

New Zealand Charities & NFP Board Honorarium Survey 2019



Should board members be paid?

A SURVEY ON HONORARIUM IN THE NOT-FOR-PROFIT SECTOR

In a nutshell (Executive Summary)

The perennial question of whether charities (and not-for-profit organisations) board members should be paid is asked by many with very little information available in the public domain.

PKF, Chartered Accountants, undertook a survey between December 2018 and January 2019 in an attempt to answer some of the questions being asked. The summary of this is as follows:

- 55% of respondents thought that board members should be paid.
- The main reasons given for paying board members were to attract better calibre people with diverse skill sets and from social demographics that could not afford to volunteer their time. There is a perception that paying board members creates an expectation of better accountability from them.
- The reasons for not paying board members was mainly focused around affordability, with those organisations wishing to maximise the return to operational issues. They also have an expectation that board members should be volunteers.
- Two thirds of board members are refunded for out of pocket expenses.
- 68% of respondents do not have a policy for payment of honorarium to board members.
- 9% of respondents with a remuneration policy have this policy reviewed by an external party.
- 70% of respondents have checked that their rules allowed for payments to board members.
- Calculation of honorarium is a hit and miss affair with a high level of input from the manager of the organisation based on the involvement of the board members and the affordability of the organisation to pay them. Only six respondents benchmarked against data from either the Institute of Directors or from Strategic Pay.

- 62% of respondents did not deduct withholding tax from payments made to board members.
- 90% of respondents do not intend to change their view on paying board members within the next 12 months.
- 61% of respondents were charities, with the balance being not-for-profits or other public organisations.
- 55% employed between one and five paid people.
- 53% had been one to 20 volunteers.
- Funding of respondents came from:
 - Government grants – 26%
 - Other grants – 24%
 - Other contracts – 8%
 - The balance of 42% came from other income including membership fees, donations (Koha), member giving (religious organisations), trading (Op-Shops) and income from investments (interest, dividends and rent).
- The survey generated 197 responses. This survey was an exercise to gauge the pulse of the sector regarding payments to board members. It is not intended as an academic exercise.
- Considerable difficulties were encountered in inviting people to take part in the survey due to privacy issues and the inability of using public databases.

Should Board Members be paid?

yes
55%



no
45%

21%

Attract more experienced board members if they are paid

14%

Everyone should be paid for work done

36%

Payment creates an expectation that board members will get involved

29%

Other

Other reasons given for paying board members are:

- Recognition that governance skills and experience require ongoing investment and continuing professional development.
- Skilled board members are in higher demand.
- Reimbursement for the time lost from work.
- Increase level of commitment to the organisation.
- Help recognise the cost of running a charity.
- It creates an obligation to work in a professional manner rather than just as a “volunteer”.
- It encourages diversity by paying people who may not necessarily be able to afford to attend board meetings otherwise.
- Only some board members are paid as they do additional work outside of normal board members requirements, e.g. Chair, Secretary and Treasurer.
- Time involved is significant.
- There should be a mixture of paid time to attend board meetings and volunteering time by board members.
- Creates an expectation that board members come prepared and are responsible for their governance decisions.
- It depends on the financial state of the organisation. If it can pay something, it should.

Do you refund members for actual expenses such as travel, meals, phone calls etc?



If so, is it based on actual costs?



Other basis for paying board members were described as:

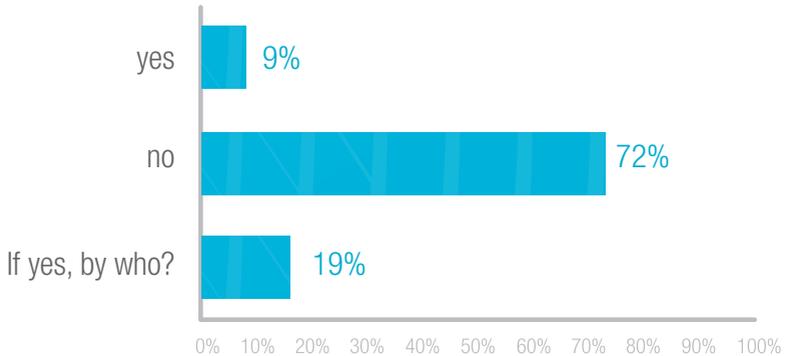
- Modest allowance to cover all expenses such as parking, mileage and computer costs.
- Based on an all inclusive sitting fee.
- Travel at IRD rates, other expenses at actual costs.
- Actual cost if claimed. A number of board members do not claim as they see that as part of their volunteering.

