

# Report from the Chair of Remuneration Committee

## Introduction

The Remuneration Committee is responsible for determining the Reward Strategy of the University and for setting the remuneration of the Vice-Chancellor and other members of the Vice-Chancellor's Executive Group (VCEG).

The terms of reference of the Committee, which include a list of post holders within the remit of the Committee, are available at [www.exeter.ac.uk/about/organisation/governance/committees/remuneration\\_committee/](http://www.exeter.ac.uk/about/organisation/governance/committees/remuneration_committee/). The terms of reference have been reviewed by the Committee to take account of the Committee of University Chairs' Remuneration Code issued in June 2018.

## Membership 2017/18

The Committee is chaired by a Pro-Chancellor. The Chair of Council and three other independent members of Council are also members of the Committee. The Vice-Chancellor is not a member of the Committee. No member of staff is present for the discussion of their own remuneration or when the Committee makes decisions on the reward of members of the Vice-Chancellor's Executive Group.

## Meetings 2017/18

The Committee met six times during 2017/18. The attendance of members at meetings was as follows.

	Eligible to Attend	Actually attended
Richard Atkins, independent member of Council (Chair)	6	6
Sarah Turvill, independent member and Chair of Council	6	6
Sarah Buck OBE, independent member of Council	6	6
Judy Hargadon OBE, independent member of Council	6	6
Kiron Farooki, independent member of Council	6	6

## Summary of meetings in 2017/18

### September 2017

At the beginning of the year, the Committee reviewed and approved the institutional and personal targets for 2017/18.

### October 2017

The Committee reviewed the terms of reference, membership and operating arrangements of the Committee, taking account of the issues raised by the current public debate on senior reward in Universities.

The Committee agreed its annual report for 2016/17 and its and its schedule of work for 2017/18. The Committee reviewed the reward arrangements of the Vice-Chancellor.

### December 2017

The Committee reviewed the draft regulatory requirements of the Office for Students, the outcome of the HEFCE report on governance at the University of Bath and good practice guidance issued by the Russell Group and agreed to commission an external review of the Committee and the University's reward arrangements for senior executives.

The Committee reviewed options for extending the long-term performance reward arrangements and agreed that there would not be a long-term institutional performance reward arrangement for the three year period 2018-2021. The Committee reviewed the reward arrangements of the Vice-Chancellor, taking account of independent professional advice.

### April 2018

The Committee reviewed the draft Committee of University Chairs Remuneration Code.

The Committee agreed a new policy on external work for senior executives and reviewed its decision-making and delegation framework.

The Committee reviewed the reward arrangements of the Vice-Chancellor, taking account of independent professional advice and agreed amendments to his long-term reward arrangements.

### June 2018

The Committee received a report on external work undertaken for senior executives.

The Committee agreed a revised decision-making and delegation framework.

The Committee reviewed and revised its Executive Reward Policy.

The Committee reviewed the report of the external review of the Committee and the University's reward arrangements for senior executives.

After reviewing its Policy on Pension Taxation, the Committee agreed to suspend the scheme and consider no new applications for the next 12 months.

The Committee reviewed the proposed institutional targets for 2018/19.

### August 2018

The Committee reviewed the base salaries of members of the Vice-Chancellor's Executive Group, taking account of market data, affordability and performance.

### October 2018

The Committee reviewed the achievement of the institutional targets and personal objectives for members of the Vice-Chancellor's Executive Group which had been agreed for 2017/18. Taking account of these assessments, the Committee made decisions on the percentage of performance related reward which should be paid under the Executive Performance Reward Scheme to recognise the achievement of these institutional and personal objectives.

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The Committee reviewed the proposed performance targets for 2018/19 under the Executive Performance Reward Scheme.

To improve accountability, governance and transparency of its work the Committee reported in detail to Council at its meeting in October 2018.

