Resources Committee Meeting Paper

Title	2017 Remuneration Review - Market Update and Performance and Remuneration Matrix proposal
Meeting date	16 May 2017
Status	New paper
Action required	For decision
Submitted by	Bronwyn Kingdom,
Meeting attendee/s	Bronwyn Kingdom,

Key points

Summary of issue and purpose of paper

The purpose of this paper is to:

- Update the Resources Committee on the "market" as context for remuneration decisions in 2017;
- Recommend increases to pay bands effective 1 July 2017;
- Recommend approach for performance based increases in the 2017 remuneration round;
- Obtain approval to engage with unions through the Remuneration Forum; and
- Set out the obligation to consult the State Services Commission (SSC) on our 2017 remuneration intentions.

MFAT business areas affected

All New Zealand employed staff across the Ministry on and off shore (excludes Locally Engaged Staff).

Major risks

The primary risk is to our staff engagement if the remuneration round is not managed fairly, equitably and efficiently.

Resource implications
(including cost of proposal)

Budget provision of $2.03m has been made for 2017/18 for Ministry pay increases (2%) OUT OF SCOPE This is based on the 4YP personnel costs of $105.269. for 2017/18.

The actual 2017/18 total remuneration budget has been amended to $106,907m. A 2% remuneration increase OUT OF SCOPE

Consultation undertaken

The proposed changes to the pay bands and the level of funding / average increase parameters will be discussed in

Consultation mandatory if any implications exist for FIN, AMD, IMD, HRG, and UNSC TF.	the Remuneration Forum with the FSA and PSA once agreement to proceed with this engagement is obtained from the Resources Committee. The budget and cost implications have been discussed with Finance.
Other relevant internal units and external stakeholders	Engagement with SSC will occur with Resources Committee agreement and will follow the report back to Resources Committee on union and management engagement.

Recommendations

1. **Note** that s9(2)(b)(ii)	YES / NO
2. **Approve** the remuneration pay bands for 2017/18 set out in Annex B;	YES / NO
3. **Approve** the Performance and Remuneration Matrix for 2017; and	YES / NO
4. **Approve** the remuneration round parameters the Ministry is to seek SSC approval for 2017; and	YES / NO
5. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult Divisional Managers on remuneration pressures and report the results of this engagement back to the Resources Committee as soon as possible.	YES / NO

Resources Committee decisions confirmed by:

(to be signed after Resources Committee meeting for record and provided to the submitting division/person)

CEO's Office **Date**

Report

Purpose

1. The purpose of this paper is to:

- Update the Resources Committee on the "market" as context for remuneration decisions in 2017;
- Recommend increases to pay bands effective 1 July 2017;
- Recommend an approach for performance based increases in the 2017 remuneration review;
- Obtain approval to engage with unions through the Remuneration Forum; and
- Set out the obligation to consult the State Services Commission (SSC) on our 2017 remuneration intentions.

Background

2. The Ministry has contractual obligations through the Collective Employment Agreement (CEA) and through Individual Employment Agreements (IEAs) to review remuneration annually. The Ministry's CEA also commits to a Remuneration Forum with unions and provides some detail on how this will work.

3. The State Services Commission (SSC) document *Government's Expectations for Pay and Employment Conditions in the State Sector (May 2012)* provides that:

- Public Service Departments must have a bargaining strategy that meets the expectations approved by the State Services Commissioner and must not commence bargaining or commit to an outcome (including terms of settlement) without this approval.

- Outcomes of Remuneration Forums and reviews should reflect these same expectations. Public Service Departments must consult SSC before committing to an outcome.

- Where the Commissioner considers the Ministry's proposed course of action is at odds with the expectations, approval of the Ministry's Minister, the Minister of State Services, and the Minister of Finance is required.

4. In 2015, the SSC indicated that there would need to be a clear link between our four-year plan and our remuneration strategy for the remuneration review. Last year endorsement was gained for OUT OF SCOPE increases to remuneration OUT OF SCOPE

Market Update

5. s9(2)(b)(ii)

6.

7. Included in Hay Group's market analysis are a number of economic indicators. In March 2017, the Consumer Price Index was 2.2%, unemployment 5.2%, average hourly earnings increased 1.32%, and GDP grew 3.1%.

Data on Staff

8. The Ministry has a 5 point rating scale for performance:

   1 = Unsatisfactory performance
   2 = Improvement required OR
   2 = Developing into the role
   3 = Strong performance
   4 = High performance
   5 = Exceptional performance

9. OUT OF SCOPE

[1] Excludes tier two.

OUT OF SCOPE

11. It should be noted that by definition the public sector median is the point at which 50% of the public sector pays more and 50% pays less for a position of a given size. When

[2] This has been calculated by comparing actual TFR against position mid-point unless personal pay band differs, in which case personal band is used.

public sector agencies increase their remuneration, this in turn increases the median. Our position against the market median changes with the application of the annual remuneration review through the agreed performance and remuneration matrix and the level of average increase. Our position against the market can only improve from year to year if the level of average increase delivered through the annual remuneration review is greater than the average market movement and the reduction in average pay rates that occurs when higher paid staff leave and are replaced with lower paid staff.

12. As part of the Total Fixed Remuneration (TFR) approach introduced in 2012, it was agreed that increases to align the Ministry with the public sector median would occur over successive remuneration rounds. While substantial increases have occurred since 2012, we are still on average 4.46% behind the 2016 public sector median (with an average position in range of 95.54%). Based on the updated information (effective March 2017) the Ministry will on average be 7.28% behind the public sector median, with an average position in range of 92.72%. With an average increase of 3.04% for pay bands up to band 23 this year, increasing remuneration by an average of 2% does not offer any chance for improving our position in the market for 2017/18.

13. Unplanned turnover at 7.52% at March 2017 is slightly higher than last year's 5.14%. No specific recruitment/retention issues have been identified that would warrant alternative market comparisons (than *Public Sector Fixed Package*). We will, however, be consulting Divisional Managers on their views shortly.

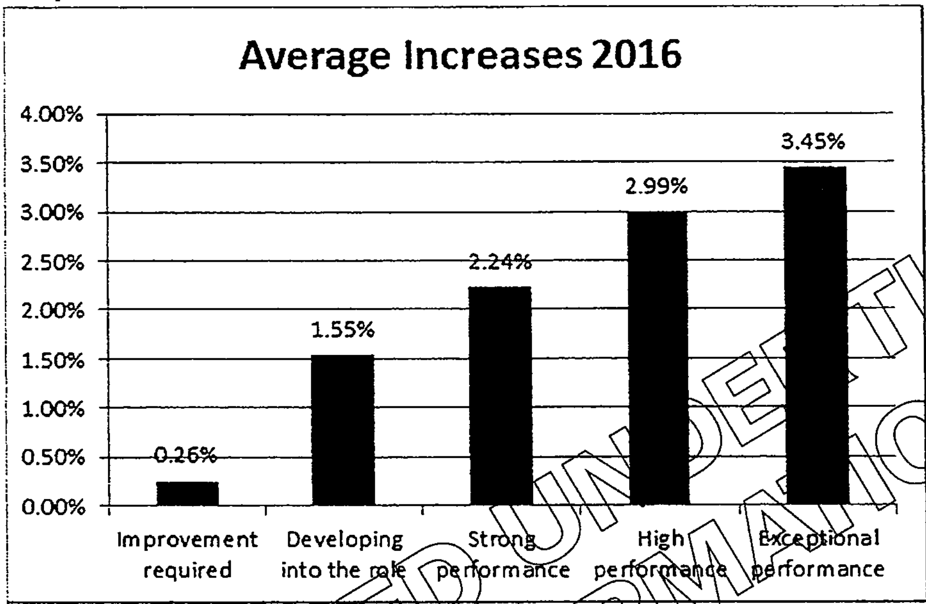
14 OUT OF SCOPE

OUT OF SCOPE

[3] Excludes tier two.

15. The following graph (graph 3) sets out the level of average pay increases awarded in 2015/16[4] for each performance level.

Graph Three: Level of Total Fixed Remuneration increases 2015/16



Pay Band Movement

16. Attached as Annex A is a table that sets out the Ministry's current pay band mid-points (the 100% rate for each pay band) and the proposed 2017 midpoints. The proposed 2017 mid-points are set to match the *Public Sector Fixed Package Median*. The percentage change from 2016/17 to 2017/18 is included. This is the level of increase to the pay band required to fully meet the market median at each pay band. The increases range from 1.55% to 3.9% with no negative movements this year. The exception to this is the grand parented band FP6 that had a movement of 8.43%. This could be the result of the more volatile methodology in setting this pay band, taking a single job size point and not a range of points. This makes the sample size smaller and more likely for the data to be skewed from single, larger changes in the sample set. We have not, therefore applied an 8.43% to pay band FP6. Instead we consider it appropriate to apply the same level of increase to FP6 as is applied to pay band 22 being the appropriate range of movement for FP6.

17. The largest increase this year is to band 18 and band SPO (with the exception of band FP6 that only has two employees still remunerated in this band). The market at this level increased by 3.90%, which is not significantly higher than other increases. It should be noted for the future however that if one or more pay band increase (or decrease) at a rate that is out of synch with the rest of the pay bands, some smoothing of the raw market figures may be required to ensure that there are no areas of compression.

[4] Excludes tier two.

18. Attached at Annex B is a table that sets out the proposed new pay bands based on the application of market movements to mid-points. Included in this Annex is the distance (as a percent) between each pay band mid-point and the one below.

19. It is proposed that the Ministry increase its pay bands as set out in Annex B from 1 July 2017. For low performing staff near the bottom of the pay band, there is a risk of falling below the 85% pay band minimum. There are approximately 170 people that will fall below 85% if the proposed increases to the salary bands are approved. Performance increases should move the majority of people over 85% as part of the remuneration round. If poor or low performance means an entitled increase that would not move them to within the pay band, they should receive an increase to the new 85% rate. It is proposed that band FP6 increase by the same market movement of band 22 – 3.79%.

Potential Performance and Remuneration Matrix

20. We have developed the 2017 performance and remuneration matrix (matrix one below) based on average increase levels of 2%. This has an estimated cost of $2.5 million (including a provision for vacant positions).

21. The pay range from 85% to 115% can be thought of as a continuum of performance with the bottom third (85% to 94.99%) associated with developing performance or lower levels of performance. The middle third of the range (95 – 104.99%) is associated with strong performance and top third of the range (105 – 115%) is associated with high and exceptional levels of performance.

22. Performance, relative to position in range, is a key factor that determines the appropriate level of pay increase. The intention is to deliver higher levels of increase for comparable levels of performance when position in range is lower and vice-versa.

23. This option has been costed using last year's performance ratings where there was one available and presuming a performance rating of 'strong performance' where there wasn't. Employees who are not eligible (less than 3 months service, fixed term employees for less than a year, and employees on LWOP) have been excluded from the costings. Vacant positions have been costed at the cost of the increase to the pay band mid-point. There are 106 vacant positions included in the costing.

Matrix 1: Proposed 2017 Performance and Remuneration Matrix

Rating	<85%	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
Unsatisfactory Performance	Up to 85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Improvement Required	Up to 85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Developing into the role	Up to 85% - 3.00%	0.00% - 2.85%	0.00% - 2.70%	0.00% - 2.55%	0.00%	0.00%	0.00%	0.00%
Strong Performance	Up to 85% - 3.50%	0.00% - 3.35%	0.00% - 3.20%	0.00% - 3.05%	0.00% - 2.90%	0.00% - 2.75%	0.00% - 2.60%	0.00%
High Performance	Up to 85% - 4.00%	1.85% - 3.85%	1.70% - 3.70%	1.55% - 3.55%	1.40% - 3.40%	1.25% - 3.25%	1.10% - 3.10%	0.00%
Exceptional Performance	Up to 85% - 4.50%	2.35% - 4.35%	2.20% - 4.20%	2.05% - 4.05%	1.90% - 3.90%	1.75% - 3.75%	1.60% - 3.60%	0.00%

24. While further variations on this matrix can be developed and costed, the matrix approach gives managers the discretion on the level of increases recommended. Groups will be asked to ensure that the increases they award do not exceed the average increase agreed (across all eligible and ineligible staff and vacant positions) but have the flexibility to recommend different levels of reward to each individual.

Budget and Cost implications

25. Our Four Year Plan included provision for a 2% increase in salaries and wages in 2016/17[5]. OUT OF SCOPE
OUT OF SCOPE

Table Two: Four year plan versus actual budget

	4YP 2017/18	Actual Budget 2017/18
Remuneration Budget	$105,269,000	$106,907,000
2%	2,030,000	$2,138,140
OUT OF SCOPE		

26. OUT OF SCOPE

27. ECA allowances are a percentage calculation of salary. When salary increases, the allocated ECA allowances also increase. In previous years, this has amounted to approximately one percent of the total increase. Previously the decision was taken that this amount is additional to the cost increase in salaries and should not reduce the available budget for the remuneration round. It is assumed that the same position will apply in 2017.

[5] Excluding LES
[6] Includes remuneration increases for SLT but excludes provision for at risk performance payments for SLT and remuneration increases for LES.

Engaging with SSC

28. For the last two years SSC has agreed to a total remuneration review budget slightly over 2% OUT OF SCOPE Prior to this, larger increases were approved of 3.09% in 2013 and a 2.7% in 2014.

29. The annual inflation rate has now been confirmed for the year ending March 2017 at 2.2%. This has increased significantly since the last two years when it was sitting at 0.4%. The impact of this on our ability to gain SSC agreement for an increase to our wage bill of 2.5% or greater is unknown. We do not, however, anticipate any softening of the constraints they apply to remuneration intentions. We do expect it will be their preference to restrict the Ministry to a total envelope of 2% for 2017/18.

30. At this stage, it is difficult to accurately estimate the cost implications of the 2017 remuneration review as there are a number of unknown variables. These include individual performance ratings, the level of discretion managers will exercise within the given pay increase parameters and the extent to which managers will seek to make special cases for rewards outside these parameters and the size of these recommended rewards. As a consequence, we recommend that each Group be tasked with ensuring their recommendations do not exceed the agreed level of average increase.

31. Once performance and remuneration recommendations are submitted, it will be possible to accurately calculate the cost of proposed increases and to provide guidance to the moderation process in terms of outcomes, particularly in relation to special cases.

32. In the context of bargaining, remuneration issues were discussed by SLT. We understand there was some discussion about seeking a higher level of movement to pay through the remuneration round. s9(2)(g)(i) OUT OF SCOPE which would mean the Ministry would likely have to seek agreement through the Committee of Ministers of State Sector Employment Relations (CMSSER).

33. Either we seek SSC approval to an average of 2% in increases in remuneration (which increases our on-going liabilities) OUT OF SCOPE We would expect SSC to be resistant to anything over 2% OUT OF SCOPE Should the Resources Committee conclude the Ministry seek a higher level of rewards than 2% in increases OUT OF SCOPE consultation with the Chief Executive is recommended before we proceed to engage with SSC. The Ministry will likely struggle to demonstrate a recruitment / retention case with very low turnover. The other justification required to support a higher level adjustment is a tangible productivity gain case.

Remuneration Forum

34. The Ministry's Collective Agreement provides for an annual Remuneration Forum. HRG have arranged the initial meeting with the unions to discuss the approach to the 2017 performance and remuneration review that is outlined in a separate paper.

35. The Remuneration Forum will meet once the Resources Committee has determined an average level of increase for the 2017 remuneration review to be discussed with SSC so that the unions have an opportunity for input into these decisions. Market movement, proposed increases to pay bands, the average increase for the 2017 remuneration review and market pressures are all matters that will be discussed with the unions. Union input into the decisions will be reported back to the Resources Committee by 20 June 2017 (at the latest) in order to confirm the Resources Committee's approved approach prior to engagement with SSC.

Advice to SSC on 2017 Remuneration Intentions

36. A copy of the document *Government's Expectations for Pay and Employment Conditions in the State Sector* is attached at Annex C.

37. The Ministry is required to consult SSC about its intentions in relation to the 2017 remuneration review.

38. The Ministry will write to SSC following confirmation by the Resources Committee of our remuneration intentions, and following consideration of union input.

Annex A: Application of market movements to current bands

2017 vs 2016 Comparison at 100%					
Job Family	**Grade/ Job Band**	**Points Range**	**1-Jul-16**	**1-Jul-17**	**Change**
			$	$	%
Foreign Policy	PO1	269-313	65,036	**66,414**	2.12%
	PO2	439-518	103,874	**107,100**	3.11%
	SPO	519-613	122,904	**127,692**	3.90%
	FP4	702	150,779	**154,625**	2.55%
	FP5	994	203,709	**210,851**	3.51%
	FP6	1182	221,396	**229,787**	3.79%
Specialists	Intern	114-134	40,462	**40,841**	0.94%
	11	161-191	47,740	**48,816**	2.25%
	12	192-227	52,404	**53,786**	2.64%
	13	228-268	58,600	**59,996**	2.38%
	14	269-313	65,036	**66,414**	2.12%
	15	314-370	75,096	**77,374**	3.03%
	16	371-438	87,234	**89,952**	3.12%
	17	439-518	103,874	**107,100**	3.11%
	18	519-613	122,904	**127,692**	3.90%
	19	614-734	145,467	**148,753**	2.26%
	20	735-879	171,602	**177,851**	3.64%
	21	880-1055	203,621	**206,784**	1.55%
	22	1056-1260	227,867	**236,500**	3.79%
	23	1261-1507	263,144	**269,915**	2.57%

Annex B: Proposed Salary Bands for 2017/18

Job Family	Grade/ Job Band	Points Range	1 July 2017			Distance between bands
			85%	**100%**	115%	
Foreign Policy	PO1	269-313	56,452	**66,414**	76,376	
	PO2	439-518	91,035	**107,100**	123,165	61.26%
	SPO	519-613	108,538	**127,692**	146,846	19.23%
	FP4	702	131,431	**154,625**	177,819	21.09%
	FP5	994	179,223	**210,851**	242,479	36.36%
	FP6	1182	195,319	**229,787**	232,430	8.98%
Specialists	Intern	114-134	34,715	**40,841**	46,967	
	11	161-191	41,494	**48,816**	56,138	19.53%
	12	192-227	45,718	**53,786**	61,854	10.18%
	13	228-268	50,997	**59,996**	68,995	11.55%
	14	269-313	56,452	**66,414**	76,376	10.70%
	15	314-370	65,768	**77,374**	88,980	16.50%
	16	371-438	76,459	**89,952**	103,445	16.26%
	17	439-518	91,035	**107,100**	123,165	19.06%
	18	519-613	108,538	**127,692**	146,846	19.23%
	19	614-734	126,440	**148,753**	171,066	16.49%
	20	735-879	151,173	**177,851**	204,529	19.56%
	21	880-1055	175,766	**206,784**	237,802	16.27%
	22	1056-1260	201,025	**236,500**	271,975	14.37%
	23	1261-1507	229,428	**269,915**	310,402	14.13%

Annex C: Government's Expectations for Pay and Employment Conditions in the State Sector – May 2012

Government's Expectations for Pay and Employment Conditions in the State Sector

May 2012

Introduction

This document sets out Government policy and expectations for all pay and employment conditions in the State sector. These Expectations apply to all State sector agencies except State Owned Enterprises. For the purposes of these expectations "pay and employment conditions" include all processes for adjusting remuneration and conditions, including collective bargaining.

These Expectations continue to apply in the context of a fragile economy, with ongoing uncertainty in the International economic environment. The fiscal situation for State sector agencies remains constrained.

These Expectations will form the framework for all State sector agencies to work within when submitting bargaining and remuneration strategies and settlement proposals to the State Services Commission (SSC) or the Director General of Health for consultation or approval. Boards of Crown entities will be required to have regard to these Expectations when establishing and adjusting their pay and employment conditions.

These Expectations update and replace the Government's Expectations agreed by Cabinet in 2010. They will be revised from time to time and may be supplemented by additional specific expectations.

Government Priorities

One of the Government's priorities is to deliver better public services to the people of New Zealand, within the tight financial constraints the Government is operating under. All decisions about pay and employment conditions are expected to support this priority.

Government Policy for Employment and Workplace Relations

Government's overarching policy for employment and workplace relations is that:

- all parties are treated fairly and with respect
- workplace relations are based on good faith, natural justice, human rights, good employer practice and requirements, and relevant legislation
- there is flexibility and opportunity for all
- bargaining is efficient, effective and focussed.

