



STEWARDSHIP & RISK

Paying Directors: When It Strengthens Governance and When It Corrupts It

21% of NFP directors are now remunerated. The outcome depends entirely on how the decision is made

Director remuneration in the not-for-profit sector is no longer the fringe practice it is sometimes assumed to be. The AICD's Not-for-Profit Governance and Performance Study 2023-24 based on a survey of AICD members, found 21 per cent of not-for-profit directors were remunerated, up from 14 per cent five years earlier, with a further 24 per cent of boards actively discussing the question. The trend is real. Whether it strengthens or corrupts a specific board's governance depends entirely on how the decision is made, not on the decision itself.

Which rules apply to your association?

The law depends on how your association is set up. A **company limited by guarantee** follows the Corporations Act 2001 (Cth) and its constitution. An **incorporated association** follows its state or territory associations Act and its rules. A **registered charity** also follows the ACNC Act and the ACNC Governance Standards, and some Corporations Act rules are replaced for charities that are companies. Check your own governing documents, and get advice before decisions with legal consequences.

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The Legal Starting Point Most Boards Skip

An organisation cannot pay its directors if its constitution prohibits it, and many association constitutions do, often as standard, unexamined boilerplate from formation. Before any remuneration discussion goes further, a board needs to confirm what its own constitution says, and if it prohibits payment, changing that requires a special resolution of members, the same threshold and process discussed in the Foundations quarter of this series, not an internal board decision. For an incorporated association, also check your state or territory Act, which may require the change to be lodged with or approved by the regulator before it takes effect.

There is a specific trap worth naming directly. Under section 150 of the Corporations Act, an ACNC-registered company limited by guarantee may omit 'Limited' from its name only if its constitution prohibits paying directors' fees and requires directors to approve all other payments to directors. If the constitution is changed to allow fees, the company no longer qualifies and must use 'Limited' in its name, so check the ASIC and ACNC steps before amending.

Where The ACNC Actually Stands

The ACNC does not prohibit charities from remunerating board members. Its [guide to remunerating responsible people](#) says payment must be in furtherance of the charity's purpose, permitted by the governing document and properly authorised, and that unreasonable or unjustifiable payments may breach the governance standards, connecting directly to the private benefit principle discussed earlier in this series: remuneration is a form of private benefit that remains acceptable only where it is

proportionate and clearly serves the charitable purpose rather than existing primarily for the benefit of the individuals receiving it. Large charities must also report key management personnel remuneration, and a non-charitable association should confirm any payment is reasonable payment for services so it does not breach its not-for-profit clause.

The majority of Australian charities still do not pay their boards, and that remains a legitimate governance choice, not a deficiency. The question worth asking is not whether payment is permitted. It is whether payment, in your organisation's specific circumstances, strengthens governance or quietly begins to corrupt it.

When Payment Strengthens Governance

The case for remuneration rests on defensible grounds: it validates board service as a serious commitment rather than an informal favour, it widens the pool of capable candidates beyond those who can afford to volunteer significant time unpaid, an equity consideration particularly relevant to the diversity discussion earlier in this series, and it allows an association to compete more credibly for governance talent against commercial boards that pay as a matter of course.

When Payment Corrupts Governance

The risk runs in the opposite direction when payment is introduced without discipline around it. A board that begins attracting candidates primarily motivated by the fee rather than the mission has changed who it recruits without necessarily improving who it recruits. Payment levels set without external benchmarking risk becoming self-perpetuating and difficult to wind back once established. And an association that pays its board while paying little public attention to that fact risks a reputational cost with donors and members who reasonably expect volunteer governance in the sector, unless the decision is made and communicated with real transparency.

- Confirm what your constitution actually permits before the conversation goes any further, and treat changing a prohibition as a special resolution process, not an internal decision.
- If your organisation's name omits 'Limited', check section 150 implications before proceeding with any remuneration decision.
- Set remuneration through a written, benchmarked policy rather than an ad hoc figure, with the amount tested against comparable organisations and against what the ACNC would recognise as reasonable and proportionate.
- Communicate the decision, and the reasoning behind it, transparently to members and stakeholders, since the reputational risk of paying quietly is considerably higher than the risk of paying openly and explaining why.

Paying directors is neither inherently good governance nor inherently bad governance. It is a trade-off, and like every other trade-off this series has examined, the outcome depends entirely on whether the board makes the decision deliberately, transparently, and with real discipline, or drifts into it informally and hopes nobody asks too many questions.

This is one of the practical governance topics built into our Board Director course, alongside the papers, tools and frameworks that turn the principle into your board's actual practice. [Explore the course](#)

Annie Gibbins

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BOARDROOM ACTION WORKSHEET

Paying Directors: When It Strengthens Governance and When It Corrupts It

Turn the resource into evidence, a decision and an accountable next step. Keep the completed record in your association's approved board records system.

1 What is the issue or decision?

State the governance question in one clear sentence.

2 What evidence do we already have?

Record the facts, source documents and stakeholder evidence available now.

3 What evidence is still needed?

Identify the legal, regulatory, financial, member or operational information still required.

4 What is the agreed next action?

Capture the owner, timeframe and how the matter will return to the board.

Action owner	Review date	Board decision or resolution

General education, not legal, financial, tax, clinical or governance advice. Confirm specifics at the relevant primary source or with your own qualified adviser. Nexus Leadership is operated by Lipstick Consulting Pty Ltd · ABN 15 619 120 482.

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