### External Review

The Committee commissioned the Korn Ferry Hay Group to review the University's approach towards senior reward and the effectiveness of the Committee, taking account of the Committee of University Chairs' Remuneration Code and good practice. The report noted that the steps which the Committee has already taken to improve transparency and accountability already satisfy most of the requirements of the Code and that the Committee operated effectively and independently. The review also concluded that the University's reward arrangements for senior executives met the requirements of the Code.

### Approach to Remuneration

#### Reward Strategy

The University's Reward Strategy (agreed by the Committee in 2014) is designed to motivate our key talent to achieve the University's strategic objectives, to deliver an outstanding experience for our students, to drive forward our internationally focused research and to lead and inspire our academic and Professional Services employees.

Taking account of the requirements of the Office for Students and the Committee of University Chairs' Remuneration Code, the Committee reviewed its Executive Reward Policy in June 2018.

### Executive Reward Policy

#### Introduction

The Committee is concerned with the full spectrum of senior employment issues, including recruitment; promoting and retaining the highest quality academic and Professional Services leaders; setting performance targets and incentives for these leaders to develop the continued success of the University; and monitoring the outcomes and the way in which they are achieved.

University of Exeter Remuneration Committee is responsible for reviewing and making decisions on the remuneration, benefits and conditions of employment of the Vice-Chancellor's Executive Group, taking account of affordability and comparative information on the remuneration, benefits and conditions of employment in the University sector and elsewhere as appropriate, so that:

- the University is able to recruit and retain the highest quality academic and Professional Services leaders;
- the Committee sets performance targets and incentives for these leaders to develop the continued success of the University; and
- the Committee effectively monitors the outcomes and the way in which they are achieved.

The Reward Strategy sets out the following overarching principles which guide the decisions taken by the Committee on executive reward:

- reward excellence and competency;
- be more transparent about the total reward package and how reward is determined;
- apply a consistent framework to reward which recognises different staff categories;
- further reinforce the embedding of equality in our approach towards reward;
- promote the total reward package (financial and non-financial);
- develop clear initiatives which facilitate career and reward progression;
- focus reward on positive stewardship of the University and legacy;
- clearly contribute to key University strategies.

### Executive Reward

Decisions on the base salary of members of VCEG are informed by market data, institutional and personal performance and affordability. The Committee's aim is to pay a competitive salary but a significant part of this is dependent upon performance. The University will pay a competitive salary based on the market median (informed by appropriate market intelligence) and, in addition, members of the Vice-Chancellor's Executive Group will have the opportunity to earn above the market median through the Executive Performance Reward Scheme.

### Base Salary

Remuneration Committee will set an indicative "mid-point" for the base pay of members of the Vice-Chancellor's Executive Group at approximately 95% of the Russell Group median.

Remuneration Committee will review the mid-point each year to ensure that it is appropriately aligned to the Russell Group median (or other appropriate market data). Members of VCEG do not receive general increases agreed annually at national level in the Joint National Committee for Higher Education Staff.

Decisions on starting salaries for Members of the Vice-Chancellor's Executive Group will be made in accordance with the Committee's delegation schedule, informed by appropriate market intelligence and the new appointment's experience.

Members of the Vice-Chancellor's Executive Group whose starting salary is below the mid-point have a reasonable expectation that their base salary will progress to the mid-point subject to satisfactory performance, to be assessed annually by Remuneration Committee.

Progression beyond the mid-point will be subject to exceptional contribution over a sustained period, determined by Remuneration Committee. Members of the Vice-Chancellor's Executive Group who are paid at or above the mid-point will only have their base salary increased to take account of an increase in the market rate within the Russell Group or exceptional performance sustained over a longer period. Members of the Vice-Chancellor's Executive Group will therefore normally only be considered for performance-related pay progression above the mid-point every 3 years.

Each year, the Committee will review the base salaries of members of the Vice-Chancellor's Executive Group, taking account of the principles above and any recommendations made by the Vice-Chancellor, Provost and Registrar and Secretary for their direct reports.