Does your organisation have a policy for payment of honorarium / fees to Board Members?



More than two thirds of organisations do not have a policy for the payment of honorarium or fees to board members. Good governance would indicate that every organisation should have a policy which sets out how remuneration should be calculated, and benchmarks that against other information within the sector. There should also be, within the policy, an independent review of it to ensure that the people creating and approving the policy are not doing so for their personal benefit. The policy should have a clear link to the foundation document demonstrating the manner the remuneration is allowable under the foundation documentation.

Is this policy reviewed by someone other than Board Members?



Policy Review

81% of the respondent's remuneration policy to board members is not reviewed by any person independent of the board. The remaining 9% of respondents indicated that the policy was reviewed by either the auditor, the solicitor or the CEO of the organisation. None of this would indicate that there is an active review of the policy. Only 4 respondents out of 197 indicated that the remuneration of board members was tabled, discussed and approved at the Annual General Meeting of the organisation.

Do Rules / Trust Deed allow for payment of honorarium / fees to be made?



yes
70%



no
15%



unsure
15%

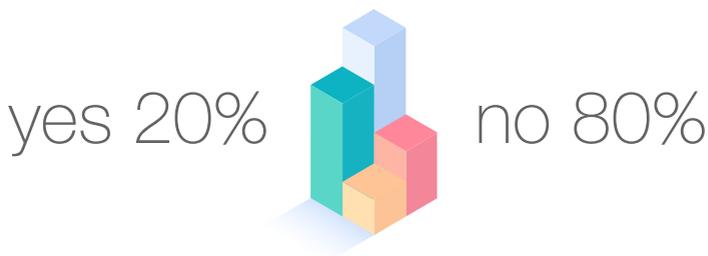
30% of respondents indicated that they may not have checked that their rules provided for the payment of honorarium to be made. This would indicate that there is the possibility of honorarium being made without authority and in contravention of founding documents.

How are Honorarium Fees calculated?

The calculation of the honorarium payment to board members used a number of different benchmarks. Some of these are listed below:

- Set by Government.
- Use of strategic pay review data (three respondents).
- Left to the manager to decide.
- Actual time taken at the minimum wage rate or slightly higher.
- Affordability of the organisation to pay an honorarium.
- School Board of Trustees guideline.
- Proposed at the AGM and ratified.
- Institute of Directors data (three respondents).
- The majority of respondents suggested that there was no fixed method for calculating the honorarium. There has been an unhealthy reliance on the management to decide what is a fair remuneration.

Have you bench marked what you pay against other similar organisations?



Benchmarking

Of the 20% of respondents, the main benchmarks used to establish a fair honorarium were:

- Discussions with similar organisations.
- Strategic pay data.
- Institute of Directors data.

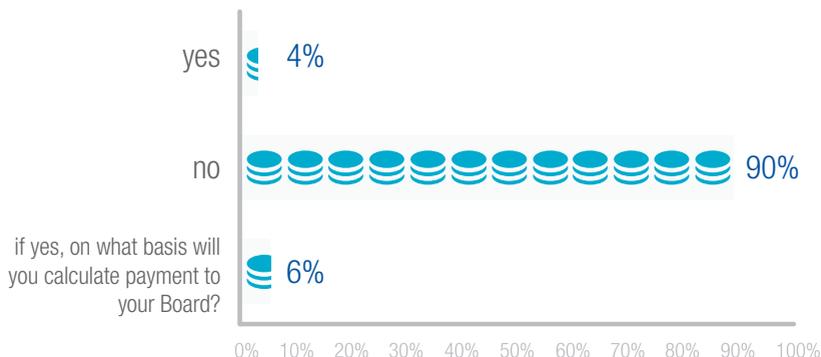
12 respondents used a benchmark to calculate remunerations. This is a very low level of benchmarking.

Do you deduct tax from payment (other than expenses refunded) made to your Board?



The response of 62% of respondents not deducting tax from payments made was of concern, until the commentary was read. This indicated that the respondents marked no on the basis that they had not made any honorarium and therefore did not need to make payments. There is still a large group of respondents who are not deducting withholding tax or PAYE from honorarium. The IRD requirement for deduction of tax from payments made can be found with more details at www.ird.govt.nz

If you don't currently pay Board Members, do you intend to do so in the next 12 months?



