Payment for university governors? A discussion paper

Alison Wheaton

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About the author

Alison Wheaton is a full-time PhD student at UCL's Institute of Education, researching university governance. She is an Associate Consultant with Advance HE.

She was President and Chief Executive Officer of GSM London during which time she also served on the Higher Education Funding Council for England's Leadership, Governance and Management Strategic Advisory Committee and as a founding member of the UK-wide Steering Committee for Quality Assessment.

Previously, she held numerous senior leadership positions in major multi-national companies and served as a Non-Executive Director on the London Development Agency Board.

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Introduction

For decades, the default answer to the question of whether university governing body members should be paid has been an emphatic 'no!' The arguments include:

- universities are charities;
- governance is based on volunteerism;
- it is an honour to act as a member of Council; and
- there is little difficulty recruiting new members.

But a quieter alternative response is beginning to emerge: 'probably … but they are all waiting for others to make the first move'.

The responses depend in part on one's view of universities, sometimes presented through an unfortunate charity / private sector dichotomy. Those who see universities as primarily publicly-minded charitable institutions expect trustees to volunteer their time. Those who see universities as increasingly influenced by private sector concerns, such as the need to develop greater commercial acumen in order to achieve financial sustainability, are more open to the idea of paying at least some of their trustee directors. It also depends in part on one's view of the roles(s) of the governing body. Governing body members themselves may be best placed to have a view on this topic, but are often loathe to suggest they 'deserve' to be remunerated, especially having 'volunteered' in the first place.

The limited literature on whether university governors should be paid identifies potential benefits, which are challenging but not impossible to evaluate. They include:

- aiding recruitment;
- redressing diversity deficiencies; and
- improving governing body effectiveness.

Prospective drawbacks include undermining the charitable values at the centre of the university ideal, increasing what could be seen as a regulatory financial burden on universities, creating conflicts of interest for governing body members, thereby impinging on their independence, and – as per the Charity Commission – wrongly assuming financial reward is a reason for becoming a trustee.[1]

This report sets out to identify and discuss several considerations relevant to this debate. These include what is happening in the wider charitable sector along with other sectors such as health, housing and UK-listed companies. It then turns to university sector practices in the UK and abroad. It discusses how the changed regulatory environment influences deliberations. It then sets out a series of recommendations with regard to governing members' pay. It encourages university leadership teams to consider the issue as part of a wider review of what type of governance is appropriate for the long-term viability of individual universities and the sector as a whole. One question to answer is – 'why shouldn't Governing Body members be paid?'

Issues to consider

Are other UK charities paying their governing body members?

The volunteer nature of university governing body membership is usually associated with the charitable status of the institutions and historic lay member support of the original civic universities. Like other governing bodies, charity trustees have independent control over, and legal responsibility for, a charity's management and administration.[2] The Hodgson Review (2012) of the Charities Act (2006) recommended that charities with an annual income of more than £1 million should have the right to pay their trustees without seeking permission from the Charity Commission.[3] (Although, in the case of universities, it would still require Privy Council approval to change their governing documents.) The report suggested it would boost trustee recruitment and help create more diverse boards. This recommendation, which polarised the charity sector at the time, went unadopted.

However, guidance has softened on the topic of trustee pay. 'There may be circumstances where payment may be justified,' although the charity must seek Charity Commission approval to do so.[4] It will normally only approve payment 'where a charity's complexity of operation has led to an unusually high burden of trusteeship. This will usually involve a trustee exercising a higher degree of responsibility and supervision in a complex field of activity, perhaps because of the breadth and range of activities undertaken by the charity'.[5] The Commission also needs to see evidence that there is a lack of volunteers with the right skills.

The Charity Commission does not keep a record of which charities pay their trustees, though perhaps it should. Research in 2017 found that 16 of the UK's largest 100 charities, including Nuffield Health, the Wellcome Trust, the Girls' Day School Trust, the Salvation Army, RNIB, the Education Development Trust and the General Medical Council all paid one or more of their non-executive trustees. Both Nuffield Health and the Wellcome Trust have paid trustees since 2000.[5] In 2017, the Wellcome Trust Chair and Deputy Chair earn £142k and £107k respectively, with all other members earning £71k a year.[6]

What can be learnt from other sectors?

