



Report for:

Headway Gippsland

*Board remuneration report,
implementation plan and draft policy*



Non Profit Training

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Client	Headway Gippsland
Report	Board remuneration report and implementation plan
Date	14 April 2022
Prepared By	Jenny Holliday

1. Introduction

The Headway Gippsland (HG) Board agreed to put in place remuneration of the Directors. The context of the discussion included attracting skilled directors to Headway to deal with the increasingly complex business and that people should be appropriately compensated for their time, skills and commitment to HG.

Non Profit Training (NPT), having worked together with HG on a number of occasions in relation to policies and governance, were appointed to prepare a paper for the Board to assist with transitioning their decision to implementation.

2. Context

The 2019 AICD Not-for-profit (NFP) Governance and Performance Study¹ revealed that NFP Directors are spending more time on their roles with 28% of Directors spending between 2-5 days per month on each Board role, 13% between 5-8 days and 10% more than 8 days. This is being driven by a more complex operating environment: the increase in rate of regulatory change, competition for funding, growth in the service needs of the community sector and greater risk.

This complexity aligned with the expectation of dedicating a minimum of 15 hours per month to the Board means HG Directors need to be able to commit their time and their expertise to the future focus of the organisation and to do this the HG Board believe Directors should be compensated.

A range of studies reveal that up to 29% of NFP Boards discuss Director remuneration however have not taken the step to put this in place. 38% of respondents with non-remunerated Boards support the idea of remuneration.²

NFP Remunerated Boards most commonly reported that a single Director of organisations with over \$20million turnover received between \$10,000 and \$30,000 per year³. This is aligned to the findings where the average NFP Chair of an NFP with a turnover above \$20million receives \$41,455⁴. This is based on the activities of a Chair undertaking activities in the role such as:

¹ Australian Institute of Company Directors, NFP Governance and Performance Study Sept 2019

² Better Boards Australasia, NFP Board Member Remuneration Report 2016

³ Ibid

⁴ AICD Remuneration Survey Report 2016

Spokesperson including Government negotiations and Stakeholder Engagement, Sponsorship and Business development as well as the traditional Board Chair activities liaising with Directors and CEO engagement. In the context of the turnover and complexity of HG, these remuneration levels are not comparable however give the Board of HG some insight into the recommendations made by NPT in relation to remuneration.

Based on data collected in 2016⁵, 13.9% of NFP Boards remunerated Directors however this rose to 45% of NFP Boards when revenue exceeded \$20million. The AICD 2019 study⁶ suggests that 15% of Directors in the NFP sector are paid and 29% of NFPs' with an annual turnover exceeding \$20million pay their Directors. This has dropped from their 2016 survey which suggested that 37% of NFPs responding to the survey were remunerated.

NPT undertook some research of similar organisations to HG. Some like organisations and whether they are remunerating their Board are listed below:

Organisation	Payment of Directors	Turnover \$million
Blind Citizens Australia	No	1.4
Women with Disabilities Victoria	Statement that no directors are paid	2.5
Australian Federation of Disability Organisations	Nothing specified in related party transactions or key management personnel compensation	3.3
Carers Victoria	Nothing specified in related party transactions or key management personnel compensation	11.7
Acquired Brain Injury Services Ltd	Nothing specified in related party transactions or key management personnel compensation	13.6
Wellways	Yes - stated in related party transactions in annual accounts	93.9

Neither the Associations Incorporation Reform Act 2012 (Vic) nor the ACNC Act 2012 prohibit the remuneration of Directors however it would be prudent to allow the members of HG to decide, by special resolution, to amend the Constitution to allow remuneration of Directors. This recommendation would draw on the contents of this report. HG would be best to seek legal advice on the legitimacy of evoking a remuneration policy without the approval of the members.

HG has grown significantly over the past seven years in both the type of work the organisation is undertaking and the annual turnover. In 2015, the turnover was \$607,150 as reported in the audited financial reports lodged with the ACNC. In 2021, just six years later, the annual turnover reported to the ACNC was \$5,068,502; an increase of 735%.

