

South African Reward Association
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City of Cape Town pay-outs: transparency will be critical

Media reports are currently questioning the appropriateness, and even legality, of mooted payments to terminate the contracts to two City of Cape Town executives. Details are still sketchy, but it appears that councillors were being asked to consider the payments, which run into millions, in a closed-door session last night.

“Juicy press stories aside, we need to keep an open mind on the topic until there is greater clarity on what actually is going on,” says Dr Mark Bussin, Executive Committee Member at the South African Reward Association ([SARA](#)) and Chairman of 21st Century . “However, there are some important principles that should inform the debate.”

One is that King III makes it clear that it is undesirable to pay out executives accused of misdemeanours or underperformance just to get rid of them. If executives don’t perform to expectation, or are accused of wrongdoing, they should not be paid (paragraphs 161 and 162 under Principle 2.25). Of course, companies frequently make use of this approach to avoid the reputational and legal fallout from a dispute, but it contradicts the principle that executives should be remunerated fairly and responsibly.

In this case, there is no indication that these particular payments were made to get rid of the executives for these reasons. Rather, according to a report in the Cape Times, the move was being made in pursuance of the City’s Organisation Development and Transformation Plan, which is a legislative requirement.

“If the two contracts are being terminated simply in order to make way for appointments in line with the Plan; for example, affirmative action appointments, then the motivation for the pay-outs seems understandable and, in the broader scheme of things, the amounts do not look excessive,” says Dr Bussin. “However, this is public money so it is critical that the procedure followed to arrive at the amounts is both fair and transparent—any suggestion of a cover-up, no matter if it’s unwarranted, will give rise to speculation. Hopefully, the mayor will issue a comprehensive statement sooner rather than later.”

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MEDIA CONTACT: Cathlen Fourie, 082 222 9198, cathlen@thatpoint.co.za,
www.atthatpoint.co.za

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Website: www.sara.co.za

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