

To: The Board

For meeting on: 30 April 2013

Agenda item: 8

Report by: Stephen Thornton, Remuneration Committee Chair

Report for: Information

TITLE: **Report of the Remuneration Committee meeting on 25 March 2014**

Summary:

This report provides the Board with an update on the key issues considered by the Remuneration Committee at its meeting on Tuesday 25 March 2014. The minutes of the meeting are attached at Annex A to this report, the amended Terms of Reference considered by the Committee are attached Annex B to this report.

Recommendation:

The Board is asked to note the report and provide any comments.

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).

As it is for information, it is anticipated that none of the recommendations of this paper will have an 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.

Background

1. The Chair of Remuneration Committee is required to report on its work to the Board after every meeting of the Committee. This report highlights the key issues considered by the Committee. The minutes of the meeting are attached as the annex to this report.

Issues

VFM Pay Framework

2. The Committee considered the implications of the Very Senior Manager (VSM) Pay Framework for Monitor. The Department of Health (DH) introduced the VSM Pay Framework in May 2012. This determines both pay and terms of employment and is applied to all senior leadership roles reporting into an Arms Length Body (ALB) Chief Executive and those roles with a VSM job-evaluated salary in excess of £142,000pa. Recently the DH held an ALB Chair/Non Executive Director seminar on the “remuneration of top teams” which I and Fiona Knight, Monitor’s Executive Director of Organisation Transformation, attended.
3. Monitor and, it seems other ALBs, has identified a number of historical anomalies arising from the application of the VSM pay framework. There are also a number of issues with regard to the way in which the framework is administered. The Remuneration Committee considered it appropriate that the question should be discussed further with other ALBs to see whether it should be raised formally with DH.
4. The Remuneration Committee provided a steer with regard to a number of the historical anomalies that Monitor was experiencing with regard to the VSM Pay Framework.

Pay and Reward Strategy

5. The Committee provided a steer with regard to the implementation of the 1% annual uplift permitted for public sector workers. Remuneration Committee members suggested that, pending the further development of Monitor’s performance appraisal system, consideration should be given to all eligible staff receiving a 1% salary increase.
6. Committee members also asked for work to be undertaken on the development of a recognition strategy. The Committee was keen for this to encompass non-financial rewards as well as possible remuneration increases. In principle the Committee was content with the concept of a long service award, but asked for this to be incorporated into the wider recognition strategy.

Operation of the Remuneration Committee

7. The Committee also looked at its Terms of Reference and a small number of proposed amendments to reflect the change to Monitor’s governance, in light of the appointment of an interim Chairman. The updated Terms of Reference are attached as Annex B to this report.
8. The annual report of the Committee will be provided to the Board as part of the organisation’s annual report.

Stephen Thornton
Remuneration Committee Chair

ANNEX A

**MINUTES OF A MEETING OF THE REMUNERATION COMMITTEE HELD ON TUESDAY 25
MARCH 2014 AT 4.30pm AT 4 MATTHEW PARKER STREET, LONDON SW1H 9NP**

Present:

Stephen Thornton, Deputy Chairman (Chair)
Heather Lawrence, Non Executive Director
Keith Palmer, Non Executive Director

In attendance:

David Bennett, Chief Executive
Joan Hanham, Chairman
Philippa Harding, Board Secretary
Fiona Knight, Executive Director of Organisation Transformation

1. Welcome and apologies

1.1 No apologies were received.

2. Declarations of interest

2.1 No interests were declared.

**3. Minutes and matters arising from the meeting held on:
(i) Wednesday 24 July 2013 (RC/14/02(i)); and
(ii) Monday 2 September 2013 (RC/14/02(ii))**

3.1 The minutes were considered and agreed. There were no matters arising that were not covered elsewhere on the agenda.

4. VSM Pay Framework (RC/14/03)

4.1 Remuneration Committee members considered the report which provided an update on matters pertaining to the Very Senior Managers (VSM) Pay Framework that had arisen since the meeting of the Remuneration Committee on Wednesday 24 July 2013.