This increase resulted from the realisation of opportunities to support people with an ABI and other disabilities across a broader geographical spread in Gippsland in diverse ways.

As the organisation grew, the responsibility on Directors grew as did the increase in risk as a result of the growth and the expansion of the workforce. Rapid expansion brings excitement and the need for skilled oversight of the organisation to guide the CEO and Executive Leadership Team through the change.

This requires the Board to be well networked amongst government, community stakeholders and the NFP sector. Not only this but well attuned to the external environment and the way a

⁵ Better Boards Australasia, NFP Board Member Remuneration Report 2016

⁶ Australian Institute of Company Directors, NFP Governance and Performance Study Sept 2019

range of changing global, national and local circumstances might impact on the work and direction for HG and the decisions they will be asked to make.

HG Directors are diligent in their roles and ensure compliance with an array of legislation and adhering to their legal duties as well as to the ACNC governance standards. The six ACNC Governance Standards are:

- Governance Standard 1: Purposes and not-for-profit nature
- Governance Standard 2: Accountability to members
- Governance Standard 3: Compliance with Australian laws
- Governance Standard 4: Suitability of Responsible Persons
- Governance Standard 5: Duties of Responsible Persons
- Governance Standard 6: Maintaining and enhancing public sector trust and confidence in the Australian NFP sector

HG needs to be able to demonstrate how they are meeting these standards if requested. An annual check using the ACNC self-evaluation tool can be used to assist with this process and demonstrate to members compliance with the standards.

The particular standards aligned with this report are Standards two and five:

Governance Standard 2: Accountability to Members

“Charities that have members must take reasonable steps to be accountable to their members and provide them with adequate opportunity to raise concerns about how the charity is governed.”⁷

Through the AGM and financial reporting, Related Party Transactions and Disclosures would continue to be transparent in the HG annual Audited financial statements with advice sought from the HG Auditor relating to AASB 124 Related Party Disclosures⁸ and Reduced Disclosure Requirements.

Paragraph 9 of AASB 124 defines Key Management Personnel (KMP) as being those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. A note in the audited financial in accordance with ASX Corporate Governance Principles Recommendation 8.3 would need to be included in the future.

Governance Standard 5: Duties of Responsible Persons

A charity must take reasonable steps to make sure its Responsible Persons are subject to, understand and carry out the duties set out in this Standard which are aligned to the legal

⁷ <https://www.acnc.gov.au/for-charities/manage-your-charity/governance-hub/governance-standards/2-accountability-members>

⁸ https://www.cpaaustralia.com.au/~/_media/corporate/allfiles/document/professional-resources/reporting/aasb-124-related-party-disclosure.pdf?la=en

duties of Directors under the Associations Incorporation Reform Act 2012 (Vic). The seven duties under Standard five are:

1. To act with reasonable care and diligence
2. To act in good faith in the best interests of the charity and for its charitable purposes
3. Not to misuse your position
4. Not to misuse information gained as a result of your position
5. To disclose conflicts of interest
6. To ensure the financial affairs of the charity are managed responsibly
7. Not to allow the charity to operate whilst insolvent

HG Directors are now managing \$5million in assets as compared to \$607K in 2014 requiring significantly enhanced financial acumen amongst the Directors and all Directors to understand the financial reports presented to them.

3. Methodology

NPT undertook desktop research, investigating a range of information from organisations that collate data on board skills, remuneration, profile, tenure, performance and evaluation. Data and information from these organisations are referenced throughout this document.

The review included regulators such as Australian Accounting Standards Board (AASB) and the Australian Charities and Not-for-profits Commission (ACNC) as well as AICD reports, independent experts and not-for-profit consultants.

A range of organisations were investigated to determine what available information indicated if they were remunerating Directors and the skill base of the Directors of those organisations.

