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GENERAL NOTICE

NOTICE 394 OF 2009

DEPARTMENT OF EDUCATION

**POLICY FRAMEWORK FOR THE
REMUNERATION OF SENIOR MANAGERS
IN PUBLIC HIGHER EDUCATION INSTITUTIONS**

HIGHER EDUCATION ACT, 1997 (Act No. 101 of 1997)

I, Grace Mandisa Naledi Pandor, Minister of Education, hereby publish the *Policy Framework for the Remuneration of Senior Managers in Public Higher Education Institutions: Draft for Discussion*, as set out in the Schedule, for comment in terms of section 3 of the Higher Education Act, 1997 (Act No. 101 of 1997) and in fulfilment of section 4(3) of the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000).

Since 2004, the Ministry of Education has been concerned about the uneven and disproportionate salaries paid to senior managers in public higher education institutions.

In developing the draft framework my Ministry has been greatly assisted by the HESA commissioned report compiled under the chairperson of Dr Mamphela Ramphele to investigate and report on the governance of executive remuneration in higher education.

The purpose of this policy framework is to provide guidelines to councils of higher education institutions for the determination of senior management remuneration appropriate to the size, shape and complexity of the university concerned.

This policy will be applicable to all councils and senior management of all public higher education institutions as defined in the Regulations for the Annual Reporting of Public Higher Education Institutions, Government Gazette number 30132, 1 August 2007.

Comments from interested parties are invited, and should reach the Department not later than 10 June 2009. Comments should be marked "*Policy Framework for the Remuneration of Senior Managers in Public Higher Education Institutions: Draft for Discussion*" and addressed to the Director-General, Department of Education, Private Bag X895, Room 534, Sol Plaatje House, 123 Schoeman Street, Pretoria, 0001, for attention: Ms Seputu Mampane. The document may be faxed for Ms Mampane's attention at (012) 323 1413 or sent by e-mail to mampane.g@doe.gov.za. The name, address, telephone number and fax number of the person or organisation responsible for submitting comments should also be provided.



G.N.M. Pandor, MP
Minister of Education
Date: 08-04-2009

Introduction

Since 2004, the Ministry of Education has been concerned about the uneven and disproportionate salaries paid to senior managers in public higher education institutions. In 2005, Higher Education South Africa (HESA), commissioned an Independent Reference Group chaired by Dr Mamphele Ramphele to investigate and report on the governance of executive remuneration in higher education.

The report was presented to HESA in early 2006. In section 2.7, "Evaluation of Remuneration Practice" the following comments were made:

- Senior staff remuneration in South African higher education institutions is highly inconsistent in almost every recognized dimension of good remuneration practice.
- Senior staff remuneration principles are not consistently applied by institutions and their Councils across different grades.
- The sector consists of institutions that vary considerably in size and complexity, but CEO remuneration is almost 'flat-lined' across the whole spectrum.

The report further suggested a number of good remuneration practices that should be adopted by councils and proposed a model for the remuneration of vice chancellors that should be followed by councils. The report further contained 18 specific recommendations, including a recommendation that HESA should be responsible for regulating remuneration within the higher education sector.

To date, there is no evidence that higher education institutions have accepted and implemented recommendations from their own investigation. In this regard, the results of a remuneration survey carried out by the Department of Education at the end of June 2008, indicate that the levels of remuneration of many vice chancellors remain inconsistent and unrelated to the size, shape, academic performance or finances of an institution, as well as with acceptable good remuneration practices.

It is within this context that the Minister of Education has developed a policy framework for the determination of the remuneration of senior managers in public higher education institutions.

Purpose

The purpose of this policy framework is to provide guidelines to councils of higher education institutions for the determination of senior management remuneration appropriate to the size, shape and complexity of the university concerned.

This policy will be applicable to all councils and senior management of all public higher education institutions as defined in the Regulations for the Annual Reporting

Council Committees

The council of a public higher education institution is responsible and accountable for the proper governance of the institution. In this regard the Higher Education Act empowers councils to establish such committees of council that may be deemed necessary to perform any of its functions and may also appoint persons, who are not members of the council as members of such committees.

The council of each university must have a dedicated committee or sub-committee of an existing committee to oversee the implementation of this policy.

The membership of this committee must consist of the chairperson of council, the chairpersons of the Finance and Audit committees of council and not more than 2 external members of council. The chairperson of council should chair this committee. However, no member of staff or student may be a member of this committee.

The members of this committee must have a sound knowledge of the King reports on Corporate Governance, the legislation and regulations governing the higher education system, the 2005 Mamphela Ramphele report to HESA as well as this policy and related documents.

This committee must draw on the expertise of remuneration experts as and when required and must ensure that its members receive appropriate exposure to good policies and practices on remuneration principles and governance of public purpose organisations.

Terms of Reference of the Committee

The Committee is accountable to the council with the following terms of reference.

