

2017

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# Roundtable Notes

## 08. Remuneration of senior postholders

The Leadership Foundation in conjunction with other sector bodies, including the Committee of University Chairs (CUC), offers a programme of Roundtable events. The events provide an opportunity for small numbers of participants (governors, governance professionals and senior managers) to discuss topical or emerging issues relating to the governance of higher education institutions (HEIs).

At each event, participants share and exchange views under the strict application of the Chatham House rule. None of the discussion is attributed to either an individual or an institution. To facilitate the wider dissemination of some of the key points discussed at each Roundtable, a summary note is released following every event.

### Rationale and context to examining the remuneration of senior postholders

The last six months has witnessed an unprecedented amount of adverse coverage and comment in the press on the pay of, in particular, vice-chancellors (VC). Focussing on several high-profile cases, discussion in the media has shown that pay awards for some VCs have been excessive, and far beyond the salary increases awarded to the majority of institutional staff. In response, some commentators have responded that salary levels for VCs are not unreasonable once the increasing demands of managing large and complex institutions are recognised. Further, recruiting talented leaders of HEIs is now global, with remuneration in the UK below the levels paid in many other countries. Supporters of these perspectives believe that heads of institutions are not generally over-paid.

Linked to the level of pay awards granted to VCs questions about processes and the role and operation of remuneration committees have been raised. Evidence as to the practice found in one HEI, recently subject to external scrutiny, suggests there may be scope to improve the processes used in determining remuneration and the need for greater transparency.

Against a backdrop of debate on pay levels, comments from both the chair designate of the Office for Students (OfS), Sir Michael Barber, and Jo Johnson, minister of higher education, have indicated that institutions need to justify pay increases awarded to, in particular, heads of institution. Further, should the sector be unable to exercise appropriate control of senior staff pay, the OfS may need to intervene and place mandatory conditions on institutions. In response, the CUC has been working with HEIs to develop a voluntary code of practice on remuneration (the 'Code'). The new Code is expected to be published early in the 2018 calendar year.

### Remuneration of senior postholders

The Roundtable explored emerging thinking on the remuneration of senior postholders, and the principles that might be incorporated in a new Code.

There was strong support for the idea that the new Code should be voluntary and drafted to be sufficiently flexible to accommodate the diverse range of HEIs. In line with the UK Corporate Code and the HE Education Code of Governance, the new Code was expected to be based on the principle of 'comply or explain'.

Looking to the future, three principles might be embedded in the new Code:

- 1. Fair levels** – reflecting the contribution that an individual makes to the success of the organisation, couple with the need to recruit, retain and motivate senior postholders, there should be fair and appropriate remuneration.
- 2. Procedural fairness** – drawing on an appropriate range of sources in order to evidence the individual's contribution to the organisation's success, the process of granting a pay award should involve competent and independent individuals and the application of a consistent framework. No individual should be involved in a decision as to their own remuneration.
- 3. Transparency and accountability** – the process for setting remuneration should be transparent, with institutions being able to publicly justify any pay award granted.

An annual report released by the remuneration committee could be the most appropriate way of evidencing how the committee had satisfied the forthcoming Code.

Participants to the Roundtable explored a variety of detailed issues on the setting of remuneration for senior postholders.

It was noted that institutions would in future be required to publish a 'pay-ratio', showing the ratio of the head of institution's pay to the median level of salary at the institution.

What constituted 'pay'? Should the total remuneration package – including pensions, 'grace and favour' accommodation (if there was one) and other benefits be included? In practice, institutions would be expected to make a full disclosure, which included all benefits, and income received by the VC from other sources.

The question of membership of the remuneration committee was raised. Should staff or students be members? Reference was made to the provisions included in the [Scottish Code of Good Higher Education Governance \(2017 edition\)](#). The Scottish Code states " ... the remuneration committee is expected to seek the views of representatives of students and staff of the Institution, including representatives of recognised trade unions, in relation to the remuneration package of the Principal [ie. head of institution] and the senior executive team.

This requirement may be implemented in part through relevant members of the governing body serving as members of the remuneration committee or attending its meetings, or may be achieved through separate consultation with representatives of the student and staff communities." A number of members of the Roundtable did not consider that it would be appropriate for staff or student governors to be members of the remuneration committee. Individual institutions would need to carefully consider the matter, and draw their own conclusions.

The link between the length of time an individual had served as a VC and their salary level was raised. Some VCs were more highly paid than others. This may be because they had been in post for some time. While it was for an institution to justify the level of remuneration, a longer length of service might enable the individual to add greater value to the institution?

The level of flexibility/prescription to be incorporated in the forthcoming Code was discussed. Some participants were in favour of the Code being highly prescriptive/definite on what represents good practice.

To satisfy the need for openness and transparency a question raised was what information about the remuneration of senior postholders should be disclosed on the institution's website. The extent of any disclosure would need to be balanced with the rights of an individual for privacy.

### Resources available

There are a variety of resources available to assist the work of governors and governing bodies on remuneration. These include:

- [Briefing Note No.16 Remuneration](#) - this provides an introduction to the topic.
- More detailed guidance on the work of remuneration committees, can be found by accessing the [Illustrative Practice Guide No.1.Remuneration Committee](#).

For further information on Governance and our upcoming events visit [www.lfhe.ac.uk/governance](http://www.lfhe.ac.uk/governance)