The above information enabled NPT to develop an informed response, using data from the For Purpose Sector and allied industries, to the items in the recommendations detailed in the report.

4. Director considerations

Personal

Due to the complex nature of personal circumstances including tax, income and government benefits a person may be receiving, there is NO ADVICE in relation to the impact of the decision to remunerate directors with regard to tax. NPT recommends that Directors discuss the implications with an accountant.

When considering the remuneration of Directors, the following items should be investigated and understood by each Director:

- A change in their liability as Directors related to OH&S laws and civil liability laws: in some circumstances, the special protections afforded to volunteer Directors may not be extended to paid Directors.
- Restrictions on funding into the organisation from some funders: some funders and donors do not support charities with paid Directors.
- An impact on their tax
- An impact on government benefits they may be receiving
- The transparency of the payments as they relate to the ACNC governance standards (Governance standards 2 and 5 in particular).

Organisational

The members are the owners of HG while the Board are the 'stewards'. When taking this change to the members, be mindful that this change might be viewed differently by different people; some considering it a positive change and others a negative change. Understand the two sides prior to moving to amend the constitution.

Skilled Directors

While remuneration can support Directors to improve their performance and contribution to the organisation, be aware that it may also mean that people are attracted to the role due to the remuneration rather than performing their duties in the best interests of the HG. Clear guidelines for recruitment and performance management will be required to ensure the use of HG's resources are being put to the best use.

Resources for further reading are:

<https://www.acnc.gov.au/tools/guides/remunerating-charity-board-members>

https://content.nfplaw.org.au/wp-content/uploads/2022/02/Payment_of_board_members_CTH.pdf

https://content.nfplaw.org.au/wp-content/uploads/2022/02/Protections_for_board_members_of_not-for-profit_community_organisations.pdf

5. Recommendation 1: Remuneration basis

1. Any amount paid should be exclusive of normal cost reimbursement – i.e. expenses will be in addition to any remuneration paid to Board members.
2. Conditions required for remuneration by individual board members are as follows;
 - a. Demonstrated, ongoing and meaningful engagement with HG Board Business.
 - b. Demonstrated ongoing support and involvement with HG Board Committees and special projects as they arise, requiring dedicated or specialist input from Board Members and as nominated by the Chair.
 - c. Demonstration of a genuine ongoing appreciation and understanding of member and client issues, Code of Conduct, Board policies and procedures and current Board business.
 - d. Annual, independent review of Board performance and preparedness to act on (not necessarily accept) any independent recommendations.
 - e. Attendance (in person or via online meeting) at not less than 85% of Board meetings on an annual rolling basis.
3. In order to be transparent and avoid conflicts of interest, annual engagement with an independent Board Performance Consultant to:
 - a. Provide an independent review of this remuneration range amount and alongside this, conduct an independent Board evaluation.
 - b. Provide recommendations on Board member skills and backgrounds, finance, conflict and corporate governance. Recommendations to be then assessed by the Finance and Nominations & Remuneration Committees.
 - c. Offer support as to optimal size, structure (including sub committees and external advisors) and skill set of the HG Board to allow it to guide the CEO and team to respond to current and emerging issues and opportunities.

6. Recommendation 2: Remuneration range

NPT recommends a remuneration pool of up to 1% of annual turnover per annum, exclusive of reimbursement of expenses, based on previous years audited report. This is based on contemporary comparisons, industry practice, affordability and special obligations beyond Associations Incorporation Reform Act, responsibilities arising from the NDIS and aged care regulations.

Non Profit Training's recommendation for the initial remuneration is:

Responsibility	Base Value Excl. SGC	Expected hours per month
HG Director	\$3,000 per annum	15-25

Responsibility	Loading Value Excl. SGC	Expected hours per month
HG Chair	\$2,000 per annum	10-15

Director remuneration comprises the following:

- Base Directors fees.
- Loading fees for HG Chair.
- Exclusive of reimbursement of out-of-pocket expenses currently approved for Directors.
- No retirement benefits accrue for Directors with the exception of superannuation where applicable.
- No additional remuneration for ad hoc committees, bonuses or extra work requested of the Directors over the course of the year.
- An expectation that the annual commitment to collective Board training is undertaken.