Pay and Employment Conditions

State sector agencies must meet the following criteria when adjusting pay and employment conditions, including through collective bargaining and remuneration adjustment processes:

1 Adjustments to pay and conditions must support achievement of the Government's priorities for the State sector. Bargaining outcomes should deliver organisational and sector performance improvement, foster continuous improvement and productivity enhancement, support effective employee engagement and achieve results, as identified in the organisation's and sector's Budget Plan and Workforce Strategy (or equivalent).

2 Adjustments must be affordable and sustainable within baseline funding and should not lead wider labour market movements and trends.

3 Agencies must identify flow-on implications of settlements, both within and beyond the agency and sector, and have plans in place to manage these.

4 Pay structures and other conditions must be demonstrated as necessary to support an organisation's business and workforce objectives.

5 Market relativity and/or cost of living adjustment will not suffice as the sole basis for pay adjustment – specific business imperatives (such as improved performance and demonstrable recruitment and retention difficulties) are required.

6 The cost of all adjustments to pay and conditions, including built-in progression through pay scales, and performance-based pay increases, as well as any changes to other conditions such as leave entitlements, must be taken into account when setting the financial envelopes for both bargaining and remuneration strategies.

7 Backdating of any or all components of adjustments to pay and conditions (either through effective date or lump sum payment) is not generally favoured.

Implementation

Application

All State sector organisations except State Owned Enterprises must have regard to these Expectations when setting bargaining and remuneration strategy, and determining other employment relations policies.

Public Service Departments must have a bargaining strategy that meets these Expectations approved by the State Services Commissioner (the Commissioner), and must not commence bargaining or commit to an outcome (including final Terms of Settlement) without this approval.

Outcomes of Remuneration Forums and reviews should reflect these Expectations. Public Service Departments must consult SSC before committing to an outcome.

Other agencies required to consult either the Commissioner or a monitoring department must have bargaining and remuneration strategies that meet these Expectations as the basis for that consultation.

Where an agency wishes to pursue a course of action that the Commissioner or monitoring department considers is at odds with these Expectations, approval of the agency's responsible Minister, the Minister of State Services and the Minister of Finance is required.

Information Sharing

SSC will retain a whole-of-sector overview of trends in pay and conditions, bargaining outcomes and drivers of these. To facilitate this, all agencies must provide their Minister, monitoring department, Treasury and SSC with:

- Up-to-date information on the progress and potential risks associated with bargaining.
- Aggregated information on an annual basis (as at 30 June) on remuneration levels and personnel cost movement over the year, including detail on:
  - the component of direct personnel cost movement attributable to the outcome of individually or collectively negotiated pay settlements or remuneration forum outcomes
  - the components of direct personnel cost movement attributable to other forms of pay increase, such as built-in progression through pay scales or discretionary performance-based pay increases
  - the component of direct personnel cost movement attributable to changes in the number of employees.

SLT Meeting Paper

Title	2016 Remuneration Round - Market Update and Performance and Remuneration Matrix proposal
Meeting date	19 May 2016
Status	New paper
Action required	For decision
Submitted by	Bronwyn Kingdom,
Meeting attendee/s	Bronwyn Kingdom,

Key points

Summary of issue and purpose of paper	The purpose of this paper is to: • Update SLT on the "market" as context for remuneration decisions in 2016; • Recommend increases to pay bands effective 1 July 2016; • Recommend approach for performance based increases in the 2016 remuneration round; • Obtain approval to engage with unions through the Remuneration Forum; and • Set out the obligation to consult the State Services Commission (SSC) on our 2016 remuneration intentions.
MFAT business areas affected	All New Zealand employed staff across the Ministry on and off shore (excludes Locally Engaged Staff).
Major risks	The primary risk is to our staff engagement if the remuneration round is not managed fairly, equitably and efficiently.
Resource implications (including cost of proposal)	OUT OF SCOPE Budget provision has been made for an average increase of 2% on our wage bill. Based on our current wage bill this equates to $2,161,126. OUT OF SCOPE

Consultation undertaken Consultation mandatory if any implications exist for FIN, AMD, IMD, HRG, and UNSC TF.	The proposed changes to the pay bands and the preferred remuneration and performance matrix will be discussed in the Remuneration Forum with the FSA and PSA once agreement to proceed with this engagement is obtained from SLT. The budget and cost implications have been discussed with Finance.
Other relevant internal units and external stakeholders	Engagement with SSC will occur with SLT agreement and will follow the report back to SLT on union and management engagement.

Recommendations

1. **Note** s9(2)(b)(ii) s9(2)(b)(ii)	**YES / NO**
2. **Approve** the remuneration pay bands for 2016/17 set out in Annex B;	**YES / NO**
3. **Indicate** the preferred level of average increase for the 2016 remuneration round; and	**YES / NO**
4. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult managers on remuneration pressures and report the results of this engagement back to the Resource Committee as soon as possible.	**YES / NO**

SLT decisions confirmed by:

(to be signed after SLT meeting for record and provided to the submitting division/person)

CEO's Office	**Date**

Report

Purpose

1. The purpose of this paper is to:

   - Update SLT on the "market" as context for remuneration decisions in 2016;
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   - Public Service Departments must have a bargaining strategy that meets the expectations approved by the State Services Commissioner and must not commence bargaining or commit to an outcome (including terms of settlement) without this approval.

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   - Where the Commissioner considers the Ministry's proposed course of action is at odds with the expectations, approval of the Ministry's Minister, the Minister of State Services, and the Minister of Finance is required.

4. In 2015 the SSC indicated that there would need to be a clear link between our four year plan and our remuneration strategy for this years remuneration roun OUT OF SCOPE, s9(2)(g)(i)

5.

Market Update

6. s9(2)(b)(ii)

7.

8.

9. Included in Hay Group's market analysis are a number of economic indicators. In March 2016, the Consumer Price Index was 0.4%, unemployment 5.3%, average hourly earnings increased 2.1%, and GDP grew 2.5%.

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1 = Unsatisfactory performance
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OUT OF SCOPE

[1] Excludes tier two.

OUT OF SCOPE

13. It should be noted that by definition the public sector median is the point at which 50% of the public sector pays more and 50% pays less for a position of a given size.

[2] OUT OF SCOPE

When public sector agencies increase their remuneration, this in turn increases the median. Our position against the market median changes with the application of the annual remuneration round through the agreed performance and remuneration matrix and the level of average increase. Our position against the market can only improve from year to year if the level of average increase delivered through the remuneration round is greater than the average market movement and the reduction in average pay rates that occurs when higher paid staff leave and are replaced with lower paid staff.

14. As part of the Total Fixed Remuneration (TFR) approach introduced in 2012, it was agreed that increases to align the Ministry with the public sector median would occur over successive remuneration rounds. While substantial increases have occurred since 2012, we are still on average 3.97% behind the 2015 public sector median (with an average position in range of 96.03%). Based on the updated information (effective Mar 2016) the Ministry will on average be 5.6% behind the public sector median, with an average position in range of 94.4%. With an average increase of 1.34% (excluding negative movements) for pay bands upto band 23 this year, increasing remuneration by an average of 2% offers a real chance of our position in the market improving.

15. Unplanned turnover is at its lowest in five years, sitting at xxx% at March 2016. No specific recruitment/retention issues have been identified that would warrant alternative market comparisons (than *Public Sector Fixed Package*). We will, however, be consulting managers on their views shortly.

16. OUT OF SCOPE

OUT OF SCOPE

17. The following graph (graph 3) sets out the level of pay increases awarded in 2014/15[5].

Graph Three: Level of Total Fixed Remuneration increases 2015/16

3 OUT OF SCOPE
4
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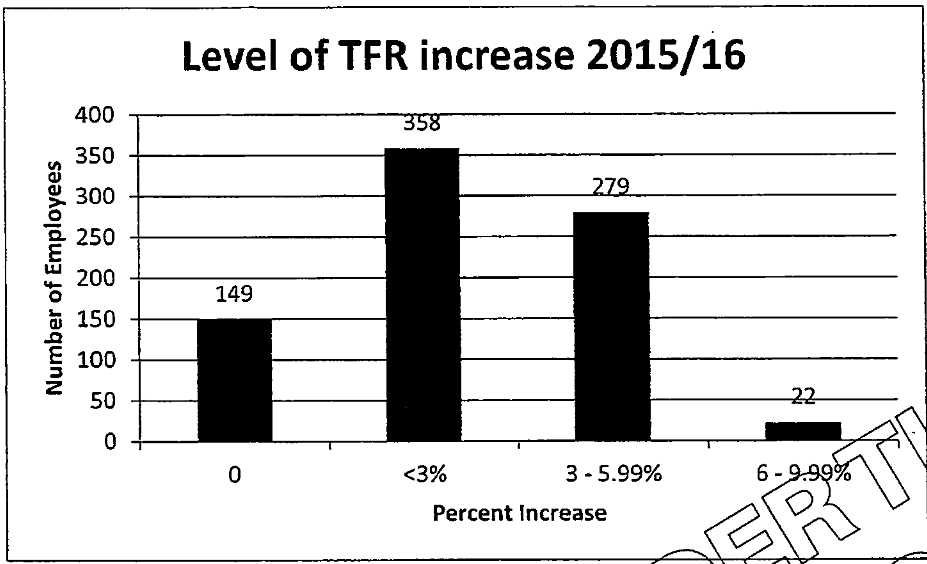

Pay Band Movement

18. Attached as Annex A is a table that sets out the Ministry's current pay band mid-points (the 100% rate for each pay band) and the proposed 2016 midpoints. The proposed 2016 mid-points are set to match the *Public Sector Fixed Package Median*. The percentage change from 2015/16 to 2016/17 is included. This is the level of increase to the pay band required to fully meet the market median at each pay band. Where there was a decrease in median (pay bands 9,10 and 23) the 2015/16 amount has been retained. The increases range from 0.00% to 3.43%.

19. Band 23's median has dropped this year, but as this band received the highest increase last year of 4.75% (over 1.70% more than any other band) a nil increase will not have any detrimental effect on the relativities between the bands on either sides.

20. The largest increase this year is to band 21. The market at this level increased by 3.43% - over 1.67% more than any other pay band. With such a large increase at this level the distance between band 21 and band 22 has decreased to 11.91%. While this is still within acceptable levels, it should be noted for the future however that if one or more pay band increase (or decrease) at a rate that is out of synch with the rest of the pay bands, some smoothing of the raw market figures may be required to ensure that there are no areas of compression.

21. Attached at Annex B is a table that sets out the proposed new pay bands based on the application of market movements (excluding negative movements) to mid-points. Included in this Annex is the distance (as a percent) between each pay band mid-point and the one below.

22. It is proposed that the Ministry increase its pay bands as set out in Annex B from 1 July 2016. For low performing staff near the bottom of the pay band, there is a risk

of falling below the 85% pay band minimum. There is approximately 70 people that will fall below 85% if the proposed increases to the salary bands are approved. Performance increases should move the majority of people over 85% as part of the remuneration round. If poor or low performance means an entitled increase that would not move them to within the pay band, they should receive an increase to the 85% rate.

Potential Performance and Remuneration Matrix

23. We have developed the 2016 performance and remuneration matrix based on average increase levels of 2%. This has an estimated cost of $2.090 million (including a provision for vacant positions).

24. The pay range from 85% to 115% can be thought of as a continuum of performance with the bottom third (85% to 94.99%) associated with developing performance or lower levels of performance. The middle third of the range (95 – 104.99%) is associated with strong performance and top third of the range (105 – 115%) is associated with high and exceptional levels of performance.

25. Performance, relative to position in range, is a key factor that determines the appropriate level of pay increase. The intention is to deliver higher levels of increase for comparable levels of performance when position in range is lower and vice-versa.

26. This option has been costed using last year's performance ratings where there was one available and presuming a performance rating of 'strong performance' where there wasn't. Employees who are not eligible (less than 3 months service, fixed term employees for less than a year, and employees on LWOP) have been excluded from the costings. Vacant positions have been costed at the cost of the increase to the pay band mid-point. There are 81 vacant positions included in the costing.

Matrix 1: Proposed 2016 Performance and Remuneration Matrix

Rating	<85%	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115.00%
Unsatisfactory Performance	Up to 85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Improvement Required	Up to 85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Developing into the role	1.50-3.50%	1.00-3.00%	0.50-2.50%	0.00-1.00%	0.00%	0.00%	0.00%	0.00%
Strong performance	2.50-4.50%	2.00-4.00%	1.50-3.50%	0.75-2.75%	0.25-2.25%	0.00-1.75%	0.00-1.25%	0.00%
High Performance	3.00-5.00%	2.50-4.50%	2.50-4.50%	1.50-3.50%	1.00-3.00%	0.25-2.25%	0.00-1.75%	0.00%
Exceptional Performance	3.50-5.50%	3.00-5.00%	3.00-5.00%	2.00-4.00%	1.50-3.50%	1.00-3.00%	0.50-2.50%	0.00%

27. While further variations on this matrix can be developed and costed, the matrix approach gives managers the discretion on the level of increases recommended. Groups will be asked to ensure that the increases they award do not exceed the

average increase agreed (across all eligible and ineligible staff and vacant positions) but have the flexibility to recommend different levels of reward to each individual.

Budget and Cost implications

28. Our Four Year Budget Plan included provision for a 2% increase in salaries and wages in 2016/17. The Ministry has made budget provision of $xxx.xxx million in 2016/17 for the 2016 remuneration round[6]. OUT OF SCOPE
OUT OF SCOPE

29. ECA allowances are a percentage calculation of salary. When salary increases, the allocated ECA allowances also increase. In previous years this has amounted to approximately one percent of the increase. Previously the decision was taken that this amount is additional to the cost increase in salaries and should not reduce the available budget for the remuneration round. It is assumed that the same position will apply in 2016.

Engaging with SSC

30. For the last two years SSC have agreed to a increases slightly over 2% OUT OF SCOPE
OUT OF SCOPE

31. The annual inflation rate has now been confirmed for the year ending March 2016 at 0.4%. Based on the low level of inflation, it may be challenging to gain SSC agreement for a 2% increase to our wage bill.

32. At this stage, it is difficult to accurately estimate the cost implications of the 2016 remuneration round as there are a number of unknown variables. These include individual performance ratings, the level of discretion managers will exercise within the given pay increase parameters and the extent to which managers will seek to make special cases for rewards outside these parameters and the size of these recommended rewards. As a consequence, we recommend that each Group be tasked with ensuring their recommendations do not exceed the agreed level of average increase.

33. Once performance and remuneration recommendations are submitted, it will be possible to accurately calculate the cost of proposed increases and to provide guidance to the moderation process in terms of outcomes, particularly in relation to special cases.

Remuneration Forum

34. The Ministry's Collective Agreement provides for an annual Remuneration Forum. The unions have agreed, through early engagement in this process, to the approach to

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[6] Includes increases for SLT.

the 2016 performance review and remuneration round that is outlined in a separate paper.

35. The Remuneration Forum will meet again once SLT have approved an average level of increase and remuneration and performance matrix so that the unions have an opportunity for input into these decisions. Market movement, proposed increases to pay bands, the average increase for the 2016 remuneration round and market pressures are all matters that will be discussed with the unions. Union input into the decisions will be reported back to the Resource Committee by 14 June 2016 (at the latest) in order to confirm SLT's approved approach prior to engagement with SSC.

Advice to SSC on 2016 Remuneration Intentions

36. A copy of the document *Government's Expectations for Pay and Employment Conditions in the State Sector* is attached at Annex C.

37. The Ministry is required to consult SSC about its intentions in relation to the 2016 remuneration round.

38. The Ministry will write to SSC following confirmation by SLT of our remuneration intentions, and following consideration of union input.

Recommendations

39. It is recommended that you:

1. **Note** that s9(2)(b)(ii)

2. **Approve** the remuneration pay bands for 2016/17 set out in Annex B;

3. **Approve** the Performance and Remuneration Matrix for 2015/16; and

4. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult managers on remuneration pressures and report the results of this engagement back to Resource Committee as soon as possible.

Annex A: Application of market movements to current bands

2016 vs 2015 Comparison at 100%					
Job Family	**Grade/ Job Band**	**Points Range**	**1 July 2015**	**1 July 2016**	**Change**
			$	**$**	**%**
Foreign Policy	PO1	269-313	64,177	**65,036**	1.34%
	PO2	439-518	102,321	**103,874**	1.52%
	SPO	519-613	121,184	**122,904**	1.42%
	FP4	702	146,591	**150,779**	2.86%
	FP5	994	197,870	**203,709**	2.95%
	FP6	1182	218,703	**221,396**	1.23%
Specialists	9	114-134	40,462	**40,462**	0.00%
	10	135-160	44,146	**44,146**	0.00%
	11	161-191	47,279	**47,740**	0.98%
	12	192-227	51,500	**52,404**	1.76%
	13	228-268	57,618	**58,600**	1.70%
	14	269-313	64,177	**65,036**	1.34%
	15	314-370	74,655	**75,096**	0.59%
	16	371-438	86,720	**87,234**	0.59%
	17	439-518	102,321	**103,874**	1.52%
	18	519-613	121,184	**122,904**	1.42%
	19	614-734	144,693	**145,467**	0.53%
	20	735-879	170,000	**171,602**	0.94%
	21	880-1055	196,877	**203,621**	3.43%
	22	1056-1260	223,394	**227,867**	2.00%
	23	1261-1507	263,144	**263,144**	0.00%

Annex B: Proposed Salary Bands for 2016/17

Job Family	Grade/ Job Band	Points Range	1 July 2016			Distance between bands
Foreign Policy	PO1	269-313	55,281	**65,036**	74,791	
	PO2	439-518	88,293	**103,874**	119,455	59.72%
	SPO	519-613	104,468	**122,904**	141,340	18.32%
	FP4	702	128,162	**150,779**	173,396	22.68%
	FP5	994	173,153	**203,709**	234,265	35.10%
	FP6	1182	188,187	**221,396**	254,605	8.68%
Specialists	9	114-134	34,393	**40,462**	46,531	
	10	135-160	37,524	**44,146**	50,768	9.11%
	11	161-191	40,579	**47,740**	54,901	8.14%
	12	192-227	44,543	**52,404**	60,265	9.77%
	13	228-268	49,810	**58,600**	67,390	11.82%
	14	269-313	55,281	**65,036**	74,791	10.98%
	15	314-370	63,832	**75,096**	86,360	15.47%
	16	371-438	74,149	**87,234**	100,319	16.16%
	17	439-518	88,293	**103,874**	119,455	19.08%
	18	519-613	104,468	**122,904**	141,340	18.32%
	19	614-734	123,647	**145,467**	167,287	18.36%
	20	735-879	145,862	**171,602**	197,342	17.97%
	21	880-1055	173,078	**203,621**	234,164	18.66%
	22	1056-1260	193,687	**227,867**	262,047	11.91%
	23	1261-1507	223,672	**263,144**	302,616	15.48%

Annex C: Government's Expectations for Pay and Employment Conditions in the State Sector – May 2012

Government's Expectations for Pay and Employment Conditions in the State Sector

May 2012

Introduction

This document sets out Government policy and expectations for all pay and employment conditions in the State sector. These Expectations apply to all State sector agencies except State Owned Enterprises. For the purposes of these expectations "pay and employment conditions" include all processes for adjusting remuneration and conditions, including collective bargaining.

These Expectations continue to apply in the context of a fragile economy, with ongoing uncertainty in the international economic environment. The fiscal situation for State sector agencies remains constrained.

These Expectations will form the framework for all State sector agencies to work within when submitting bargaining and remuneration strategies and settlement proposals to the State Services Commission (SSC) or the Director General of Health for consultation or approval. Boards of Crown entities will be required to have regard to these Expectations when establishing and adjusting their pay and employment conditions.

These Expectations update and replace the Government's Expectations agreed by Cabinet in 2010. They will be revised from time to time and may be supplemented by additional specific expectations.

Government Priorities

One of the Government's priorities is to deliver better public services to the people of New Zealand, within the tight financial constraints the Government is operating under. All decisions about pay and employment conditions are expected to support this priority.

Government Policy for Employment and Workplace Relations

Government's overarching policy for employment and workplace relations is that:

- all parties are treated fairly and with respect
- workplace relations are based on good faith, natural justice, human rights, good employer practice and requirements, and relevant legislation
- there is flexibility and opportunity for all
- bargaining is efficient, effective and focussed.