4.2 Fiona Knight and Stephen Thornton had recently attended a seminar hosted by the Department of Health (DH) for its Arms Length Body (ALB) Chairs and Non-Executive Directors on “remuneration of top teams”. The Committee was provided with an oral update on the issues discussed at this seminar. It was noted that a number of ALBs continued to experience certain historical anomalies as a result of the application of the VSM Pay

Framework across all DH ALBs. There were also a number of shared concerns with regard to the manner in which the Framework was being administered. The importance of addressing these issues was emphasised. In light of this it was proposed that other DH ALBs should be contacted formally to determine whether they had the same concerns as Monitor and whether a formal submission should be made to the DH in relation to these.

ACTION: FK,ST

4.3 The Committee expressed its continued support in respect of Monitor pressing for a resolution on the administrative issues it was experiencing with regard to the recruitment of senior individuals from the NHS and more generally.

4.4 Consideration was given to the question of pay protection. The Remuneration Committee was content that there was currently no requirement for Monitor to have a formal policy on pay protection, noting that the matter should be kept under annual review, or sooner should any organisational design work indicate that such principles may be required. The Committee considered it appropriate that the two cases of pay protection identified in the paper should be made to the DH on the basis that they should be indefinite entitlements. The individuals affected were considered to be key to the organisation's successful operation.

4.5 The Committee was supportive of the job re-evaluation request set out in the paper. It was confirmed that available "total package" comparisons for all VSMS should be submitted for consideration at a future meeting.

ACTION: FK

4.6 Remuneration Committee members considered the question of whether performance related pay (PRP) awards should be made for the year ending 2012/13. In light of the fact that staff who were not VSMS would not have received any PRP for the year in question, the small sums involved, the potential divisiveness and the call for leaders to show pay restraint, the Remuneration Committee considered that it would not be appropriate for any individual PRP awards to be made to VSMS for the 2012/13 year. The Committee confirmed that it did not consider the PRP awards available through the VSM Pay Framework to be appropriate for use at Monitor and suggested that instead, work should be undertaken to determine whether the resources available might be used to address historical pay anomalies instead.

ACTION: FK

5. Pay Strategy (RC/14/04)

5.1 Fiona Knight introduced the paper which provided an update on Monitor's pay strategy since a proposal was last put to the Remuneration Committee in March 2013 and set out the proposed next steps.

5.2 The Committee considered the initial thinking set out in the paper with regard to the implementation of the 1% annual uplift permitted for public sector workers. It was noted that the 1% limit was based on average salary costs over a 12 month period; therefore a number of options were available other than all eligible staff receiving a 1% salary increase (such as consolidated or non-consolidated awards differentiated according to performance of grade). Remuneration Committee members suggested that, pending the further development of Monitor's performance appraisal system, consideration should be given to all eligible staff receiving a 1% salary increase.

5.3 With regard to the principles that Monitor should use in rewarding its staff, Remuneration Committee members requested further work to be undertaken to develop a more detailed recognition strategy. The Committee emphasised the importance of building upon the fact that recognition could extend beyond financial reward. In particular it was considered that

any recognition strategy should focus upon rewarding exceptional performance and making a difference for patients.

ACTION: FK

6. Long Service Awards (RC/14/05)

6.1 The Committee considered the report which proposed the recognition of members of staff who had achieved ten years' of eligible service at Monitor.

6.2 Remuneration Committee members were content with the principle of the policy, but suggested that it should be incorporated into the wider recognition strategy commissioned by the Committee.

7. Review of the Terms of Reference and the operation of the Remuneration Committee (RC/14/06)

7.1 Philippa Harding presented the report which provided the Committee with the outcome of a review of its decision-making and proposed a slight amendment to its Terms of Reference. The report also asked the Committee to consider an outline of its annual report, for inclusion in Monitor's draft annual report.

7.2 Remuneration Committee members were content with the proposed changes to the Committee's Terms of Reference. With regard to the outline content of the Committee's annual report, a number of detailed comments were provided. The Committee stressed the importance of referring to Monitor's adoption of the VSM Pay Framework in the report.

8. Any Other Business

8.1 No other business was raised.

Close

ANNEX B

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

- 12.1 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