



EXPLANATORY MEMORANDUM

ON THE PROPOSAL FOR REMUNERATION
OF DIRECTORS OF YHA LTD



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1. PROPOSAL

Members of **YHA Ltd** (ACN 008 387 791) are entitled to vote upon a proposal to introduce remuneration for Directors, at the Annual General Meeting to be held on **14 April 2018 at 11.00am** at The Big Dig Archaeology Education Centre, Sydney Harbour YHA, 110 Cumberland Street, The Rocks, Sydney, NSW 2000.

Members are encouraged to read this Explanatory Memorandum prior to deciding whether or not to vote on the resolution.

Recommendation: The Board of YHA Ltd recommends that you vote in favour the resolution.

The resolution that will be put to the meeting is:

THAT for the purposes of rule 7.7(a) of the Constitution, the aggregate limit on remuneration for directors in respect of a Financial Year is hereby fixed for the time being at \$150,000.

To be passed, a resolution must be approved by at least 75% of members voting at the Annual General Meeting.

The Explanatory Memorandum summarises the reasons behind the proposal, and explains the changes that would be effected.

If you have any questions, please do not hesitate to raise them prior to the meeting. Contact:

Silke Kerwick, Public Affairs Manager, YHA, Ph: (02) 9261 1111; or
email yha@yha.com.au

By order of the Board

Julian Ledger
CEO & Company Secretary

2. INTRODUCTION

This Explanatory Memorandum has been produced to assist you with making a decision regarding proposed remuneration for Directors on the Board of YHA Ltd (trading as YHA Australia).

YHA's Constitution does allow for Directors to be paid, however the relevant clause in the Constitution - rule 7.7(a) – sets the current level of remuneration at zero.

With the increased scope of the Board (which has replaced seven separate State Boards and a previous National Board) and with the increased responsibilities and skills required to run an organisation turning over nearly \$50M each year - with assets worth over \$220M and liabilities of over \$100M - the Board has been considering the merits of remunerating the Directors in future.

Any amount of remuneration would be relatively modest (in the region of \$10,000 per annum per Director) and would need to have the approval of least 75% of members voting at the Annual General Meeting.

This document sets out the rationale for remuneration in detail, and gives information on how you can vote on the issue.

The Board of YHA Ltd has formally resolved to recommend that members vote in favour of the resolution.

YHA has a long and proud history, having been established in Australia nearly 80 years ago, in 1939. Initially YHA was established on a State by State basis, by groups of volunteers who opened the first hostels. From the outset, YHA was established as a not-for-profit, membership based organisation, and continues with that structure today.

As YHA grew over time, with more hostels added across the country, in the 1960s the first paid managerial staff began to be employed, to run the properties on a professional basis. Today YHA employs 370 staff and has a network of nearly 80 hostels across Australia, from large urban properties, to small bush hostels in regional areas. Of these, 29 are owned and or operated directly by YHA, with other hostels being associated with the organisation. YHA records over 1.5M overnight stays each year, accommodating an average of more than 4,000 guests every night around the country.

Over time, the governance structure of the organisation has also evolved, and during the past decade a series of mergers has created a national body, YHA Ltd, with responsibility for the hostel network across Australia. What has not changed over time is the volunteer nature of the Board of Directors, who continue to serve in an unpaid capacity.



3. YOUR VOTE

It's easy to vote

All members of YHA Ltd may vote, with each eligible member having one vote.

Those eligible to vote are members in the Honorary Life, Life, Adult or Group category who are 18 years of age or over, who are not employees of YHA Ltd and who are financial. Only persons who were members as at 23 February 2018 will be eligible to vote.

1 Read the Notice of Annual General Meeting and Explanatory Memorandum

2 Vote in person at the meeting:
Saturday 14 April 2018, 11am
 at The Big Dig Archaeology Education Centre, Sydney Harbour YHA
 110 Cumberland Street, The Rocks, NSW 2000

3 If you are unable to vote in person you can appoint a proxy to vote for you. To make it easy, your proxy form can be lodged electronically, or you can send it by email to yha@yha.com.au or by fax to (02) 9261 1969

The Directors of YHA Ltd recommend that you vote **IN FAVOUR** of the resolution.

The deadline to lodge your proxy vote is 11am on Thursday 12 April 2018.



4. BACKGROUND TO YHA



YHA in Australia started in Victoria, with the establishment of the first hostel in Warrandyte in 1939. The model was based on the global youth hostel movement that is now Hostelling International – an organisation founded in Germany in 1909 by a schoolteacher named Richard Schirrmann, who believed in the ‘classroom of the outdoors’ and taking students on educational excursions.