Pay and Employment Conditions

State sector agencies must meet the following criteria when adjusting pay and employment conditions, including through collective bargaining and remuneration adjustment processes:

1 Adjustments to pay and conditions must support achievement of the Government's priorities for the State sector. Bargaining outcomes should deliver organisational and sector performance improvement, foster continuous improvement and productivity enhancement, support effective employee engagement and achieve results, as identified in the organisation's and sector's Budget Plan and Workforce Strategy (or equivalent).

2 Adjustments must be affordable and sustainable within baseline funding and should not lead wider labour market movements and trends.

3 Agencies must identify flow-on implications of settlements, both within and beyond the agency and sector, and have plans in place to manage these.

4 Pay structures and other conditions must be demonstrated as necessary to support an organisation's business and workforce objectives.

5 Market relativity and/or cost of living adjustment will not suffice as the sole basis for pay adjustment – specific business imperatives (such as improved performance and demonstrable recruitment and retention difficulties) are required.

6 The cost of all adjustments to pay and conditions, including built-in progression through pay scales, and performance-based pay increases, as well as any changes to other conditions such as leave entitlements, must be taken into account when setting the financial envelopes for both bargaining and remuneration strategies.

7 Backdating of any or all components of adjustments to pay and conditions (either through effective date or lump sum payment) is not generally favoured.

Implementation

Application

All State sector organisations except State Owned Enterprises must have regard to these Expectations when setting bargaining and remuneration strategy, and determining other employment relations policies.

Public Service Departments must have a bargaining strategy that meets these Expectations approved by the State Services Commissioner (the Commissioner), and must not commence bargaining or commit to an outcome (including final Terms of Settlement) without this approval.

Outcomes of Remuneration Forums and reviews should reflect these Expectations. Public Service Departments must consult SSC before committing to an outcome.

Other agencies required to consult either the Commissioner or a monitoring department must have bargaining and remuneration strategies that meet these Expectations as the basis for that consultation.

Where an agency wishes to pursue a course of action that the Commissioner or monitoring department considers is at odds with these Expectations, approval of the agency's responsible Minister, the Minister of State Services and the Minister of Finance is required.

Information Sharing

SSC will retain a whole-of-sector overview of trends in pay and conditions, bargaining outcomes and drivers of these. To facilitate this, all agencies must provide their Minister, monitoring department, Treasury and SSC with:

- Up-to-date information on the progress and potential risks associated with bargaining.
- Aggregated information on an annual basis (as at 30 June) on remuneration levels and personnel cost movement over the year, including detail on:
  - the component of direct personnel cost movement attributable to the outcome of individually or collectively negotiated pay settlements or remuneration forum outcomes
  - the components of direct personnel cost movement attributable to other forms of pay increase, such as built-in progression through pay scales or discretionary performance-based pay increases
  - the component of direct personnel cost movement attributable to changes in the number of employees.

SLT Meeting Paper

Title	2015 Remuneration Round - Market Update and Performance Matrix Options
Meeting date	26 May 2015
Status	New paper
Action required	For decision
Submitted by	Bronwyn Kingdom
Meeting attendee/s	Bronwyn Kingdom,

Key points

Summary of issue and purpose of paper	The purpose of this paper is to: • Update SLT on the "market" as context for remuneration decisions in 2015; • Recommend increases to pay bands effective 1 July 2015; • Outline options for performance based increases in the 2015 remuneration round; • Obtain approval to engage with unions through the Remuneration Forum; and • Set out the obligation to consult the State Services Commission (SSC) on our 2015 remuneration intentions.
MFAT business areas affected	All New Zealand employed staff across the Ministry on and off shore (excludes Locally Engaged Staff and SLT).
Major risks	The primary risk is to our staff engagement if the remuneration round is not managed fairly, equitably and efficiently.
Resource implications (including cost of proposal)	The budget provision for the 2015/16 year for the remuneration round is $1.930m (excluding SLT and $1.993m including SLT). A 2% increase across all staff (excluding SLT) is $1.836m and across eleigible staff is $1.715m. OUT OF SCOPE

Consultation undertaken Consultation mandatory if any implications exist for FIN, AMD, IMD, HRG, and UNSC TF.	The proposed changes to the pay bands and the preferred remuneration round performance matrix will be discussed in the Remuneration Forum with the FSA and PSA once agreement to proceed with this engagement is obtained from SLT. The budget and cost implications have been discussed with Finance and they confirm that the budget provision for the remuneration round is affordable, as is an accrual for 2014/15 lump sum payments into the 2015/16 financial year.
Other relevant internal units and external stakeholders	Engagement with SSC will occur with SLT agreement and will follow the report back to SLT on union and management engagement.

Recommendations

1. **Note** that s9(2)(b)(ii)	**YES / NO**
2. **Approve** the remuneration pay bands for 2015/16 set out in Annex B;	**YES / NO**
3. **Consider** the level of increase and lump sum payment that you are prepared to seek agreement to from SSC;	
4. **Indicate** the preferred level of average increase for the 2015 remuneration round and maximum allocation for lump sum performance payments for discussion with unions initially; and	**YES / NO**
5. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult managers on remuneration pressures and report the results of this engagement back to SLT as soon as possible.	**YES / NO**

SLT decisions confirmed by:

(to be signed after SLT meeting for record and provided to the submitting division/person)

CEO's Office	**Date**

Report

Purpose

1. The purpose of this paper is to:

    - Update SLT on the "market" as context for remuneration decisions in 2015;
    - Recommend increases to pay bands effective 1 July 2015;
    - Outline options for performance based increases in the 2015 remuneration round;
    - Obtain approval to engage with unions through the Remuneration Forum; and
    - Set out the obligation to consult the State Services Commission (SSC) on our 2015 remuneration intentions.

Background

2. The Ministry has contractual obligations through the Collective Employment Agreement (CEA) and through Individual Employment Agreements (IEAs) to review remuneration annually. The Ministry's CEA also commits to a Remuneration Forum with unions and provides some detail on how this will work.

3. The SSC document *Government's Expectations for Pay and Employment Conditions in the State Sector (May 2012)* provides that:

    - Public Service Departments must have a bargaining strategy that meets the expectations approved by the State Services Commissioner and must not commence bargaining or commit to an outcome (including terms of settlement) without this approval.
    - Outcomes of Remuneration Forums and reviews should reflect these same expectations. Public Service Departments must consult SSC before committing to an outcome.
    - Where the Commissioner considers the Ministry's proposed course of action is at odds with the expectations, approval of the Ministry's Minister, the Minister of State Services, and the Minister of Finance is required.

4. Last year the SSC signalled the expectation for 2015/16 that the Ministry's remuneration round parameters in terms of percentage expended will include provision for any lump sum payments and should be limited to 2% in total as specified in the Four Year Budget.

5. In January 2015 SSC[1] circulated a transcript of the Morning Report interview with the Finance Minister about the impact of low inflation on wage expectations. The Commission also set out the expectations of the Committee of Ministers on State Sector Employment Relations for 2015 in that communication. Specifically, they advised:

[1] Circulated to SLT by email on 22 January 2015.

- Public Sector wage rises will remain restrained.
- Low inflation suggests pay increases would be lower than was expected under forecasts of 2 – 3% inflation.

Market Update

6. s9(2)(b)(ii)

7.

8. Included in Hay Group's market analysis are a number of economic indicators. The Consumer Price Index was 0.1% (at March 2015) average hourly earnings increased 2.6%, and GDP grew 2.8% (at December 2014).

Data on Staff

9. The Ministry has a 5 point rating scale for performance:

   1 = Unsatisfactory performance
   2 = Development required / or did not meet all objectives[2]
   3 = Strong performance
   4 = High performance
   5 = Exceptional performance

10. OUT OF SCOPE

[2] The ability to distinguish between these two ratings will be built into the HR Kiosk in 2015.
[3] Excludes tier two.

OUT OF SCOPE

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12. It should be noted that by definition the public sector median is the point at which 50% of the public sector pays more and 50% pays less for a position of a given size. When public sector agencies increase their remuneration, this in turn increases the median. Our position against the market median changes with the application of the

[4] OUT OF SCOPE

annual remuneration round through the agreed matrix and the level of average increase. Our position against the market can only improve from year to year if the level of average increase delivered through the remuneration round is greater than the average market movement and the reduction in average pay rates that occurs when higher paid staff leave and are replaced with lower paid staff. If the average level of increase we are able to allocate is less than the market movement, our pay practice will fall further behind the market (which we align our pay policy to).

13. OUT OF SCOPE

14. As part of the Total Fixed Remuneration (TFR) approach introduced in 2012, it was agreed that increases to align the Ministry with the public sector median would occur over successive remuneration rounds. While substantial increases have occurred over the last three remuneration rounds, we are still on average 3.66% behind the 2014 public sector median (with an average position in range of 96.34%). Based on the updated information (effective Mar 2015) the Ministry will on average be 5.34% behind the public sector median, with an average position in range of 94.66%.

15. Unplanned turnover to March 2015 is 8.2%[5]. No specific recruitment/retention issues have been identified that would warrant alternative market comparisons (than *Public Sector Fixed Package*). We will, however, be consulting managers on their views shortly.

16. OUT OF SCOPE

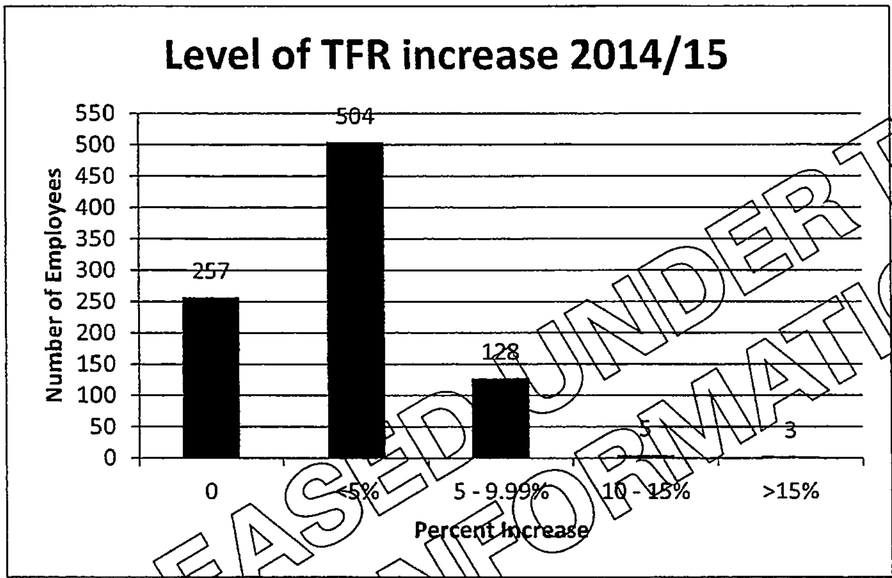
[5]Turnover was 7.97% at March 2014, 9.1% at June 2013, 12.6% at June 2012, 10.2% at June 2011, and 7.3% at June 2010.

OUT OF SCOPE

17. OUT OF SCOPE

18. The following graph (graph 3) sets out the level of pay increases awarded in 2014/15[8].

Graph Three: Level of Total Fixed Remuneration increases 2014/15



Budget Parameters

19. Finance advise that the Ministry's Four Year Plan includes provision in 2015/16 for an average increase of 2% for NZ staff ($1.850m) OUT OF SCOPE Direct workforce costs (salaries, allowances, and leave movements for Wellington and Seconded Staff) OUT OF SCOPE The 2% allocation for NZ staff is based on direct workforce costs only.

20. Finance has also advised that the 2015/16 budget allocation of 2% has been subsequently revised to $1.994m. Once we take SLT's portion out of this, the remuneration round budget provision for 2% is $1.930m.

21. We estimate that approximately $1.5m is saved in remuneration in a year through turnover as higher paid staff are replaced with lower paid staff. (Over the last 12 months there were 64 staff who exited the Ministry with the average TFR for exiting staff being $107,692. Over the same 12 month period, there were 78 new appointments to the Ministry with the average TFR for new staff being $83,680).

[8] Excludes tier two.

While we are appointing staff at a lower cost, it appears that we are also appointing more staff than are leaving.

Pay Band Movement

22. Attached as Annex A is a table that sets out the Ministry's current pay band mid-points (the 100% rate for each pay band). Moving the Ministry's pay band mid-points to match the *Public Sector Fixed Package Median* gives the 2015 mid-points in this table. The percentage change is the proposed increase in the mid-point from 2014/15 to 2015/16. This is the level of increase to the pay band required to fully meet the market median at each pay band. The increases range from 0.56% to 4.75%.

23. The largest increase has been to band 23. The market at this level increased by 4.75% - over 1.7% more than any other pay band. Band 23 however, received no increase (as the market decreased) the previous year. With such a large increase at this level the distance between the band 22 and 23 pay bands has increased from 15.31% to 17.78%. While this distance is still acceptable (and not out of step with other pay bands), it should be noted for the future that if one or more pay band increase (or decrease) at a rate that is out of synch with the rest of the pay bands, some smoothing of the raw market figures may be required to ensure that there are no areas of compression.

24. Attached at Annex B is a table that sets out the proposed new pay bands based on the application of market movements to mid-points. Included in this Annex is the distance (as a percent) between each pay band mid-point and the one below.

25. It is proposed that the Ministry increase its pay bands as set out in Annex B from 1 July 2015. For low performing staff near the bottom of the pay band, there is a risk of falling below the 85% pay band minimum. If performance means someone is in this situation, they should receive an increase to the 85% rate.

Cost of Increases

26. The following table sets out the cost of the nominated level of increase to all employees and only those employees eligible for a remuneration increase through the remuneration round. The portion of the allocation relating to SLT is displayed separately.

Table Two: Cost of Increases

Increase on TFR	All Employees (incl. SLT)	Eligible Employees (excl SLT)	SLT
1%	$ 1,001,734	$ 894,755	$ 42,102
1.5%	$ 1,449,126	$ 1,302,419	$ 53,527
2%	$ 1,901,273	$ 1,714,663	$ 64,953

27. This costing includes provision to increase an employee by more than 2% when a 2% increase would see them fall below 85% of the new pay band.

Potential Performance Matrix

28. We have developed a range of base options for the 2015 remuneration round matrix based on average increase levels of 1%, 1.5% and 2%. With only 2% to distribute, there is little scope for much variation in the level of rewards.

29. The pay range from 85% to 115% can be thought of as a continuum of performance with the bottom third (85% to 94.99%) associated with developing performance or lower levels of performance. The middle third of the range (95 – 104.99%) is associated with strong performance and top third of the range (105 – 115%) is associated with high and exceptional levels of performance.

30. Performance, relative to position in range, is a key factor that determines the appropriate level of pay increase. The intention is to deliver higher levels of increase for comparable levels of performance when position in range is lower and vice-versa.

Option 1: Average increase of 1%

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	1.15%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2 - N	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2 - D	0.75%	0.75%	0.50%	0.00%	0.00%	0.00%	0.00%
3	1.50%	1.00%	1.00%	0.75%	0.50%	0.25%	0.00%
4	2.50%	2.00%	1.50%	1.00%	0.75%	0.50%	0.00%
5	3.50%	3.00%	2.50%	2.00%	1.50%	1.00%	0.00%

Option 2: Average increase of 1.5%

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	1.15%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2 - N	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2 - D	1.37%	0.87%	0.37%	0.00%	0.00%	0.00%	0.00%
3	2.37%	1.87%	1.37%	0.87%	0.37%	0.37%	0.00%
4	3.37%	2.87%	2.37%	1.87%	1.37%	0.87%	0.00%
5	4.37%	3.87%	3.37%	2.87%	2.37%	1.87%	0.00%

Option 3: Average increase of 2%

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	1.15%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2 - N	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2 - D	2.03%	1.53%	1.03%	0.00%	0.00%	0.00%	0.00%
3	3.03%	2.53%	2.03%	1.53%	1.03%	0.53%	0.00%
4	4.03%	3.53%	3.03%	2.53%	2.03%	1.53%	0.00%
5	5.03%	4.53%	4.03%	3.53%	3.03%	2.53%	0.00%

31. Further variations on these options can be developed as required. The performance matrix we develop for use by managers will have a range of increases, plus and minus a factor, around the above percentages. Groups will be asked to ensure that the increases they award do not exceed the average increase agreed (across all eligible and ineligible staff).

32. In order to achieve this, Group's will need to balance their remuneration recommendations to:

- Total cost of TFR for all employees included in the Group (the Group's portion of $1,836,320[9])
- Multiply this by 2%
- This amount may be spread across eligible staff
- This will leave a buffer of $93,680. To spread this amount across Groups also, apply a multiplier of 1.051 to the amount above and this may be spread over the eligible staff also.

Budget Parameters and Cost Implications

33. The budget allocation of 2% for the remuneration round (excluding SLT) is $1.930m. The estimated cost of a 2% increase across eligible staff is $1.715m. The s9(2)(g)(i) OUT OF SCOPE

34. OUT OF SCOPE

[9] ($1,901,273 - $64,953 as set out in paragraph 25).

35. ECA allowances are a percentage calculation of salary. When salary increases, the allocated ECA allowances also increase. In previous years this has amounted to approximately one percent of the increase. In 2013 and 2014 the decision was taken that this amount is additional to the cost increase in salaries and should not reduce the available budget for the remuneration round. It is assumed that the same position will apply in 2015.

36. Under all of the options for increases to remuneration, our pay practice (relative to pay policy) will deteriorate in 2015/16. Allocating available funding to increases in preference to lump sum payments will be necessary to minimise the erosion of market position. The cost of aligning our level of increase to the reported level of increase (2.3%) in the measure we peg our pay bands to is $2.161m. The cost to align our pay practice to our pay policy would be in the order of $5.017m (an increase of 5.34%).

Engaging with SSC

37. In 2013 and 2014 the Ministry sought and gained approval from SSC to apply increases that are above the expected level. Last year the SSC signalled the expectation that the remuneration round costs will include provision for any lump sum payments and should be limited to the 2% specified in the Four Year Plan. Ultimately it was agreed that the Ministry could implement the level of lump sum payments it sought in addition to the average level of pay increases.

38. In 2015 s9(2)(g)(i)
current wage bill ($1.994m) to remuneration increases and lump sum payments combined[10]. This will be very challenging for the Ministry, especially in light of signals in January this year about Public Sector wage rises and Low inflation (refer paragraph 5).

39. At this stage, it is difficult to precisely estimate the cost implications of the 2015 remuneration round as there are a number of unknown variables. These include individual performance ratings, the level of discretion managers will exercise within the given pay increase parameters and the extent to which managers will seek to make special cases for rewards outside these parameters and the size of these recommended rewards. As a consequence, we recommend that each Group be tasked with ensuring their recommendations do not exceed the agreed level of average increase.

40. Once performance and remuneration recommendations are submitted, it will be possible to accurately calculate the cost of proposed increases and to provide guidance to the moderation process in terms of outcomes, particularly in relation to special cases.

[10] Excluding SLT payments that are characterised as "at risk" payments.

IEA Variations

41. The 2013 and 2014 Remuneration Round saw all staff on IEAs receive an offer to vary their remuneration clause. This offer was designed to formally embed the TFR model. The CEA negotiations in 2013 had the TFR model included. The remuneration offer was conditional on the staff member accepting the TFR variation. In the past two-years, all but four have accepted. The four staff members did not formally decline the offers (they didn't return their letter). With these staff members who have chosen not to accept, we will still need to meet our obligations to review remuneration on an unconditional basis. HR Business Partners will supportmanagers to resolve these outstanding cases.

Policy Issues

42. A number of policy issues were canvassed with SLT in 2014 and were incorporated into the remuneration round guidelines. No specific changes to policy are proposed. The guidelines for 2015 will be reviewed during June to incorporate the areas where greater guidance has been identified as necessary.

Policy Officers

43. Position in range remains a significant issue in the Ministry. While the Ministry moves the pay bands each year to keep them aligned to the market we do not automatically adjust remuneration at the same time. Remuneration is only adjusted for performance and according to relativities except where the individual would otherwise fall below the pay band minimum. This means staff who do not receive an increase go down in position in range. Staff who do get an increase may go up in position in range, stay the same or even go down depending on the size of the reward relative to the market movement.

44. In 2014, HRG implemented the Remuneration Management module of Manage@MFAT. Leading into the 2014 remuneration round, considerable focus was devoted to staff reaction to this. We felt that understanding of the issues was certainly improved through this programme, but it does remain an issue for staff and has been raised again by the FSA in the context of their recent membership survey.

