



# **National Diploma Animal Farm Staff Management**

## **Handout I Draft Remuneration Policy**

# DRAFT REMUNERATION POLICY

## 1. INTRODUCTION

### 1.1 Legal and Policy Framework

The SALGA Conference on Human Resources Development held in 2003, the Local Government: Municipal Systems Act, Act 32 of 2000, the Regulations emanating therefrom, the Labour Relations Act, 1995, the Basic Conditions of Employment Act, 1998 and the Employment Equity Act, 1998, form the legal and policy framework for the remuneration of municipal employees.

### 1.2 Local Government Remuneration Policy

**The conferences referred to in 1.1 above resolved that:**

“A Remuneration Policy attached hereby is adopted, and all Municipalities are to further adopt or align their existing policies in line with the national framework, and confirm the following:

The remuneration policy embody the principle linking remuneration to performance.

The way in which salaries are determined for managers must be different from the way in which they are determined for permanent employees. Managers' salaries should be determined on an individual basis as opposed to a collective basis. There should however be congruence for employees inside and outside of the bargaining unit i.e. one salary scale should be developed for the municipality that includes both bargaining unit and non bargaining unit;”

For purposes of this policy Management is defined as in the BCEA: i.e. **“An employee who has the authority to hire, discipline and dismiss employees and to represent the employer internally and externally”**

Consistent with the performance policy, section 57 fixed-term employment contracts and performance agreements are mandatory for the Municipal Manager and Managers who report directly to the Municipal Manager. In addition to such a policy pronouncement, Municipalities are not limited to rolling down fixed-term employment arrangements to level two, but depending on individual organizational requirements and

needs, the arrangements can be extended to other managerial levels (as per the above definition).

The Guidelines for the remuneration of Municipal Manager, attached hereto, are accordingly adopted, and consistent with the legislative provisions of self-regulation at the municipal level. All municipalities must also adopt the guidelines not later than the 30<sup>th</sup> June 2003.

For the permanent employees within the bargaining unit, application of the policy must be on the following basis:

- phasing out on **guaranteed across the board increases** and introducing performance related reward over **a five year period**,
- the total cost of employer (TCE) approach be adopted for all **permanent employees phased over the five year period**, through educating employees about the concept, making the conversion whilst ensuring no detrimental effect on their take home pay, and utilising the cafeteria approach by protecting cover to medical aid and pension arrangements in particular.
- Remuneration Committee should be established to ensure consistency in approach, market relatedness and that local contextual factors are duly considered? Since municipalities are answerable to the general public and since salary bills make up a high percentage of their budget it is appropriate that good corporate governance principles are in place. This is to ensure that remuneration is handled according to stated policy and procedure. This is best practice and also ensures that employees never have the final say over their own salaries
- Municipalities should not dictate the salary structures for privatized or corporatised entities. Even though these entities may be required in terms of Section 197 of the Labour Relations Act to take on staff on their current terms and conditions, the entities should have the flexibility to re-negotiate terms and conditions more suitable to the specific needs of the business.
- Municipalities should identify those areas where **scarce skills** apply, and then decide to pay premiums for those skills i.e. pay a premium of x% above the assigned salary scale. SALGA accordingly be mandated to develop guidelines for this *policy framework to identify which specific skills, what market premiums, and those categories going to be with the ability to attract scarce skills.*
- The **wage gap** is described as the gap that exists between the lowest paid and highest paid employee within the organization, and is usually expressed as a

ratio. The measure is hereby terminated for the wage gap as between the highest and lowest paid employees within the bargaining unit.