In Australia, YHA began as a federation of state and territory-based organisations, each responsible for hostels and operations in their own state or territory. Over time, a national organisation, Hostelling International Australia (HI-A) was also created to represent YHA internationally and to oversee national projects, including the website www.yha.com.au

Since 2007, the respective state organisations and the former national body (HI-A) have

progressively merged into a single entity, YHA Ltd (trading as YHA Australia) with the final merger being effective 1st September 2017. This has increased the effectiveness and efficiencies of governance and operations, and brought associated cost savings that as a not-for-profit organisation are reinvested to improve properties and services and develop new hostels for YHA’s members. The organisation continues to grow, and has plans to further expand the network and to continually improve services offered to guests.

YHA is a not-for-profit organisation constituted as a company limited by guarantee, governed by a Constitution and falling under the responsibilities outlined in the Corporations Act (2001). YHA is also bound by a range of local, state and federal legislation regarding the running of short term accommodation for guests across Australia.

Whilst the staff of YHA (numbering 370 in total) are paid to run the operations of YHA, the Directors - whose role is to set and oversee the overarching strategy and risk management for the organisation - have always provided their services on a volunteer basis, with their out-of-pocket expenses being reimbursed. However, the responsibilities of Directors today, as compared to even a decade ago when YHA was still made up of individual State-based organisations, have magnified. With a fully national organisation has come a broader remit for Directors, accompanied by an increased need for travel interstate to attend Board meetings in person. The skills required by today’s Directors are also more complex than in the past and YHA is competing for good calibre candidates for the Board.

5. THE BOARD OF DIRECTORS

YHA's Constitution allows for a total of nine Directors; six being directly elected by the members, and up to three being able to be appointed by the Directors, to fill skills gaps on the Board. Each Director usually serves a three year term, and can serve for a maximum of nine consecutive years at a time.

YHA currently has nine Directors, from diverse backgrounds, ranging in age from their mid-20s to early 60s. Four out of the nine are women, and Directors come from a range of States of origin and residence, including NSW, Queensland, South Australia, Tasmania, Victoria and Western Australia. They come from a range of backgrounds including finance, property, architecture, marketing, accounting, tourism and law. The tenure of current Directors on the YHA Board ranges from nearing the maximum limit (nine years) to being appointed with the past six months (following the final State merger with YHA WA). Most of the current Directors work full time in their professions, volunteering their time for YHA in evenings and on weekends as that is generally when Board meetings are held.

As well as focusing on the vision and strategic direction of the organisation, the role and

responsibilities of the Board include a strong focus on risk matters, including compliance with a range of local, state and federal legislation and regulation, as the safety of YHA's guests is paramount. Directors need a range of skills and experience to deal with the depth of issues surrounding YHA's business. In addition to the professional expertise and experience that the Directors bring, all of the current Directors have studied to tertiary or postgraduate level, and most have also have completed training by the Australian Institute of Company Directors (AICD), including seven being graduates of the AICD.

The Board of Directors meets face to face seven times a year, with meetings held in a variety of locations across Australia. In addition to the time required to attend meetings (which can be as far away as travelling from Perth to Sydney), there is significant time required of Directors to prepare for meetings and to fulfil their overall fiduciary duties to the organisation. In addition to face to face meetings, teleconferences are held as required.

It is estimated that each Director spends on average at least 20 hours per month on their YHA duties. The office bearers (being the

Chair, Vice-Chair, Chair of the Audit & Risk Committee, and Chair of the Nominations & Remuneration Committee) have additional responsibilities and time commitments.

Up until now, YHA has usually relied upon Directors to be drawn from the membership base. Directors have in recent years been appointed based on their previous service on State Boards that were merging with YHA Ltd. However, YHA's Constitution allows for the appointment of a third of the Board based on skills, and the intention in future is to recruit up to three Directors to serve on the Board who may be drawn from outside of the usual membership base, selected on the basis of their skills set. These Directors would of course join YHA and have an affinity with the organisation's ethos, and could potentially stand for election after having demonstrated their value to the Board on an appointed basis.

It is believed that to attract the best of such candidates to the YHA Board, and also to retain them, that remuneration may be required, as highly skilled Directors with strong strategic and risk management skills are by nature in high demand.