The annually identified collective training needs of the Board will remain at the cost of HG.

The approximate cost of the above remuneration structure based on further recommendations of this report:

Positions	Remuneration	Number	Total	SGC*	Total
Directors	\$ 3,000	7	\$ 21,000	10.00%	\$ 23,100
HG Chair	\$ 2,000	1	\$ 2,000	10.00%	\$ 2,200
Total			\$ 23,000	10.00%	\$ 25,300

*Note: The Superannuation Guarantee Charge (SGC) will increase by 0.5% each financial year through to 2026.

It is recommended that the payment be made quarterly in arrears.

This recommendation is based on the current situation of HG and the anticipation of growth and diversification over the next five years. This should be reviewed by an external party annually and the Finance and Nominations & Remuneration Committees in the context of the organisations resources.

7. Recommendation 3: Advice on disclosures

NPT offers the following advice on disclosures of remuneration:

1. Develop a publicly available Board diversity and composition statement or policy which sets out the desired skills, experience and personal traits the organisation is seeking in Directors and communicate HG's success in meeting targets or quotas in the annual report.
2. Ensure there is disclosure of the skills and experiences of each Director on the HG Website including formal training in areas related to governance.
3. Listing of the Board, sub-committee and training meetings attended in the Annual report.
4. Confirmation of a comprehensive annual independent Board and Director performance evaluation.
5. Annual Information Statement (AIS) submitted on time to ACNC and ACNC self-evaluation tool of ability to demonstrate compliance with the governance standards completed.
6. Dedicated Board Nominations and Remuneration Committee with Terms of Reference giving them oversight of, amongst other things:
 - a. the Board recruitment, skills assessment, induction, evaluation and succession planning process.
 - b. confirmation of background checks on all Directors prior to the term commencing.
 - c. remuneration review of the Board, the CEO and Senior management.
 - d. development of policies aligned with these tasks.
 - e. development of a policy to deal with related party transactions.
 - f. a Register of related party transactions.
 - g. annually carry out and keep evidence of all Directors that they are not on the ASIC Register of banned and disqualified persons.
7. Seek advice from the HG auditor in relation to compliance with Related Party Transactions and disclosures in the financial report in accordance with AASB 124.
8. Seek legal advice from HG Lawyers relating to Related Party Transactions in accordance with ACNC Governance Standard 5, Duty 5: To disclose Conflicts of Interest.
9. Seek legal advice in relation to amendments to the constitution regarding a clause in relation to director remuneration.

8. Recommendation 4: Advice on Board size and skillsets

The success of HG is dependent on the quality of the leadership from the Board. The Board selects the CEO, the direction through the planning process and sets the tone of the organisation's culture. The Board are ultimately responsible for HG's financial and strategic performance, its compliance with an array of laws and regulations, offsetting risks from the changing environment and achieving HG's purpose.

Paramount to any recommendation from experts, the HG Board and Directors must have the awareness and acumen to recognise that the Board size, skills and structure must be fit for purpose for the time and phase of the organisation. Some corporate boards might be as small as three or five and other NFP boards as large as 17. Regardless, HG should retain the flexibility to fit any up or downsizing of the organisation and the resources it has as a result. Currently the HG Board can be up to 12 Directors.

Recommendations:

Number of Directors:

- Move to a maximum of nine Directors: seven elected Directors and two appointed Directors to enable the organisation to recruit specialist skill sets required at points in time. Note that this will require an amendment to the constitution.
- Tenure: three terms of three years for elected Directors and two terms of two years for appointed Directors. The appointment of casual vacancies will remain as per the constitution however be appointed using the process outlined in the recruitment policy.