- To reaffirm the Birchwood resolution of achieving 30% maximum threshold for benefits knock-on effects to the wage bill.
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### **Job Evaluation System**

The Principle of excluding Managers from the Bargaining Unit is reaffirmed;  
Salary adjustments, increases and bonuses of Managers be completely delinked from collective agreements,

To which effect, a separate job evaluation which is the Hay Job Evaluation system / tool be determined through SALGA nationally;

Annual salary survey and market comparison be done by SALGA;

**The current grading of municipalities be utilised**, on an understanding that when Categorization get finalised, the guidelines be converted thereto;

### **Determination**

Payment of a salary to fall within salary range

Positioning of a manager be based on following factors:

Previous experience

Capabilities and skills

Expertise and

Affordability

The above factors be applied objectively and consistently

Exceptional circumstances, based on affordability and attraction and retention of scarce skills, may municipality motivate for a departure from the salary ranges to SALGA

Performance related pay be based on the reward policy.

### **Governance**

Remuneration Committees be established prescribed in the policy

External expertise be sourced in to assist with the determination of remuneration in the committee

External to municipality include other municipalities & SALGA

Co operative governance between and amongst municipalities highly encouraged

The Executive Mayors and Mayors have authority and responsibility over the guidelines, and for good co operative governance - it will be good practice to take advise on performance, reward and guidelines applications.

### **Salary scale**

The table below be adopted as guideline salary scale for managers for the current financial year;

Market survey be done before end June, based on Lag Lead: behind market for six months, lead it for six

Revision of ranges be done in terms of actual Hay units with implementation guidelines

The principle of contractual to holder to current contracts applies

<b>SALARY RANGES</b>			
1	329 000	366 000	406 000
2	366 000	406 000	451 000
3	406 000	451 000	502 000

<b>SALARY RANGES</b>			
4	451 000	502 000	558 000
5	502 000	558 000	620 000
6	558 000	620 000	750 000

## **2. SCOPE OF POLICY**

The policy applies to the Municipal Manager and managers reporting directly to the Municipal Manager.

## **3. OBJECTIVES**

The goals of this remuneration policy are to ensure a reward system that:

- 3.1 Recognises individual contributions towards the achievement of the Municipality's objectives and motivates high levels of performance;
- 3.2 Communicates and supports organizational values and strategy and creates focus on key organizational objectives through the performance management system;
- 3.3 Allows the Modimolle Municipality to compete effectively in the labour market and to recruit and retain high calibre staff;
- 3.4 Achieves fairness and equity.
- 3.5 To create a framework for remuneration management that will enable the Municipality to attract and retain staff of high quality and potential.
- 3.6 To ensure that the Municipality as employer complies with legal prescriptions (e.g. the Basic Conditions of Employment act), as well as the contractual obligations in the letters of appointment and conditions of service.

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<sup>1</sup> (At the time of writing this policy (August 2006) non-bargaining unit employees include (Municipal Manager and HOD's) within the Municipality. These non-bargaining unit employees are appointed on a Total Cost of Employment package. Bargaining unit employees (i.e. level 1 \_\_\_ ward) are currently not employed on a Total Cost of Employment package and are bound by all agreements made at the Bargaining Council).

## 4. GUIDING PRINCIPLES OF REWARD

The following guiding principles have been used to develop this remuneration policy of Waterberg District Municipality.

- 4.1 The Municipality supports a culture of accountability and individual performance excellence through displaying the required competencies, technical skills and experience;
- 4.2 The Waterberg District Municipality remuneration approach therefore has as its focus to:
  - 4.2.1 Attract and retain key staff;
  - 4.2.2 Motivate and reward performance excellence;
- 4.3 The municipality follows a **total cost of employment approach** in the determination and management of remuneration, as set out in the remuneration structure except where indicated otherwise;
- 4.4 The remuneration policy and practices must support the vision, mission, strategies and objectives of the municipality.
- 4.5 The municipality remunerates employees in accordance with the “value of their work” as defined by the organization in terms of capabilities i.e. competencies, technical skills and experience (input) and performance (output), at the various organizational levels;

