



POLICY

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NATIONAL HEALTH LABORATORY SERVICE



Draft document

REMUNERATION & REWARD POLICY

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1. STRATEGIC INTENT AND REMUNERATION PHILOSOPHY

The National Health Laboratory Service (NHLS) recognises the competitive nature of the current labour market and this requires the organisation to provide a competitive remuneration offering to ensure a high calibre of staff is attracted to the organisation and retained once they have gained experience in the development arena.

The NHLS further acknowledges that it can only exceed its objectives through exceptional performance of its people and that the remuneration offering to the employees plays a substantial motivational role when exceptional performance is compensated with exceptional rewards mechanisms.

2. DEFINITION OF KEY TERMS

In this policy, the following words shall have the following meanings, unless the context clearly indicates otherwise:

Acting Appointment refers to a temporary appointment of an existing employee to a higher level position vacated by an incumbent who is expected to return to the position at which time the acting appointee will return to his/her former position.

ALL INDUSTRIES MARKET/NATIONAL CIRCLE REFERS TO THE TOTAL DATABASE, OR ALL PARTICIPANTS TO THE RELEVANT SOUTH AFRICAN MARKET SURVEY, IRRESPECTIVE OF INDUSTRY OR BUSINESS FOCUS.

Basic remuneration or salary is the difference between the total cost of employment and the costs of both compulsory, statutory contributions and benefits (e.g. medical aid, group life, Unemployment Insurance Fund (UIF) and retirement fund contributions) and the individual's choice of benefits, if any.

Basic remuneration plus add-on benefit approach refers to a traditional approach to remuneration where the emphasis is on a basic salary which is calculated up front and to which all benefits are added.

COIDA refers to Compensation for Occupational Injuries and Diseases Act.

Compulsory Contributions and Deductions are all contributions or deductions that are compulsory in a total remuneration package and include pension/provident fund contributions, medical aid, group life, COIDA and UIF contributions.

Board is the governing body of the NHLS constituted in terms of the section 7 to 10 of the act and its functions as per chapter 2 of the NHLS Act, 2000 (Act No.37 of 2000).

Effective date is the date of the Policy coming into operation.

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Cash Salary refers to that part of the 'basic salary plus add on' package which is used to calculate the retirement fund contribution for an individual.

Long Fixed Term Contract shall refer to a fixed-term contract of employment where the incumbent is employed under the same conditions of service as employees on permanent contracts of employment. This may be varied by Collective Agreement and currently refers to contracts of two years and longer.

Mean shall refer to the average remuneration for a particular category of staff.

MEDIAN (50TH PERCENTILE) MEANS THE MIDDLE VALUE OF REMUNERATION WITHIN A PARTICULAR SAMPLE: 50% OF THE SAMPLE RECEIVES A HIGHER VALUE OF REMUNERATION AND 50% RECEIVE A LOWER VALUE.

Performance Pay Progression means the progression of an employee's salary within the relevant salary range which is informed by sustained performance of the employee at the end of each two-year performance cycle.

Paterson refers to a job evaluation system, which scores jobs on a number of factors such as problem solving, pressure of work, job impact, consequence of judgement, educational qualifications, training and experience required. The aggregate score is applied to a sliding scale to determine job grade.

Policy shall mean this Remuneration and Reward Policy for the National Health Laboratory Services.

Remuneration refers to salary or pay which an employee receives in return for work or services rendered to the NHLS.

SARS is the South African Revenue Service.

STATUTORY COSTS REFERS TO LEVIES PAYABLE IN TERMS OF INTER ALIA THE UNEMPLOYMENT INSURANCE FUND ACT (UIF), COMPENSATION FOR OCCUPATIONAL INJURIES AND DISEASES ACT(COIDA) AND THE SKILLS DEVELOPMENT LEVY. THE TERTIARY CIRCLE REFERS TO THE PARTICIPANTS OF THE RELEVANT MARKET SURVEY THAT FORM PART OF THE TERTIARY EDUCATION SECTOR IN SOUTH AFRICA.

Total Guaranteed Remuneration Package (TGP) approach refers to an approach to remuneration in which all benefits, both compulsory and voluntary are converted to their cash value equivalent. The employee may structure the total package within prevailing tax and other legal provisions. In this regard the package must include compulsory minimum core benefits relating to inter alia, medical aid and retirement fund. The TRP represents the total cost attached to a particular position in the NHLS and includes basic remuneration, service bonus, retirement fund contribution, medical scheme contribution, group life insurance and applicable allowances such as medical, housing, telephone or cell phone and travel allowances. It does not include the employer's contributions to statutory costs, bursaries for staff members.

