Monitor
Making the health sector work for patients

To: Remuneration Committee

For meeting on: 25 March 2014

Agenda item: 7

Report by: Philippa Harding, Board Secretary

Report for: Discussion

TITLE: **Review of the Terms of Reference and the operation of the Remuneration Committee**

Summary:

The Board has agreed that the Rules of Procedure and other appropriate governance documents should be reviewed at the end of each financial year. The Terms of Reference of each Board Committee are to be considered as part of this review, the outcomes of which are due to be submitted to the Board meeting on 30 April 2014.

The Terms of Reference of the Remuneration Committee state that the Committee shall produce a report, to be included in Monitor's annual report, about its activities and Monitor's remuneration policy and practices. The annual governance review provides an opportunity for the Committee to consider how it operates and the outline content of the Committee's annual report. Monitor's draft annual report is due to be submitted to the Board at its meeting on 28 May 2014.

Recommendations:

The Remnueration Committee is asked to confirm that it is content with

a) the proposed amendment to its Terms of Reference; and
b) what should be included in the annual report of the Remuneration Committee.

Public Sector Equality Duty:

Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. In relation to the issues set out in this paper, consideration has been given to the impact that the recommendations might have on these requirements and on the nine protected groups identified by the Act (age, disability, gender reassignment, *marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation).*

It is anticipated that the recommendations of this paper are not likely to have any particular impact upon the requirements of or the protected groups identified by the Equality Act.

Exempt information:

None of this report is exempt under the Freedom of Information Act 2000.

Role of the Remuneration Committee and its operation since March 2013

1. The Terms of Reference (ToR) of the Remuneration Committee (attached at Annex A) were last considered by the Committee at its meeting on 25 March 2013 and subsequently by the Board, following the annual governance review, at its meeting on 25 April 2013.

2. The Committee's ToR set out that the Remuneration Committee should make recommendations on the remuneration of the Chief Executive and senior executive directors (within the frameworks established by the Government). The Committee is also responsible for overseeing the pay and reward arrangements for Monitor staff (again, within the frameworks established by the Government).

Remuneration Committee Membership and Attendees

3. The Remuneration Committee currently consists of the following non-executive directors:

   - Remuneration Committee Chair – Stephen Thornton (until 30 May 2014)
   - Nomination Committee Chair – Heather Lawrence (until 31 October 2015)
   - Audit and Risk Committee Chair – Keith Palmer (until 31 October 2015)

4. The following officers are generally in attendance at Remuneration Committee meetings:

   - Chief Executive (and Accounting Officer) – David Bennett (with the exception of discussions about his own remuneration)
   - Executive Director of Organisation Transformation – Fiona Knight (with the exception of discussions about her remuneration)
   - Board Secretary – Philippa Harding

5. **Proposed change to ToR:** now that different indviduals are performing the roles of Chairman and Chief Executive, it is proposed that the Remuneration Committee ToR are amended to clarify that the Chairman may also serve on the Committee. This proposed amendment is highlighted in paragraph 2.1 of Annex A.

Business of the Remuneration Committee

6. In March 2013, the following outline work programme was agreed for the Remuneration Committee:

Subject	**Autumn**	**Ad hoc**
Determine and agree with the Board the framework or broad policy for the remuneration of Monitor's chief executive, executive directors and other members of the organisation's senior executive management, to be proposed for Secretary of State for Health approval.		X
Determine the total individual remuneration package of each of Monitor's senior executives including bonuses and incentive payments.		X

Review the ongoing appropriateness and relevance of the organisation's remuneration policy for Monitor's senior executives.	X	
Determine and agree with the Board the design of, and the targets for, any performance related pay schemes operated by Monitor as well as the total annual payments made under such schemes.	X	
Agree the policy for authorising claims for expenses from the directors.	X	

7. In addition to its meeting on 25 March 2013, the Remuneration Committee met twice more in 2013. The following business has been conducted by the Committee

Date of meeting	**Business**
25 March 2013	• Terms of Reference and forward agenda planning; • Use of the Very Senior Manager's (VSM) Pay Framework; • Monitor's Future Pay Strategy; and • Approach to pay awards for eligible staff.
24 July 2013	• Remuneration for new appointment of Chief Medical Adviser (Executive Director of Patient and Clinical Engagement); and • VSM Pay uplift.
2 September 2013	• Redundancy payment

8. To date, the only area of the its workplan that the Committee has not addressed is the policy for authorising claims for expenses from directors. This policy has not been reviewed nor have any amendments been proposed.

9. Is the Remuneration Committee content with the business that it has conducted over the past year? Does it feel that it has fully fulfilled its ToR?