- 4.6 Remuneration practices support internal equity, taking cognizance of individual employee contribution;
- 4.7 Remuneration is one of the factors that influence employee behaviour and must therefore be managed in such a way that it contributes to a motivating work climate.
- 4.8 The principle of market related remuneration is respected. Market value differentiation is supported and remuneration practices must therefore ensure adequate levels of competitiveness, depending on the current and future scarcity of talent, both internally and externally.
- 4.9 Financial inflation and affordability serve as key considerations when making remuneration decisions;
- 4.10 Individual Performance  
This will be done by PMS contracts.
- 4.11 The guaranteed remuneration paid to an employee is defined as the TCOE (i.e, salary and benefits) and must be reflective of the employee's contribution towards achievement of the municipality's objectives;
- 4.12 If performance targets are achieved the municipality must reward performance excellence and therefore supports the activation of the incentive remuneration scheme (pay progression) as a form of variable pay, based on approved principles.
- 4.13 This policy forms part of the integrated human resources management strategy of the municipality.

## **5. REWARD MIX**

- 5.1 The reward mix is made up of guaranteed and variable pay.



5.2 **Guaranteed pay** includes all guaranteed items such as basic salary, car allowance, medical aid, retirement fund, guaranteed allowances (legislated and non legislated), and this will be pitched at the median of the chosen market.

5.3 **Variable pay** takes the form of either a bonus or an incentive and is over and above guaranteed remuneration. It is non-guaranteed, and forms part of short-term incentive. This will be pitched at the 50<sup>th</sup> percentile of the chosen market

5.4 The municipality seeks to accomplish the following with each of the components of the reward mix:

5.4.1 **GUARANTEED PAY** (in the form of base Pay and Benefits) - Attraction and retention of talented high performing people.

5.4.2 **VARIABLE PAY** (Short-term Incentive Schemes) – Attraction and alignment with strategy i.e. toward achievement of annual strategic goals.

5.5 **Guaranteed Pay Framework**

5.5.1 The following rules and guidelines apply to guaranteed pay, as represented by base pay and benefits, and within the context of agreed levels:

i. **Base Pay-** guiding principles. These are determined by a number of factors:

1. The level of guaranteed pay for an individual will be based on their level of responsibility in the organization and the size of their job, as depicted by the appropriate level.

2. Where appropriate, guaranteed remuneration should recognize competency, technical skills and experience as applied to the job.

3. Skills scarcity premiums – derived from market analysis are agreed “up front” at the beginning of a year, based on scarcity of skill.

4. Where skill scarcity premiums are applied, guaranteed pay may be increased to the 90<sup>th</sup> percentile of the relevant grade's pay range and beyond.

5. Where market annual surveys indicate that a particular job or job family is significantly out of line with market competitors, a market premium percentage may be allocated to adjust the "cap" / maximum applicable to that band.

5.6.1 Variable pay is **defined** as a non-guaranteed performance-related payment, made in respect of individual, team or organization performance. It is included in the remuneration mix in support of the Municipality guiding principles of reward for performance excellence toward agreed municipality's targets.

## **6. COMMUNICATION CONSIDERATIONS**

The Municipality is committed to open communication with all employees about the design of remuneration programmes, and of ongoing changes to them, with clear statements of what remuneration is designed to achieve. However, the municipality encourages discretion and confidentiality regarding the specific and individual details of remuneration.

**Put at the end**

## **7. REMUNERATION COMMITTEE**

The Modimolle Municipality shall establish a Remuneration Committee.

7.1 Establishment of a Remuneration Committee

7.1.1 A remuneration Committee will be established comprising of outside people.

7.1.2 This committee will report to and derive its mandated powers from the Executive Mayor / Exec Com or the whole council in a plenary and conduct all of its proceedings subject to the authority of the Executive Mayor.

7.1.3. The members of the committee must sign an agreement with the council concerning the performance of their duties.

## 7.2 Membership of the Committee

7.2.1 The chairperson of this committee shall be an external person.

7.2.2 The members of the Remuneration Committee will be appointed by the Council as Section 79 Com for a term of three (3) years.