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UIF refers to Unemployment Insurance Fund.

Organisation is the National Health Laboratory Service.

Upper Quartile (75th Percentile) means the upper quartile value of remuneration within a particular sample: 25% of the sample receives a higher value of remuneration and 75% receive a lower value.

Variable remuneration is any ad-hoc remuneration not included in the total guaranteed remuneration package which relates to overtime, shift allowance, standby allowance/call-out allowance and other forms of remuneration that are not guaranteed, including any incentive or performance bonuses or scarcity allowance, and are of temporary nature to the role.

In this policy, unless inconsistent with the context, words referring to any one gender shall include a reference to the other gender; the singular shall include the plural and *vice versa*; and natural persons shall include artificial persons and *vice versa*.

3. GUIDING PRINCIPLES

This policy reflects NHLS objective for good governance as well as sustained value creation for all stakeholders. This policy further ensures that:

- 3.1. NHLS is able to attract, develop and retain high performing, motivated and committed employees in a competitive market.
- 3.2. Employees feel encouraged to create sustainable results and that a link exists between all stakeholders, by ensuring that the total remuneration do not undermine the business capital base which is for enabling operations.
- 3.3. The policy focuses on ensuring sound and effective strategy execution is achieved by implementing an effective performance management process which ensures that proper adjustment and alignment is achieved prior the approval of Individual Performance Agreement. This is to ensure that Individual, Team and Divisional achievements contribute directly to the achievement of NHLS's objectives and the performance culture is entrenched.
- 3.4. The process of remuneration management shall be transparent, conducted in good faith and in accordance with appropriate levels of confidentiality.
- 3.5. Employees are remunerated fairly in terms of their roles within the organization, in order to uphold the principle of equal remuneration for equal level of work.
- 3.6. To recognize contributions towards the achievement of NHLS's strategic objectives and to focus performance of all employees to them.

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- 3.7. To ensure that all employees are remunerated in accordance with the inherent requirements, expected outputs/deliverables and value of the job as determined through the job evaluation process, market and the board.

4. SCOPE AND APPLICATION

This policy will apply to all permanently employed employees on initial employment and every review thereafter, including all employees who are on a five (5) year performance contract - who are all paid from primary funds of NHLS, as such influence overall total cost of employment over operating income.

5. REMUNERATION ADJUSTMENT AND COMPOSITION

For the purpose of this policy and any market comparisons NHLS will use the principle of Total Guaranteed Package, which is an all-inclusive earnings inclusive of all benefits. This approach is in line with best practice as it ensures that organisations which invariably consist of different benefits and structures are able to compare their total remuneration fairly.

5.1. Remuneration Adjustments

5.1.1 Annual Cost of Living Increase: all annual remuneration increases shall be subjected to Exco recommendation and Board approval. These increases shall be influenced by prevailing rates of inflation, market movements and affordability considerations based on total financial performance. All increases shall be to Total Guaranteed Package irrespective of whether the existence of remuneration practice in place is basic plus add-on or total remuneration package. This is to ensure fair and equitable pay.

5.1.2 Post Re-grading: where a post has been re-graded to a higher level and the current incumbent has been placed in the higher level post, the current incumbent shall receive an adjustment to the bottom of the range for the higher grade. In addition, should the employee be less than 5% to the maximum of the approved range the adjustment shall be the difference only.

However this is applicable only if the employee meets all the minimum requirements of the job and the performance expectation is adjusted to the new grade.

5.1.3 Periodic Downward Adjustment: given our historical discrepancies and legislative update, we have identified the need to implement a strategy to correct all remuneration discrepancies which exacerbate our non-

compliance with the principle of equal pay for equal-same level of work.

To this, NHLS commit to award increase to staff which earn above approved ranges through a fixed percentage value while retaining the base to ensure that gradually the employee is adjusted within the equitable ranges.

This consideration should further be applied through sliding scale approach or fixed percentage once off value, during mandate for salary negotiations, bargaining - so, it's a collective leadership responsibility (organized labour and management) to ensure that NHLS eliminate any elements of unfair discrimination within their remuneration structures.

- 5.1.4 Promotion Adjustment: employees who are promoted in accordance with the recruitment process, shall receive a five (5%) within existing approved salary ranges / or s/he shall receive an adjustment to the bottom of the range for the higher level post, whichever is greater.