Future Payments to Board Members

- 90% of respondents who did not pay Board members were of the view that they will continue to not pay board members in the next 12 months. This is an entrenched view which may indicate that the practice for paying remuneration is well established and is unlikely to change within the next 12 months.
- Some of the reasons for not paying the board members are:
 - Funding is currently prioritised for the organisation's operations.
 - Payment could be made to some board members based on their workload, e.g. higher workload for a chairperson.
 - Payment could be made based on hours worked, less time that the person wishes to volunteer, multiplied by the minimum wage.
 - It is an affordability issue, can't pay if there are insufficient funds.

Please describe your organisation



61%

We are a charity



36%

We are a not-for-profit



3%

We are an other public organisation

Our structure is a:



61%

Trust



33%

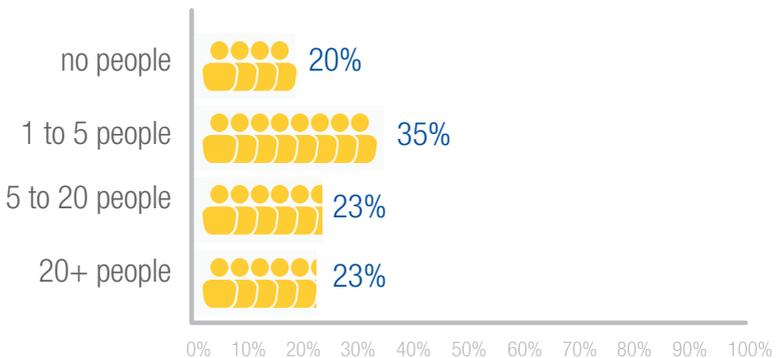
Incorporated Society



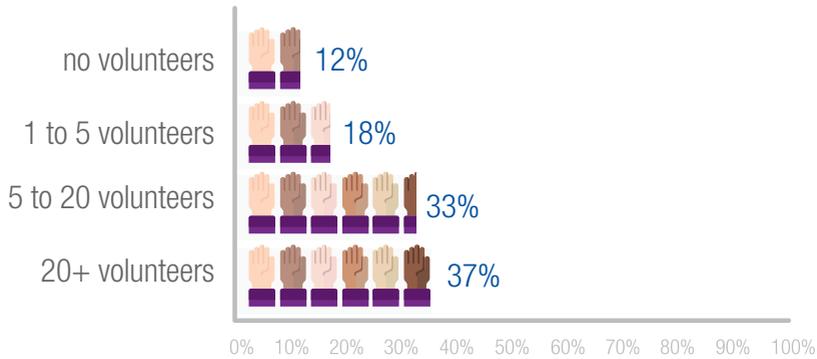
6%

Other

We employ:



We have:



Our main source of funding is:



26%

Government
Grants



8%

Other Contracts



24%

Grants



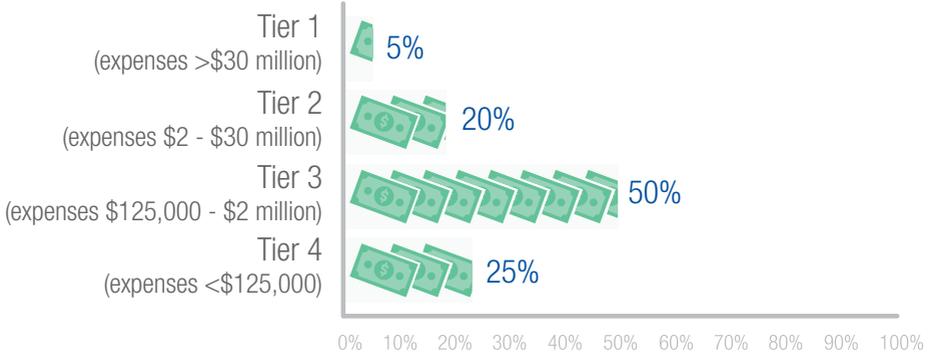
42%

Other

Other major sources of funding identified were:

- Membership fees.
- Event attendance fees.
- Donations (Koha).
- Members giving (Churches).
- Trading operations (e.g. Op-Shops)
- Investments (interest, dividends and rent received).
- Bequests.

We are an organisation reporting under:



right people
right size
right solutions



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