NHS Foundation Trust Boards of Directors and Housing Association Boards serve as potentially relevant comparators to university boards. Each is considered in turn before an overview of practices in UK-listed companies is provided.

i) NHS

The Government established NHS Foundation Trusts in 2003 but in 2006 altered their construct to a bespoke form of public ownership as independent Public Benefit Corporations. The aim was to facilitate stronger local influence and less central government control compared to general NHS Trusts. With over 140 in England, NHS Foundation Trusts now outnumber NHS Trusts by almost two to one and serve as the primary comparator here.[7] They have a unitary Board of Directors, which is similar to a university governing body in terms of remit, made up of executive and independent non-executive directors. The non-executive directors are appointed by the Board of Governors, who represent the 'members' of the Trust

– namely, residents including patients and the general public, staff and other interested stakeholders. (This body is similar to a university Court where one exists in terms of representation but has greater formal powers.)

The frequency of Board meetings varies between six and 12 times a year. In terms of role,

> *the non-executive directors provide an independent perspective on the board and have a particular duty to challenge the executive. They hold the executives to account for the performance of the trust. They are not employees of the trust, but are appointed to provide an independent perspective and unbiased challenge to the executive directors. Non-executives form the majority on the Board.*[8]

In terms of regulatory framework, all NHS Trusts, including Foundation Trusts, operate under the *Single Oversight Framework*, updated in November 2017. The previous regulators were merged into NHS Improvement which oversees the framework and, in effect, the licensing regime. Monthly, annual and exceptional reporting requirements are summarised on one page. One of the key reporting requirements is 'any third-party information with governance implications.' Furthermore, the fifth of only five overarching themes of the *Oversight Framework* is whether providers have effective boards and governance – and are 'well led'.[9]

NHS Improvement appoints and sets pay rates for NHS Trust Boards. NHS Trust Chairs earn between £18.6k and £23.6k, with non-executive directors earning £6.2k.[10] However, central

Government does not dictate Foundation Trust pay. In keeping with the more devolved nature and greater local orientation of NHS Foundation Trusts, pay is set at trust level. Based on a 2015 survey, Foundation Trust Chairs earned around £40k a year for 11 days per month.[11] Foundation trust members earn £13k a year for five days per month, based on recent vacancy advertisements. This averages just over £300 and £200 per day, respectively. The directors are highly skilled with extensive relevant experience. These rates are at a significant discount to their expected day rates.

The vast majority of NHS Trust and Foundation Trust non-executive Board of Director vacancies are advertised on the Cabinet Office Public Appointments website. This is despite the status of the Foundation Trusts as corporations.

ii) Housing associations

There are over 1,500 housing associations in England. Some are public, some are private. The Housing Acts of 1985 and 1988 facilitated the transfer of council housing to not-for-profit housing associations and redefined housing associations as non-public bodies so that they could access private finance. They engage over 30,000 volunteer committee members, yet a 2015 survey conducted by Grant Thornton showed that 82 per cent of the top 60 housing associations by size paid their board members. Of those, 60 per cent disclosed the Chair's remuneration, with an average of £18k per year.[12]

It is difficult to source recent sector-wide data regarding board member pay; however, a brief internet search reveals that associations such as Notting Hill Genesis, Clarion, L&Q and

Metropolitan pay all of their non-executive directors, despite L&Q being a registered charitable housing association. The Chairs earn between £22.5k and £45k per year, with between six and 13 board meetings per year. The lowest paid non-executive directors (tenants) are paid £9k each year. The range for other non-executive directors is between £12.5 and £34k, depending in part on whether they chair any Board sub-committees. Clarion Housing Association also pays other committee members who are not on the main Board between £5.5 and £8.4k each year. Peabody, possibly the most well-known housing association, did not pay board members until 1 April 2018, from which time they all became eligible for pay at undisclosed levels. Some are expected to refuse payment; the 2018/19 accounts will provide an update.

