

# Remuneration & Organisational Design Committee

## Terms of Reference

### Head office

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**THE  
CAMBRIDGE**  
Building Society

Location accessible:	<i>H:\General Filing\Board\Corporate Governance Manual\Current Version\Board and Management</i>
Owners Full Name & Job Title:	Peter Burrows, Chief Executive
Function:	People Team
Last Approved Changes:	November 2019
Next Full Review:	Q1 2021 (annual review cycle)
Committee Approval Required:	Yes
Name of Committee(s):	Remuneration & Organisational Design Committee and Board

Version	Date approved	Amendment / Updates
1.0	14 <sup>th</sup> June 2016	<ul style="list-style-type: none"> <li>• (1.1) Chairman removed as a member of the Committee</li> </ul>
1.1	To be approved	<ul style="list-style-type: none"> <li>• New format introduced</li> <li>• (1.2) Business Transformation Officer removed and Head of People included</li> </ul>
2.0	November 2019	<ul style="list-style-type: none"> <li>• Stephen Mitcham removed as owner and replaced with Peter Burrows</li> <li>• Align the Terms of Reference to the UK Corporate Governance Code 2018</li> <li>• (8) Added sub-clauses to reflect discussions and decisions relating to our Culture</li> </ul>
2.1	To be approved - For consideration at 7th Feb 2020 meeting	<ul style="list-style-type: none"> <li>• (1.1. and 1.2) Membership and deputy arrangements clarified</li> <li>• (1.4) Period of membership amended to limit extensions to a maximum of two 3-year periods</li> <li>• (8 and 9) Section inserted to set out the Role of the Committee and Duties of the Committee updated to reflect more closely the UK Code of Corporate Governance 2018 and related guidance</li> </ul>

## 1. Membership

- 1.1 The Committee shall comprise at least two members, all of whom shall be independent 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 Chairman of the Remuneration & Organisational Design Committee.
- 1.2 Members unable to attend meetings of the Committee may co-opt as their deputy the Senior Independent Director or Vice Chair of the Society on the basis they are not already a member of the Remuneration and Organisation Design committee.
- 1.3 Only members of the Committee or their deputies, have the right to attend committee meetings. However, other individuals such as the Chief Executive, Chief Financial Officer, Head of People, and external advisers, may be invited to attend for all or part of any meeting, as and when appropriate and necessary
- 1.4 Appointments to the Committee are made by the Board and shall be for a period of up to three years, extendable by no more than two additional three-year periods, provided the individual continues to meet the criteria for membership of the Committee
- 1.5 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. The appointed Chair should have served on a remuneration committee for at least 12 months. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the board.

## 2. Secretary

- 2.1 The Company Secretary or his or her nominee shall act as the secretary of the Committee.

## 3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be two, both of whom must be independent non-executive directors. 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.

## 4. Frequency of meetings

- 4.1. The Committee shall meet at least twice a year at appropriate times and otherwise as required.

## 5. Notice of meetings

- 5.1 Meetings of the Committee are set annually by the Society Secretary and agreed by the Chairman of the Committee. Additional meetings called under 4.1 shall be set by the secretary of the Committee.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded 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.

## 6. Minutes of meetings

- 6.1 The secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2 Draft minutes of 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 at the subsequent Board meeting unless it would be inappropriate to do so.

## 7. Annual General Meeting

- 7.1 The Committee Chairman should attend the Annual General Meeting to answer any shareholder questions on the Committee's activities.

## 8. Role

- 8.1 The FRC's UK Code of Corporate Governance 2018 ("the Code")<sup>1</sup> sets out the role of the remuneration committee:

The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management<sup>2</sup>. It should review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration...

When determining executive director remuneration policy and practices, the remuneration committee should address the following:

- **clarity** – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce
- **simplicity** – remuneration structures should avoid complexity and their rationale and operation should be easy to understand
- **risk** – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated
- **predictability** – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy
- **proportionality** – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance; and
- **alignment to culture** – incentive schemes should drive behaviours consistent with company purpose, values and strategy.

- 8.2 Related guidance<sup>3</sup> holds "the remuneration committee is also tasked with reviewing workforce remuneration and related policies. The purpose of this review is to:

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<sup>1</sup> Financial Reporting Council: The UK Corporate Governance Code, July 2018, s.33 and s40

<sup>2</sup> Within the Cambridge Building Society 'Senior Management' is interpreted as the Chief Executive, Executive Directors, and Heads of Function and includes the Company Secretary. The group is referred to collectively as the 'Leadership Team'.