Annual Report of the Remuneration Committee

10. In previous years the annual report of the Remuneration Committee has been incorporated into the "Remuneration Report" section of Monitor's annual report and accounts. The report made for 2012/13 is attached at Annex B. It is proposed to maintain this practice for 2013/14. The remuneration report will cover the following required issues:

    a) Remuneration policy;
    b) Service contracts;

c) Notice periods and termination costs;
d) Salary and pension entitlements;
e) Details of off-payroll engagments;
f) Civil Service pensions;
g) Cash Equivalent Transfer Values (CETV); and
h) Real increase in CETV.

11. Are there any additional issues which the Remuneration Committee wishes to bring to the attention of the Board, or to have published in the organisaiton’s annual report?

Philippa Harding
Board Secretary

REMUNERATION COMMITTEE TERMS OF REFERENCE

1. Purpose

1.1 The purpose of the Committee is to ensure that Monitor operates a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. The Committee also has a role in ensuring that Monitor is able to recruit and retain a high performing workforce.

2. Membership

2.1 The Committee shall comprise at least three members, all of whom shall be non-executive directors. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the chair of the Remuneration Committee. The Chairman of the Board may also serve on the Committee as an additional member if they were considered to be independent on their appointment as Chairman.

2.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals, such as the Chief Executive, the Executive Director of Organisation Transformation and external advisers may be invited to attend all or part of any meeting as and when appropriate and necessary.

2.3 Appointments to the Committee are made by the Board and shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.

2.4 The Board shall appoint the Committee chair who shall be a non-executive director.

3. Secretary

3.1 The Board Secretary or their nominee shall act as the secretary of the Committee.

4. Quorum

4.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in, or exercisable, by the Committee.

5. Frequency of Meetings

5.1 The Committee shall meet at least once a year and otherwise as required.

6. Notice of Meetings

6.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the Committee chair.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be circulated to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

7. Minutes of Meetings

7.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance.

7.2 Draft minutes of the Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, unless it would be inappropriate to do so.

8. Conduct of Meetings

8.1 Except as outlined above, meetings for the Committee shall be conducted in accordance with the relevant provisions of Monitor's Rules of Procedure.

9. Duties

9.1 The Committee shall:

9.1.1 Determine and agree with the Board the framework or broad policy for the remuneration of Monitor's chief executive, executive directors and other members of the organisation's senior executive management, to be proposed for Secretary of State for Health approval. The remuneration of the Chairman and the non-executive members of the Board is determined by the Secretary of State for Health. No executive shall be involved in any decisions as to their own remuneration;

9.1.2 In determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, Treasury guidance and other best practice as appropriate. The objective of such policy shall be to ensure that Monitor's senior executives are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the organisation;

9.1.3 Within the terms of the agreed policy and in consultation with the Chairman of the Board and the Chief Executive, as appropriate, determine the total individual remuneration package of each of Monitor's senior executives including bonuses and incentive payments. In determining such arrangements give due regard to any relevant legal requirements and Treasury guidance;

9.1.4 Ensure that contractual terms on termination, and any payments made are fair to the senior executive involved, and Monitor, so that failure is not rewarded and that the duty to mitigate loss is fully recognised;

9.1.5 Review the ongoing appropriateness and relevance of the organisation's remuneration policy for Monitor's senior executives;

9.1.6 Obtain reliable, up-to-date information about remuneration in other organisations similar to Monitor. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help fulfil its obligations;

9.1.7 Consider and advise on initiatives to address specific recruitment and/or retention issues;

9.1.8 Determine and agree with the Board the design of, and the targets for, any performance related pay schemes operated by Monitor as well as the total annual payments made under such schemes;

9.1.9 Agree Monitor's policy on staff remuneration and associated conditions of service, benefits and compensation commitments (including pension rights) on early termination;

9.1.10 Review and note annually the remuneration trends across Monitor;

9.1.11 Oversee any major changes in employee benefits structures across Monitor; and

9.1.12 Agree the policy for authorising claims for expenses from the directors.

10. Reporting Responsibilities

10.1 The Committee's chair shall report formally in writing to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

10.3 The Committee shall produce a report to be included in Monitor's annual report about its activities and Monitor's remuneration policy and practices.

11. Other matters

11.1 The Committee shall:

11.1.1 Have access to sufficient resources in order to carry out its duties, including access to the Board Secretary for assistance as required;

11.1.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

11.1.3 Give due consideration to relevant legislation, Treasury guidance and other best practice as appropriate;

11.1.4 Oversee any instigation of activities which are within its terms of reference;

11.1.5 Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;

11.1.6 Consider any other matters where requested to do so by the Board.

12. Authority

11.1 The Committee is authorised to obtain, at Monitor's expense, outside legal or other professional advice on any matter within its terms of reference (subject to budgets agreed by the Board).