45. HRG intends to offer the Remuneration Management module of Manage@MFAT to managers again leading up to the 2015 remuneration round. The other option available to SLT, as is canvassed in the module, is to not adjust our pay bands so that the position in range can only increase when there is a pay increase. It also means position in range does not go down when there is no increase.

46. The problem with this approach is that it means that the Ministry's pay bands and pay practice fall behind the market increasingly each year and this eventually requires a major adjustment to happen at a significant cost. It creates a cycle whereby the market is not met for a number of years followed by a major catch up only to start

falling behind again in the very next year. The Ministry is likely to be criticised for this and the fact that this is contrary to the undertakings given by the Ministry when overhauling the reumeration system in 2012.

47. It is likely that the only outcome that would really satisfy staff is to adjust their remuneration in line with the pay band adjustment and then apply performance based increases on top of that. Given the current constraints on Public Sector remuneration, this is simply not possible. More engagement with staff over this issue is recommended.

48. In November 2014, SLT approved appointing staff on promotion to 87% of the appropriate pay band. In February 2015, to address relativities between newly promoted staff and existing Foreign Policy rotational staff, HRG prepared three options for SLT to consider. Once it was clarified that any out of cycle increase would count against the 2015/16 remuneration round budget (even though the proposed increases would occur in the 2014/15 year) SLT decided that they would not approve any out of cycle increases. Any relativity issues will therefore need to be considered at the same time as the remuneration round increases.

Remuneration Forum

49. The Ministry's CEA provides for an annual Remuneration Forum. The unions have agreed, through early engagement in this process, to the approach to the 2015 performance review and remuneration round that is outlined in the 26 May 2015 Performance Review and Remuneration Round Process paper.

50. The Remuneration Forum will meet again once SLT have indicated a preferred average level of increase and performance matrix so that the unions have an opportunity for input into these decisions. Market movement, proposed increases to pay bands, the average increase for the 2015 remuneration round and market pressures are all matters that will be discussed with the unions. Union input into the decisions will be reported back to SLT by 9 June (at the latest) in order to confirm SLT decisions prior to engagement with SSC.

Advice to SSC on 2015 Remuneration Intentions

51. A copy of the document *Government's Expectations for Pay and Employment Conditions in the State Sector* is attached at Annex C.

52. The Ministry is required to consult SSC about its intentions in relation to the 2015 remuneration round.

53. The Ministry will write to SSC following confirmation by SLT of our remuneration intentions, and following consideration of union input.

Recommendations

54. It is recommended that you:

1. **Note** that s9(2)(b)(ii)

2. **Approve** the remuneration pay bands for 2015/16 set out in Annex B;

3. OUT OF SCOPE

4. **Indicate** the preferred level of average increase for the 2015 remuneration round OUT OF SCOPE for discussion with unions initially; and

5. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult managers on remuneration pressures and report the results of this engagement back to SLT as soon as possible.

Annex A: Application of market movements to current bands

2015 vs 2014 Comparison at 100%					
Job Family	**Grade/ Job Band**	**Points Range**	**2014**	**2015**	**Change**
			$	**$**	**%**
Corporate Services	MSO	282	63,395	**65,236**	2.90%
	SMSO	451	98,301	**101,495**	3.25%
Foreign Policy	PO1	269-313	62,706	**64,177**	2.35%
	PO2	439-518	99,701	**102,321**	2.63%
	SPO	519-613	118,912	**121,184**	1.91%
	FP4	702	145,772	**146,591**	0.56%
	FP5	994	194,599	**197,870**	1.68%
	FP6	1182	215,500	**218,703**	1.49%
Specialists	9	114-134	39,621	**40,462**	2.12%
	10	135-160	42,906	**44,146**	2.89%
	11	161-191	46,288	**47,279**	2.14%
	12	192-227	51,000	**51,500**	0.98%
	13	228-268	55,908	**57,618**	3.06%
(PO1 equivalent)	14	269-313	62,706	**64,177**	2.35%
	15	314-370	73,063	**74,655**	2.18%
	16	371-438	85,504	**86,720**	1.42%
(PO2 equivalent)	17	439-518	99,701	**102,321**	2.63%
(SPO equivalent)	18	519-613	118,912	**121,184**	1.91%
	19	614-734	141,815	**144,693**	2.03%
	20	735-879	166,727	**170,000**	1.96%
	21	880-1055	192,296	**196,877**	2.38%
	22	1056-1260	217,855	**223,394**	2.54%
	23	1261-1507	251,200	**263,144**	4.75%

Annex B: Proposed Salary Bands for 2015/16

Job Family	Grade/ Job Band	Points Range	2015			Distance between bands
			85%	Mid-point	115%	
Corporate Services	MSO	282	55,451	**65,236**	75,021	
	SMSO	451	86,271	**101,495**	116,719	55.58%
Foreign Policy	PO1	269-313	54,550	**64,177**	73,804	
	PO2	439-518	86,973	**102,321**	117,669	59.43%
	SPO	519-613	103,006	**121,184**	139,362	18.44%
	FP4	702	124,602	**146,591**	168,580	20.97%
	FP5	994	168,190	**197,870**	227,551	34.98%
	FP6	1182	185,898	**218,703**	251,508	10.53%
Specialists	9	114-134	34,393	**40,462**	46,531	
	10	135-160	37,524	**44,146**	50,768	9.11%
	11	161-191	40,187	**47,279**	54,371	7.10%
	12	192-227	43,775	**51,500**	59,225	8.93%
	13	228-268	48,975	**57,618**	66,261	11.88%
	14	269-313	54,550	**64,177**	73,804	11.38%
	15	314-370	63,457	**74,655**	85,853	16.33%
	16	371-438	73,712	**86,720**	99,728	16.16%
	17	439-518	86,973	**102,321**	117,669	17.99%
	18	519-613	103,006	**121,184**	139,362	18.44%
	19	614-734	122,989	**144,693**	166,397	19.40%
	20	735-879	144,500	**170,000**	195,500	17.49%
	21	880-1055	167,345	**196,877**	226,409	15.81%
	22	1056-1260	189,885	**223,394**	256,903	13.47%
	23	1261-1507	223,672	**263,144**	302,616	17.79%

Annex C: Government's Expectations for Pay and Employment Conditions in the State Sector – May 2012

Government's Expectations for Pay and Employment Conditions in the State Sector

May 2012

Introduction

This document sets out Government policy and expectations for all pay and employment conditions in the State sector. These Expectations apply to all State sector agencies except State Owned Enterprises. For the purposes of these expectations "pay and employment conditions" include all processes for adjusting remuneration and conditions, including collective bargaining.

These Expectations continue to apply in the context of a fragile economy, with ongoing uncertainty in the international economic environment. The fiscal situation for State sector agencies remains constrained.

These Expectations will form the framework for all State sector agencies to work within when submitting bargaining and remuneration strategies and settlement proposals to the State Services Commission (SSC) or the Director General of Health for consultation or approval. Boards of Crown entities will be required to have regard to these Expectations when establishing and adjusting their pay and employment conditions.

These Expectations update and replace the Government's Expectations agreed by Cabinet in 2010. They will be revised from time to time and may be supplemented by additional specific expectations.

Government Priorities

One of the Government's priorities is to deliver better public services to the people of New Zealand, within the tight financial constraints the Government is operating under. All decisions about pay and employment conditions are expected to support this priority.

Government Policy for Employment and Workplace Relations

Government's overarching policy for employment and workplace relations is that:

- all parties are treated fairly and with respect
- workplace relations are based on good faith, natural justice, human rights, good employer practice and requirements, and relevant legislation
- there is flexibility and opportunity for all
- bargaining is efficient, effective and focussed.

Pay and Employment Conditions

State sector agencies must meet the following criteria when adjusting pay and employment conditions, including through collective bargaining and remuneration adjustment processes:

1 Adjustments to pay and conditions must support achievement of the Government's priorities for the State sector. Bargaining outcomes should deliver organisational and sector performance improvement, foster continuous improvement and productivity enhancement, support effective employee engagement and achieve results, as identified in the organisation's and sector's Budget Plan and Workforce Strategy (or equivalent).

2 Adjustments must be affordable and sustainable within baseline funding and should not lead wider labour market movements and trends.

3 Agencies must identify flow-on implications of settlements, both within and beyond the agency and sector, and have plans in place to manage these.

4 Pay structures and other conditions must be demonstrated as necessary to support an organisation's business and workforce objectives.

5 Market relativity and/or cost of living adjustment will not suffice as the sole basis for pay adjustment – specific business imperatives (such as improved performance and demonstrable recruitment and retention difficulties) are required.

6 The cost of all adjustments to pay and conditions, including built-in progression through pay scales, and performance-based pay increases, as well as any changes to other conditions such as leave entitlements, must be taken into account when setting the financial envelopes for both bargaining and remuneration strategies.

7 Backdating of any or all components of adjustments to pay and conditions (either through effective date or lump sum payment) is not generally favoured.

Implementation

Application

All State sector organisations except State Owned Enterprises must have regard to these Expectations when setting bargaining and remuneration strategy, and determining other employment relations policies.

Public Service Departments must have a bargaining strategy that meets these Expectations approved by the State Services Commissioner (the Commissioner), and must not commence bargaining or commit to an outcome (including final Terms of Settlement) without this approval.

Outcomes of Remuneration Forums and reviews should reflect these Expectations. Public Service Departments must consult SSC before committing to an outcome.

Other agencies required to consult either the Commissioner or a monitoring department must have bargaining and remuneration strategies that meet these Expectations as the basis for that consultation.

Where an agency wishes to pursue a course of action that the Commissioner or monitoring department considers is at odds with these Expectations, approval of the agency's responsible Minister, the Minister of State Services and the Minister of Finance is required.

Information Sharing

SSC will retain a whole-of-sector overview of trends in pay and conditions, bargaining outcomes and drivers of these. To facilitate this, all agencies must provide their Minister, monitoring department, Treasury and SSC with:

- Up-to-date information on the progress and potential risks associated with bargaining.
- Aggregated information on an annual basis (as at 30 June) on remuneration levels and personnel cost movement over the year, including detail on:
  - the component of direct personnel cost movement attributable to the outcome of individually or collectively negotiated pay settlements or remuneration forum outcomes
  - the components of direct personnel cost movement attributable to other forms of pay increase, such as built-in progression through pay scales or discretionary performance-based pay increases
  - the component of direct personnel cost movement attributable to changes in the number of employees.

SLT Meeting Paper

Title	2014 Remuneration Round - Market Update and Performance Matrix Options
Meeting date	13 May 2014
Status	New paper
Action required	For decision
Submitted by	Bronwyn Kingdom,
Meeting attendee/s	Bronwyn Kingdom,

Key points

Summary of issue and purpose of paper	The purpose of this paper is to: • Update SLT on the "market" as context for remuneration decisions in 2014; • Recommend increases to pay bands effective 1 July 2014; • Outline options for performance based increases in the 2014 remuneration round; • Obtain approval to engage with unions through the Remuneration Forum; and • Set out the obligation to consult the State Services Commission (SSC) on our 2014 remuneration intentions.
MFAT business areas affected	All New Zealand employed staff across the Ministry on and off shore (excludes Locally Engaged Staff).
Major risks	The primary risk is to our staff engagement if the remuneration round is not managed fairly, equitably and efficiently.
Resource implications (including cost of proposal)	Budget provision has been made for $2.918 million in 2014/15. An average increase of 1.5% is estimated to cost $1.80m An average increase of 2% is estimated to cost $2.20m An average increase of 2.5% is estimated to cost $2.68m An average increase of 3% is estimated to cost $3.136m OUT OF SCOPE

Consultation undertaken Consultation mandatory if any implications exist for FIN, AMD, IMD, HRG, and UNSC TF.	The proposed changes to the pay bands and the preferred remuneration round performance matrix will be discussed in the Remuneration Forum with the FSA and PSA once agreement to proceed with this engagement is obtained from SLT. The budget and cost implications have been discussed with Finance.
Other relevant internal units and external stakeholders	Engagement with SSC will occur with SLT agreement and will follow the report back to SLT on union and management engagement.

Recommendations

1. **Note** s9(2)(b)(ii) s9(2)(b)(ii)	**YES / NO**
2. **Approve** the remuneration pay bands for 2014/15 set out in Annex B;	**YES / NO**
3. **Indicate** the preferred level of average increase for the 2014 remuneration round; and	**YES / NO**
4. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult managers on remuneration pressures and report the results of this engagement back to SLT as soon as possible.	**YES / NO**

SLT decisions confirmed by:

(to be signed after SLT meeting for record and provided to the submitting division/person)

CEO's Office **Date**

Report

Purpose

1. The purpose of this paper is to:

- Update SLT on the "market" as context for remuneration decisions in 2014;
- Recommend increases to pay bands effective 1 July 2014;
- Outline options for performance based increases in the 2014 remuneration round;
- Obtain approval to engage with unions through the Remuneration Forum; and
- Set out the obligation to consult the State Services Commission (SSC) on our 2014 remuneration intentions.

Background

2. The Ministry has contractual obligations through the Collective Employment Agreement (CEA) and through Individual Employment Agreements (IEAs) to review remuneration annually. The Ministry's CEA also commits to a Remuneration Forum with unions and provides some detail on how this will work.

3. The SSC document *Government's Expectations for Pay and Employment Conditions in the State Sector (May 2012)* provides that:

   - Public Service Departments must have a bargaining strategy that meets the expectations approved by the State Services Commissioner and must not commence bargaining or commit to an outcome (including terms of settlement) without this approval.

   - Outcomes of Remuneration Forums and reviews should reflect these same expectations. Public Service Departments must consult SSC before committing to an outcome.

   - Where the Commissioner considers the Ministry's proposed course of action is at odds with the expectations, approval of the Ministry's Minister, the Minister of State Services, and the Minister of Finance is required.

Market Update

4. s9(2)(b)(ii)

5.

s9(2)(b)(ii)

6.

7. Included in Hay Group's market analysis are a number of economic indicators. In March 2014, the Consumer Price Index was 1.1%, unemployment 6%, average hourly earnings increased 2.7%, and GDP grew 3%.

Data on Staff

8. The Ministry has a 5 point rating scale for performance:

    1 = Unsatisfactory performance
    2 = Development required
    3 = Strong performance
    4 = High performance
    5 = Exceptional performance

9. OUT OF SCOPE

[1] Excludes tier two.

OUT OF SCOPE

10

11. It should be noted that by definition the public sector median is the point at which 50% of the public sector pays more and 50% pays less for a position of a given size. When public sector agencies increase their remuneration, this in turn increases the

[2] OUT OF SCOPE

median. Our position against the market median changes with the application of the annual remuneration round through the agreed matrix and the level of average increase. Our position against the market can only improve from year to year if the level of average increase delivered through the remuneration round is greater than the average market movement and the reduction in average pay rates that occurs when higher paid staff leave and are replaced with lower paid staff.

12. Unlike other agencies, the Ministry tends to have a significant number of staff on personal pay bands that are greater than the position pay band. There are currently 187 staff members that have a different pay band to their position pay band. Of these 28 are receiving a special duties allowance to recognise the higher role that they are currently occupying. There are 102 staff with a pay band greater than their position pay band and 41 staff on a personal salary (rather than personal pay band) that is greater than the maximum salary for their position.

13. As part of the Total Fixed Remuneration (TFR) approach introduced in 2012, it was agreed that increases to align the Ministry with the public sector median would occur over successive remuneration rounds. While substantial increases have occurred over the last two remuneration rounds, we are still on average 2.45% behind the 2013 public sector median (with an average position in range of 97.55%). Based on the updated information (effective Mar 2014) the Ministry will on average be 5.45% behind the public sector median, with an average position in range of 94.55%.

14. Unplanned turnover to March 2014 is 7.97%[3]. No specific recruitment/retention issues have been identified that would warrant alternative market comparisons (than *Public Sector Fixed Package*). We will, however, be consulting managers on their views shortly. We are also currently reviewing the Head of Mission / Head of Post positions and will report to SLT on this separately. The level of market movement at the PO2 level reported later in this paper, suggests that this will be an area where we experience some market pressure that may justify a higher level of reward in the remuneration round.

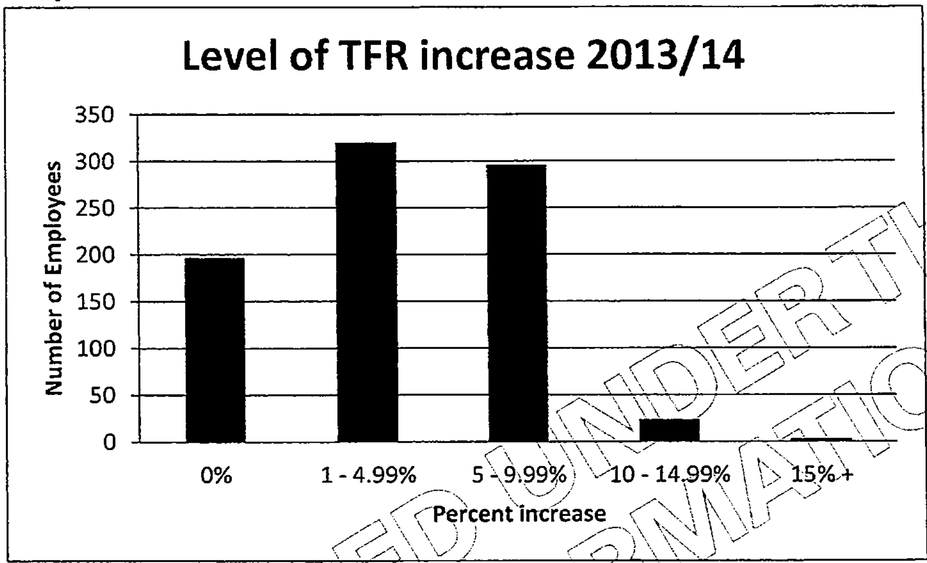
15. OUT OF SCOPE

OUT OF SCOPE

[3] The lowest level turnover has been in four years. It was 9.1% at June 2013, 12.6% at June 2012, 10.2% at June 2011, and 7.3% at June 2010.
[4] OUT OF SCOPE
[5]

16. The following graph (graph 3) sets out the level of pay increases awarded in 2013/14[6].

Graph Three: Level of Total Fixed Remuneration increases 2013/14



Pay Band Movement

17. Attached as Annex A is a table that sets out the Ministry's current pay band mid-points (the 100% rate for each pay band). Moving the Ministry's pay band mid-points to match the *Public Sector Fixed Package Median* gives the 2014 mid-points in this table. The percentage change is the proposed increase in the mid-point from 2013/14 to 2014/15. This is the level of increase to the pay band required to fully meet the market median at each pay band. Where there was a decrease in mid-point, no decrease or increase has been proposed. The increases range from 0% to 6.62%.

18. The largest increase has been to the Policy Officer 2 pay band. The market at this level increased by 6.62% - over one percent more than any other pay band. With such a large increase at this level the distance between the Policy Officer 2 and Senior Policy Officer pay bands has decreased from 21% to 18%. As the Senior Policy Officer pay band increases by 3.43% the increases haven't caused any significant compression issues. It should be noted for the future however that if one or more pay band increase (or decrease) at a rate that is out of synch with the rest of the pay bands, some smoothing of the raw market figures may be required to ensure that there are no areas of compression.

19. Attached at Annex B is a table that sets out the proposed new pay bands based on the application of market movements to mid-points. Included in this Annex is the distance (as a percent) between each pay band mid-point and the one below.

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[6] Excludes tier two.

20. It is proposed that the Ministry increase its pay bands as set out in Annex B from 1 July 2014. There is no increase proposed for pay band FP6. SLT does, however, have the option to align the pay band FP6 with pay band 22. No corresponding increase in the pay rates of individuals will occur as a result of the new pay bands as this should be performance based. This means that a staff member may actually experience a reduction in position in the range. For low performing staff near the bottom of the pay band, there is a risk of falling below the 85% pay band minimum. If performance means someone is in this situation, they should receive an increase to the 85% rate.

Potential Performance Matrix

21. We have developed options for the 2014 remuneration round matrix based on average increase levels of 1.5%, 2% and 2.5%.

22. The pay range from 85% to 115% can be thought of as a continuum of performance with the bottom third (85% to 94.99%) associated with developing performance or lower levels of performance. The middle third of the range (95 – 104.99%) is associated with strong performance and top third of the range (105 – 115%) is associated with high and exceptional levels of performance.

