

Directors Remuneration Guide

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1. Setting up a policy on Directors remuneration

1.1 This document provides guidance on directors' remuneration processes and disclosure for associations based on good governance practice. Associations may develop ideas from this guide into an established board-agreed policy for their organisation

2. Determining director payments

2.1 Directors are not entitled to payment for services unless this is provided for in the constitution of the association and approved in a resolution of members. The Corporations Act 2001 provides that 'the directors are to be paid the remuneration that the organisation determines by resolution' (s 202A (1)).

2.2 The association 'may' also pay the directors' travelling and other expenses that they properly incur:

- In attending directors' meetings or any meetings of committees of directors
- In attending any general meetings of the association
- In connection with the association's business.

2.3 It may also be in the members' interests to remunerate appropriately in order to attract the best calibre of person to serve on the board. Remuneration should reward directors for the value they add to the organisation as well as reflecting their duties and the legal liability assumed on behalf of members.

2.4 Directors may receive remuneration for exercising their supervision and decision-making functions based on the following main principles:

- The remuneration should be sufficient and conform to the directors' dedication, qualification and responsibilities but it must not compromise their independent criteria.
- The remuneration must be sufficient to attract and retain directors with the talent and profile desired by the association.
- The remuneration must be competitive, which is achieved by establishing a remuneration package in line with market standards of comparable sectors and associations

3. Setting the total remuneration amount

3.1 A Nominations and Remuneration Committee would normally research and provide a recommendation to the Board of Directors on the directors' remuneration

appropriate level and structure. The Board would then present this recommendation on the appropriate pool of fees for the board as a whole, to members at a general meeting via an ordinary resolution for approval by members. This resolution should clearly separate the level of board director and senior executives (see Attachment A).

3.2 It should be noted that having a remuneration committee may not be practical for smaller associations, so instead these associations should have processes in place which allow the full board to consider the same issues and report as the remuneration committee would.

3.3 The total fees, if approved, represent the upper limit that can be paid to the board including any required superannuation payments. The Board then decides how the pool is split between individual directors. Members only have to be approached when the Board wants to increase the pool – it is not an annual requirement.

3.4 The Chairman will normally be paid more than other directors, as will directors sitting on Board subcommittees, in recognition of their extra workloads.

4. Factors in determining directors' fees

4.1 The Board should be able to justify its directors fees to members if required.

4.2 Suggested considerations include:

- association-specific factors
- Size, nature and profitability of the association
- Complexity of operations – lines of business, geographic spread of operations
- Industry sector – some sectors are paid more than others
- Structure and responsibilities of board including the number of board committees
- Risks and challenges of the business
- Member voting & discussion on remuneration at annual general meeting
- Director-Specific Factors
- Qualifications and experience
- Time commitment required
- General performance and involvement in value-added decision making

- Additional responsibilities, e.g. chair of a committee, other special duties such as at merger or consolidation time or Covid impacts
- External market factors
- Business and economic conditions
- Supply and demand – the shrinking pool of non-executive directors and the fact that such directors are taking on fewer board positions, increased workloads.

5. Timing and payment

5.1 The agreed individual directors annual fixed amount is normally paid as a salary or stipend amount into the Director's nominated bank account on a quarterly basis with superannuation paid into a nominated superannuation fund. Non-executive directors should not receive options or bonus payments or be provided with retirement benefits other than superannuation.

5.2 The Directors' fees are usually paid for services rendered, hence they would normally be paid in arrears.

6. Transparency

6.1 The Board of Directors should ensure that, any and all of the Directors remuneration received plus any reimbursement of expenses are based on the principle of full transparency and aligned to good governance with total remunerations details fully supportable if requested by members.

6.2 It is becoming more important for boards to have a clear and transparent remuneration process due to heavy scrutiny from members and the public in general.

6.3 As Directors fees and expenses are a cost to an association, there needs to be a careful and prudent use of member contributions to ensure continuing member confidence as well as satisfying the "Pub test".

7. Longer tenure does not entitle a director to more pay or benefits

7.1 The factors that contribute to how much a director is paid include the size and complexity of the association, time commitment, additional responsibilities such as sitting on a board sub-committee, etc. Length of time served on a board should not be used to determine a director's fees as it is not a true indicator of the value that an individual adds to the board.

7.2 Fees and benefits paid to directors should be on consistent and equitable basis between the various directors with a regular (annual) review by the nomination committee. This review should ensure payments are appropriate in current economic conditions and when compared to similar associations plus should take into account existing public sentiment.

8. Directors may be entitled to higher fees when their workload increases significantly

8.1 Instances of when a director's workload may increase significantly include during times of an association merger or consolidation.