1. To develop and recommend to the council an appropriate Remuneration Policy for the senior management of the institution. This policy must conform to the requirements of this policy and minimally reflect the following:
 - Clear links between the remuneration policy and the mission and strategic goals of the institution;
 - Objectives that need to be met in terms of attracting, retaining, motivating and developing staff of the institution;
 - The remuneration package system that will be applied and how the components of the system will be administered and reviewed with specific reference to performance incentives. This may include properly-managed, performance-related incentives (benchmarked, for example, against student throughput, the generation of third stream income and the employability of graduates). The monetary value of a performance-related incentive must be part of the total (cost to company) remuneration package;

- Periods and mechanisms of review;
 - Benchmarks of external surveys that will be used for comparative purposes. These surveys should primarily be of public purpose organizations given that universities are public purpose organizations and that they receive significant financial support from public funds.
 - Pay related to institutional complexity would be sufficiently differentiated to recognise excellent, as opposed to ordinary, performance;
 - Clearly-stated policy on percentages for grade ranges, inter-grade differentials and the 'pay slope';
 - The affordability parameters of the institution based on long-term sustainability;
 - Principles of disclosure that are internally consistent, and consistent with policies in higher education.
2. To make recommendations to the council on all senior management remuneration levels and annual increments in accordance with institutional affordability, the institutional Complexity Index, appropriate higher education market comparisons, and the principles of remuneration differentials between and within grades at the beginning of each calendar year and before any staff remuneration increments for that year have been contemplated or agreed.

The Complexity Index model is based on 16 measurable elements that are applicable for all institutions (Annexure A). The index provides a relative and objective comparison between institutions for the determination of the relative levels of remuneration of senior managers.

3. To annually review and evaluate the appropriateness of the process applied within the institution for the evaluation and grading of senior management posts and the remuneration structures attached to these posts and to make appropriate recommendations to the council. It is incumbent on councils to ensure that, where current remuneration levels of executive management are inconsistent with this policy, a detailed plan to close the difference is presented to council.
4. To ensure the development and implementation of a credible and appropriate performance management system for senior management, and to ensure that the principles of this system are applied annually.
5. To monitor the actual levels of senior management remuneration and any movement in these levels on a quarterly basis and report on these to the council.
6. To make any other recommendations to the council as and when required that have a bearing on senior management remuneration matters for the institution.

Specific Guidelines for the Council

In addition to the above, the council committee responsible for implementing this policy must consider and report on, amongst others, the following matters in making recommendations to the council:

1. That the total cost of all staff salaries as a percentage of council controlled recurring income should be between 58% and 62% and the total cost of Senior Management salaries (Peromnes Grade 1 to 4 including contract senior management) as a percentage of all staff total cost should not be more than 6%.
3. The Complexity Index of the institution, relative to other institutions as determined by the Department of Education, as well as the additional data and information provided annually by the Department. In this context, the relationship between the Complexity Index, the financial viability and sustainability and the remuneration levels of senior management of the institution, needs to be clearly reflected.
4. The differentials between the salary scales of senior management, academic and administrative staff, and to ensure that these are structured in accordance with acceptable remuneration practice. In this regard, the following guideline is provided:

Percentage difference between Senior Management Grades:

Peromnes Grade 1 to Grade 2	Mid point difference no more than 50%
Peromnes Grade 2 to Grade 3	Mid point difference 25%
Peromnes Grade 3 to Grade 4	Mid point difference 25%

Percentage difference between minimum and mid point and mid point and maximum per grade should not exceed 20%

5. That any Performance Management based reward is an integral part of the remuneration package and is founded on the basis of clear indicators of institutional and individual performance. Any performance related monetary reward is made as part of the annual total cost to company and not in addition to it and should not constitute more than 15% of the total annual package of the individual.
6. Where the current levels of remuneration differ from this policy a clear plan must be put in place to bridge these differences with timelines.
7. To further assist with the development of these recommendations, the Department of Education will make available in September of each calendar year, a detailed schedule containing comparative 3 year data on the remuneration of senior managers at all higher education institutions. To facilitate this annual remuneration survey, councils must provide the Minister

with the relevant salary data for their institution by no later than 31 July each year.

8. The Department will also provide an analysis of the sector against an index developed to indicate the degree of complexity in managing each institution.

Disclosure of remuneration information

The Regulations for the Annual Reporting of Public Higher Education Institutions, Government Gazette number 30132, 1 August 2007 provide the framework for the disclosure of the remuneration of the senior management in higher education institutions.

In this regard, councils must also include in their annual report, where the senior management remuneration of the institution falls in relation to these guidelines and what plans with timelines have been approved by council to remedy any differentials.

Department of Education**ANNEXURE A****Higher Education – Complexity Index**

The following quantitative elements are used to calculate the Complexity Index (CI) of an institution using audited HEMIS data and audited financial data for a given year:

Number of Permanent and temporary staff
 Total students headcount, including undergraduate and postgraduate headcount
 Postgraduate headcount
 Weighted and Unweighted Full Time Equivalent numbers for enrolled students (FTE's)
 Council controlled income, other income and the ratio between income streams
 Plant, Property and Equipment Asset value
 Total Research outputs

In addition, the following non-quantitative elements are used but rated from 0 (low) to 3 (high) for each institution:

Multi-campuses (0 = one campus)
 Geographic location (1 - easy to access and 3 – difficult to access)
 Degree of diversity existing in institution and (cultural differences)
 Degree of Change Management required (academic or institutional change)

In each of the elements, the institution with the highest number in that element is given a score of "1". All the other institutions are then calculated as a factor of "1". All the scores are then added to give a total score. For 2008, the following are the complexity indexes for higher education:

<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Category 4</u>
8.2955	3.7928	2.6650	1.8937
7.2347	3.7066	2.5282	1.8820
6.9474	3.5360	2.2684	1.8581
6.7531	3.3920	2.2650	0.8942
5.7967	3.3215		
5.5286	3.0259		
5.4089			
5.1682			
4.8586			