March 2014

ANNEX B

REMUNERATION REPORT 2012/13

Remuneration report

Remuneration policy

The remuneration of Monitor employees, including the chief executive, is agreed by the Remuneration Committee, while the chair's salary is determined by the Secretary of State for Health. The membership of the Remuneration Committee comprises the deputy chair of Monitor, a non-executive director and other members as from time to time agreed by the chair of the Committee. Other non-executive directors attend by invitation. No member is involved in any decisions or discussion as to their own remuneration. In reaching its recommendations, the Committee has regard for the following considerations:

- from 2011/12 Monitor entered a two year pay freeze;
- the need to recruit, retain and motivate suitably able and qualified staff;
- the funds available from the Department of Health; and
- the requirement to deliver performance targets.

Service contracts

Appointments are made on merit on the basis of fair and open competition. Unless otherwise stated, the Executive Team covered by this report holds appointments which are open-ended.

On 1 November 2012 David Bennett was appointed as permanent chief executive of Monitor. However since that date he has continued to hold the position of chair and will do so until a permanent appointment is made.

With effect from 1 April 2012 Keith Palmer was appointed as a non-executive director for a term of four years. Heather Lawrence was appointed with effect from 1 July 2012 for the same length of service.

Jude Goffe's appointment as a non-executive director finished on 7 May 2012, which was the end of two consecutive four year terms served on Monitor's Board.

Notice periods and termination costs

The required notice periods for the Executive Team are given in the table below. Under the terms of their contract, after one continuous year of service, members of the Executive Team are eligible for the same severance payment as any other Monitor employee, which is determined by the Civil Service severance compensation scheme.

	Notice period
David Bennett Chief Executive	6 months
Stephen Hay Managing Director of Provider Regulation	6 months
Adrian Masters Managing Director of Sector Development	6 months
Kate Moore Executive Director of Legal Services	3 months
Sue Meeson Executive Director of Strategic Communications	3 months
Miranda Carter Executive Director of Assessment	3 months
Catherine Davies Executive Director of Cooperation and Competition	3 months

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of Monitor's Executive Team and Board. These figures have been audited. Senior managers are salaried and are entitled to annual pay progression subject to individual performance against objectives. From 2011/12 Monitor entered a two year pay freeze. During this period entitlements to pay progression remain, but are suspended for the two years.

As a result of Monitor's new role, the governance structures have been revised and several executive roles have changed (with effect from 1 November 2012 unless stated otherwise below). Further information on Monitor's new role can be found elsewhere in this report.

Executive Team	**2012/13 Salary** **£'000**	**2011/12 Salary** **£'000**
David Bennett Chief Executive Note: David Bennett does not receive an additional salary as chair while also serving as chief executive, and he also does not receive a pension	220-225 *(235-240 full time equivalent)*	220-225 *(240-245 full time equivalent)*
Stephen Hay Managing Director of Provider Regulation (previously Chief Operating Officer)	190-195*	185-190
Adrian Masters Managing Director of Sector Development** (previously Director of Strategy)	150-155	145-150
Kate Moore Executive Director of Legal Services	125-130	125-130
Sue Meeson Executive Director of Strategic Communications** (previously Director of Public Affairs and Communications)	95-100	90-95
Miranda Carter Executive Director of Assessment (appointed with effect from 1 November 2012)	50-55	n/a
Catherine Davies Executive Director of Cooperation and Competition (appointed with effect from 1 October 2012)	60-65	n/a
Janet Polson Director of HR and Corporate Services (until 31 October 2012)***	50-55	85-90

* Stephen Hay's remuneration includes a payment for untaken annual leave of £0-5,000 which was non-pensionable.
** These roles were considered to have sufficiently increased responsibilities to merit a pay increase. Both the new roles were occupied from 1 November 2012.
*** Janet Polson continues to occupy this role, however from 1 November the role ceased to be an Executive position. A new post of Executive Director of Organisation Transformation has been vacant since then.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in Monitor as at 31 March 2013 was £225-230,000 (31 March 2012, £240-245,000). This was 3.8 times (31 March 2012, 4.1) the median remuneration of the workforce as at 31 March 2013, which was £60,000 (31 March 2012, £60,575).

The median remuneration figures only include permanent staff on payroll. Agency staff costs have not been included as such staff generally occupy short-term, project related positions and so their inclusion would artificially skew the overall figure.