The sector *Code of Governance* with which English housing associations must 'comply or explain' includes specific provisions regarding payment to non-executive board members. Payments must be:

> *linked to the carrying out of the specified duties of the post, against which performance must be reviewed and fully disclosed on a named basis in the organisation's annual financial statements.*[13]

iii) UK-listed companies

UK company practices regarding non-executive director engagement including compensation have received much attention since the Cadbury Committee published the first UK Corporate Governance Code in 1992. For listed companies, governance practices are influenced not only by this Code but also stock market (for example, the London Stock Exchange or the Alternative Investment Market) listing requirements and other sector-wide initiatives.

The Financial Reporting Council launched a new *Corporate Governance Code* in 2018. The key changes include a much greater emphasis on the wider stakeholder base of a firm along with a greater focus on culture, which should align with a company's strategy. 'A company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders.'[14] It also provides detailed recommendations regarding practices, including the need for any new Remuneration Committee Chair to have been a member of the committee for at least a year, for annual evaluations of board members and for provision of one board-level meeting per year to discuss the Chair's performance without him / her in attendance. There is also a much greater emphasis on a company's requirement to explain how they comply with the Code rather than note where they do not.

Sector-wide initiatives also influence approaches to board-level governance. The *Hampton-Alexander Review on FTSE Women Leaders* (November 2016) followed the two Davies Reviews.[15] Sir John Parker chaired a review of ethnic diversity of UK Boards, with the report *Beyond One by '21,* also published in November 2016.[16] (The NHS followed suit in 2017 with the publication of a report regarding NHS Women on Boards – *50:50 by 2020*.[17]) These reports indicate other sectors are adopting consistent approaches and priorities in this area, including:

- setting stretch targets (for example, 50% women on NHS Boards and a 10% enhancement in FTSE 350s by 2020);
- establishing a highly visible sector-led approach to steering and support;
- developing the pipeline of internal Board-level candidates through targeted activity;
- creating demand for more diverse external candidates, including the use of Executive Search Firm codes of conduct; and,
- agreeing key indicators and monitoring performance, including ongoing annual reporting and regular comprehensive reviews.

Due to the reporting requirements, companies provide a great deal of information – which feeds subsequent analysis – regarding both executive and non-executive director compensation. Spencer Stuart, Deloitte and KPMG have all compiled annual overviews over the past five years or more.[18]

Spencer Stuart's annual report, which examines the governance practices of the UK's largest 150 companies in the FTSE rankings, is the most comprehensive, so is referenced here.

By way of background, the 2018 report notes the average board size is 10.1, though there is a range, with 23% having eight or fewer, 74% having between nine and 14 and only 3% 15 or more. Non-executives make up 65% of all directors, excluding chairs. The average age of non-executive directors is 60.6.

In terms of diversity, women make up 38.5% of non-executive directors, 8.5% of executive directors and less than 4% of the Chairs. All boards have at least one female member and four are at least 50% women. Only 8% of total board members were identified as black and minority ethnic, compared to 18% of the UK population at the time of the 2011 census.

In terms of structure, 58% of the boards have more than the three mandatory committees – audit, remuneration and nominations. Risk is the next most prevalent additional committee. The average number of board meetings is 7.3 – with 67% of companies having between six and eight. The average number of audit and remuneration committees was just over five, with four nomination committee meetings on average.

In terms of compensation, non-executive directors' pay comprises a retainer and additional fees for committee membership and chairing. The average non-executive director retainer is £68.3k per year, with retainers of £50k or more paid at 93% of the boards. Committee chairs' average additional fees are £24.5k, £21.2k and £34k for audit, remuneration and risk, respectively. (The Chair normally chairs the nominations committee and is not paid a separate fee.) Total fees average £97k, ranging from an average of £71k for the smallest forty to c. £160k for the largest 20. (Note: Chairs earn significantly more, at £418k per year, but working on average two days per week.)