The average number of Directors on a remunerated Board⁹ is 7.1. Some very large NFP Boards have a higher number of Directors as a result of the importance of raising revenue. Often Directors are asked to call on their networks to assist with raising funds and identifying innovative ways to diversify revenue streams. However extra numbers are not necessary on the Board to achieve further skill sets. Standing and Ad hoc Committees of the Board can be established to give focus to important discussions and extra support for the Team.

If nine Directors is the number adopted, it would be expected that engagement in securing funding and innovation investigation would be an ongoing investment of their time.

Director Skillsets:

Directors require a broad range of business acumen and specific skills as well as personal traits to ensure the Board is effectively using their experience to make good decisions in the ever-changing climate of HG.

Assimilating the complexity of the outcomes of the Royal Commissions into HG's operating environment is just one aspect of the complexity of the work of the Board. Maintaining the

⁹ Better Boards Australasia, NFP Board Member Remuneration Report 2016

balance of personal characteristics and backgrounds is important for diversity of views when undertaking difficult decisions. Marrying this with individuals who have values that align with the culture of HG, have an affinity with the lives of people with a disability, great technical skills and are respectful is a must to consider when recruiting and transitioning Directors.

Below are skills required for a high functioning Board. The balance of the skills needed relates to the phase HG is in. It is up to the Board to ensure the alignment of skills ensures HG has the ability to achieve the goals of the strategic plan and beyond and those on the Board are able to make good decisions in the best interests of HG. Each Director should be able to demonstrate they have a mix of traits across the three domains and that the recruitment and evaluation process can expose these.

Personal traits	Technical skill	Mindset
Gender/Gender Identity	Communications	Innovative mindset
Cultural background	Governance	Courage and resilience
Marital or family status	Information technology and cybersecurity	Ability and willingness to challenge and probe
Sexuality	People Management	Thinking style
Attitudes	Financial Management	Inclusive
Age	Legal expertise	Learning
Can work together with others	Marketing	Positive influencer
Lived experience	Property Management	Energetic
Religious belief	Risk Management	
Socioeconomic background	Industry knowledge - Carer, disability etc	
Self-awareness	Government networks	
Listening skills	Fundraising	
Imagination, curiosity and vision	Strategic thinking	
Commitment	Ability to understand issues in detail and at the big picture level	
Networks	Capability to deliver a clear case	
	Understands effective decision-making processes	

It is the role of the Nominations and Remuneration Committee to ensure evaluation of each Director as well as the Board as a whole is undertaken annually. This can be undertaken both internally and externally (recommendation to hold external review either biennially or triennially). The evaluation helps to establish if each Director is acting in the best interests of the organisation, if their contribution is sufficient, as well as to identify skills gaps and training needs. Where Directors cannot maintain the required contribution to HG, their time could be best spent outside the Boardroom in other roles where the demand on skills and time are not as critical.

The review should be augmented by the ongoing performance monitoring discussions that the Chair holds with individual Directors on an informal basis. This is essential to ensure performance monitored and discussed regularly with Directors as well as to understand their ongoing ability to commit the necessary time to think, put forward cases for Board information or decision where required and read documentation required of Directors.

9. Recommendation 5: Plan to implement decision

The following steps are recommended by NPT to enact the decision of the Board to move to payment of Directors:

1. Review the constitution and clauses required to be amended to remunerate Directors.
2. Seek legal advice on the amendments.
3. Advise the members of the intent to submit a special resolution at a General Meeting (either AGM or SGM).
4. If constitutional amendments are approved by the members, adopt a Director remuneration policy (draft policy attached) and amend any aligned governance and organisational policies and procedures.
5. Amend the Nominations & Remunerations and Finance Committees Terms of Reference to include their role in the process.
6. Seek advice on the options to pay Directors ie including their payments in the payroll system, raising invoices for a Director to be paid etc.
7. Set a date the policy will be enacted and Directors commence receiving remuneration.
8. Ensure transparency through annual reporting and removal of Directors from decision-making around personal remuneration.
9. Review the practice of remunerating Directors in terms of its intended impact: attracting skilled and diligent Directors who add significant value to HG.

