

16. The Work of the Remuneration Committee

Introduction and aim

This briefing note summarises the work of the remuneration committee. The committee's work includes determining the remuneration of the head of the institution and other designated senior post holders. The committee operates with delegated authority, reporting and making recommendations to the institution's governing body for its approval.

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1. Establishment of a committee

To comply with the Committee of University Chairs (CUC) [Higher Education \(HE\) Code of Governance](#)¹ or the [Scottish Code of Good Higher Education Governance](#)² a governing body is required to establish a remuneration committee.

2. Role and duties

Operating under the delegated authority of the governing body, as detailed in the committee's terms of reference, the duties of the remuneration committee include determining the remuneration of the head of the institution (usually the principal or vice-chancellor) and other designated senior post holders. The committee's remit normally covers all forms of remuneration, including bonus and severance payments.

For the designated senior post holders, the committee will make recommendations, as appropriate, to the governing body, the ultimate decision-makers, to approve changes to an individual's remuneration.

3. Designated senior post holders

Designated senior post holders are defined by the institution's governing instruments or as determined by the governing body. They comprise posts for which the governing body is responsible for the appointment, remuneration and the dismissal of the post holder. Typically, designated senior post holders will comprise the head of the institution and the more senior members of the executive team.

4. Committee membership

The membership of the remuneration committee comprises of individuals, the majority or all of whom³ are independent of the institution's management⁴. The head of the institution or other senior staff should not be members of the committee.

The chair of the governing body is expected to be a member of the committee, recognising that they generally have a central role in agreeing the head of the institution's annual objectives, appraising their performance towards the year end and reporting back to the remuneration committee on the individual's performance.



5. Chairing the committee

Many institutions follow the requirements of the Scottish and [UK Corporate Governance](#) codes and appoint a chair of the remuneration committee who is not the chair of the governing body⁵. This separates the role of chairing the committee from the role of assessing the head of institution's performance and advising the committee as to an appropriate level of remuneration.

6. Attendance of the head of institution

The head of institution may be invited to attend a meeting of the remuneration committee but should not be present during any discussion relating to their own remuneration. The head of institution's attendance is normally important in advising the committee on the performance of senior post holders other than their own. Without input from the head of the institution, the committee would find discharging this aspect of its responsibilities challenging.

7. Frequency of meetings

Remuneration committees typically meet once or twice a year, and on other occasions as necessary.

8. External context

The remuneration of senior post holders has received considerable press attention. Adverse comments have been made about high levels of remuneration and severance payments received by some heads of institution. Given a context of general pay restraint, concerns about the salary increases received by heads of institutions mirror similar disquiet about the levels and increases of reward received by chief executives working in the private sector. As a consequence, senior staff remuneration is now subject to greater public scrutiny.

9. Governance and remuneration codes

Requirements with regard to the organisation and practice of remuneration committees is contained in the Higher Education and Scottish Codes of Governances. Additionally, in response to public concerns the CUC issued [The Higher Education Senior Staff Remuneration Code](#) (the 'remuneration code') in June 2018. The remuneration code provides a framework for how decisions relating to the remuneration of senior post holders should be made.

10. Accounts direction

Compliance with a code of governance or the remuneration code is typically described as 'voluntary'. However, in practice the relevant funding body for the provider may make it a condition of registration or funding that a particular code of practice is followed. In England, the [Accounts Direction](#) issued by the Office of Students (OfS) states "providers must have regard to the Higher Education Senior Staff Remuneration Code published by the CUC"⁶. For providers in Scotland, the [Accounts Direction for Scottish Universities 2017-18](#) refers institutions to 2013 and 2017 editions of the [Scottish Code of Good Higher Education Governance](#)⁷. Institutions in Wales should refer to the [Accounts Direction to Higher Education Institutions for 2017-18](#).

11. External requirements

As higher education policy is devolved to the national governments of the United Kingdom and their designated bodies, the obligations placed on institutions in regard to senior staff remuneration varies. Governors should ensure they understand what governance and reporting requirements are placed on their institution.

12. Determining remuneration

Although the specific external requirements placed on institutions vary, common principles regarding remuneration include:

- The decision-making process should be transparent and robust.
- When making a decision on remuneration, a range of factors should be considered including the institutional context, the individual's contribution and comparative salary data.

The remuneration code suggests that 'fair remuneration' is based on three elements:

1. A fair, appropriate and justifiable level of remuneration.
2. Procedural fairness.
3. Transparency and accountability.

Underpinning the interpretation of the three elements are supporting principles. These provide more detailed guidance on how each element should be applied.

The Scottish Code requires that "the remuneration committee is expected to seek the views of representatives of students and staff of the institution, including representatives of recognised trade unions, in relation to the remuneration package of the principal and the senior executive team"⁸.



13. Setting objectives

Central to the process of determining an appropriate level of remuneration for each designated senior post holder is the need to establish clear and measurable objectives in advance of the period to which they apply, against which performance can be subsequently assessed.

Typically, objectives for the head of institution are agreed annually with the chair of the governing body, while for all other designated senior post holders the setting of their objectives is generally undertaken by the head of the institution or their nominated representative.