Are any governing body members paid in the university sector?

i) England and Scotland

In England, practices among sector bodies vary. The new university sector regulator – the non-departmental Public Body known as the Office for Students – pays its Board Members an *honorarium* and allowances set by the Secretary of State.[19] In 2018, this was advertised as £9,180 for 20 days per annum, just under £500 per day. The Student Loan Company pays its Chair £50k and its six Non-Executive Directors £17k each year for eleven board meetings and multiple committee meetings. The Universities Superannuation Scheme paid its 10 to 12 non-executive directors a total of £627k in fees (excluding National Insurance and expenses) for the year ending March 2018 for 14 board and numerous committee meetings. Other sector bodies, such as AdvanceHE, the Quality Assurance Agency, the Higher Education Statistics Agency (HESA), University and Colleges Admission Service (UCAS) and the Higher Education Policy Institute (HEPI), do not remunerate their Board members.

Seven English universities historically in receipt of Higher Education Funding Council funds currently pay their Chairs. These include, in chronological order:

- Leeds Beckett (since 2007/08);
- Northumbria (since 2011/12 for Chair and 2015 for Committee Chairs);
- Ravensbourne (pre-2014/15);
- Salford (since 2014/15);
- Bradford (since 2016/17);

- Derby (since 2018/19);
- Royal Holloway, University of London (since 2018/19).

Our understanding is that two of the six pay £15k, three pay £20k and one pays £25k while one is not disclosed. At the University of Salford, the current Chair opts to waive the money. (In addition, the University of Manchester Chair has been eligible for pay since the merger, but also waives it.) The first two also pay Board Committee Chairs a maximum of £7.5k each. (Note: there are no reporting requirements regarding disclosure of non-executive director pay in the UK's private universities, so no data is available.)

Scotland's 2016 higher education legislation requires institutions to undertake a process to elect their chairs and to pay, on the request of the Chair, a level agreed by the governing body and 'commensurate with the nature and amount of work'.[20] Two universities – Aberdeen and Dundee – currently pay their Chairs with others in the process of electing new ones, including Stirling, St Andrews, Edinburgh Napier, Robert Gordon and Glasgow. Most intend to offer a *per diem* rate rather than a salary, with a ceiling for the amount or the numbers of days claimable (50, for example) and plan to benchmark it to one of the Scottish Government daily pay rates for chairs of public bodies. For tier 1 organisations, these rates range from £327-544 per day, resulting in a range of £16.4-27.2k per year.[21]

The Committee of the Chairs of Scottish Higher Education Institutions issued the new *Scottish Code of Good Higher Education Governance* in 2017.[22] The code notes that members' individual contributions are expected to be reviewed at a minimum of every two years, meeting attendance should be reported publicly and universities should monitor governing body equality and diversity. However, subsequently, the Gender Representation on Public Boards (Scotland) Act 2018 set a new 'gender representation objective' of 50% women among non-executive directors.[23] Based on a survey in 2018, women comprise 43.8% of all Scottish university governing body members.[24] The breakdown between non-executive governors and internal university governors is not available.

ii) Australia and the United States

Further afield, all Australian university governing bodies include members appointed by their State Governments. All States provide a centrally determined framework regarding University Governing Council Member pay. The States set annual pay ranges, based on the turnover of the university, and levels of responsibility of the governing bodies compared to other government boards. They then set fairly broad pay bands for Chair and member roles. Many universities which pay their members pay all of them, though not all accept payment.

Practices vary by state. New South Wales currently sets the level at $0 (no pay). In Western Australia, only Curtin University pays its board members. At current exchange rates, the Chair (Chancellor) earns around £45k a year. The Pro-Chancellor earns about £22k. Both committee chairs (£19k) and committee members (£17k) earn more than non-committee Council members (£8k). Student Council members earn £3k a year. Curtin University holds seven Council Meetings per annum and four to eight of each of the Council Committee meetings each year. In 2017, these rates were reviewed by a legal tribunal and upheld.[25]