7.2.3 All the members should be external to the MUNICIPALITY and should be experts in the filed of remuneration, human resources, legal and finance. The committee can request the municipality to appoint an expert to assist as and when required.

## 7.3 Instructions to the Committee

The Committee will observe the following guidelines and procedures, subject to exercising its discretion, in the conduct of its activities.

7.3.1 The Remuneration Committee will make recommendations, which must be considered for approval by Council.

7.3.2 The frequency of ordinary meetings will be determined by the number of issues that need to be dealt with by the committee, but such number of meetings is limited to four (4) per financial year, provided that the committee may hold special meetings.

7.3.3 The kind of issues that will be discussed by the remuneration committee relate to remuneration policy issues and/or issues that have a strategic impact on the organization e.g.

- a) Considering the proposals for voluntary severance packages

- b) Consider and recommend amendments to the remuneration policy. .
- c) Consider Performance Audit Committee reports
- d) Consider annual increases on remuneration packages
- e) Consider remuneration related disputes

#### 7.4 Powers of Committee

7.4.1 The committee will have full access on request to all financial information of the MUNICIPALITY, including all the personnel records relating of any employee in respect of whom the committee will be making its remuneration recommendations.

### **INCLUDE POWERS IN THE DPLG GUIDELINES**

#### 7.5 Proceedings

7.5.1 The chairperson will be responsible for the convening of the committee, maintaining minutes and copies of all reports and data which have been utilized by the committee in reaching its decisions as well as the communication of decisions to the board where applicable.

7.5.2 the committee will meet a minimum of four times per annum.

## **8. GRADING SYSTEM**

### 8.1 Non-Bargaining Unit Employees

- i) The Hay job evaluation system or a system that produces equivalent results will be used for all non-bargaining unit employees.

- ii) The grading applicable to the municipality for the determination of the allowances of the councilors will be applied to determine the

**THE GRADING APPLICABLE TO THE MUNICIPALITY FOR THE DETERMINATION OF THE ALLOWANCES OF COUNCILLORS WILL BE APPLIED FOR PACKAGES OF MANAGERS**

## **9. TOTAL COST OF EMPLOYMENT**

The municipality's remuneration of the section 57 employees will be based on the Total Cost Of Employment principle.

### 9.3 Definition of Total Cost of Employment (TCOE)

- i) TCOE for employees be defined as follows:

Current basic annual salary or retirement funding income (RFI) **PLUS**  
+ employer's contributions to retirement fund.  
+ employer's contributions to medical aid  
+ housing subsidy  
+ car allowance (Present perk / executive and essential users car schemes)  
+ annual bonus  
+ long service emoluments  
+ all allowances not defined as operational allowances  
= Current Total Cost of Employment

- ii) The acting allowance is currently deemed to be operational allowances and therefore excluded from TCOE:

- iv) Annually be paid in 12 monthly installments

- v) Employer and employee contributions towards the recognized benefit schemes the employee is eligible for or compelled to join in terms of the employee's conditions of service will be the contribution rates as contained in the rules of the relevant scheme or as agreed to in terms of a relevant collective agreement as amended from time to benefits.

vi) Where contributions to a medical aid or pension scheme are based on annual salary, the annual salary be regarded as 60% of TCOE. (e.g. employee pension fund contributions to CJRF will be equal to 9% of 60% of TCOE and employer contributions will be 18% of 60% of TCOE)

vii) Current total cost of employment will included the value of those contributions, allowances and subsidies which they currently actually receive. The value of benefit entitlements available, but not utilized, will not be included in the sum of any employee's total cost of employment.

vx) Any allowance not mentioned is regarded as excluded from TCOE except if the Municipal Manager on recommendation from the Manager: Corporate Services, taking into account the principles and provisions of this policy, approves the inclusion such other allowance not mentioned.

x) TCOE does not include the value of leave.