### Executive Performance Reward Scheme

The Executive Performance Reward Scheme recognises both institutional performance and personal performance. Under the Executive Performance Reward Scheme members of VCEG are eligible for a performance related payment of up to 20% each year.

To recognise institutional performance – since all senior managers have a shared responsibility in the success of the University – half of the potential performance related payment is subject to the University achieving a range of institutional targets.

The other half is subject to the achievement of personal performance objectives, including how these are achieved, as well as what is achieved.

Remuneration Committee will approve both the institutional targets and annual personal targets (after consultation with role holders) and assess achievement against these objectives and the amounts (if any) to be paid. Both institutional and personal targets should have a direct "line of sight" to the University's strategic plans. The annual institutional targets should also ensure there encompass the achievement of longer term objectives.

### Academic Office Holders

If a member of staff returns to their substantive position of Professor in their College on the expiry of their term of office as Deputy Vice-Chancellor or Pro-Vice-Chancellor, their salary will be the higher of:

- the minimum point on the University of Exeter Professorial pay band to which they are assimilated; or
- their base salary at 1 August 2014 or the date their term of office commenced (if later);
- or the mid-point salary agreed by Remuneration Committee for Deputy Vice-Chancellor or Pro-Vice-Chancellor (as appropriate), if on the date of the expiry of their term of office, their salary is above this mid-point;
- other salary figure agreed by Remuneration Committee.

If their salary is higher than the top point of the University of Exeter Professorial pay band to which they are assimilated then they will not receive any JNCHES increases until the Professorial payscale has caught up with their protected salary. They will be eligible for consideration

for pay progression within the pay band and for progression to a higher band in common with the processes which will apply to all Professors at the University.

### Pension

Subject to the rules of USS, base salary will be pensionable but members of the Vice-Chancellor's Executive Group may request that part of their salary is taken as non-pensionable. They also have the opportunity to choose other options provided by USS to take account of the Annual Allowance and Lifetime Allowance.

The Policy on Pension Taxation, which provided for the payment of an allowance in lieu of employer pension contributions for staff who had reached or exceeded their Lifetime Allowance and taken advice from an independent financial adviser, has been suspended by the Committee and no new applications are being considered.

### Institutional Performance: Context

The University's corporate strategy for 2016-2021<sup>3</sup> (*Making the Exceptional Happen*) sets out ambitious plans to grow the University by increasing our research volume, quality and impact, delivering an internationally exceptional educational experience to a more diverse and international student body and to raise the University's international reputation so that we become a sustainable Global 100 research institution. The strategy outlines our goals to build research power to tackle global challenges, deliver an internationally excellent education, create an impact regionally, national and globally, support our people to make the exceptional happen, and make the most of our resources.

The University is planning to achieve these challenging targets in an increasingly competitive environment both in the UK and internationally. There is significant global competition for the very best students and academic experts. We are also operating within an environment of financial uncertainty, competing with other research intensive universities for limited research funding and managing the uncertainties of Brexit. We will continue to measure our progress towards the achievement of our aims within the UK and international markets by the use of performance metrics, including maintaining and improving our standing in the main global and UK league tables.

### Institutional Performance 2017/18

The University's achievement in 2017/18 are detailed in the Annual Report (see page 3).

### Remuneration Decisions

The Committee reviewed the remuneration of members of the Vice-Chancellor's Executive Group in accordance with the Committee's Executive Reward Policy and agreed increases to basic salary for 8 (of the 17) members, increasing the total cost of the basic salaries of the Vice-Chancellor's Executive Group by 1.3%.

The Executive Performance Reward Scheme recognises both institutional performance and personal performance. Under the Executive Performance Reward Scheme members of VCEG are eligible for a performance related payment of up to 20% each year. To recognise institutional performance – since all senior managers have a shared

<sup>3</sup> [www.exeter.ac.uk/ourstrategy](http://www.exeter.ac.uk/ourstrategy)

responsibility in the success of the University – half of the potential performance related payment is subject to the University achieving a range of institutional targets. The other half is subject to the achievement of personal performance objectives, including how these are achieved, as well as what is achieved. 16 members of the Vice-Chancellor's Executive Group were eligible for payments in 2017/18.