All universities in the State of Victoria remunerate their governing body members who are not employees. Chairs are eligible to earn between £40k and £76k and members from £20k to £34k.[26] Universities must annually disclose remuneration of council members who are not employees, but not on a named basis. In 2017, of the University of Melbourne's 14 council members, six received no payment, one received over £38k and six received between £11k and £27k. At Monash in the same year, none opted out, 10 received between £27k and £32k, one between £49k and £54k, and (presumably) the Chair earned between £60k and £65k. Opting out seems to be on the decline. At RMIT, the number of Council members who earned between £0k and £6k reduced from ten to two between 2016 and 2017.[27]

In South Australia, the University of Adelaide pays only its Chair (£25-33k) and not any other members. In Tasmania, the University of Tasmania pays the Chair between £33-41k, two members between £17k and £25k and the remaining eight between £8 and £17k.[28]

The terms, conditions and recruitment of university governing body appointments fall within the wider State Public Board Appointment infrastructure. As part of this, each state sets strict criteria for remuneration. In Victoria, the considerations include, the nature of work, the degree of risk and profile of the board, the degree of accountability and responsibility of the role, and the skills and experience of the appointee. Responsibility includes whether the board independently sets long-term strategies and policies and has final authority to decide all strategic and operational directions. The organisations must be multi-faceted and difficult to grasp. The personal risk must be deemed extreme both in terms of financial risk (although the Council members are indemnified by the universities) and professional reputation. Appointees must have extensive and diverse commercial experience, expert knowledge of a number of business fields and detailed understanding of the impact of important issues in many other fields.[29] Furthermore, several universities include accredited qualifications as a non-executive director as a requirement of appointment.

Universities in the United States provide another potential Anglo-Saxon comparator, but not a particularly useful one. Universities are either private and not-for-profit or public. (Note: private for-profit universities are excluded from this discussion due to lack of consistent information.) The private not-for-profit universities tend to have large boards (30+). The membership is primarily made up of alumni who not only volunteer their time and expertise but are expected to contribute their wealth and solicit contributions from others. The public universities have significantly smaller boards, often shared across a number of institutions. Their members are state government appointees. In most states, these public appointees receive nominal *per diem* payments and travel expenses.

The English university regulatory regime

The university regulatory environment has been in a state of flux for some time. The introduction and then big increases (and now potential decreases) in student fees and the removal of student number controls changed the funding landscape. A marked change in the role of governing bodies occurred in

2016 when the Higher Education Funding Council for England (HEFCE) announced that governing bodies had to provide the government with assurances regarding academic quality, rather than simply receiving those assurances from their academic boards / senates, which were periodically tested by the Quality Assurance Agency.

The introduction of the Office for Students *Regulatory Framework* on the back of the Higher Education and Research Act (2017), or HERA, simultaneously ramped up the roles and responsibilities of the governing bodies and raised the stakes.[30] In parallel, the 'buffer' provided by HEFCE was replaced with the relatively tough-talking market regulator, the Office for Students. Despite the claims of lighter-touch risk-based regulation, the burdens associated with the registration and ongoing reporting processes on the governing bodies have increased.

The *Regulatory Framework* explains the new mandatory public interest governance principles.[31] The twelve are:

i) academic freedom;

ii) accountability;

iii) student engagement;

iv) academic governance;

v) risk management;

vi) value for money;

vii) freedom of speech;

viii) an appropriate governing body;

ix) fit and proper persons;

x) for those with degree awarding powers, records;

xi) for those in receipt of financial support from the Office for Students and / or UK Research and Investment (UKRI), independent members of the governing body; and

xii) for those in receipt of financial support from the Office for Students and / or UKRI, regularity, propriety and value for money.

While aspects of the above list featured in the previous regulatory framework, there is a much more explicit onus on governing bodies with regard to student engagement, risk management and value for money than ever before, on top of the recent, and possibly most significant, addition of academic governance. A further example of the greater role of the Board is the need for them to sign off University Access and Participation Plans as part of ongoing registration requirements.

Executive search consultants note a general decrease in the commitment of candidates to a volunteer, *pro bono* governance model, particularly where the time commitment has increased significantly. Prospective candidates are more aware of the time, risk and regulatory burdens. Clearly pay alone will not alleviate all of these concerns.