Any job specific allowances which are not part of the guaranteed remuneration packages shall be forfeited when an employee is transferred to any position which do not have similar allowance and such shall also not be compensated in any form into the new job.

Note of caution: sustained (cumulative effect or deliverable) performance at the same level of work over a period of time should not be misunderstood as performance at the next level of work nor determinant of promotion, rather distinct level of work each year.

- 5.1.5 Acting Allowances: situations that require appointing an individual in an acting capacity at a higher level represent an ideal opportunity to utilize employees from designated employment equity groups, as well as other existing employees in positions of increased responsibilities for both evaluative and professional development purposes. An acting appointment is therefore seen as beneficial to the incumbent and opportunity for growth.

An acting allowance is payable when a staff member is required to undertake the full duties and responsibilities of a higher level post for a minimum of 2 months and maximum 6 months. An employee may not be appointed in an acting capacity to a position which is higher than two levels above their substantive post level and in which they do not meet the minimum requirements for the higher level post. Ten (10%) percent of the minimum range (TRP) of the position acting at shall be the acceptable allowance, with the exception that this exclude Executive Members, any employee acting on same level work, as well

as all employees overseeing another portfolio while occupying his/her full role.

- 5.1.6 Offer of employment: as detailed in the Recruitment and Selection Policy, new permanent staff members should be employed at the entry-level of the salary ranges and each subsequent year effective April, offers must be made at the progressive relevant range. This is to ensure that the spirit of internal parity and remunerating equally for similar work of equal value is upheld and market movements are included in our offer decisions.

However, the National Health Laboratory Service may consider the granting of salaries above the salary range on appointment on an individual basis, depending on the circumstances of an employee during appointment, as well as the availability of financial resources. Any decision to make an offer higher than the approved ranges, without the prior approval of the Executive Manager HR and CEO, which should not be used in future as a precedent. This exception must include agreed alternative to ensure that the exception does not remain forever.

- 5.1.7 Performance pay progression: employees who demonstrate sustained performance at “fully meeting expectations, as per performance agreement” expectation over a period of 2yrs may qualify for performance pay progression of five (5%) within the approved salary ranges, in case the incumbent’s performance is already within the 5% of the maximum, this may be paid as a once off award.

- 5.1.8 Transfer: the organization operates nationally and may require employees to serve wherever their services are required. However, transfers will only be considered if it is the operational requirement to transfer an employee to fill a vacancy, which would otherwise jeopardize the organization’s interests.

All employees who makes career movement to different jobs of the same grade, yet already earning above the approved relevant grade shall not receive any adjustments.

In addition, employees whom approval is obtained for them to do any lateral transfers, meaning at same level (grade) shall not receive any adjustment.

To this, all promotional opportunities shall be advertised and be open to all employees as per recruitment and selection policy.

5.2 Remuneration Composition

Remuneration may consists of fixed or guaranteed and variable components

- 5.2.1 The variable remuneration: the non-pensionable market allowances provide the NHLS with a mechanism to remunerate staff above the prescribed level in certain circumstances. This enables the NHLS to respond to and compete with the market for key staff.

Example of these (role specific unique) allowances within the NHLS are business manager's, core skills, Occupation Specific Dispensation, Essential user, medical staff, rent, quality assurance, scare skills, commuted overtime, secondment, rural and etc.

When these allowances are extended to employees on a full financial year or while the employee is in the role, they shall be deemed part of the total guaranteed package for purposes of benchmarking process.

Though these allowances are time and role specific, meaning that if circumstance and market change they may be withdrawn in consultation with specific employees - while in existence they form part of our total cost determinations for budget and benchmark purpose.

On a periodic basis the division of Human Resources will conduct benchmarks to determine their relevance and recommend their continuation or modification to the Remuneration and Human Resource Committee.

- 5.2.2 Performance-based Pay: is a performance incentive award to employees who have achieved performance above their expected performance standard.

NHLS through REMCO shall from time to time instruct the division of Human Resources to explore the implementation of such variable pay and this shall be solely at the discretion and authority of the Board. To this, procedure and guidelines for such shall be developed and approved by the Board only. In line with best practise this could be grade specific and in all situations it must be preceded by specific set target embedded in the performance agreement of the employee. In exceptional circumstance, this could form part of the individual employment contract.