23. Performance, relative to position in range, is a key factor that determines the appropriate level of pay increase. The intention is to deliver higher levels of increase for comparable levels of performance when position in range is lower and vice-versa.

24. The following are some options for the performance matrix to apply for performance rewards in 2014:

- Option One: An average increase of 1.50% - an estimated cost of $1.80 million.
- Option Two: An average increase of 2.00% - an estimated cost of $2.20 million.
- Option Three: An average increase of 2.5% - an estimated cost of $2.68 million.

25. These options have been costed using last year's performance ratings where there was one available and presuming a performance rating of '3' where there wasn't. Employees who are not eligible (less than 3 months service, fixed term employees for less than a year, and employees on LWOP) have been excluded from the costings. Vacant positions have been costed at the cost of the increase to the pay band mid-point. There are 41 vacant positions included in the costing.

26. To move our pay practice line to public sector median would require an average increase of in the order of 5.65% and would cost approximately $5.01 million. An average increase of 3% is estimated to cost $3.136 million.

Option 1: Average increase of 1.5% (Cost $1,801,423)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	2.35%	1.35%	0.35%	0.00%	0.00%	0.00%	0.00%
3	3.35%	2.35%	1.35%	1.00%	0.70%	0.30%	0.00%
4	4.35%	3.35%	2.35%	1.35%	1.00%	0.70%	0.00%
5	5.35%	4.35%	3.35%	2.35%	1.35%	1.00%	0.00%

Option 2: Average increase of 2% (Cost $2,204,228)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	3.20%	2.20%	1.20%	0.00%	0.00%	0.00%	0.00%
3	4.20%	3.20%	2.20%	1.50%	1.00%	0.50%	0.00%
4	5.20%	4.20%	3.20%	2.50%	1.50%	1.20%	0.00%
5	6.20%	5.20%	4.20%	3.20%	2.20%	1.50%	0.00%

Option 3: Average increase of 2.5% (Cost $2,677,071)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	3.63%	2.63%	1.63%	0.00%	0.00%	0.00%	0.00%
3	4.63%	3.63%	2.63%	1.62%	1.22%	0.62%	0.00%
4	5.63%	4.63%	3.23%	2.62%	1.62%	1.00%	0.00%
5	6.63%	5.63%	4.63%	3.62%	2.62%	1.62%	0.00%

27. Further variations on these options can be developed and costed as required. The performance matrix we develop for use by managers will have a range of increases, plus and minus the above percentages. Groups will be asked to ensure that the increases they award do not exceed the average increase agreed (across all eligible and ineligible staff and vacant positions).

Budget and Cost implications

28. Our Four Year Budget Plan included provision for a 2% increase in salaries and wages in 2014/15. The Ministry has made budget provision of $2.918 million in 2014/15 for the 2014 remuneration round[7]. OUT OF SCOPE

29. ECA allowances are a percentage calculation of salary. When salary increases, the allocated ECA allowances also increase. In previous years this has amounted to approximately one percent of the increase. In 2013 the decision was taken that this amount is additional to the cost increase in salaries and should not reduce the available budget for the remuneration round. It is assumed that the same position will apply in 2014.

[7] Includes increases for SLT.

30. Option two gives an average increase of 2% at the cost of $2.20 million. Under option two our market position will be marginally worse than it was in 2013 (the average market movement reported is 2.3% compared to an average increase of 2%). With SLT decisions included in the total cost, the Ministry will still be well within budget.

31. Option 3 is also affordable and at 2.5% is not significantly greater than the reported market movement of 2.3%.

Engaging with SSC

32. In 2013 the Ministry estimated that it would need to apply an average increase of 3.99% and notified the State Services Commission (SSC) of its remuneration intentions accordingly. The final outcome was an average increase of 3.09%. s9(2)(g)(i)

33. At this stage, it is difficult to accurately estimate the cost implications of the 2014 remuneration round as there are a number of unknown variables. These include individual performance ratings, the level of discretion managers will exercise within the given pay increase parameters and the extent to which managers will seek to make special cases for rewards outside these parameters and the size of these recommended rewards. As a consequence, we recommend that each Group be tasked with ensuring their recommendations do not exceed the agreed level of average increase.

34. Once performance and remuneration recommendations are submitted, it will be possible to accurately calculate the cost of proposed increases and to provide guidance to the moderation process in terms of outcomes, particularly in relation to special cases.

IEA Variations

35. The 2013 Remuneration Round saw all staff on IEAs receive an offer to vary their remuneration clause. This offer was designed to formally embed the TFR model. The CEA negotiated at the same time had the TFR model included. The remuneration offer was conditional on the staff member accepting the TFR variation. Of the 289 staff members who received this offer, all but 13 accepted[8]. The 13 staff members

[8] There are 30 staff that require a variation including those who started after the remuneration review but prior to the introduction of the new standard IEA.

did not formally decline the offers (they didn't return their letter) and eight of these employees did not receive the offered increase to their TFR as a result. These 13 staff members and any new staff members who are not on an IEA with the updated TFR remuneration clause will once again be offered this variation. This year we will be requesting a response to the offer one way or another. If a staff member chooses not to accept, we will still need to meet our obligations to review remuneration on an unconditional basis.

Policy Issues

36. A number of policy issues were canvassed with SLT in 2013 and were incorporated into the remuneration round guidelines. No specific changes to policy are proposed. The guidelines for 2014 will be reviewed during June to incorporate the areas where greater guidance has been identified as necessary.

Remuneration Forum

37. The Ministry's Collective Agreement provides for an annual Remuneration Forum. The unions have agreed, through early engagement in this process, to the approach to the 2014 performance review and remuneration round that is outlined in a separate paper.

38. The Remuneration Forum will meet again once SLT have indicated a preferred average level of increase and performance matrix so that the unions have an opportunity for input into these decisions. Market movement, proposed increases to pay bands, the average increase for the 2014 remuneration round and market pressures are all matters that will be discussed with the unions. Union input into the decisions will be reported back to SLT by 10 June (at the latest) in order to confirm SLT decisions prior to engagement with SSC.

Advice to SSC on 2014 Remuneration Intentions

39. A copy of the document *Government's Expectations for Pay and Employment Conditions in the State Sector* is attached at Annex C.

40. The Ministry is required to consult SSC about its intentions in relation to the 2014 remuneration round.

41. The Ministry will write to SSC following confirmation by SLT of our remuneration intentions, and following consideration of union input.

Recommendations

42. It is recommended that you:

1. **Note** that s9(2)(b)(ii)

2. **Approve** the remuneration pay bands for 2014/15 set out in Annex B;

3. **Indicate** the preferred level of average increase for the 2014 remuneration round; and

4. **Agree** that HRG proceed with the Remuneration Forum with FSA and PSA and consult managers on remuneration pressures and report the results of this engagement back to SLT as soon as possible.

Annex A: Application of market movements to current bands

2014 vs 2013 Comparison at 100%					
Job Family	**Grade/ Job Band**	**Points Range**	**2013**	**2014**	**Change**
			$	**$**	**%**
Corporate Services	CSO	169	45,000	**46,132**	2.52%
	DMSO	220	51,100	**53,037**	3.79%
	MSO	282	60,300	**63,395**	5.13%
	SMSO	451	92,200	**98,301**	6.62%
	CM1	657	133,400	**140,164**	5.07%
	CM2	830	167,000	**167,391**	0.23%
Foreign Policy	PO1	282	60,300	**63,395**	5.13%
	PO2	451	92,200	**98,301**	6.62%
	SPO	571	116,500	**120,495**	3.43%
	FP4	702	142,300	**145,772**	2.44%
	FP5	994	192,300	**194,599**	1.20%
	FP6	1182	215,500	**215,500** [1]	0.00%
Specialists	9	114-134	39,621	**39,621** [2]	0.00%
	10	135-160	42,700	**42,906**	0.48%
	11	161-191	45,800	**46,288**	1.07%
	12	192-227	49,600	**51,000**	2.82%
	13	228-268	55,200	**55,908**	1.28%
	14	269-313	61,700	**62,706**	1.63%
	15	314-370	71,200	**73,063**	2.62%
	16	371-438	82,900	**85,504**	3.14%
	17	439-518	97,500	**99,701**	2.26%
	18	519-613	115,500	**118,912**	2.95%
	19	614-734	136,700	**141,815**	3.74%
	20	735-879	163,500	**166,727**	1.97%
	21	880-1055	188,300	**192,296**	2.12%
	22	1056-1260	215,500	**217,855**	1.09%
	23	1261-1507	251,200	**251,200** [2]	0.00%

1. Band FP6 1182 points pay rate decreased so maintained at 13/14 rate. Alternative option is to apply the same pay band as band 22.
2. Band 9 and 23 mid-points pay rates decreased so maintained the 13/14 rates.

Annex B: Proposed Salary Bands for 2014/15

Job Family	Grade/ Job Band	Points Range	2014			Distance between bands
			85%	Mid-point	115%	
Corporate Services	CSO	169	39,212	**46,132**	53,052	
	DMSO	220	45,081	**53,037**	60,993	13.02%
	MSO	282	53,886	**63,395**	72,904	16.34%
	SMSO	451	83,556	**98,301**	113,046	35.51%
	CM1	657	119,139	**140,164**	161,189	29.87%
	CM2	830	142,282	**167,391**	192,500	16.27%
Foreign Policy	PO1	282	53,886	**63,395**	72,904	
	PO2	451	83,556	**98,301**	113,046	35.51%
	SPO	571	102,421	**120,495**	138,569	18.42%
	FP4	702	123,906	**145,772**	167,638	17.34%
	FP5	994	165,409	**194,599**	223,789	25.09%
	FP6	1182	183,175	**215,500**	247,825	9.70%

SLT Meeting Paper

Title	2013 Remuneration Round – Market Update, Pay Band Increases, Policy Issues and Matrix Options
Meeting date	16 July 2013
Status	New Proposal
Action required	For decision
Submitted by	Bronwyn Kingdom
Meeting attendee/s	Bronwyn Kingdom
Key points	• *New pay bands are proposed effective 1 July 2013* • *Initial options for the matrix for the 2013 remuneration round are identified and direction is sought from SLT on these options* • *Policy issues related to the remuneration round are discussed* • *Consultation with SSC and unions is required*
Summary of issue and purpose of paper	The purpose of this paper is to: • Update SLT on the "market" as context for remuneration decisions in 2013; • Recommend increases to pay bands effective 1 July 2013; • Outline options for performance based increases in the 2013 remuneration round; • Obtain approval to engage with unions through the Remuneration Forum; • Obtain approval to consult the State Services Commission on our 2013 remuneration intentions; and • Obtain SLT decisions on policy issues raised by tier two managers in discussions prior to the remuneration round.
MFAT business areas affected	• All of Ministry
Major risks	• SSC does not agree with the Ministry's remuneration intentions; • The remuneration round does not meet staff expectations and is used to support the unions' claim to bargain remuneration; • The Ministry is unable to attract the high calibre candidates it seeks for its positions; • The remuneration round is stalled and this negatively impacts on morale and engagement.

[ ]

Resource implications (including cost of proposal)	• Estimated cost implications of decisions available to SLT are set out in the paper. • The Ministry has made budget provision of $3,303,276 in 2013/14 for the 2013 remuneration round. OUT OF SCOPE
Consultation undertaken Consultation mandatory if any implications exist for FIN, AMD, IMD, HRG, and UNSC TF.	• Tier two managers have been consulted on issues they wish to have dealt with in the 2013 remuneration round. • HRG and FIN are aware of the budget provision. • Given the nature of the paper, no wider consultation has occurred. • HRG will need to engage with FIN over the cost implications of the 2013 remuneration round when in a position to give a clearer indication of the costs. • HRG will also need to work with Services Group over the car park arrangements.
Other relevant internal units and external stakeholders	• In updating the SSC on progress in bargaining, the State Services Commission has reiterated the need for the Ministry's Senior Leadership Team to be aware of and comply with the *Government's Expectations for Pay and Employment Conditions in the State Sector*. A copy is attached at Annex D.

Recommendations

1. **Note** s9(2)(b)(ii) for the year to March 2013;	**YES / NO**
2. **Note** the Ministry's current market position (HayGroup advise our pay practice is on average 95.8% of the median. Analysis of position in range shows we pay on average at 93.08% of pay band);	**YES / NO**
3. **Approve** the pay bands in Annex B effective 1 July 2013;	**YES / NO**
4. **Provide** direction to HRG in terms of the average increase supported by SLT for pay increases to staff through the 2013 remuneration round and any further modelling required;	**YES / NO**

[ ]

5. **Note** the policy decisions taken on remuneration in 2012, means that increases in employer contributions to KiwiSaver and GSF in 2013 will be absorbed by the Ministry;	**YES / NO**
6. **Agree** to the remuneration policy proposals in relation to the 2013 remuneration round set out in Annex E;	**YES / NO**
7. **Note** that a contract variation is proposed for the 2013 remuneration round (consistent with agreement to be reached on the collective agreement);	**YES / NO**
8. **Note** that the decisions taken by SLT on car parks (under a separate paper) will be taken into account when managing the 2013 remuneration round;	**YES / NO**
9. **Note** that the Ministry has a claim from unions before it in bargaining for a 1% across the board increase;	**YES / NO**
10. **Note** the Government's expectations set out in Annex D and that HRG will refer to SLT for review, a formal communication to the SSC on its remuneration intentions;	**YES / NO**
11. **Agree** that HRG proceed to discuss its remuneration intentions with unions at an appropriate time in relation to bargaining; and	**YES / NO**
12. **Note** that HRG will develop guidelines for managers on proposals for bonus payments and operating the proposed performance matrix.	**YES / NO**

SLT decisions confirmed by:

(to be signed after SLT meeting for record and provided to the submitting division/person)

CEO's Office **Date**

Report

Executive Summary

1. The following is a brief summary of what is in this paper:

- s9(2)(b)(ii) to March 2013.
- The profile of performance ratings in 2012 may suggest a need for more rigour in our expectation setting and performance assessment.
- On average the Ministry sits at 95.8% of the Public Sector median s9(2)(b)(ii) The average position in range is 93.08%.
- Unplanned turnover has decreased in the year to June 2013 (8.01%).
- Pay band increases are proposed and set out in Annex B.
- Four options are provided for the 2013 remuneration matrix. Direction is required from SLT on the preferred option or alternatives to be modelled (average percentage increase or the distribution of rewards within the matrix).
- Increases have occurred in employer contributions to KiwiSaver and GSF. The decision was previously taken to absorb these increases in 2013 and on an on-going basis and this will be reflected in the individual's position in range.
- Proposals in relation to policy for the 2013 remuneration round are set out in Annex E. The main proposals are: to try to deal with anomalies and relativity issues through the 2013 matrix, but where this is not possible, to allow individual cases outside the matrix to be made (guidelines to be provided); and to review on a case by case basis the remuneration packages for FP4 staff offshore who are in a higher position than their personal grade with a view to paying them appropriately for the job taking into account their base pay and allowances, expectations and actual performance.
- Contract variations for staff on IEAs consistent with changes to the CEA are proposed (although bargaining outcomes are yet to be determined). This will need to deal with all benefits including superannuation and car parks where appropriate.
- Engagement with SSC and unions now needs to be managed.

Purpose

2. The purpose of this paper is to:

- Update SLT on the "market" as context for remuneration decisions in 2013;
- Recommend increases to pay bands effective 1 July 2013;
- Outline options for performance based increases in the 2013 remuneration round;
- Obtain approval to engage with unions through the Remuneration Forum;
- Obtain approval to consult the State Services Commission on our 2013 remuneration intentions; and

- Obtain SLT decisions on policy issues raised by tier two managers in discussions prior to the remuneration round.

Market Update

3. s9(2)(b)(ii)

4.

5.

6. Included in HayGroup's market analysis are a number of economic indicators. In 2013, the Consumer Price Index was 0.9%, unemployment 7.3%, average hourly earnings increased 2.7%, and GDP grew 2.1%.

Data on Staff

7. The Ministry has a 5 point rating scale for performance:

1 = Unsatisfactory performance
2 = Development required
3 = Strong performance
4 = High performance
5 = Exceptional performance

8. OUT OF SCOPE

9.

10.

11.

[1] Excludes tier two.
[2] Bretz et al 1992 and Rynes et al 2002 cited by Blume, Balwin and Rubin in Reactions to Different Types of Forced Distribution Performance Evaluation Systems, Journal of Business Psychology, 2009.

12. OUT OF SCOPE

13. The average position in range is 93.08%. This shows that the majority of our staff are below the mid-point which means that our pay practice remains behind the Public Sector. This supports the HayGroup analysis that our pay practice is behind the market (95.8% of the median). Last year was the first time in four years that the remuneration ranges had been increased. As part of the new remuneration approach of Total Fixed Remuneration introduced last year, it was agreed that the increases to the public sector median would occur over a two-year period.

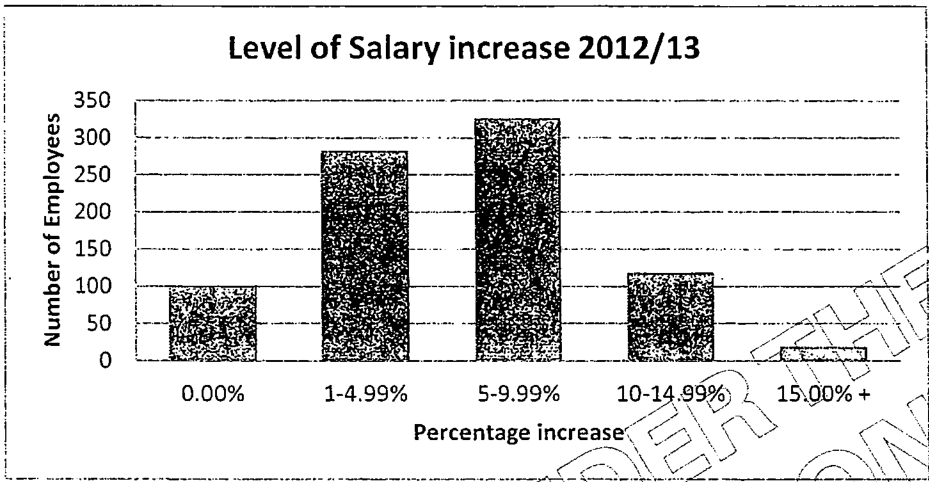
14. Data from HayGroup in respect to where the Ministry sits against other public sector agencies shows us at below the market median. We are currently sitting at 95.8% of the median – 4.2% below the public sector market median.

15. Core Unplanned Turnover to June 2013 is 8.01%. This compares to 12.59% at June 2012 and 10.16% at June 2011. No specific recruitment/retention issues have been identified that would warrant alternative market comparisons than *Public Sector Fixed Package* although we note the Ministry has been under some resourcing pressure and has been actively recruiting on an on-going basis.

16. OUT OF SCOPE

[3] OUT OF SCOPE
[4]
[5]

17. The following graph sets out the level of pay increases awarded in 2012/13[6].



Pay Band Movement

18. Attached as Annex A is a table that sets out the Ministry's current pay band mid-points (the 100% rate for each pay band). Moving the Ministry's pay band mid-points to match the *Public Sector Fixed Package Median* gives the 2013 mid-points in this table. The percentage change is the proposed increase in the mid-point from 2012 to 2013. It is the level of increase to the pay band required to fully meet the market median.

19. Attached as Annex B is a table that sets out the proposed new pay bands based on the proposed movements to the pay band mid-points.

20. It is proposed that the Ministry increase its pay bands as set out in Annex B from 1 July 2013. There will be no corresponding increase in the pay rates of individuals unless, after the performance based increases are known, an employee falls below the 85% pay band minimum. Staff may experience a reduction in position in the range. Staff who would otherwise fall below the pay band minimum, will have their remuneration increased to the 85% rate (being the minimum rate for the position).

Potential Performance Matrix

21. The pay range from 85% to 115% can be thought of as a continuum of performance with the bottom third (85% to 95%) associated with developing performance or lower levels of performance. The middle third (95% – 105%) is associated with strong performance and the range 105 - 110% is associated with high performance. The top of the range (110% to 115%) relates to an expectation of exceptional levels of performance.

[6] Excludes tier two.

22. Performance, relative to position in range, should be the key factors that determine the appropriate level of pay increase. If someone is demonstrating high performance with a low position in range, their rewards should be greater than someone who is performing at a level consistent with the position in range. Conversely, someone placed high in the band will need to perform consistent with that level to receive an appropriate increase. This is how the performance matrix is constructed.