THE 2017/18 YHA LTD BOARD OF DIRECTORS

6. REMUNERATION OPTIONS

The YHA Board has spent significant time analysing the trends in not-for-profit organisations, and in particular moves towards remuneration for previously volunteer Directors. Approximately 1:4 of commensurately-scaled not-for-profit organisations currently remunerate their Directors*, and relevant case studies have been considered. The opinion of former Directors and of attendees at Annual General Meetings has also been sought, and their feedback taken into account.

Case studies were analysed for organisations with an aligned ethos to YHA. It is noted that there is a growing trend towards introducing remuneration for Directors in medium to large sized not-for-profit organisations such as YHA, where it is believed that doing so will result in a more capable, competent and experienced, skills-based Board with benefits accruing to members.

Through looking at case studies, and drawing on previous external research conducted for YHA during the merger processes, a sum of \$10,000 per Director per annum plus 9.5% superannuation is considered to be the benchmark for remuneration for a not-for-profit organisation such as YHA. Due to the extra responsibilities required of office bearers

it is proposed that an additional \$2,500 per annum be awarded to each of the Vice-Chair; Chair of the Audit & Risk Committee, and Chair of the Nominations & Remuneration Committee, and an additional \$5,000 per annum to the Chair of the Board. The present arrangement of reimbursing direct costs to cover meeting expenses would be continued.

As YHA currently has a total of nine Directors, including four office bearers, this would equate to \$112,237 per annum if all roles were filled (it is assumed that any vacancies on the Board would normally be filled as has been the practice in the past).

To allow for future increases, for example in line with inflation without having to ask the members to vote upon each small incremental increase, it is proposed to fix the aggregate limit on remuneration for Directors in respect of a Financial Year for the time being at \$150,000. This would be the upper limit that the Board could divide between the Directors, commensurate with their roles, however it is not intended in the early years of introducing remuneration to utilise the maximum amount. A rigorous draft policy to govern remuneration has been prepared and posted on www.yha.com.au for transparency purposes.

Under the policy, individual Directors would also have the option to forgo their remuneration and to instead donate it to one of YHA's fund-raising initiatives – this currently includes a Small Hostels Development Fund, and a Sustainable Hostels Fund, with plans for a future 'YHA Educational Excursions Fund' to enable disadvantaged school children to participate in educational visits around Australia.

Any increase on the initial \$150,000 cap per annum proposed would need to be put to members to vote upon at future Annual General Meetings and would require the same 75% majority in favour.

*Source:

1. 'Better Boards' Not-for-Profit (NFP) Board Remuneration Survey, 2016 identified 27% of NFPs with turnover >\$20M as remunerating Directors;
2. Australian Institute of Company Directors (AICD) Remuneration Survey 2016 identified 29% of NFPs with turnover >\$20M as remunerating Directors.



7. SUMMARY

The question of potential remuneration for Directors has been raised at three recent AGMs of YHA. Subsequently the Board established a Directors Remuneration Working Group to research the issues, consider case studies, and look closely at the options. These findings were then presented in a report to the full Board and considered at Board meetings in the second half of 2017.

Having carefully considered the issues and trends among not-for-profit organisations, and the implications – both positive and negative – of introducing remuneration for Directors, and having formally voted upon the matter at the Board meeting held on 2 December 2017, the Board recommends to members that they vote in favour of the resolution.

This position has been reached in the belief that given the scale of YHA's operations today,

the introduction of a relatively modest level of remuneration could help to attract and retain more highly qualified, skills based Directors to the Board in future, and in particular to encourage younger Directors to stand, for the benefit of the organisation and its future growth. The essence is to balance the responsibilities and risks around being a Director, with some element of reward, and in the interest of fairness to remunerate the Directors as well as the employees of the organisation.

Whilst YHA has not struggled to date in its recruitment or retention of high calibre, experienced Directors, it is thought that potential difficulties in this area might in future be mitigated by the introduction of remuneration. At present, although expenses incurred by Directors in the process of carrying out their duties for YHA are reimbursed, there is a

significant time component that is not compensated. This is particularly pronounced for Directors who are juggling their own professional careers, as well their personal lives, whilst simultaneously volunteering their services to YHA.

It is believed therefore, that with an enhanced professionalised and paid governance structure in place, YHA would be in an even stronger position to serve its members and uphold the organisation's mission:

"To provide opportunity for all, but especially young people, for education by personal development, fostering friendship and bringing about a better understanding of others and the world around them."

Recommendation: The Board of YHA Ltd recommends that you vote in favour the resolution.



If you have any questions please either:

- Phone Silke Kerwick, Public Affairs Manager, YHA Ltd on (02) 9261 1111; or
- email yha@yha.com.au
- See www.yha.com.au/YHALtd2018AGM