- 5.2.3 Travel Allowances: the organisation recognises that due to the widely dispersed geographical layout of its laboratories employees may, from time to time, be required to use their private vehicles to travel between laboratories and elsewhere on NHLS business. The frequency and extent of travel varies considerably from employee to employee. For the majority of employees, traveling costs incurred on such travel can

be recovered at the prevailing fixed rate per kilometer, through the NHLS's subsistence and travel process – only to applicable staff. There are, however, certain members of staff whose official NHLS travel is sufficiently high to justify an alternative arrangement and for whom a travel allowance may represent a more convenient and fairer mechanism of reimbursement.

A threshold shall be set for a minimum level of business travel (determined per annum or annualised, as appropriate, where less than one year) that warrants a travel allowance. The procedure and guidelines for this shall be developed and approved by Exco after consultation with HR and Finance division to ensure compliance with SARS rules.

All recipients of a travel allowance shall be expected to maintain a travel logbook which may be required to be submitted to SARS or, on request, made available to the relevant line manager for the purpose of monitoring the extent of official NHLS travel undertaken during any assessment period. A travel allowance, once granted, may be increased if the allowance recipient is able to demonstrate, and substantiate, that the extent of official NHLS travel has, on a sustained basis, increased; the application for such increase shall be based on the evidence contained in the log book.

A travel allowance is not guaranteed for the duration of existence of any post. If the nature of a particular post changes, where there is a reduced expectation of travel, the travel allowance granted to the post incumbent may be suspended or varied, as appropriate, pending a further review to determine if the extent of actual travel is at the required threshold level. Any staff member whose travel allowance is suspended will, however, be eligible to claim for official NHLS travel using the reimbursive claims process during the period of review.

All total remuneration packages shall be calculated taking into account the anticipated travel attached to the related posts. This shall be deemed to include remuneration for travel at the threshold. Any official travel in excess of this threshold may be claimed, subject to documentary proof thereof being provided by the claimant.

The value of the requisite travel allowance shall be determined and reviewed periodically by the Remuneration Committee.

All prevailing travel allowances as at the effective date shall be reviewed and may be withdrawn or amended as appropriate.

6. BAND STRUCTURE AND SALARY RANGES

To ensure that the NHLS achieve a cost effective and economical payroll, embedded within the band structure and salary ranges is maximization of employee performance and potential, with the intent to fulfill NHLS' mandate and its competitiveness. Any adjustment to employee's salary shall always be preceded by performance evidence and differentiation in job value/level. To this, our benchmark shall be against Total Guaranteed Package within our chosen markets.

6.1 Band structure: The NHLS uses a broad-banded and narrow band approach (Paterson) in order to differentiate work levels and structure remuneration for their general and management and health professional roles.

6.1.1 The narrow band structure has 5 broad bands each with 5 pay zones/ranges. Positions are allocated to a pay range within a band based on a formal job evaluation to determine the job size or worth as for all other roles. This approach is strictly applicable to all jobs in which narrow band is used. In determining the market positioning for the general and management scale the NHLS will use the National All Industry Market, by grade and all future vacancies (appointments, placements and promotions) are to remain being vacancy driven.