23. Set out in Annex C are options for the performance matrix for the 2013 remuneration round. For each source matrix for costing purposes, there is a corresponding matrix that would be made available to managers. This shows the range that managers will be asked to make remuneration recommendations within.

24. Option 1 has an estimated cost of $1.671 million and an estimated average increase of 2.42%. Option 2 has an estimated cost of $2,453 million and an estimated average increase of 3.50%. Option 3 has an estimated cost of $2.803 million and an estimated average increase of 3.99%. We have also been asked to cost an average increase of 5%. This is approximately $3.906 million (Option 4). The cost of these options has been estimated using last year's performance ratings where there was one available and presuming a performance rating of '3' where there wasn't. Employees who are not eligible (less than 3 months service and fixed term employees for less than a year) have been excluded from the costings. It should be noted that many staff will have had a change in position so last year's performance rating may not be a suitable estimate. Data issues post-MBM may also impact on the accuracy of these costings. It will be necessary to re-do the costing exercise when this year's performance data is available.

25. Further variations on these options can be developed and costed as required. (This includes different average increases and changes within the matrix, for example spreading the rewards over performance ratings 3, 4 and 5 only and not 2 in order to increase the differentiation in rewards between the higher and lower performers).

26. There are a number of situations carried over from last year that managers identify need to be addressed this remuneration round (refer to the section of this paper on remuneration policy issues). It is proposed that this be done on a case by case basis. Managers should have the ability to address anomalous outcomes and relativity issues, where performance warrants this, and a case can be made to justify this. This will, however, increase the overall cost and average increase set out above. Guidelines for managers and support from HRG will be necessary.

Retirement Savings

27. KiwiSaver employer contributions increased effective 1 April 2013 from 2% to 3%. The Government Superannuation Fund (GSF) employer contributions increased from 10.7% to 11.8% effective 1 July 2013. In *A new remuneration system - decision document*, the decision to add the increase in employer contributions to KiwiSaver to

the employees' total fixed remuneration is recorded. The decision taken in relation to the treatment of superannuation was that any increase in employer superannuation contributions, whether through joining a scheme or an increase to the employer contributions under an existing scheme would be met by the Ministry but reflected in an increase in TFR and position in the range for individuals.

28. On this basis, the cost of the KiwiSaver and GSF increases in employer contributions will be absorbed by the Ministry and included in TFR at 1 July 2013.

29. There was some debate at SLT on 9 July about this point. The following are relevant excerpts from the FAQs in *A new remuneration system – decision document*:

    "The Ministry is not reducing the base salary of any employee to offset any future additional employer KiwiSaver cost. If the rate of compulsory employer contributions (CEC) is increased, the employee's TFR will increase accordingly to reflect this (i.e. when the rate increases by 1% to 3%, the TFR will increase by 1%)."[7]

    "In future remuneration reviews, the new TFR will be taken into account in assessing the value of the employee's package, which will include the cost of any increase to KiwiSaver employer contributions."[8]

30. It seems the difference in interpretation relates to the wording *"the new TFR will be taken into account …"*. The HRG intention in this wording is that come performance review time, the increased TFR and therefore position in range will be taken into account when assessing the appropriate size of increase for performance relative to position in the range. It was not intended to mean, but appears to have been interpreted as meaning, the increase in TFR will be off-set against the performance reward that would otherwise have been granted (for example, it would have been an increase of 2.6% but since you have already had 1%, the increase will now only be 1.6%).

Budget and Cost implications

31. The Ministry has made budget provision of $3,303,276 in 2013/14 for the 2013 remuneration round. OUT OF SCOPE

    The 2013/14 budget provision was made taking into account that the Ministry had committed to improve its remuneration practice and market position progressively over a two-year period. This is the second year of this adjustment.

32. ECA allowances and Housing and Utilities deductions are affected by changes in TFR. In previous years the allowance increase has amounted to approximately one percent of the ECA allowance budget. This will be partly off-set by an increase in staff contributions to Housing and Utilities, which are also expected to increase by

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[7] Page 58 of the FAQ.
[8] Page 58 of the FAQ.

about one percent. An increase of approximately $170,000 will occur as a result of the 2013 remuneration round but should be met from the ECA allowance budget. (The cost of living index changes can also have a significant impact on the annual ECA Allowance budget. This is reviewed in August and February each year).

33. The following table sets out the 2013/14 remuneration increase budget compared to the cost of the various option. Remuneration decisions for SLT have not been included in these costings but will need to be taken into consideration also.

Budget	Option	Cost (excl SLT)
$3,303,276	(1) Average increase of 2.42%	$1.671m
	(2) Average increase of 3.5%	$2.453m
	(3) Average increase of 3.99%	$2.803m
	(4) Average increase of 5%	$3.906m

34. This tends to indicate that an average of 4% or slightly more is affordable for the Ministry and SLT combined (provided rating behaviour and relativity recommendations are contained within this average). An average of 5%, could not be met within the budget allocation that has been made.

35. Option 3 provides the opportunity to decrease the distance behind the Public Sector Median (currently 4.2% behind public sector median) but not necessarily close it.

36. At this stage, it is difficult to accurately estimate the cost implications of the 2013 remuneration round as there are a number of unknown variables and potential data issues. The variables include individual performance ratings, the level of discretion managers will exercise within the given pay increase parameters and the extent to which managers will seek to make special cases for rewards outside these parameters and the size of these recommended rewards.

37. Once performance and remuneration recommendations are submitted and any data issues identified, it will be possible to more accurately calculate the cost of proposed increases and to provide direction to the moderation process in terms of outcomes, particularly in relation to special cases.

Policy Issues

38. A number of matters of concern were raised by Deputy Secretaries and Group Managers in the Remuneration Round consultation. Attached as Annex D is a summary of issues raised and proposals in response to these issues.

Contract Variations

39. As previously agreed by SLT, the Ministry has proposed in bargaining to either do away with the Retirement Savings Allowance or at least make it optional. Changes to clause 16.10 of the Collective Agreement have been proposed and are set out in Annex E. This claim also seeks agreement to off-set changes in superannuation against base salary Under a TFR approach in future. This is not what was decided in when consulting staff over the new remuneration system in 2012, but was agreed as a bargaining claim by SLT.

40. For staff employed on an individual employment agreement, an equivalent clause is proposed by way of a contract variation as a condition of the pay increase offer.

Car Parks

41. A separate paper has been prepared on car parks and recommends formally grand-parenting car park arrangements with a view to phasing these out. Action required on car parks in the 2013 remuneration round will depend on SLT's decision on the recommendations contained in the paper *Car Parks* – 16 July 2013.

s9(2)(j)

s9(2)(j)

Timeframe

45. The Senior Leadership Team has decided to defer moderating the performance outcomes for tier 3 managers and HOMs/HOPs until s9(2)(a) eturn from leave (to be moderated in the week commencing 5 August). All other moderation will proceed according to the timetable. The current timetable provides that guidelines would go to managers for making remuneration recommendations by 31 July. It will be necessary to push this date out. If moderation can be completed early in the week of 5 August, we should aim to get the guidelines/spreadsheets to managers by 9 August. Time will need to be trimmed from that allocated to managers to make recommendations on remuneration (extending the date this is to be done by from 16 August to 21 August) and from the group moderation process (to remain 28 August). A copy of the high level timetable communicated to staff is attached as Annex H for your reference. Changes to the timeframe will need to be communicated to managers.

46. As we still have an across the board increase claim in bargaining to resolve and as we still need to obtain SSC agreement to our remuneration intentions, this change in timetable may be necessary for multiple reasons.

Consultation with the State Services Commission

47. *The Government's Expectations for Pay and Employment Conditions in the State Sector* provides that *"Outcomes of Remuneration Forums and reviews should reflect these Expectations. Public Service Departments must consult SSC before committing to an outcome."* (A copy of the expectations is attached at Annex D).

48. The Ministry is required to consult the State Services Commission about it's intentions in relation to the 2013 remuneration round. *"Where an agency wishes to pursue a course of action that the Commissioner or monitoring department considers at odds with these Expectations, approval of the agency's responsible Minister, the Minister of State Services and the Minister of Finance is required."*

49. The State Services Commission has recently reminded the Ministry about the Government's expectations and specifically the following provision:

> *"Market relativity and/or cost of living adjustment will not suffice as the sole basis for pay adjustment - specific business imperatives (such as improved performance and demonstrable recruitment and retention difficulties) are required"*

50. HRG will provide the proposed communication to SLT setting out our remuneration intentions and the case for this when we have a decision from SLT on the average level of increase we should be working to.

Recommendations

51. It is recommended that you:

1) **Note** s9(2)(b)(ii) [redacted] for the year to March 2013;

2) **Note** the Ministry's current market position (HayGroup advise our pay practice is on average 95.8% of the median. Analysis of position in range shows we pay on average at 93.08% of pay band);

3) **Approve** the pay bands in Annex B effective 1 July 2013;

4) **Provide** direction to HRG in terms of the average increase supported by SLT for pay increases to staff through the 2013 remuneration round and any further modelling required;

5) **Note** the policy decisions taken on remuneration in 2012, means that increases in employer contributions to KiwiSaver and GSF in 2013 will be absorbed by the Ministry;

6) **Agree** to the remuneration policy proposals in relation to the 2013 remuneration round set out in Annex E;

7) **Note** that a contract variation is proposed for the 2013 remuneration round (consistent with agreement to be reached on the collective agreement);

8) **Note** that the decisions taken by SLT on car parks (under a separate paper) will be taken into account when managing the 2013 remuneration round;

9) **Note** that the Ministry has a claim from unions before it in bargaining for a 1% across the board increase;

10) **Note** the Government's expectations set out in Annex D and that HRG will refer to SLT for review, a formal communication to the SSC on its remuneration intentions;

11) **Agree** that HRG proceed to discuss its remuneration intentions with unions at an appropriate time in relation to bargaining; and

12) **Note** that HRG will develop guidelines for managers on proposals for bonus payments and operating the proposed performance matrix.

Annex A: Application of market movements to current bands

2013 vs 2012 Comparison at 100%					
Job Family	**Grade/ Job Band**	**Points Range**	**2012**	**2013**	**% Change**
			$	**$**	
Corporate Services	CSO	169	43,500	**45,000**	3.4%
	DMSO	220	50,300	**51,100**	1.6%
	MSO	282	58,600	**60,300**	2.9%
	SMSO	451	90,000	**92,200**	2.4%
	CM1	657	129,900	**133,400**	2.7%
	CM2	830	165,800	**167,000**	0.7%
Foreign Policy	PO1	282	58,600	**60,300**	2.9%
	PO2	451	90,000	**92,200**	2.4%
	SPO	571	112,100	**116,500**	3.9%
	FP4	702	139,500	**142,300**	2.0%
	FP5	994	187,000	**192,300**	2.8%
	FP6	1182	211,000	**215,500**	2.1%
Specialists	10	135-160	40,900	**42,700**	4.4%
	11	161-191	44,400	**45,800**	3.2%
	12	192-227	49,100	**49,600**	1.0%
	13	228-268	53,700	**55,200**	2.8%
	14	269-313	59,900	**61,700**	3.0%
	15	314-370	69,700	**71,200**	2.2%
	16	371-438	80,500	**82,900**	3.0%
	17	439-518	95,200	**97,500**	2.4%
	18	519-613	111,100	**115,500**	4.0%
	19	614-734	133,400	**136,700**	2.5%
	20	735-879	162,200	**163,500**	0.8%
	21	880-1055	187,000	**188,300**	0.7%
	22	1056-1260	211,000	**215,500**	2.1%
	23	1261-1507	246,300	**251,200**	2.0%

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Annex B: Proposed Salary Bands for 2013/14

Job Family	Grade/ Job Band	Points Range	2013		
			85%	Mid-point	115%
Corporate Services	CSO	169	38,250	**45,000**	51,750
	DMSO	220	43,435	**51,100**	58,765
	MSO	282	51,255	**60,300**	69,345
	SMSO	451	78,370	**92,200**	106,030
	CM1	657	113,390	**133,400**	153,410
	CM2	830	141,950	**167,000**	192,050
Foreign Policy	PO1	282	51,255	**60,300**	69,345
	PO2	451	78,370	**92,200**	106,030
	SPO	571	99,025	**116,500**	133,975
	FP4	702	120,955	**142,300**	163,645
	FP5	994	163,455	**192,300**	221,145
	FP6	1182	183,175	**215,500**	247,825
Specialists	10	135-160	36,295	**42,700**	49,105
	11	161-191	38,930	**45,800**	52,670
	12	192-227	42,160	**49,600**	57,040
	13	228-268	46,920	**55,200**	63,480
	14	269-313	52,445	**61,700**	70,955
	15	314-370	60,520	**71,200**	81,880
	16	371-438	70,465	**82,900**	95,335
	17	439-518	82,875	**97,500**	112,125
	18	519-613	98,175	**115,500**	132,825
	19	614-734	116,195	**136,700**	157,205
	20	735-879	138,975	**163,500**	188,025
	21	880-1055	160,055	**188,300**	216,545
	22	1056-1260	183,175	**215,500**	247,825
	23	1261-1507	213,520	**251,200**	288,880

Annex C – Matrix Options

Option 1: Average increase of 2.41% (Cost $1.855M)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	2.00%	1.75%	1.50%	1.25%	1.00%	0.50%	0.00%
3	2.35%	2.10%	1.85%	1.60%	1.35%	1.10%	0.00%
4	3.80%	3.30%	2.80%	2.30%	1.80%	1.30%	0.00%
5	6.75%	5.75%	4.75%	3.75%	2.75%	1.75%	0.00%

Option 1: Average increase of 2.41% (Cost $1.855M) – WITH RANGE

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	0% to 2.5%	0% to 2.25%	0% to 2%	0% to 1.75%	0% to 1.5%	0% to 1%	0.00%
3	0.35% to 3.35%	0.1% to 3.1%	0% to 2.85%	0% to 2.6%	0% to 2.35%	0% to 2.1%	0.00%
4	0.8% to 5.3%	0.3% to 4.8%	0% to 4.3%	0% to 3.8%	0% to 3.3%	0% to 2.8%	0.00%
5	1.75% to 8.75%	0.75% to 7.75%	0% to 6.75%	0% to 5.75%	0% to 4.75%	0% to 3.75%	0.00%

Option 2: Average increase of 3.50% (Cost $2.453M)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	**2.75%**	**2.50%**	**2.25%**	**2.00%**	**1.75%**	**1.50%**	0.00%
3	**3.50%**	**3.25%**	**3.00%**	**2.75%**	**2.50%**	**2.25%**	0.00%
4	**5.00%**	**4.50%**	**4.00%**	**3.50%**	**3.00%**	**2.50%**	0.00%
5	**7.75%**	**6.75%**	**5.75%**	**4.75%**	**3.75%**	**2.75%**	0.00%

Option 2: Average increase of 3.50% (Cost $2.453M) – WITH RANGE

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	0% to 3.25%	0% to 3%	0% to 2.75%	0% to 2.5%	0% to 2.25%	0% to 2%	0.00%
3	1.5% to 4.5%	1.25% to 4.25%	1% to 4%	0.75% to 3.75%	0.5% to 3.5%	0.25% to 3.25%	0.00%
4	2% to 6.5%	1.5% to 6%	1% to 5.5%	0.5% to 5%	0% to 4.5%	0% to 4%	0.00%
5	2.75% to 9.75%	1.75% to 8.75%	0.75% to 7.75%	0% to 6.75%	0% to 5.75%	0% to 4.75%	0.00%

Option 3: Average increase of 3.99% (Cost of $3.103M)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	3.50%	3.25%	3.00%	2.75%	2.50%	2.25%	0.00%
3	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	0.00%
4	5.50%	5.00%	4.50%	4.00%	3.50%	3.00%	0.00%
5	8.25%	7.25%	6.25%	5.25%	4.25%	3.25%	0.00%

Option 3: Average increase of 3.99% (Cost of $3.103M) – WITH RANGE

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	0% to 4%	0% to 3.75%	0% to 3.5%	0% to 3.25%	0% to 3%	0% to 2.75%	0.00%
3	2% to 5%	1.75% to 4.75%	1.5% to 4.5%	1.25% to 4.25%	1% to 4%	0.75% to 3.75%	0.00%
4	2.5% to 7%	2% to 6.5%	1.5% to 6%	1% to 5.5%	0.5% to 5%	0% to 4.5%	0.00%
5	3.25% to 10.25%	2.25% to 9.25%	1.25% to 8.25%	0.25% to 7.25%	0% to 6.25%	0% to 5.25%	0.00%

Option 4: Average increase of 5% (Cost of $3.906M)

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0%	0%	0%	0%	0%	0%	0%
2	3.25%	3.00%	2.75%	2.50%	2.25%	2.0%	0%
3	5.00%	4.75%	4.50%	4.25%	4.00%	3.75%	0%
4	6.90%	6.40%	5.90%	5.40%	4.90%	4.40%	0%
5	9.75%	8.75%	7.75%	6.75%	6.75%	4.75%	0%

Option 4: Average increase of 5% (Cost of $3.906M) – WITH RANGE

	85%-89.99%	90%-94.99%	95%-99.99%	100%-104.99%	105%-109.99%	110%-114.99%	115%
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	0% to 3.75%	0% to 3.5%	0% to 3.25%	0% to 3.0%	0% to 2.75%	0% to 2.5%	0.00%
3	3.0% to 6.0%	2.75% to 5.75%	2.5% to 5.5%	2.25% to 5.25%	2.0% to 5.0%	1.75% to 4.75%	0.00%
4	3.9% to 8.4%	3.4% to 7.9%	2.9% to 7.4%	2.4% to 6.9%	1.9% to 6.4%	1.4% to 5.9%	0.00%
5	4.75% to 11.75%	3.75% to 10.75%	2.75% to 9.75%	1.75% to 8.75%	0.75% to 7.75%	0% to 6.75%	0.00%

Annex D: Government's Expectations for pay and Employment Conditions in the State Sector

Introduction

This document sets out Government policy and expectations for all pay and employment conditions in the State sector. These Expectations apply to all State sector agencies except State Owned Enterprises. For the purposes of these expectations "pay and employment conditions" include all processes for adjusting remuneration and conditions, including collective bargaining.

These Expectations continue to apply in the context of a fragile economy, with ongoing uncertainty in the international economic environment. The fiscal situation for State sector agencies remains constrained.

These Expectations will form the framework for all State sector agencies to work within when submitting bargaining and remuneration strategies and settlement proposals to the State Services Commission (SSC) or the Director General of Health for consultation or approval. Boards of Crown entities will be required to have regard to these Expectations when establishing and adjusting their pay and employment conditions.

These Expectations update and replace the Government's Expectations agreed by Cabinet in 2010. They will be revised from time to time and may be supplemented by additional specific expectations.

Government Priorities

One of the Government's priorities is to deliver better public services to the people of New Zealand, within the tight financial constraints the Government is operating under. All decisions about pay and employment conditions are expected to support this priority.

Government Policy for Employment and Workplace Relations

Government's overarching policy for employment and workplace relations is that:

- all parties are treated fairly and with respect
- workplace relations are based on good faith, natural justice, human rights, good employer practice and requirements, and relevant legislation
- there is flexibility and opportunity for all
- bargaining is efficient, effective and focussed.

Pay and Employment Conditions

State sector agencies must meet the following criteria when adjusting pay and employment conditions, including through collective bargaining and remuneration adjustment processes:

1 Adjustments to pay and conditions must support achievement of the Government's priorities for the State sector. Bargaining outcomes should deliver organisational and sector performance improvement, foster continuous improvement and productivity enhancement, support effective employee engagement and achieve results, as identified in the organisation's and sector's Budget Plan and Workforce Strategy (or equivalent).

2 Adjustments must be affordable and sustainable within baseline funding and should not lead wider labour market movements and trends.

3 Agencies must identify flow-on implications of settlements, both within and beyond the agency and sector, and have plans in place to manage these.

4 Pay structures and other conditions must be demonstrated as necessary to support an organisation's business and workforce objectives.

5 Market relativity and/or cost of living adjustment will not suffice as the sole basis for pay adjustment - specific business imperatives (such as improved performance and demonstrable recruitment and retention difficulties) are required.

6 The cost of all adjustments to pay and conditions, including built-in progression through pay scales, and performance-based pay increases, as well as any changes to other conditions such as leave entitlements, must be taken into account when setting the financial envelopes for both bargaining and remuneration strategies.