10. Policy No: X – Director Remuneration

Policy statement

Headway Gippsland seeks to provide the best leadership for our staff and clients through the election and appointment of skilled Directors. We believe in paying our people in alignment with the skills and the nature of each role and its requirements and to compensate them for the responsibility they carry and their time.

Changes to remuneration levels of the Directors are considered in the context of the external environment and the whole of organisation.

Application

Members

- Have the right to be informed that the Directors are being remunerated

Directors

Understand that by accepting remuneration for their role, that this could have implications including:

- A change in their liability as Directors related to OH&S laws and civil liability laws: in some circumstances, the special protections afforded to volunteer Directors may not be extended to paid Directors.
- Restrictions on funding into the organisation from some funders: some funders and donors do not support charities with paid Directors.
- An impact on their tax
- An impact on government benefits they may be receiving
- The transparency of the payments as they relate to the ACNC governance standards (Governance standards 2 and 5 in particular).

Procedure

1. Director remuneration comprises the following:

- Base Directors fees.
- Loading fees for HG Chair
- Exclusive of the Superannuation Guarantee Charge payments (currently 10% (2022)) where applicable.
- Exclusive of reimbursement of out of pocket expenses currently approved for Directors.
- No retirement benefits accrue for Directors with the exception of superannuation where applicable.
- No additional remuneration for ad hoc committees, bonuses or extra work requested of the Directors over the course of the year.
- The annual commitment to collective Board training is mandatory.
- The annually identified collective training needs of the Board will remain at the cost of HG.
- Is paid quarterly in arrears.

- All Directors are paid the same remuneration. The Chair's loading will be over and above this.
 - Directors need to have complied with the conditions of remuneration below to receive their remuneration.
- 2. Conditions required for remuneration by individual Directors are as follows;**
- Demonstrated, ongoing and meaningful engagement with HG Board Business.
 - Demonstrated ongoing support and involvement with HG Board Committees and special projects as they arise, requiring dedicated or specialist input from Board Members and as nominated by the Chair.
 - Demonstration of a genuine ongoing appreciation and understanding of member and client issues, Code of Conduct, Board policies and procedures and current Board business.
 - Attendance (in person or via online meeting) at not less than 85% of Board meetings on an annual rolling basis.
 - Annual independent review of Board performance and preparedness to act (not necessarily accept) any independent recommendations.
- 3. Annual engagement with an independent Board Performance Consultant to:**
- Provide an independent review of this remuneration range amount and alongside this, conduct an independent Board evaluation.
 - Provide recommendations on Board member skills and backgrounds, finance, conflict and corporate governance.
 - Offer support as to optimal size, structure (including sub committees and external advisors) and skill set of the HG Board to allow it to guide the CEO and team to respond to current and emerging issues and opportunities.

Related Board policies

- Headway Gippsland constitution
- Nominations and remuneration committee Terms of Reference
- Finance committee Terms of Reference
- Board Charter
- Board and CEO succession planning policy
- Conflict of interest policy (note, this should be expanded to include related party transactions)
- Delegation of authority policy
- Board evaluation policy

Related policies (note these could include policies such as those below)

- Financial control policy
- Payroll procedures

Related Legislation

Law and Regulations

- [ACNC Act 2013](#)
- [ACNC Governance standards](#)
- [Associations Incorporation Reform Act 2012 \(Vic\)](#)
- Occupational Health and Safety Act 2004
- Civil law Act 2002
- [Superannuation Guarantee \(Administration\) Act 1992](#)
- [Income Tax Assessment Act 1997](#)
- [Fringe Benefits Tax Assessment Act 1983](#)
- Australian Accounting Standards Board (AASB)