## 9.4 Total Cost of Employment Structure

### 9.4.1 Structuring Options

a) Employees are allowed to structure their remuneration packages subject to the provision of the Income Tax Act.

b) Employees may re-negotiate their package structure monthly provided that such restructuring be confirmed in writing.

c) TCOE can be structured according to the following elements:

i) Annual salary;

As per above

ii) Annual Bonus

An employee may structure TCOE to provide for a once-off annual bonus or payment of the equivalent value as part of monthly remuneration provided that in case of selecting an annual bonus the following apply:

- The employee determines the amount of the bonus
- The bonus is paid end of November
- Pro rata bonus is paid on termination of service
- If an employee who elected to receive a bonus is employed for less than 12 months, a pro-rate bonus is paid.

iii) Benefit schemes

- Membership of one of the approved pension funds and medical aid schemes is governed by the applicable and relevant conditions of service policies. Membership of the recognized pension and medical aid schemes as contained in the Municipality's (new) conditions of services is currently compulsory for all employees except the Municipal Manager, Managers reporting directly to the Municipal Manager, all level 2 Managers and level 3 Managers employees and special contract appointments.
- Motor schemes – As per the relevant motor vehicle schemes
  - Travel allowances
  - Motor vehicle allowances
  - Car allowances

## 10. ANNUAL REMUNERATION PACKAGE REVIEWS

10.1 The remuneration packages must be revised annually.

***i) Merit Increases are not guaranteed and are determined by the performance of the employee as outlined in the performance management system policy. NB***

### 10.3 Linking Performance and Performance Auditing

10.3.1 The Remuneration Committee shall be obliged to obtain a certificate of performance for each employee to whom performance management system has been extended to in accordance with the MSDA 32 of 2000.

10.3.2 In the case where the municipal council does not have a performance audit committee it may use its audit committee or request the assistance of the District Municipality's Audit Committee or Performance Audit Committee.

10.4 Schedule of Performance Review see par.28 of PMS regulations.

10.5 Performance evaluation panels see. Par. 26(4)d

10.6 Annual Performance Appraisal.

## 11. REMUNERATION STRUCTURE AND RANGES

The following ranges will apply in the determination of annual remuneration packages.

<b>REMUNERATION RANGES</b>			
	<b>MINIMUM</b>	<b>MEDIAN</b>	<b>MAXIMUM</b>
1	329 000	366 000	406 000
2	366 000	406 000	451 000
3	406 000	451 000	502 000
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11.1 The Municipality will endeavour to establish a pay structure which complies with the following principles:

a) is linked to jobs (organizational structure) established by means of job profiling and application of an approved job evaluation system;

b) is divided into two distinct tiers where the first tier will represent the remuneration link to the post according to the evaluate level (grade / size) of the post and where the second tier will represent remuneration for performance in accordance with the performance management system and/or performance contracts entered into with employees;

c) comprises of a minimum, midpoint and maximum pay range for each level (grade) of posts as determined in the organizational structure and where:

i) the minimum to the midpoint (first tier) represents regular remuneration according to the evaluated level of the post.

Regular pay and represent what is paid for the skills and competencies to perform the job required.

ii) the midpoint to the maximum (second tier) represents remuneration for performance payable in accordance with the performance management system;

d) does not make provision or notch or automatic increases within the determined pay range;

e) has a pay line:

i) where the midpoint of a pay range in the pay structure reflects the approved market value for the grade;

ii) with pay ranges of about 20% above and below midpoint;

iii) with not more than 10 to 25% progression in the pay line between consecutive grades.

iv) multiple pay lines for different types of work.

11.2 The Department Corporate Services is responsible to annually submit a report for review of the pay structure, pay ranges and TCOE's to the remuneration committee.

11.3 Such report to be based on:

a) Appropriate market surveys as determined by the Remuneration Committee from time to time;

b) affordability of an adjustment to the pay structure;

c) local and national collective agreements on adjustment or remuneration;

d) salary bands as determined by the DPLG

11.4 The report for adjustment of the pay structure be submitted in time for inclusion in the budget process at least no later than March each year.