In reaching decisions on payments under the Executive Performance Reward Scheme in respect of institutional and personal performance in 2017/8, the Committee took account of the following against the targets agreed by the Committee at the beginning of the year:

- International and PGR student numbers
- NSS performance
- Employability
- Research performance including income and awards and progress towards REF 2021 targets
- Reputational indicators (ie UK and international league tables)
- Financial performance including fundraising
- Inclusivity, equality and diversity.

Professor Sir Steve Smith has led the University of Exeter as Vice-Chancellor since 2002. The role of Vice-Chancellor as Chief Academic Officer and Chief Executive of the institution is a complex and challenging one, requiring not only excellent administrative and people skills to deal with the wide range of stakeholders which exist in every university, but also has a comprehensive insight into the future of higher education. Sir Steve is an outstanding leader.

During his tenure the University has been transformed into one of the UK's leading research intensive universities. In 2002 the University of Exeter was 34th in the national league tables and today is in the top 14 in the UK and top 150 universities in the world. In the 2014 Research Excellence Framework, the University saw the third highest increase in QR funding in the UK, and has moved from 38th to 12th in terms of Research Council awards. Also under his leadership, Exeter has become a member of the Russell Group of leading UK research intensive universities, has established the University of Exeter Medical School – one of the most successful new Medical Schools in the country and has become recognised as one of the best teaching and research universities in the country with a Gold rating for teaching excellence (TEF).

Since 2002 the University's turnover has increased from £85m to £420m and has grown from an institution of 12,000 students and 2,500 staff to more than 22,000 students and 5,000 staff today. Significant in this growth has been the establishment of the Penryn campus in partnership with Falmouth University and the enormously successful expansion of our activities in Cornwall over the last fourteen years.

Sir Steve's considerable leadership experience as one of the UK's longest serving Vice-Chancellors enables him to act as an ambassador for the University, and UK Higher Education in general, both within the UK and globally. As a Board

Member of both Universities UK and the Russell Group, he contributes to the development of Higher Education in the UK. Locally, he is a Board Member of Heart of the South West Local Enterprise Partnership, promoting the University's contribution to the local economy. The University injects £1.17 billion into the economy, creating 11,000 jobs, fuelling business and research, and sponsoring and supporting local schools.

Decisions on the reward of the Vice-Chancellor are made by the University's Remuneration Committee (which comprises of independent members of the University's Governing Body) taking account of the achievement of strategic goals, the institution's national and international rankings and his performance against key performance metrics. Sir Steve's remuneration reflects his contribution to the success of the University and his Higher Education leadership experience.

In reviewing the performance of the Vice-Chancellor in 2017/18, the Committee noted that he has continued to lead the University in an exemplary manner during a challenging year. The University's research awards have continued at a very high level at £96.4 million and our REF plans are on target. The Medical School has been awarded additional medical students, established a nursing degree from 2019 and secured a £10 million donation to medical research from the Dennis and Mireille Gillings Foundation. The University achieved its EBITDA target and exceeded the target for philanthropy. We continue to improve the diversity of our senior staff and have established the Provost's Commission to address unacceptable attitudes and conduct. Our performance has improved in two of the UK league tables and achieved a satisfactory outcome in the National Student Survey. The Vice-Chancellor has also continued to play a leading role nationally and internationally on behalf of the higher education sector. He has built a strong leadership team.

Details of the remuneration of the Vice-Chancellor is summarised in Note 7 of the Financial Statements and below. The Committee made no change to the base salary of the Vice-Chancellor this year.

The remuneration received by the Vice-Chancellor in 2017/18 included:

- a base salary of £315,000;
- an allowance in lieu of employer pension contributions;
- a performance award (under the Executive Performance Reward Scheme) of 13% (out of a potential 20%) in respect of institutional and personal performance in respect of 2017/18.