<sup>3</sup> Financial Reporting Council: Guidance on Board Effectiveness, July 2018, s.129 - 133

- ensure the reward, incentives and conditions available to the company's workforce are taken into account when deciding the pay of executive directors and senior management;
- enable the remuneration committee to explain to the workforce each year how decisions on executive pay reflect wider company pay policy; and
- enable the remuneration committee to feedback to the board on workforce reward, incentives and conditions, and support the latter's monitoring of whether company policies and practices support culture and strategy."

8.3 It makes clear that "Remuneration committees are expected to focus on the strategic rationale for executive pay and the links between remuneration, strategy and long-term sustainable success."

## 9 Duties

- 9.1 The Cambridge Building Society's Remuneration and Organisational Design Committee, in accordance with its delegated authority from the Board and in line with the Code and ICSA guidance<sup>4</sup>, shall:
- 9.2 Have responsibility for setting the remuneration policy for the Leadership Team, Company Secretary and the Society's Chair, including pension rights and any compensation payments. The remuneration of non-executive directors shall be a matter for the Chair and the executive members of the Board under the Nominations Committee. No director or senior manager shall be involved in any decisions as to their own remuneration.
- 9.3 Recommend to the Board the level and structure of Leadership Team remuneration.
- 9.4 In determining the above remuneration policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Corporate Governance Code and associated guidance. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Society successfully without paying more than is necessary, having regard to the views of its Members and other stakeholders. The remuneration policy should have regard to the risk appetite of the Society and alignment to its long-term strategic goals, and it should motivate and fairly reward individual contributions to the Society's overall performance. [A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the company].
- 9.5 When setting remuneration policy for the Leadership team, review and have regard to pay and employment conditions across the Society, especially when determining annual salary increases.
- 9.6 Review the ongoing appropriateness and relevance of the remuneration policy and complete an annual formal review of Leadership team, Company Secretary and Chairman's remuneration.
- 9.7 Within the terms of the agreed policy and in consultation with the chairman and/or chief executive as appropriate, determine the total individual remuneration package or each member of the Leadership Team, Company Secretary and the chairman, including Sharing in Success [bonuses, incentive payments and share options or other share] awards.
- 9.8 Obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations the committee shall have full authority to appoint

<sup>4</sup> Financial Reporting Council: Guidance on Board Effectiveness, July 2018, s.129 - 133

<sup>4</sup> Footnotes 1 & 3 and Institute of Chartered Secretaries and Administrators: Guidance Note 'Terms of Reference for the remuneration committee', June 2013

remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Society but within any budgetary restraints imposed by the board.

- 9.9 Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.
- 9.10 Approve the design of, and determine targets for any performance-related pay schemes operated by the Society<sup>5</sup> and approve the total annual payments under such schemes (in accordance with the provisions in Schedule A of the Code). The Committee has overall discretion of the scheme and may override any formulaic outcome.
- 9.11 Review the design of all incentive plans for approval by the board and Members. For any such plan, determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to the Leadership team members and the performance targets to be used.
- 9.12 Determine the policy for, and scope of, pension arrangements for members of the Leadership team.
- 9.13 Ensure that contractual terms and any payments made on termination are fair to the individual and the Society, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- 9.14 Oversee any major changes in employee benefits structures throughout the Society.
- 9.15 Agree the policy for authorising claims for expenses from the directors.
- 9.16 Receive at least annually an update focusing on people and culture at The Cambridge including consideration of internal or external changes that may have a significant impact on our team members or culture. This will be led by the Committee Chairman with support from the Head of People.
- 9.17 Set the policy for organisational design across the Society and ensure it:
- Complements the organisation's values
  - Reflects and facilitates its business objectives
  - Facilitates resourcing
  - Provides for the future success of the Society
  - Provides adequate governance and risk management arrangements
  - Encourages service excellence, process efficiency and flexibility in customer-facing units
  - Supports technical and managerial competence, career progression and the remuneration structure.
- 9.18 Work and liaise as necessary with all other board committees.

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<sup>5</sup> Currently the only such scheme in operation is 'Sharing in Success' which is contingent on meeting overall Society performance targets and applies a single distribution figure (as a percentage of basic pay) for every participating member including the Leadership Team.

## **10. Other Matters**

The committee shall:

- 10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required
- 10.2 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
- 10.3 give due consideration to laws and regulations, the provisions of Corporate Governance and the requirements of any other applicable Rules, as appropriate
- 10.4 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

## **11. Authority**

- 11.1 The Committee is authorised by the Board to obtain, at the Society's expense, outside legal or other professional advice on any matters within its terms of reference.

**Customer Contact Centre**

0345 601 3344

Open 8.30am-8.30pm Mon-Fri; 9.00am-5.00pm Sat

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All communications with us may be monitored/recorded to improve the quality of our service and for your protection and security.