11.5 The Chief Financial Officer to ensure that provision for annual adjustments to the pay structure be made in the budget. Provision for rewarding performance to be included in the provision in the budget for each Department.

11.6 Adjustments to the pay structure to be considered and approved by the competent delegated authority upon receipt of a recommendation from the Remuneration Committee.

## **12. PERFORMANCE BONUSES**

- 12.1 Performance will be rewarded in terms of an approved performance management and reward system subject to provision in the budget and provided that the incumbent has occupied the post for at least three months.
- 12.2. The monetary value of a performance bonus may not exceed the prescribed percent
- 12.3. Performance pay will be paid annually as a once-off performance bonus subject to provisions of the performance management system and/or performance contracts. Performance bonus is not part of TCOE and is not guaranteed.
- 12.4. Annual assessment of performance is based on the result of the preceding financial year ending 30 June each year. All assessments to be completed by 31 August. Payment of the performance bonus will be not later than 30 September of that year.
- 12.5. In order to qualify for assessment, an employee must be in service on 30 March of that year. Employees with at least 6 months service on 30 June, who have been assessed and who qualify for a once off performance bonus will receive a performance bonus according to the number of months completed service.
- 12.6. In the event of termination for whatever reason, no performance bonus is payable and an employee will not have any claim to a performance bonus except where the termination takes affect after 30 June and the employee qualifies to be assessed in terms of 8.4
- 12.7. Performance for the Municipal manager, Managers reporting to the Municipal Manager is governed in terms of performance agreements entered into between the employer and each of these managers. Performance bonuses for the Municipal Manger and Managers reporting to the Municipal Manager to be approved by the Council.

### **13. DISPUTE RESOLUTION**

- 3.5** *Remuneration management must make provision for fair differentiation in the remuneration of individuals, based on acceptable determinants of remuneration.*
- 3.6** *Remuneration management is a core responsibility of the municipal manager and of all line managers, and for this purpose training will be provided where necessary.*
- 3.7** *The total remuneration package of staff members will be reviewed on an annual basis by the Bargaining Council Remuneration Committee. For this purpose the Municipality will make use of reputable remuneration surveys to determine and adjust general remuneration scales, specific scales for identified work environments or professions, and the remuneration structure.*

#### **4. The determinants of remuneration**

*The following drivers of remuneration, as generally accepted in terms of best practice, will be used in the determination and adjustment of remuneration:*

- *Job grade*
- *Performance output*
- *Scarcity*
- *Strategic priority*
- *Internal parity*
- *Affordability*

#### **5. Remuneration structure**

*Remuneration is based on a total package approach. A total package can include the following:*

##### **5.1 Cash salary**

*Pensionable salary  
Service Bonus  
Pensionable allowances  
Non-pensionable allowances*

##### **5.2 Employer contributions to benefit schemes**

*Retirement Provision  
Group Life Insurance  
Medial Aid (Optional)*

***The above constitutes the portion of the total remuneration package which is guaranteed in terms of the employment contract.***

**5.3 Additional remuneration (Variable, conditional and not guaranteed)**

***Performance bonus***

***Awards***

**6. Governance, management roles and accountabilities**

**6.1 Council is responsible for the existence and monitoring of implementation of a remuneration policy based on the needs of the municipality on best practice.**

**6.2 Institutional Management is responsible for the implementation of this policy in terms of the necessary processes, systems and procedures.**

**6.3 The Municipal Manager, Line Managers (Directors/Head of Departments) are responsible for the determination, revision and adjustment of remuneration of staff members, provided that any remuneration decision must be clarified with the Human Resources department and approved by the immediate superior line manager.**

**6.4 Human Resources department is responsible for:**

**6.4.1 The design and maintenance of the job grade- and remuneration structure, based on this policy;**

**6.4.2 The necessary survey information, and**

**6.4.3 The provision of management information.**