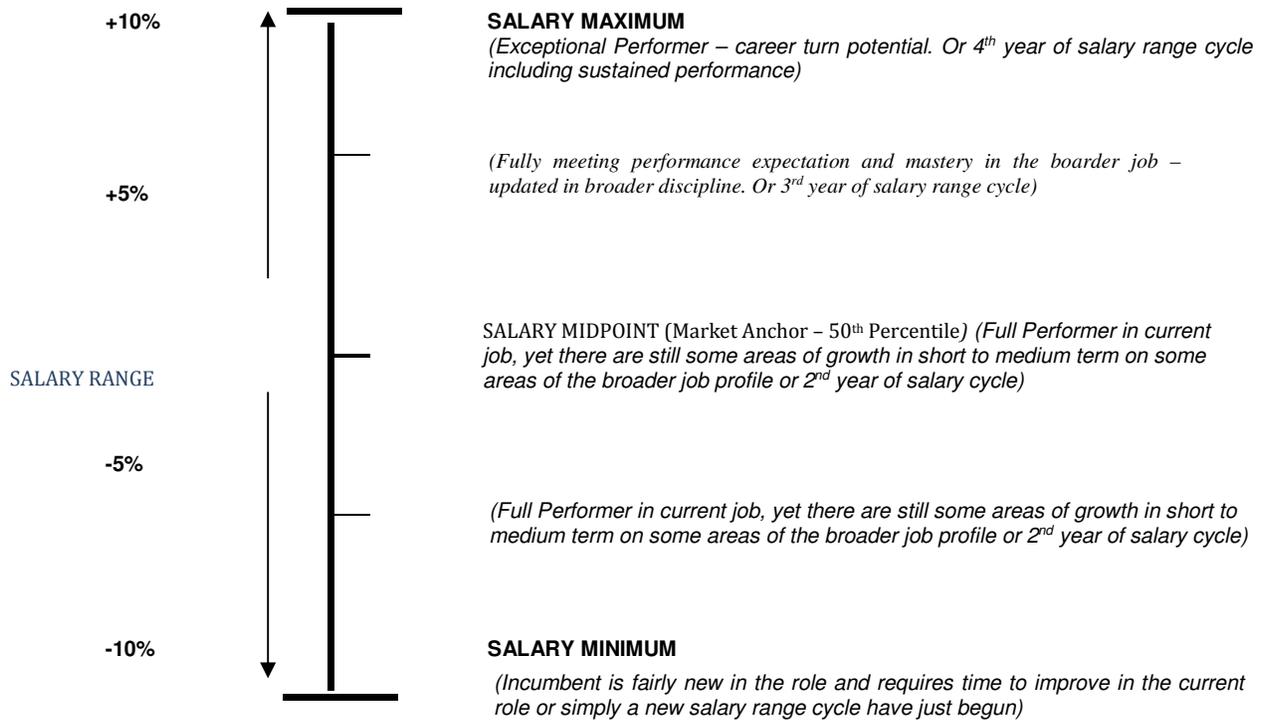
6.1.2 The broad-band approach is applicable to health professionals' jobs only, meaning there shall be one (1) generic job profile with four (4) differentiated performance standards (expected outputs) for each level of proficiency. In determining the market positioning the National Health Market aligned to DPSA, by discipline and level shall be used. All future vacancies (appointments, placement and promotions) will be determined through proficiency against predetermined performance standards across four (4) distinct correlating competency levels i.e entry, intermediate, principal and expert; describing the employee's probable proficiency relative to the set outputs – meaning the performance agreement of each level shall be different.

6.1.3 The result will be the approval of two (2) distinct pay scales namely (i) general & management and (ii) health professionals. The key differences between the two pay scales are in the grading methods, approach to benchmarking and future placement or promotion.

6.2 Salary ranges: NHLS adopted a salary range with progressive levels within each band. The principle behind this is to enable the organisation to lead and lag within its market within a period of four to five years while retaining its competitiveness.

The salary range for each band shall consist of 5 pay levels i.e minimum, 1st progression, 2nd progression (or midpoint), 3rd progression, 4th progression & maximum). The midpoint level of our salary ranges shall always be our benchmark 50th percentile with 10% more or less on each side to ensure that we retain our internal parity and uphold the principle of equal pay for same level of work.

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7. JOB EVALUATION

In order to establish the relative worth of each position and ensure equity in remuneration, a job evaluation system shall be implemented and consistently applied across all jobs. For this purpose NHLS has adopted a Paterson grading system, which it will use to determine the internal and external equity (relative value) of the job.

Once jobs are graded, they will be allocated remuneration package in accordance with the remuneration philosophy and the value of the job. To ensure internal parity or equity positions of same grade shall be rewarded in a similar manner – meaning that in determining our competitiveness in the market, grade will be preferred over discipline specific unless it is absolutely necessary for such to be done.

The principle of evaluating a job must be retained and be separated from a person and salary interests, as such remuneration aspirations and personal interests must not influence the manner in which profiles are written – to this all job profiles must be validated by the responsible functional executive and the HR executive or their delegated experts.

In order to uphold fairness and eliminate discrimination, no employee will be appointed in positions which they don't meet their requirements; as well as be confirmed and/ or transferred into such position. As mentioned in the Recruitment and Selection Policy, any promotional opportunity must be made open to all staff.

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This policy permits the Executive Manager HR after considering all markets data to make determination whether discipline specific salary ranges are required or not. The criteria for this determination is, if the market differential of each 50th percentile is greater than 15% from each other – the generic vs discipline specific respectively.

8. CORPORATE GOVERNANCE

The Board of Directors for NHLS has set guidelines for the review and control of compliance with the Remuneration and reward Policy. This oversight function is delegated to the Remuneration and Human Resources Committee. The Remuneration and Human Resource Committee through the Executive Manager Human Resources works as a preparatory committee for the Board and prepares the Board with respect to remuneration issues.

9. POLICY REVIEW

This policy shall be reviewed at intervals to be determined by the Remuneration and Human Resources Committee, unless the Executive Manager HR request an earlier review due to significant changes required for both operational and legal reasons.

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