Discussion

Prospective costs

The cost of remunerating governing body members is not significant compared to the overall resources of the sector. There are 132 English higher education institutions in receipt of public funds other than student loans. By way of illustration, if all 132 institutions paid their Chair £20k a year, this would cost the sector £2.6 million each year. If up to three committee chairs were paid £7.5k a year, this would cost a further £3 million each year. If all lay members were paid £5k a year, the cost would be a further £6 million (assuming universities have on average 13 lay members). Consideration should also be given to whether students should be paid. This might depend on their employment status.

It could cost the sector upwards of £12 million a year to pay all governing body members at levels similar to those currently doing so. Not all governing body members would necessarily accept remuneration. As has been suggested elsewhere, governors might donate their remuneration to a student society or bursary fund.

However, as with many of the recent increased regulatory costs, some institutions would be better able to afford this than others. If similar rates were paid by all universities, the smaller institutions would bear a disproportionate brunt of the £88k a year average cost per university. However, if smaller institutions pay less than larger ones, it could make governor recruitment more difficult. Moreover, it might be hard to argue that they should be paid less as the risks, responsibilities and workloads of governing body members will vary by institution.

Another potential cost could be reputational damage if the move to pay governing body members were not handled effectively in terms of the rationale and transparency at both sector and institutional level. Recent coverage around the remuneration of Royal Holloway, University of London's new Chair is evidence of this risk, though it is also an example of a university standing by its decision having given the matter due consideration.

One further potential cost is the erosion of the charitable values at the centre of the university ideal. Those who support the volunteer model express concerns regarding a lack of understanding about higher education's important contribution to society in terms of public good and the removal of the chance for governors to give something back. They fear the motivations of governors receiving payment may be somehow inferior to (and as a result, render them less effective?) compared with governors who volunteer.

As noted previously, governors do not have to accept payment. Further, while a wholesale shift to paying governors may result in negative perceptions within the universities' key stakeholder groups, a gradual drift may do the same, only more slowly and with less sector-wide consideration of how to manage the public perceptions of change. Surely, here the sector can draw on learnings regarding vice-chancellor pay. It is accepted that universities have a great deal of work to do identifying and articulating to wider stakeholders their myriad contributions. A shift from a volunteer to a paid model for university governors might further heighten the governing body focus on this area.

Potential Benefits

i) Skills and diversity

The two potential benefits of paying governing body members usually cited are aiding recruitment of appropriately-skilled governing body members and enhancing diversity. With regard to appropriately-skilled governors, it is clear from the above that there is increasingly stiff competition for qualified governing body members – from NHS Trusts, housing associations, let alone corporations. In addition, universities have an increasing need for highly skilled and experienced academics to act as independent members of their governing bodies. Due to potential conflicts of interest, these are often recently retired members of university or sector body senior leadership teams. Paying for their expertise in this capacity may facilitate recruitment of such candidates.

The potential impact of governing body member remuneration on diversity deserves greater attention. There are many facets to diversity, including gender, ethnicity and age (in addition to the aforementioned skills and experience). Here time is another important consideration, in addition to pay. Estimated time ranges from 8 to 20 days per year for governing body members, with committee chairs at the higher end of that range. Currently, the primary pool of governing body member candidates is those mainly retired from their full-time executive or professional roles, possibly juggling a portfolio of non-executive roles, with the financial means to volunteer this much time for free. Lower-paid working and self-employed governor candidates might be more able to take on the roles if some contribution were made to compensate their employers and/or to offset personal costs, such as childcare.