7 Backdating of any or all components of adjustments to pay and conditions (either through effective date or lump sum payment) is not generally favoured.

Implementation

Application

All State sector organisations except State Owned Enterprises must have regard to these Expectations when setting bargaining and remuneration strategy, and determining other employment relations policies.

Public Service Departments must have a bargaining strategy that meets these Expectations approved by the State Services Commissioner (the Commissioner), and must not commence bargaining or commit to an outcomes (including final Terms of Settlement) without this approval.

Outcomes of Remuneration Forums and reviews should reflect these Expectations. Public Service Departments must consult SSC before committing to an outcome.

Other agencies required to consult either the Commissioner or a monitoring department must have bargaining and remuneration strategies that meet these Expectations as the basis for that consultation.

Where an agency wishes to pursue a course of action that the Commissioner or monitoring department considers is at odds with these Expectations, approval of the agency's responsible Minister, the Minister of State Services and the Minister of Finance is required.

Information Sharing

SSC will retain a whole-of-sector overview of trends in pay and conditions, bargaining outcomes and drivers of these. To facilitate this, all agencies must provide their Minister, monitoring department, Treasury and SSC with:

- Up-to-date information on the progress and potential risks associated with bargaining.
- Aggregated information on an annual basis (as at 30 June) on remuneration levels and personnel cost movement over the year, including detail on:
  - the component of direct personnel cost movement attributable to the outcome of individually or collectively negotiated pay settlements or remuneration forum outcomes
  - the components of direct personnel cost movement attributable to other forms of pay increase, such as built-in progression through pay scales or discretionary performance-based pay increases
  - the component of direct personnel cost movement attributable to changes in the number of employees.

Annex E: Policy Proposals

Issue	Policy Proposal
PIR falls below 85% for some staff when pay bands are increased.	It is proposed that the same approach is taken this year as was applied last year. Staff will be 'reset' to at least 85% of the range if their PIR falls below 85% following a decision on their performance rating and proposed remuneration adjustment. The proposed range movement this year is a lot lower than in 2012 given that much of the catch up to market medians has already been achieved. However in any given year, there is a possibility some staff will drop below 85% pending the outcome of their performance assessment and remuneration decision outcomes. The expired CEA does not enable staff remuneration to be less than the range so this requires that staff are at least at 85% for their PIR. The Ministry has not sought any change to this in bargaining.
Managers were placed low in bands last year so that demonstrated performance is rewarded in preference to rewarding up front for expected performance – flexibility needed to recognise performance this year for those who have demonstrated this (and avoid the need to give the wrong message about performance in order to give the level of reward deserved)	Manager's performance should be assessed, rated and rewarded based on performance/position in range and their remuneration and position in range adjusted accordingly. Relativity issues should be addressed within the range of increase available to the manager through the matrix. If in the manager's view, there is a specific relativity issue to address that cannot be dealt with through the matrix, then a case can be made to the Deputy Secretary for a level of increase greater than the matrix as a one-off special case. ***Guidelines for managers will be developed.***
New PO1s appointed at same level as existing PO1s – need the flexibility to differentiate.	The Ministry's preference is to reward based on performance and not time in the job - reward should take into account the higher level of experience provided it is reflected in relative performance. To the extent performance justifies this, relativity issues should be addressed within the range of increase available to the manager through the matrix. A case can be made to the Deputy Secretary for a level of increase greater than the matrix as a one-off special case if the range available within the matrix does not adequately address the issue. ***To be included in guideline for managers.***
Junior staff and issues of performance relative to length of service. Can see high performance but not	High performance that is not necessarily sustained or likely to be sustained should more appropriately be rewarded through a one off performance award rather than movement through the range. The

sustained performance. This can relate to opportunity to work on high priority work	sustained level of performance should be rewarded through increases in remuneration. Opportunities for high priority work may not always be evenly spread. Again, there should be rewarded through a one off performance reward. A combination of increase in pay rates and one-off performance award is likely to be the best approach. ***To be included in guideline for managers.***
Off-shore staff appointed "above the line." HOMS on old pay bands that are protected – FP4 are on a lower pay band than the new pay band (and retained old allowances), FP6 are on more than the new pay band. Want to avoid disadvantaging the FP4 people. (Note that the performance expectations will be relative to the new jd)	***Issue:*** Some (six) FP4 staff are being asked to do a HOM/HOP role whose pay band is significantly higher than their FP4 pay band. Some (six) FP4 staff are doing a HOM/HOP role whose pay band is marginally lower than their FP4 pay band. There are other FP4 staff doing other roles at post whose pay band is lower than their FP4 pay band. There are FP5 and FP6 staff who are in HOM/HOP roles whose pay band is the same or lower than their FP5 and FP6 pay bands. The issue therefore arises in relation to FP4 staff filling positions at much higher levels. In relation to staff who are continuing to receive remuneration at the same or higher level than the role, there is no issue. ***Previous decisions of SLT:*** I am advised that the following are decisions made by SLT in 2012: • Pay staff for the job they are performing (on and offshore) • Retain below the line rotational staff • Grandparent staff already at post at 1 July 2012 on their current job size recognising in particular that some HOM roles have been sized at a level lower than the personal grade of the current incumbent and some HOM roles have been sized at a level higher than the personal grade of the current incumbent. The principle adopted was to not increase or reduce remuneration being received by the current incumbent but rather to grandparent these staff on their current job size (personal grade). The reasons given for this decision on grand-parenting are: • The expectation is that they would continue to perform the HOM/HOP role based on their personal grade. Performance expectation would be set accordingly. • They were selected based on pre 1 July expectations. The pool of candidates would likely have been greater on the post 1 July pay grade and the incumbent may not have been selected on that

	basis. • Equity issues means grand-parenting preferred over disadvantaging or advantaging staff offshore at 1 July 2012. ***Proposal:*** • It is appropriate to grandparent staff overseas to ensure they are not disadvantaged by decisions made after they have accepted a role. • It seems less appropriate to expect staff to retain lesser remuneration than the positions warrants so that they are not "advantaged" • At least one senior manager has stated that the expectations set for the role are at the new level not at the pre 1 July level. This seems appropriate. It is difficult to see how the Ministry can operate effectively without setting its expectation where they should be. • It would be appropriate to look at special/higher duties options for the six staff who are filling higher graded job on the proviso that they are indeed expected to perform at the higher level and are performing at that level. However, it would be appropriate to also consider the changes to allowances when proposing new packages for these staff. Recommend HRG work with Deputy Secretaries to determine appropriate remuneration packages for these staff taking into account performance, expectations and the proposed increase in their substantive pay rate at 1 July 2013.
How does equalisation fit into remuneration decisions?	Equalisation payments have been provided to some offshore staff last year. These payments will continue to be in place for those staff until staff leave the post. There is no impact.
HOMs appointed since MBM and relativity issues with UMs and DMs – the need to slow down the progression of HOMs/HOPs relative to UMs and DMs	For the Groups concerned, the best approach is to deal with this within the range of movement provided by the matrix. To the extent that this is not sufficient to address some relativity issues, a case can be made for a level of increase greater than the matrix. ***To be included in guideline for managers.***
Adjusting rates for people who return from above the line roles overseas to rotational positions in NZ	Staff returning to rotational roles will need to be placed back on their substantive role range at a level commensurate with their performance in their offshore role and the development they have experienced since their overseas assignment which for some may mean at the top of the range. For

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	others not necessarily. This will have to be considered on a case by case basis, but the general principle is to give returning employees progression in the pay range commensurate with their development and performance overseas.
Apportioning performance rewards to Groups	SLT note that in future there is an option available to the Ministry to make an upfront assessment of each Groups' performance and allocate a portion of the budget to each Group to work within in the remuneration round. This year the budget will be apportioned on a per head basis. Groups will need to reconcile their recommendations to a proportionate share of the budget available.
Eligibility (must have three months in position but what about staff who have resigned). Not all senior managers support current practice as they want to give preference to staff who are committed to remaining with the Ministry over those who have decided to leave.	The issue arises because of the delay between the review date and final decisions on outcomes. The current practice derives from a contractual commitment to review remuneration at 1 July. Current practice is if staff ask for the remuneration adjustment it is paid out subject to a completed performance assessment. Provided the assessment process has been complied with and the recommendations in respect of the individual have been through the moderation process, then the Ministry is obligated to pay. Given the individual will not be with the Ministry for a full year, our costing should reflect this.
SDAs and HDAs for staff overseas	This issue of SDAs and HDAs has been raised in bargaining. This is an area that would benefit from a standardised approach. Recommendations for SLT are likely to come out of bargaining.
Establishment loan issue	Establishment loans were ceased last year for a number of very sound reasons (we do not have the resource to manage this, it is a legitimate role for a bank). It is not appropriate for the Ministry to make loans to staff. While staff do face a range of immediate set up costs at post, they should look to banks to finance their purchases and not the Ministry. The Ministry can provide information in support of the employees request for finance.
People appointed to new roles relatively late in the year (some with significant pay increases but not all) who were performing to a very high standard in the	**If the employee has been in the new position for three months,** their performance is assessed in the new position and rated according to performance in that position. Performance in the previous role should be reviewed, but as they have since been promoted that review will not contribute to the new

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previous role but caution is required in relation to the current role. The assumption being that the assessment of performance (rating) will relate to the full year.	TFR assessment. The fact that the employee was performing at a high level has been rewarded by promotion. The only option for recognising performance prior to promotion is by way of bonus (if appropriate). **If the employee has not been in the new position for three months,** their performance is assessed against the previous position and rated according to performance in that position. If an increase to TFR for the old position would have impacted on the TFR on appointment to the new position, then the starting salary should be reassessed. If not, a bonus payment is the way to recognise the previous performance.
Bonus payments	A greater level of guidance is required for managers in 2013. ***Guidelines will be developed.***

Annex F: Proposed Amendment to the Collective Agreement

If RSA is optional ...

16.10 Total Fixed Remuneration and Retirement Savings	The Ministry is committed to assisting employees to save for their retirement. Employer contributions to of GSF, IRP, KiwiSaver, or SSRSS will be met from the employee's Total Fixed Remuneration package. Employees employed before [insert date] may take part of their Total Fixed Remuneration package as a taxable allowance of up to 5% (Retirement Savings Assistance) provided the combined total of employer contributions to superannuation and the Retirement Savings Assistance does not exceed 5%. The employee will receive a base salary that is the difference between the Total Fixed Remuneration package and the total of all employer contributions to superannuation (including tax paid on the employer contribution to superannuation), the Retirement Savings Assistance and the value of any other employment benefit provided as part of the Total Fixed Remuneration package. *As superannuation contributions and the value of employment benefits may vary from time to time, the base salary will be adjusted accordingly.*

If RSA is discontinued ...

16.10 Total Fixed Remuneration and Retirement Savings	The Ministry is committed to assisting employees to save for their retirement. Employer contributions to GSF, IRP, KiwiSaver, or SSRSS will be met from the employee's Total Fixed Remuneration package. The employee will receive a base salary that is the difference between the Total Fixed Remuneration package and the total of all employer contributions to superannuation (including tax paid on the employer contribution to superannuation) and the value of any other employment benefit provided as part of the Total Fixed Remuneration package. *As superannuation contributions and the value of employment benefits may vary from time to time, the base salary will be adjusted accordingly.*

*A transitional provision is likely to be required.

If RSA is discontinued and the employee only able to receive one employer contribution ...

16.10 Total Fixed Remuneration and Retirement Savings	The Ministry is committed to assisting employees to save for their retirement. Employer contributions to one of GSF, IRP, KiwiSaver, or SSRSS will be met from the employee's Total Fixed Remuneration package. The employee will receive a base salary that is the difference between the Total Fixed Remuneration package and the total of all employer contributions to superannuation (including tax paid on the employer contribution to superannuation) and the value of any other employment benefit provided as part of the Total Fixed Remuneration package. *As superannuation contributions and the value of employment benefits may vary from time to time, the base salary will be adjusted accordingly.*

*A transitional provision is likely to be required.

Annex G: Car Park Eligibility

The Car Park Review – June 2012 states that the "2007 policy defines staff that are contractually entitled to a car park as:

- FP5 staff while they report directly to a Deputy Secretary.
- Staff contractually entitled to a car park include SLT, SML, FP5, grand parented Directors; FP5 grand parented non Directors;
- Newly promoted FP5 Directors (previously FP4), Specialist and Corporate Management Directors.
- BB: no reference made to FP6 staff."

Annex H: High Level Timetable

The following table sets out the indicative timeline for assessing performance and finalising the end of year performance rating. It is essential that all managers meet the specified timeframes otherwise delays will be caused to the process for all managers and for staff.

Managers and staff are to have end of year performance discussions	By 30 June 2013
Managers are to provide indicative performance ratings for all staff to HRG. Support will be provided within the Group to enter these ratings into spreadsheets.	By 30 June 2013
As a Group leadership team we will moderate Performance Ratings at a Group level	By 15 July 2013
SLT will moderate Performance Ratings across Groups	By 23 July 2013
Final ratings approved by the Deputy Secretary / Group Manager	By 25 July 2013
Managers will communicate the final ratings to staff	From 26 July 2013

The following table sets out the process and timeline for the 2013 Remuneration Round. Our ability to meet this timeframe will be dependent on obtaining SSC approval to our remuneration intentions and on all managers providing their recommendations on time.

Managers are provided with guidelines for making remuneration recommendations	By 31 July 2013 Now 9 August 2013
Managers provide remuneration recommendations	By 16 August 2013 Now 21 August 2013
The Group leadership team will moderate remuneration recommendations at a Group level	By 28 August 2013 No change proposed
SLT will moderate the remunerations recommendations across Groups	By 3 September 2013
Individual remuneration outcomes will be approved	By 5 September 2013
Managers issue remuneration offers and contract variations to staff	By 27 September 2013
Deadline for staff to accept offers	11 October 2013
New remuneration and back-pay paid	Payday 23 October 2013

MEMORANDUM

To: Brook Barrington
Chief Executive

File Ref:

Date: May 2017

From: Bronwyn Kingdom
Manager HR Organisational Capability

Subject: Executive Remuneration - Performance and Remuneration Review 2017

Purpose

1. The purpose of this paper is to provide information to assist you in decisions for your direct reports in relation to the 2017 performance and remuneration review. A separate market update paper was provided to the Resources Committee (16 May 2017) in order to consider the parameters for the 2017 remuneration review for all other staff excluding SLT)

Market Comparisons

2. The following table (table one) shows market movements reported by Korn Ferry for executive positions with Hay points in the range of 1056 and 3020 (bands 22 – 27). This range includes all executive positions reporting to you (bands 24 and 25). Movements for '*all organisations*' has been included along with *public sector* information for your reference. Market information on *total package* (including at risk components) has also been included for your reference as a comparison to our approach of *fixed package*.

Table One: Market Movements for Executive Positions (medians)

Hay Group bands 22 - 27	Fixed Package	Total Package
Public Sector	s9(2)(b)(ii)	
All Organisations		

3. *Fixed package* represents the sum of base salary and those significant benefits that are quantifiable in terms of cost to a company. *Total package* represents the sum of fixed package and other incentives (i.e. "at risk" pay).

4. Smaller executive roles (between 735 – 1055 hay points) had a median increase of s9(2)(b)(ii) the public sector. For non-executive positions the *Public Sector Fixed Package* median increase s9(2)(b)(ii) over the same period.

State Services Commission Tier Two Report

5. Every year government agencies provide the State Services Commission (SSC) information about their tier two remuneration and in turn SSC produce and distribute survey results. The purpose of this survey is to provide useful

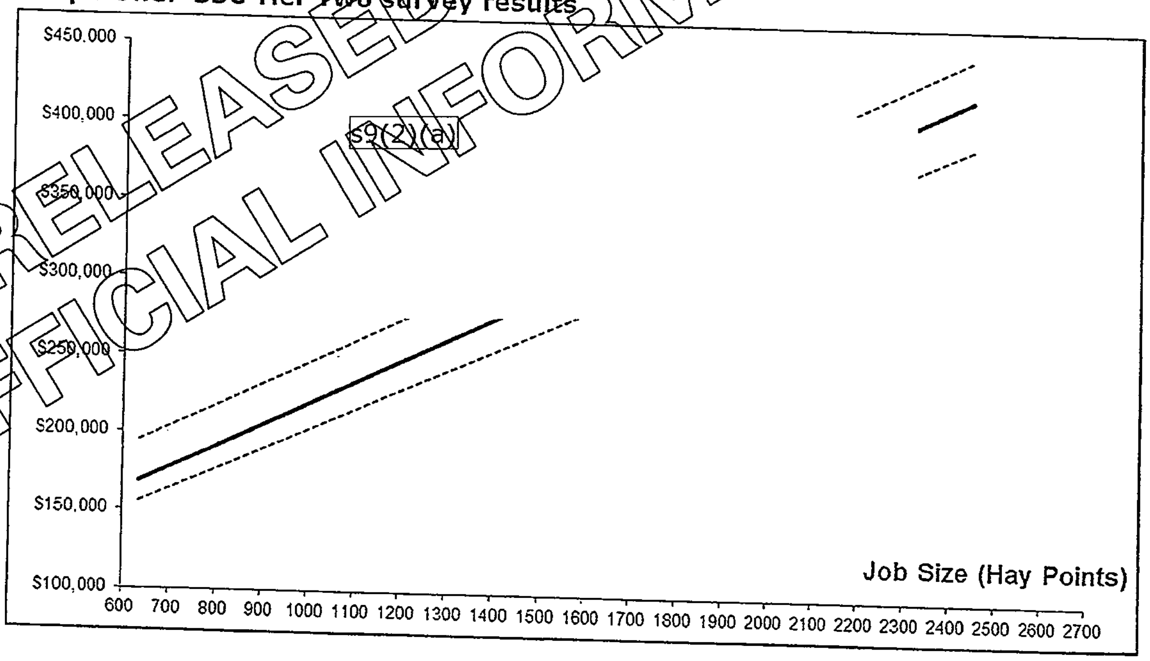
information to Chief Executives and HR managers in the annual remuneration review process. The report is attached at Annex one for your reference.

6. SSC reported that there was a 5.5% annual increase in Total Fixed Remuneration (TFR) for tier two positions for the 2016/17 year. This compares to 2.7% in 2015/16. The large increase this year is driven in part by structural changes in four agencies resulting in upward revisions of job sizes and corresponding pay. If these four agencies are excluded from the data, the annual increase drops to s9(2)(b)(ii) in line with what has been reported by Korn Ferry.

7. The SSC report the Ministry's average TFR for tier two positions is $328,000 and the public sector average is $301,000. The Ministry is reported as having the seventh highest average TFR in the public service for tier two positions.

8. In terms of Ministry positions compared to the SSC reported public service median, the Ministry has three positions above the 50th percentile and six positions below. Graph One below illustrates this. The solid line represents the public sector median and the dotted lines the lower and upper quartile.

Graph One: SSC Tier Two survey results



s9(2)(a)

Application of Market Data

9. Table two below shows the percent difference between last year's medians as reported by Korn Ferry and the new medians for the two bands covering SLT roles. In the past where a decrease has occurred the pay band median was maintained. That is, no decreases to midpoints have been applied, rather the midpoints remain the same. This occurred in 2014 and 2015 to band 25.

Table Two: Market Movements per band (medians)

Salary Band	Remuneration Movement
Band 24 (Fixed Rem)	s9(2)(b)(ii)
Band 25 (Fixed Rem)	

Proposed Executive Pay Bands

10. Table three sets out the market rates for pay bands 24 and 25 and pay band midpoints in previous years and compares this to the proposed pay band midpoints for 2017/18, with no negative application to band 25.

Table Three: Application of Market Movements to Midpoints

Salary Band		2013	2014	2015	2016	**2017**
Band 24	Market	s9(2)(b)(ii)				
	MFAT midpoint	$290,657	$293,000	$302,759	$307,665	**319,653**
Band 25	Market	s9(2)(b)(ii)				
	MFAT midpoint	$337,704	$337,704	$337,704	$351,275	**351,275**

11. The midpoints set out in table three will produce the following pay bands (shown in table four):

Table Four: Application of Market Movements to Pay Bands

Salary Band	Effective	85%	100%	115%
Band 24	*1 July 2016*	s9(2)(b)(ii)		
Band 25	*1 July 2016*			

Retirement Savings

12. Effective 1 July 2017, the employer contributions to the GSF will increase from 11.5% to 12.4%. While this change does not affect members Total Fixed Remuneration, it will affect member's base salary. Currently three SLT members contribute to GSF and will experience a decrease in take home pay as a consequence.