14. Assessing performance

Often during, but certainly towards the end of, the appraisal period, the appraiser and the appraisee will discuss the extent to which the individual is meeting or has met their agreed objectives. In arriving at a judgment, the appraiser should seek objective evidence to inform their assessment and take care to ensure the individual's own contribution to meeting an objective can be identified. This is not always easy.

15. Comparative salary data

When setting the level of remuneration, the remuneration committee is expected to consider comparative salary data. The data should provide a benchmark of the rewards paid for comparable roles in similar organisations. These may be drawn from a peer group against which the institution regularly measures its performance.

16. Sources of comparative data

Comparative salary data is available from a number of sources, including the survey of Vice-Chancellors' salaries undertaken by CUC, data collected by the Universities and Colleges Employers' Association (UCEA) and information published annually by Times Higher Education (THE). The sources of data are updated annually, although the data used by UCEA and THE is based on the preceding rather than the current year.

17. Use of comparative data

Benchmark data should help to inform the level of remuneration but should not be the only basis on which the committee makes its determination. The Financial Reporting Council highlights a risk when using comparative data: "it is important to avoid designing pay structures based solely on benchmarking to the market, or the advice of remuneration consultants, as there is a risk this could encourage an upward ratcheting effect on executive pay"⁹.

18. Contracts of employment

The remit of the remuneration committee will normally include contracts of employment. The Scottish Code states the remuneration committee should oversee contracts of employment for senior staff and should ensure that these do not specify periods of notice of more than 12 months and do not require the payment of pension enhancements (except where these follow the scheme's rules)¹⁰. Similarly, the remuneration code states that the remuneration committee should ensure "contracts agreed with senior post holders are fair, reasonable and justifiable and do not expose the institution to significant potential liabilities, for example by being able to explain notice periods of more than six months"¹¹.

19. Severance pay

Severance pay for senior staff is normally overseen by the remuneration committee.

A guiding principle within the Scottish Code is that "remuneration committee is expected to represent the public interest and avoid any inappropriate use of public funds", while the remuneration code contains the principle that "any severance payments must be reasonable and justifiable". Expanding on this statement, the CUC has separately published [Guidance on Decisions Taken about Severance Payments in HEIs](#).

20. Reporting back to the Governing Body

The remuneration committee reports back to the governing body and seeks its approval for any recommendations it makes. For institutions which have adopted the remuneration code, the remuneration committee is expected produce a Remuneration Annual Report to the Governing Body. The report should provide sufficient detail for the governing body to be assured that the committee has effectively discharged its responsibilities and allow governors to assess and, if judged appropriate, approve the recommendations coming forward from the committee. To assist the development of good practice the CUC has issued [A Possible Outline Structure for a Remuneration Annual Report to the Governing Body](#) to accompany the publication of the remuneration code.

Under the Scottish Code, institutions should ensure (1) the policies and processes used by the remuneration committee in reaching decisions on individuals are discussed and approved by the whole governing body; and (2) that sufficient information is subsequently provided "to enable the governing body to satisfy itself that the decisions (*made by a remuneration committee*) are compliant with its policies."



21. Concluding remarks

The remuneration of senior staff, including contracts of employment and severance pay, has recently received increased public attention. As a result, governing bodies should ensure that their policies and practices are in line with current best practice and they meet the obligations imposed on the institution by the relevant funding body or regulator.

22. Questions to consider

- Q** Which codes of governance/remuneration has the institution adopted or is required to follow by its funding body/regulator? What are the requirements placed on the institution?
- Q** Does the institution have a policy framework to inform its decisions on the remuneration of senior staff?
- Q** Is the chair of the remuneration committee held separately from that of the chair of the governing body?
- Q** What comparative salary data does the remuneration committee use to help inform its decisions? How is the data used?
- Q** How are the committee's decisions reported to the governing body? Is there sufficient detail provided to ensure all governors are appropriately informed and assured that the decision-making process has been rigorous?

End notes

- ¹ A new edition of Code of Higher Education Governance was issued in December 2014 and reissued with minor changes following the publication of the Higher Education Senior Staff Remuneration Code in June 2018. The remuneration of senior staff is covered in paragraphs 3.13 to 3.16 of the Higher Education Code.
- ² A revised Scottish Code of Good Higher Education Governance was issued in 2017. Discussion of the work of the remuneration committee can be found in section 7 of the code, pp23-25.
- ³ Scottish Code of Good Higher Education Governance, p24, para 78.
- ⁴ The Higher Education Senior Staff Remuneration Code, p6, para 9.
- ⁵ See Financial Reporting Council, The UK Corporate Governance Code, July 2018, Section 5 Remuneration, pp13-15.
- ⁶ The Accounts Direction sets out the information that providers are required to include in their audited financial statements.
- ⁷ Scottish institutions are expected to be fully compliant with the 2017 version of the Scottish Code (the 'new Code') from 1 August 2018.
- ⁸ Scottish Code, p24, para 80.
- ⁹ Financial Reporting Council, [Guidance on Board Effectiveness](#), July 2018, p35, para 134.
- ¹⁰ Scottish Code, p25, para 81.
- ¹¹ The Higher Education Senior Staff Remuneration Code, Explanatory note 6, p5.
- ¹² Scottish Code, p24, para 81.