8.2 As directors' fees are subject to member approval when the board recommends a pool of fees to members for approval, it might request an amount higher than their needs. In times of higher workloads, this may give some leeway for additional payments above normal fees but within the approved upper limit.

9. Reimbursement of work-related expenses incurred by Non-Executive Directors

9.1 The guidelines should be clear and consistent with costs having been incurred on behalf of the association.

9.2 The association should state wherever possible, the need to receive, retain and produce receipts, invoices, vouchers, tickets, or other evidence of such expenditure. Where such evidence is for any reason lacking, statutory declarations may be sought. (see Attachment B for description of the nature and purpose of the expenses with receipts etc)

9.3 It is important to also to provide a reminder that claims made must be compliant with Australian Taxation Office requirements for the:

- Deductibility of expenses for income tax purposes;
- Claiming of input tax credits for GST; and
- Capturing and reporting expenditure for Fringe Benefits Tax (FBT)

9.4 In addition, costs should not be of a general and recurring nature that could constitute a substitution for additional director's fees and possible assessable for tax purposes.

9.5 Payments made should be in line with individual letters of appointment for each non-executive director and consistent with the association's other policies or guidelines such as Travel or Entertainment etc.

10. Last Updated

10.1. Approval and Review

Lead Author	CEO
Approver	Board
Date endorsed	
Date reviewed	
Timeframe for next review	12 months

10.2. Version History

	Date	Action
1		Created
2	March 2020	Approved by XX on

11. Disclaimer and Further Information

This is practical advice based on Associations Forum’s work with associations and charities.

The contents of this Guide are provided as input for associations to develop their own Directors remuneration policy. These guidelines do not constitute legal advice and are not intended to be a substitute for legal advice. You should seek specialist advice in relation to any particular matters you or your organisation may have.

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ATTACHMENT A

Members Ordinary Resolution – Directors remuneration

A. Typical resolution for a Notice of Meeting:

To consider and, if thought fit, pass the following resolution as an ordinary resolution, with or without modification:

*“That in accordance with Rule [] of the association's Constitution, the total aggregate annual remuneration payable to non-executive Directors of the association be \$[] per annum **OR** increased by \$[] per annum, from \$[] per annum / ____ to a maximum of \$[] per annum.”*

Notes:

The association will disregard any votes cast on this Resolution by:

- a Director; and
- any associate of a Director.

However, the association need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

B. Typical explanatory notes by an association on the Notice of Meeting:

In order for the total aggregate annual remuneration payable to Non-Executive Directors of the association to be increased, Rule [] of the association's Constitution must be complied with. The Constitution provides that the association must not increase the amount of remuneration payable to Non-Executive Directors of the association unless members approve such an increase.

Additionally, all Non-Executive Directors will be paid a fixed sum as determined at the sole discretion of the Board.

Currently the Non-Executive Directors of the association are entitled to receive a combined maximum annual aggregate remuneration of \$[], noting the Directors of the association are entitled to apportion and distribute this aggregate Non-Executive Directors remuneration as they determine providing they do not exceed the aggregate amount previously approved by members.

The Non-Executive Directors of the association receive the following fees:

Chairman \$[]

• Directors \$[] each

such amounts being inclusive of any required superannuation payments.

In addition, there may be occasions when the Non-Executive Directors are required to perform services that fall outside the scope of their ordinary duties as a Non-Executive Director. In the event that the Non-Executive Directors are required to perform additional duties they are entitled, under the association's Constitution, to be paid for the performance of these additional duties. However, payments for the performance of additional services must also fall within the aggregate amount of remuneration for Non-Executive Directors that has been approved by members. Member approval is sought to increase the total aggregate annual remuneration payable to Non-Executive Directors of the association from \$[] to a maximum aggregate amongst all Non-Executive Directors of \$[] (to be divided between Non-Executive Directors of the association as the board determines).

The Board considers that this increase in the total aggregate annual remuneration payable to Non-Executive Directors is necessary to provide an ability to increase the remuneration payable to the current Non-Executive Directors and any additional Non-Executive Directors who might join the Board. Further details on the remuneration paid to Non-Executive Directors are set out in the Annual Report.

ATTACHMENT B

Expense Claim Form

Name: _____

Please Print out and Attach Documentation (e.g. receipts)

Details	Date Expense Incurred	Activity/Purpose	Total Cost	Notes
Total to be Reimbursed:				

Signature of Claimant: _____

Date Submitted: _____

Authorised by (Name): _____

Signature of Authorised Officer: _____

Office Use Only:
 Claim Permitted? (Circle) Yes / No.
 If no, state reason: _____

Date Reimbursed: _____