In 2012/13, zero (2011/12, zero) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20-25,000 to £220-225,000 (2011/12 £20-25,000 to £240-245,000).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The ratio between the highest paid director and the median remuneration of the workforce fell from the previous year as the highest paid director's remuneration was reduced from November 2012 so this has impacted on the ratio. During 2012/13 a number of staff have been recruited at around the average salary of the organisation and this has also contributed to the decrease.

Chair and other non-executive directors	**2012/13 Remuneration £'000**	**2011/12 Remuneration £'000**
David Bennett Chair Note: David Bennett does not receive a salary as chair in addition to that which he receives as chief executive.	0	0
Christopher Mellor Non-executive director (term ended 31 March 2012)	N/A	35-40
Jude Goffe Non-executive director (term ended 7 May 2012)	0-5	20-25
Stephen Thornton Non-executive director	20-25	25-30
Sigurd Reinton Non-executive director	15-20	0-5
Keith Palmer Non-executive director	5-10	0-5
Heather Lawrence Non-executive director (appointed with effect from 1 July 2012)	5-10	N/A

All remuneration paid to the chair and non-executive directors is non-pensionable. The benefits in kind given to executive and non-executive directors are disclosed below. The monetary value of benefits in kind covers any payments (for business expenses or otherwise) or other benefits provided by Monitor which are treated by HM Revenue & Customs as a taxable emolument.

Executive Team, chair and other non-executive directors	2012/13 Benefit in Kind £*	2011/12 Benefit in Kind £*
David Bennett Chief Executive	100	100
Stephen Hay MD of Provider Regulation	0	100
Adrian Masters MD of Sector Development	0	200
Christopher Mellor Non-executive director	N/A	4,300
Stephen Thornton Non-executive director	3,500	3,300
Keith Palmer Non-executive director	100	N/A
Sigurd Reinton Non-executive director	1,400	N/A
Heather Lawrence Non-executive director	400	N/A
Jude Goffe Non-executive director	300	1,200

*Figures are given to the nearest £100.

Pension benefits	**Accrued pension at age 60 as at 31/03/13 £'000**	**Real increase in pension**	**CETV* at 31/03/12** £'000**	**CETV* at 31/03/13 £'000**	**Real increase in CETV* £'000**
Stephen Hay Managing Director of Provider Regulation	25-30	2.5-3	320	373	25
Adrian Masters Managing Director of Sector Development	20-25	3-3.5	277	339	33
Kate Moore Executive Director of Legal Services	15-20	2.5-3	233	286	33
Sue Meeson Executive Director of Strategic Communications	5-10	2.5-3	80	127	24
Miranda Carter Executive Director of Assessment (from 1 November 2012)	15-20	0.5-1	212	223	6
Janet Polson Director of HR and Corporate Services (until 31 October 2012)	40-45	2-2.5	642	691	39

* Cash equivalent transfer value
** The actuarial factors used to calculate CETVs were changed in 2012/13. The CETVs at 31/3/12 and 31/3/13 have both been calculated using the new factors, for consistency. The CETV at 31/3/12 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

David Bennett does not receive a pension on his salary as chief executive.

Catherine Davies, executive director of Cooperation and Competition, is a member of a partnership pension scheme. From her start date of 1 October 2012 she made contributions to the scheme of £1,500, and Monitor made contributions of £8,800 on her behalf (figures given to the nearest £100).

None of the Executive Team are members of a scheme which automatically pays a lump sum on retirement.

Details of off-payroll engagements

As part of the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, Monitor published information in relation to the number of off-payroll engagements – at a cost of over £58,200 per annum – that were in place on 31 January 2012. The following information provides further disclosures concerning these engagements.

As at 31 January 2012 Monitor had two off-payroll engagements at a cost of over £58,200 per annum. Both of these arrangements ceased in March 2013.

There have been no new off-payroll engagements entered into between 23 August 2012 and 31 March 2013, for more than £220 per day and more than six months. None of the Executive Committee members are engaged through off-payroll arrangements.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Existing staff may be in one of four defined benefit schemes; either a 'final salary scheme' (Classic, Premium, and Classic Plus) or a 'whole career scheme' (Nuvos). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year.

Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with Pensions Increase legislation. Employee contributions are salary-related and ranged between 1.5% and 3.9% of pensionable earnings for Classic and 3.5% and 5.9% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as Classic.

The Nuvos scheme was introduced on 30 July 2007 for all new staff unless they are already members of or eligible to rejoin the other schemes. Members of Nuvos build up pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with the Consumer Price Index (CPI). In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

Further details about the Civil Service pension arrangements can be found on the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. The CETV is the amount paid by one pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when a pension scheme member leaves and chooses to transfer the benefits accrued from their previous scheme.

The pension figure shown relates to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Dr David Bennett
Chair and Chief Executive
2 July 2013