Emoluments of the Vice-Chancellor	2017-18 (£000)	2016-17 (£000)
Salary	315	315
Performance-related remuneration	41	47
Additional pay in lieu of pension contributions	53	47
Sub-total excluding pension contributions	409	409
Pension contributions to USS	-	15
Other taxable benefits	2	2
Other non-taxable benefits	12	12
<b>Total Emoluments</b>	<b>423</b>	<b>438</b>

The University pays an annual subscription to provide space for business meetings held by the Vice-Chancellor when he is in London. It is necessary for the subscription to be in the name of the Vice-Chancellor and HM Revenue and Customs require this to be taxed. The cost to the University in the financial year 2017/18 was £1,952.

The University requires the Vice-Chancellor to occupy accommodation on the University campus. Since this accommodation is provided for the better performance of his duties, this is not treated as a benefit in kind. The accommodation comprises of private living accommodation and space for business use. If the property was rented out privately, the income to the University (for the proportion of the property which is apportioned to the Vice-Chancellor's private living accommodation) would be £11,700 per annum.

In 2013, the Committee agreed that part of the Vice-Chancellor's reward should be directly linked to the achievement of long-term performance targets and, in recognition of the importance of the Vice-Chancellor to the University achieving its strategic goals, the Vice-Chancellor remaining in the employment of the University up to the expiry of his contract. These long-term arrangements were reviewed and updated by the Committee during 2017/18.

If the Vice-Chancellor achieves agreed long-term performance targets for the period 2013 to 2020, he will be eligible for a performance related reward. The Remuneration Committee will make an assessment of the amount to be paid at the end of the 2019/20 University year and any payment will be reported in the University's Financial Statement for 2019/20. The payment is expected to be circa £180,000.

In recognition of the importance of Professor Sir Steve Smith remaining in post as Vice-Chancellor to the achievement of the University strategic objectives, provided he has remained in post until the expiry of his contract on 31 August 2020, a retention payment of £105,850 will be made. This will be reported in the 2020/21 Financial Statement.

The Committee has also agreed a post-termination restriction with Professor Sir Steve Smith to protect the business interest of the University of Exeter: provided he is not employed by or provide consulting services to competitor institutions for a period of 12 months following the expiry of his contract on 31 August 2020, he will receive a payment in August 2021 of £105,850. This will be reported in the University's Financial Statement in accordance with the requirements of the Office for Students Accounts Direction.

### External appointments

The Committee has agreed a new policy on External Work for senior executives which is available at [www.exeter.ac.uk/about/organisation/governance/committees/remuneration\\_committee/](http://www.exeter.ac.uk/about/organisation/governance/committees/remuneration_committee/).

The Vice-Chancellor serves on the following external bodies with the approval of the University Council. He does not receive any remuneration for this external work.

- Chair of UCAS
- Board Member of Heart of the South West Local Enterprise Partnership
- Board Member of the Russell Group
- Board Member and Chair of the International Policy Network of Universities UK
- Trustee of the Education and Employers Task Force

### Expenses

All expenses paid to members of the Vice-Chancellor are in furtherance of the business of the University and comply with the University's expenses policy<sup>4</sup> and Entertainment, Hospitality and Gifts Policy<sup>5</sup>.

### Richard Atkins

Chair of the Remuneration Committee

<sup>4</sup> [www.exeter.ac.uk/media/universityofexeter/financeservices/pdfs/Exeter\\_Expenses\\_Policy\\_v10\\_\(2018\\_Refresh\).pdf](http://www.exeter.ac.uk/media/universityofexeter/financeservices/pdfs/Exeter_Expenses_Policy_v10_(2018_Refresh).pdf)

<sup>5</sup> [www.exeter.ac.uk/media/universityofexeter/financeservices/pdfs/Entertainment\\_Hospitality\\_Gifts\\_Policy\\_2.pdf](http://www.exeter.ac.uk/media/universityofexeter/financeservices/pdfs/Entertainment_Hospitality_Gifts_Policy_2.pdf)