The debate around whether diversity is a good thing for institutional leadership and governance across many sectors has largely subsided and is increasingly taken for granted. Before its dissolution, the Higher Education Funding Council for England reported the sector had reached its target for gender diversity of university boards, with women comprising 40% of university governing body membership (its 'balanced board' target was defined as between 40% to 60% women). However, according to *Women Count 2018*, there is still a way to go on gender diversity. Only 55% of university boards are gender balanced at 40-60% women and only 27% of the Chairs are female.[32]

While most universities provide brief governing body member biographical information on their websites, the data is inconsistent and it is not compiled across the sector. Until 2017/18, university reporting on governor characteristics to the Higher Education Funding Council for England was voluntary as part of the Annual Monitoring Statements. Now, universities submit data on governor age, ethnicity, gender, highest qualification, nationality, religion, start date and expected end date as part of the annual Higher Education Statistics Agency (HESA) Staff return. However, university reporting – and any subsequent HESA reporting – is on a fully anonymised basis. Analysis of trends in this area is thwarted due to lack of historic and current comparative information.

Pay is not the only tool available to recruit from a wider pool and thereby increase diversity. Other measures include advertising more widely, with a stronger message explaining how important diversity is to university governance and how serving as a governor can contribute to a candidate's personal development. The Committee of University Chairs recently launched on their website the university Board vacancy portal. UK universities are not allowed to advertise vacancies through the Cabinet Office Public Appointments system, although Scottish universities were allowed to do so until very recently. Despite their autonomy from the State, all NHS Foundation Trusts can use these resources.

Diversity is also likely to benefit from better succession planning, including the development of a pipeline of prospective candidates, possibly through the use of co-opted committee membership or a scheme such as Board Apprentice, which has been trialled by a number of universities. Further, many universities cite the use of executive search firms as an important tool to enhance the diversity of the candidate pool.

ii) Accountability

One related question raised regarding paying board members without shareholders is: who will hold the governing bodies to account? A more transparent and rigorous recruitment, induction, ongoing training and performance regime might be required as part of a wholesale change in approach to governor pay.

This relates to another set of potential benefits / consequences of paying governing body members which, to date, has been largely overlooked. These include the benefits of holding paid governing body members to account in terms of meeting attendance, performance reviews and contribution. It also opens up the possibility of increasing the number of governing body meetings as well as possibly introducing mandatory induction and ongoing training, issues often mentioned as a challenge in terms of meaningful engagement of the governing body in the wider academic community and shared governance. Paying governors might send a signal that universities are more serious about governance.

However, there may be an unintended consequence here. Currently, unpaid university governing body roles can act as a stepping stone role for active executives who are seeking to establish a portfolio non-executive career. Less-experienced, and possibly more diverse in terms of age and experience, candidates may be overlooked if universities start to pay governors. Universities' expectations of previous non-executive experience may (understandably) increase, with a potential – even if only temporary – negative impact on diversity.

Sector-Level Support for Governance Development

There are many sector-level organisations supporting the development of university leadership and governance, including, but not limited to, the representative bodies such as the Committee for University Chairs (CUC), Universities UK, GuildHE, and the Association of Heads of University Administration (AHUA) along with AdvanceHE, which has a specific remit around this topic.

While the impact of HERA on institutional autonomy will be debated for years to come, the new regulator's expectation that the sector will somehow organise itself on matters of institutional governance has already proved problematic. The need for the sector to respond to the vice-chancellor pay furore in the summer of 2018, which resulted in the Committee of University Chairs' *Higher Education Senior Staff Remuneration Code*, and the sector's attempts to coordinate an approach to staff pension provisions are just two recent examples.[33] Questions from the Office for Students regarding grade inflation and unconditional offers, while largely being addressed by Universities UK on behalf of university vice-chancellors, are also significant governing body issues under the auspices of academic governance.

With the creation of AdvanceHE, an important group called the Governance Development Advisory Forum (GDAF) has been reconstituted as the first Strategic Advisory Group to its Board. The forum draws together key stakeholders, including the Committee of University Chairs, UniversitiesUK, GuildHE, the Association of Heads of University Administration, the National Union of Students, the Office for Students, the Higher Education Funding Council for Wales and the Scottish Funding Council.

Recommendations

Based on the above considerations and discussion, the following recommendations are made:

1. While the sector bodies noted above play a significant role in promoting and supporting university governance development, the sector does not have the equivalent of NHS Improvement nor initiatives sponsored by FTSE-listed companies encouraging explicit, measurable enhancements

to institutional leadership and governance, including diversity. In the wake of a new market regulator and in an environment of even greater focus on institutional and sector-level governance, the sector should proactively and pre-emptively take the lead in 'owning' the development of good leadership and governance at institutional and sector levels, including the issues of equality and diversity.

