document for Universities and Other Higher Education Institutions* published by the Information Commissioner's Office (ICO), which outlines the information that universities would be expected to provide regarding pay. Furthermore, the ICO's *Guide to Freedom of Information* emphasises that all organisations should be 'proactive' in their publication of information.

Some things to consider

40. Draft a clear scheme of delegation of authority from the governing body to the Remuneration Committee, with the governing body noting the Committee's decisions.
41. If an HR Committee exists, consider whether the Chair serves on the Remuneration Committee. This may offer benefits to the institution by ensuring that the Committee processes and practices are firmly embedded in the institution's HR strategy.
42. Appoint a member of the Audit Committee to serve on the Remuneration Committee to provide additional assurance.
43. Ensure that activity of the Remuneration Committee is included in the Audit Plan.
44. Share the head of institution's performance objectives with the governing body.
45. Periodically conduct an effectiveness review of Remuneration Committee practices, possibly using external advisers if deemed appropriate.

Imperial College and University of

Southampton

Both institutions publish online, separately from their annual accounts, detailed information of their President/VC's remuneration level and the decision-making process that the institution employs. This acts to assure stakeholders of the robustness of the system whereby senior pay decisions are reached and makes public the objectives the VC is expected to achieve.

UWE

At UWE, the Remuneration Committee approves a report which sets out how it has conducted its business, what comparatives it has used and the basis on which it has exercised its judgement. This is considered by the full Board and is then published.

Some questions to think about

46. Does my institution have a clear policy on senior staff remuneration and associated procedures approved by the governing body, which clearly aligns to institutional strategy and its business plan?
47. Is that policy integrated into the wider HR strategy and is that strategy aligned to institutional strategy and plans?
48. Am I confident that I could explain and justify my institution's approach to senior staff remuneration?
49. Am I satisfied that policies and procedures in this area are aligned to our commitment to equality and diversity?
50. Am I satisfied that the criteria for salary increases are clear, and are based on proven individual performance, clearly demonstrable market factors and reliable benchmarks?
51. In addition to individual performance, are there team performance measures that might have a bearing on remuneration decisions?
52. Is there a clear policy on senior staff severance? In Scotland, this policy must be aligned with the requirements of the Scottish Funding Council's Financial Memorandum.
53. Is the report which my Remuneration Committee makes to the governing body sufficient to assure me of the robustness of the process?
54. Does my institution have a publication scheme as required by the Freedom of Information Act, which is consistent with our commitment to the publication of accurate and transparent information?

Additional Resources

Information Commissioner's Office (2014) [The Guide to Freedom of Information](#). Wilmslow, Cheshire: Information Commissioner's Office.

Information Commissioner's Office (2013) [Model Publication Scheme](#). Wilmslow, Cheshire: Information Commissioner's Office.

Information Commissioner's Office (2013) [Model Publication Scheme for Bodies only Covered for Certain Information](#). Wilmslow, Cheshire: Information Commissioner's Office.

Higher Education

Committee of University Chairs (2014) [Higher Education Code of Governance](#). Bristol: Committee of University Chairs.

Information Commissioner's Office (2013) [Definition Document for Universities and Other Higher Education Institutions](#). Wilmslow, Cheshire: Information Commissioner's Office.

Information Commissioner's Office (2013) [Requests for Personal Data about Public Authority Employees](#). Wilmslow, Cheshire: Information Commissioner's Office.

[The Scottish Code of Good HE Governance \(2013\)](#).

Public Sector

Department of Communities and Local Government (2011). [Local Government Transparency Code 2014](#). London: DCLG Publications.

Hay Group (2013) [A Spring Clean for Chief Executive Pay in the Housing Sector](#). London: Hay Group.

Hutton, W (2011) [Hutton Review of Fair Pay in the Public Sector: Final Report](#). London: The Stationery Office.

NHS Commissioning Board (2012) [Clinical Commissioning Groups: Remuneration Guidance for Chief Officers and Chief Finance Officers](#). Redditch: NHS England.

Charity/Third Sector

ACEVO (2010) [Good Governance: A Code for the Voluntary and Community Sector](#). 2nd ed. London: ACEVO.

ACEVO (2013) [The Good Pay Guide for Charities and Social Enterprises](#). London: ACEVO.

NCVO (2014) [Report of the Inquiry into Charity Senior Executive Pay and Guidance for Trustees on Setting Remuneration](#). London: NCVO.

Industry/Private Sector

Confederation of British Industry (2014) [Remuneration: Ensuring Executive Pay is Squarely Linked to Performance](#). London: Confederation of British Industry.

Confederation of British Industry [Shaping the Future of Corporate Reporting: Statement of Reporting Principles](#). London: Confederation of British Industry [Accessed 25 March 2015].

Financial Reporting Council (2011) [Guidance on Board Effectiveness](#). London: Financial Reporting Council.

Financial Reporting Council (2010) [The UK Approach to Corporate Governance](#). London: Financial Reporting Council.

Financial Reporting Council (2012) [The UK Corporate Governance Code](#). London: Financial Reporting Council [Accessed 25 March].

CUC

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