The various sector bodies should agree their respective roles and responsibilities. The Governance Development Advisory Forum provides a majority of the right stakeholders. To further underpin the forum's sector-wide support and enhance its visibility, perhaps it should formally report to the Committee of University Chairs, whilst continuing to provide strategic advice to AdvanceHE.

2. Many of the sector bodies are membership organisations. While their executive teams lead the development of strategy and prioritise resources accordingly, they respond to their members. As such, and in light of the emphasis on institutional autonomy, the individual university leadership teams need to decide whether and how to contribute to sector-wide efforts to enhance governance.

3. The one key sector body which is not a membership organisation is the Office for Students. It should reconsider its role in encouraging enhancements to sector-wide governance. Is the best way at institutional level, using the ongoing registration requirements as the means to test this, or can more be done to raise levels of awareness on matters such as equality and diversity, governance practices and governance effectiveness? They should proactively

contribute to the current consultation regarding the English Higher Education Governance Code as a key sector-wide stakeholder. It should also proactively engage with fora such as the Governance Development Advisory Forum, of which it is a member.

4. So far, a piecemeal approach to university governing body pay is emerging. Outgoing governing body members at some institutions have paved the way for future / existing governors to be paid, partly mitigating the potential conflicts of interest. While ultimately each institution will have to decide its preferred approach on this matter, some work at sector level would be advantageous. The Committee of University Chairs, Universities UK and GuildHE should establish a joint working group to review sector-wide institutional governance arrangements, particularly with regard to governing body diversity and consider the potential impact of paying governing body members on diversity as well as other potential benefits and drawbacks. It should draw on lessons from relevant comparators, and consider not only under what circumstances payment may be appropriate, but if so, at what levels.

   It could re-open with the Cabinet Office the question of whether English universities, autonomous institutions somewhat like the NHS Foundation Trusts, could advertise governing body vacancies through the Public Appointments website. It should identify research priorities to support this area. This could / should form part of the current review of *the Committee of University Chairs' Higher Education Governance Code,* and again, should be firmly on the agenda of the Governance Development Advisory Forum.

5. The current review of *the Committee of University Chairs' Higher Education Code of Governance* should include a section regarding the reporting of non-executive / governing body member pay.

6. As part of the work above, and drawing on work done by the NHS and UK-listed companies, data requirements necessary to support these efforts and means to fill the gaps should be identified and resourced as appropriate.

To pay or not to pay?

Is the right question being asked? And who will lead the debate? The decision whether to pay governing body members is clearly an institutional one, but should not be taken in isolation. Together with their governing bodies, university leadership teams should consider what types of leadership and governance are appropriate in the newly unfolding regulatory environment.

Ideally, the debate will not remain stuck in the public / charity versus private / commercial loop. It might be treated – as in other sectors – as an 'and'. Paying governing body members could be seen as enabler of even stronger, fit-for-new-purposes institutional governance. Pay at below market rates is a form of volunteerism. Ironically, remunerating the governing body members might encourage leadership teams to consider more closely whether they have the right skills and experience on the governing body and help leadership teams hold governing members to account in terms of attendance, induction, ongoing training and performance evaluations.

While the decision to pay governing body members must be an institutional one given the context, sector organisations can contribute to the deliberations. Further, they might use them as an opportunity to consider how efforts to enhance institutional governance across the whole sector might be made more participative, visible and ultimately productive.

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A spotlight is currently being shone on university governors, with changes in regulations leading to increased expectations on the role that they play. These changes raise questions about whether the right skills are being represented. University boards also continue to lack diversity in their membership. It is for these reasons that this report reverses the usual question, to ask why shouldn't governing body members be paid?

Alison Wheaton seeks to answer this question by exploring existing practice in other sectors, which universities in the UK or abroad are currently paying their governors and what the costs and benefits are of paying university governors.

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Higher Education Policy Institute

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