Performance Increase

13. Remuneration movement within each band is dependent on performance and the achievement of agreed performance objectives. This should include the individual contribution to SLT together with an assessment of the Executive Leader Level capabilities set out in the MFAT Capability Framework and SSC's leadership and talent programme.

14. Remuneration reviews are undertaken on the basis of a combination of performance and current position in the remuneration range. There is no provision for separate pay increases for market movements.

15. Where performance is high relative to position in the pay band, higher levels of increase may be appropriate. Conversely, lower levels of performance associated with higher placement in the pay band may warrant no or only a small increase.

16. As the proposed movement to band 24 is s9(2)(b)(ii) individual SLT members on this band who do not move or move by only a small percent will experience a decrease in position in the band. Increases of the same or more than the level of increase to the pay band will see the position in the band maintained or improved (on the basis that performance warrants this).

Performance Payment

17. An "at risk" payment has been applied to SLT members in past years. This is based on the following two components:

- Organisational Performance – up to 5% of the Band 25 midpoint ($17,564);
- Group Performance - up to 5% of individual band midpoint (either band 24 up to $15,983 or 25 up to $17,564). This is a measure of the performance of the Group/Division against operational plans.

18. The following table (table five) is provided in order to give you a sense of the level of payments made in the last three years. s9(2)(a) are not included in this table as they are relatively new to SLT. s9(2)(a) has also been excluded.

Table Five: Previous at risk payments

	2014 Actual	2014 Max Eligible	2014 % of lump sum	2015 Actual	2015 Max Eligible	2015 % of lump sum	2016 Actual	2016 Max Eligible	2016% of lump sum
s9(2)(a)		$19,700	s9(2)(a)		$33,770	s9(2)(a)		$35,128	s9(2)(a)
		N/A			N/A			19,220*	
		$31,535			$32,024			$32,948	
		$33,770			$33,770			$35,128	
		N/A			N/A			N/A	
		$31,535			$32,024			$35,128	
		$31,535			$32,024			$32,948	
		$33,770			$33,770			$35,128	
		N/A			N/A			N/A	

*s9(2)(a)

** s9(2)(a)

19. Your decisions on these at risk payments are not captured by the SSC's remuneration intentions approval (as they are considered "at risk"). This is an area of remuneration that allows you some additional latitude to reward performance.

Cost Implications

s9(2)(b)(ii) s9(2)(b)(ii)

20. To apply a increase to all members of SLT, the cost would increase by $64,927. This scenario and a across the board increase (costing $97,391) are examples attached at appendices two and three. They do not take into account any individual performance but are there to illustrate what increases of these amounts would look like. Appendix four details these scenarios for each individual, including examples of levels of performance payments. s9(2)(a) has been included in this appendix, giving you the option to review his remuneration alongside your other direct reports.

21. The maximum cost of performance payments, should all SLT receive the maximum of 10%, has been calculated at $270,429 (prorated where role has been filled for less than 12 months). It is very unlikely that this reflects the true cost as last year the average increase was 51% across SLT. If this average was repeated, the cost of performance payments is more likely to be in the order of $138,000 (including SLT members who have moved to new roles).

Government Parameters

22. The Government's Expectations for Pay and Employment Conditions for the State Sector require the Ministry to obtain approval for our annual remuneration intentions. This includes remuneration increases for senior leaders. The Ministry is seeking approval for s9(2)(g)(i) for one-off performance payments. This was the subject of a separate paper to the Resources Committee (16 May).

[1] s9(2)(a)

Timing of Decisions

23. Performance should be reviewed as at 30 June 2017. It is likely that the remuneration round outcomes for all other staff will be processed in the first pay in October. HRG will therefore need final decisions from you preferably early September if it is your intention to align outcomes for tier two managers with all other staff. If it is your preference to finalise decisions sooner, this can also be arranged.

Recommendations

24. It is recommended that you:

a) **Approve** the new executive pay bands with effect from 1 July 2017 to align with Public Sector Fixed Package median for the appropriate band as set out below:

Salary Band	85%	100%	115%
Band 24	**271,705**	**319,653**	**367,497**
Band 25 (no change)	**298,584**	**351,275**	**403,966**

b) **Complete** performance and remuneration reviews for each SLT member and determine:

- The level of increase in Total Fixed Remuneration for each member of SLT;
- The level of increase in SDA, if any, for s9(2)(a) [2] (and the level of increase s9(2)(a) TFR in conjunction with s9(2)(a));
- The lump sum "at risk" payment to be awarded to each member of SLT (of the amount they are eligible to receive);
- The level of increase for s9(2)(a)

(Bronwyn Kingdom can model options as required)

c) **Note** that Bronwyn Kingdom will prepare appropriate remuneration letters for you based on the decisions you make in relation to recommendations (a) and (b) above.

Attachments:

Appendix One – SSC 2017 Tier 2 Remuneration Survey – System Level Findings

Appendix Two - Current remuneration

Appendix Three - Impact of notional increases – s9(2)(b)(ii) increase

Appendix Four – Impact of notional increases – s9(2)(b)(ii) increase

Appendix Five– Individual scenarios including at risk

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s9(2)(a)

Appendix One: 2017 Tier 2 Remuneration Survey – System Level Findings

Appendix Two: Current Remuneration at 30 May 2017

Employee Details				Current Remuneration								
Name	Job Title	Band	New Midpoint 2017	Base Salary	Car park	GSF (11.5%)	IRP (6%+ ESCT)	Kiwi Saver	SDA	30 May 2017 TFR	Current % in Old Band	Current % in New Band
s9(2)(a)		25	351,275	s9(2)(a)								
		25	351,275									
		25	351,275									
		25	351,275									
		25	351,275									
		24	319,653									
		25	351,275									
		24	319,653									
		24	319,653									
		25	351,275									

[3] Pending confirmation of appointment to

Appendix Three: 2% increase

Employee Details		Current Remuneration			Market increase						
Name	Band	TFR at 30 May 2017	Current % in New Band	Midpoint 2017	Base Salary	Car park	Total Retirement Savings [1]	SDA	Market Increase	New 2017 TFR	New % in Band
s9(2)(a)	25	s9(2)(a)		351,275	s9(2)(a)						
	25			351,275							
	25			351,275							
	25			351,275							
	25			351,275							
	24			319,653							
	25			351,275							
	24			319,653							
	24			319,653							
	25			351,275							
									Cost	64,927	

1. GSF adjusted to 12.4%

Appendix Four: 3% increase

Employee Details		Current Remuneration			Market increase						
Name	Band	TFR at 30 May 2017	Current % in New Band	Midpoint 2017	Base Salary	Car park	Total Retirement Savings [1]	SDA	Market Increase	New 2016 TFR	New % in Band
s9(2)(a)	25	s9(2)(a)		351,275	s9(2)(a)						
	25			351,275							
	25			351,275							
	25			351,275							
	25			351,275							
	24			319,653							
	25			351,275							
	24			319,653							
	24			319,653							
	25			351,275							
									Cost	97,391	

1. GSF adjusted to 12.4%

MEMORANDUM

To: Brook Barrington
Chief Executive

File Ref:

Date: May 2016

From: Bronwyn Kingdom
Manager HR Organisational Capability

Subject: Executive Remuneration - Performance and Remuneration Round 2016

Purpose

1. The purpose of this paper is to provide information to assist you in decisions for your direct reports in relation to the 2016 performance and remuneration round. A separate market update paper has been provided to the Resources Committee (for 20 May 2016) in order to consider the parameters for the 2016 remuneration round for all other staff excluding SLT.

Background

2. In 2012 a new remuneration approach and structure was introduced. This included the introduction of two salary bands for tier 2 positions with a remuneration range of 85% to 115%. The midpoint of these bands is currently linked to Hay Group's *Public Sector Fixed Package* (equivalent to our concept of Total Fixed Remuneration) median.

Market Comparisons

3. The following table (table one) shows market movements reported by Hay Group for executive positions with Hay points in the range of 1056 and 3020 (bands 22 – 27). This range includes all executive positions reporting to you (bands 24 and 25). Movements for '*all organisations*' has been included along with *public sector* information for your reference. Market information on *total package* (including at risk components) has also been included for your reference as a comparison to our approach of *fixed package*.

Table One: Market Movements for Executive Positions (medians)

Hay Group bands 22 - 27	Fixed Package	Total Package
Public Sector	s9(2)(b)(ii)	
All Organisations		

4. *Fixed package* represents the sum of base salary and those significant benefits that are quantifiable in terms of cost to a company. *Total package* represents the sum of fixed package and other incentives (i.e. "at risk" pay).

5. Smaller executive roles (between 735 – 1055 hay points) had a median increase of s9(2)(b)(ii) For non-executive positions the *Public Sector Fixed Package* median increased s9(2)(b)(ii) over the same period.

Application of Market Data

6. Table two below shows the percent difference between last year's medians as reported by Hay Group and the new medians for the two bands covering SLT roles. In the past where a decrease has occurred the pay band median was maintained. That is, no decreases to midpoints have been applied, rather the midpoints remain the same.

Table Two: Market Movements per band (medians)

Salary Band	Remuneration Movement
Band 24 (Fixed Rem)	s9(2)(b)(ii)
Band 25 (Fixed Rem)	

Proposed Executive Pay Bands

Table three sets out the market rates for pay bands 24 and 25 and pay band midpoints in previous years and compares this to the proposed pay band midpoints for 2016/17.

Table Three: Application of Market Movements to Midpoints

Salary Band		2013	2014	2015	**2016**
Band 24	Market	s9(2)(b)(ii)			
	MFAT midpoint	$290,657	$293,000	$302,759	**$307,665**
Band 25	Market	s9(2)(b)(ii)			
	MFAT midpoint	$337,704	$337,704	$337,704	**$351,275**

7. The midpoints set out in table three will produce the following pay bands (shown in table four):

Table Four: Application of Market Movements to Pay Bands

Salary Band	Effective	85%	100%	115%
Band 24	s9(2)(b)(ii)			
Band 25				

Retirement Savings

8. Effective 1 July 2016, the employer contributions to the GSF will increase from 10.7% to 11.5%. While this change does not affect members' Total Fixed Remuneration, it will affect member's base salary. Currently four SLT members contribute to GSF and will experience a decrease in take home pay as a consequence.

Performance Increase

9. Remuneration movement within each band is dependent on performance and the achievement of agreed performance objectives. This should include the individual contribution to SLT together with an assessment of the Executive Leader Level capabilities set out in the MFAT Capability Framework and SSC's leadership and talent programme.

10. Remuneration reviews are undertaken on the basis of a combination of performance and current position in the remuneration range. There is no provision for separate pay increases for market movements.

11. Where performance is high relative to position in the pay band, higher levels of increase may be appropriate. Conversely, lower levels of performance associated with higher placement in the pay band may warrant no or only a small increase.

12. As the proposed movement to band 25 is relatively large this year, individual SLT members on this band who do not move or move by only a small percent will experience a decrease in position in the band. Increases of the same or more than the level of increase to the pay band will see the position in the band maintained or improved (on the basis that performance warrants this).

Performance Payment

13. An "at risk" payment is offered to SLT members. This is based on the following two components:

- Organisational Performance – up to 5% of the Band 25 midpoint ($17,564);
- Group Performance - up to 5% of individual band midpoint (either band 24 up to $15,383 or 25 up to $17,564). This is a measure of the performance of the Group/Division against operational plans.

14. The following table (table five) is provided in order to give you a sense of the level of payments made in previous years. s9(2)(a) [redacted]
s9(2)(a) [redacted]
s9(2)(a) [redacted] has also been excluded.

Table Five: Previous at risk payments

s9(2)(a)	2013 Actual	2013 Max Eligible	2013 % of lump sum	2014 Actual	2014 Max Eligible	2014 % of lump sum	2015 Actual	2015 Max Eligible	2015 % of lump sum	2016 Max Eligible
	s9(2)(a)	$31,418	s9(2)(a)		$31,535	s9(2)(a)		$32,024	s9(2)(a)	$32,948
		$33,770			$33,770			$33,770		$35,128
		$31,418			$31,535			$32,024		$35,128
		N/A			$33,770			$33,770		$35,128
		$31,418			$31,535			$32,024		$32,948
		$33,770			$33,770			$33,770		$35,128
		N/A			N/A			N/A		N/A

15. Your decisions on these at risk payments are not captured by the SSC's remuneration intentions approval (as they are considered contractual). This is an area of remuneration that allows you some additional latitude to reward performance.

Cost Implications

16. To apply the market increase of each band s9(2)(b)(ii) for band 25 and s9(2)(b)(ii) for band 24) to all SLT the cost of this would be $137,144. To apply, for example, a s9(2)(b)(ii) increase to all members of SLT, the cost would increase by $58,913. These scenarios and costs are examples only and do not take into account any individual performance. Details of what the current remuneration for your direct reports s9(2)(b)(ii) looks like and details of three scenarios costed (a market increase, a s9(2)(b)(ii) increase and a increase) are attached at appendices two to four respectively. It is understood that variable levels of increase are likely to be required. Appendix five details these scenarios for each individual, including examples of levels of performance payments. s9(2)(a) has been included in this appendix, giving you the option to review his remuneration alongside your other direct reports.

17. The maximum cost of performance payments, should all SLT receive the maximum of 10%, has been calculated at $206,408. It is very unlikely that this reflects the true cost as last year the average increase was 65% across SLT. If this average was repeated, the cost of performance payments is more likely to be in the order of $135,000[2].

Government Parameters

18. The Government's Expectations for Pay and Employment Conditions for the State Sector require the Ministry to obtain approval for our annual remuneration intentions. This includes remuneration increases for senior leaders. The Ministry is likely to seek approval for in the order of s9(2)(g)(i) This is the subject of a separate paper to the Resources Committee.

[1] s9(2)(a)

[2] A provision has not been made for s9(2)(a) n these calculations as there is no contractual obligation.

19. Only s9(2)(a) will fall below the minimum pay rate for the position or adjustment to the pay bands for 2016. s9(2)(a)
s9(2)(a)

Timing of Decisions

20. Performance should be reviewed as at 30 June 2016. It is likely that the remuneration round outcomes for all other staff will be processed in the first pay day in October. HRG will therefore need final decisions from you preferably early September.

Recommendations

21. It is recommended that you:

a) **Approve** the new executive pay bands with effect from 1 July 2016 to align with Public Sector Fixed Package median for the appropriate band as set out below:

Salary Band	85%	100%	115%
Band 24	**261,515**	**307,665**	**353,815**
Band 25	**298,584**	**351,275**	**403,966**

b) **Complete** performance and remuneration reviews for each SLT member and determine:

- The level of increase in Total Fixed Remuneration for each member of SLT
- The level of increase in SDA for s9(2)(a) (and the level of increase in s9(2)(a) TFR)
- The lump sum "at risk" payment to be awarded to each member of SLT (of the amount they are eligible to receive)
- The level of increase for s9(2)(a)

(Bronwyn Kingdom can model options as required)

c) **Note** that Bronwyn Kingdom will prepare appropriate remuneration letters for you based on the decisions you make in relation to recommendations (a) and (b) above.

Attachments:

Appendix One – Current remuneration

Appendix Two - Impact of notional increases – market increase

Appendix Three - Impact of notional increases – ~~increase~~ s9(2)(b)(ii)

Appendix Four – Impact of notional increases – increase

Appendix Five – Individual scenarios including at risk s9(2)(b)(ii)

Appendix One: Current Remuneration at 30 June 2016

Employee Details				Current Remuneration								
Name	Job Title	Band	New Midpoint 2016	Base Salary	Car park	GSF (10.7%)	IRP (6%+ ESCT)	Kiwi Saver	SDA	30 June 2016 TFR	Current % in Old Band	Current % in New Band
s9(2)(a)		25	351,275	s9(2)(a)								
		25	351,275									
		25	351,275									
		25	351,275									
		24	307,665									
		25	351,275									
		24	307,665									
		25	351,275									
		24	307,665									

Appendix Two: Market movement increase

Employee Details		Current Remuneration			Market increase						
Name	Band	TFR at 30 June 2016	Current % in New Band	Midpoint 2016	Base Salary	Car park	Total Retirement Savings [1]	SDA	Market Increase	New 2016 TFR	New % in Band
s9(2)(a)	25	s9(2)(a)									
	25										
	25										
	25										
	24										
	25										
	24										
	25										
	24										
									Cost	137,144	

1. GSF adjusted to 11.5%

s9(2)(b)(ii)

Appendix Four: % increase

Employee Details		Current Remuneration			Market increase						
Name	Band	TFR at 30 June 2016	Current % in Band	Midpoint 2016	Base Salary	Car park	Total Retirement Savings [2]	SDA	s9(2)(b)(ii) on TFR	New 2016 TFR	Current % in New Band
s9(2)(a)	25	s9(2)(a)		351,275	s9(2)(a)						
	25			351,275							
	25			351,275							
	25			351,275							
	24			307,665							
	25			351,275							
	24			307,665							
	25			351,275							
	24			307,665							
									Cost	86,682	

1) s9(2)(a) only receives an increase up to 115% of salary band

2) GSF adjusted to 11.5%

Appendix Three: s9(2)(b)(ii) % increase

Employee Details		Current Remuneration			Market increase						
Name	Band	TFR at 30 June 2016	Current % in Band	Midpoint 2016	Base Salary	Car park	Total Retirement Savings [1]	SDA	s9(2)(b)(ii)	New 2016 TFR	Current % in New Band
s9(2)(a)	25	s9(2)(a)		351,275	s9(2)(a)						
	25			351,275							
	25			351,275							
	25			351,275							
	24			307,665							
	25			351,275							
	24			307,665							
	25			351,275							
	24			307,665							
									Cost	58,913	

1. GSF adjusted to 11.5%

MEMORANDUM

To: Brook Barrington
Chief Executive

File Ref:

Date: 20 May 2015

From: Bronwyn Kingdom
Manager HR Organisational Capability

Subject: Executive Remuneration - Performance and Remuneration Round 2015

Purpose

1. The purpose of this paper is to provide information to assist you in decisions for your direct reports in relation to the 2015 performance and remuneration round. A separate market update paper has been provided to SLT (for 26 May 2015) in order to consider the parameters for the 2015 remuneration round for all other staff excluding SLT.

Background

2. In 2012 a new remuneration approach and structure was introduced for the Senior Leadership Team (SLT). This included the introduction of two salary bands for tier 2 positions with a remuneration range of 85% to 115%. The midpoint of these bands is currently linked to Hay Group's *Public Sector Fixed Package* (equivalent to our concept of Total Fixed Remuneration).

Market Comparisons

3. The following table (table one) shows market movements reported by Hay Group for executive positions with Hay points in the range of 1056 and 3020 (bands 22 – 27). This range includes all executive positions reporting to you (bands 24 and 25). Movements for '*all organisations*' has been included along with *public sector* information for your reference. Market information on *total package* (including at risk components) has also been included for your reference as a comparison to our approach of *fixed package*.

Table One: Market Movements for Executive Positions (medians)

Hay Group bands 22 - 27	Fixed Package	Total Package
Public Sector	s9(2)(b)(ii)	
All Organisations		

4. *Fixed package* represents the sum of base salary and those significant benefits that are quantifiable in terms of cost to a company. *Total package* represents the sum of fixed package and other incentives (i.e. "at risk" pay).

5. Smaller executive roles (between 735 – 1055 hay points) had a median increase of s9(2)(b)(ii) For non-executive positions the *Public Sector Fixed Package* median increased s9(2)(b)(ii) over the same period.

Application of Market Data

6. Last year a consistent approach across the Ministry was approved and we standardised our approach to setting the pay bands for all staff including executive staff. The standardised approach involves updating band midpoints with the published public sector median for the applicable band as opposed to the percent increase for all executive positions with Hay points 1056 – 3020 (bands 22 - 27) which was the previous approach.

7. Table two below shows the percent difference between last year's medians as reported by Hay Group and the new medians reported by Hay Group in 2015 for the two bands covering SLT roles. Last year there was a decrease at band 25. This decrease wasn't applied to the band, rather the 2013 median was maintained.

Table Two: Market Movements per band (medians)

Salary Band	Remuneration Movement
Band 24 (Fixed Rem)	s9(2)(b)(ii)
Band 25 (Fixed Rem)	

Proposed Executive Pay Bands

8. Table three sets out the market midpoints for pay bands 24 and 25 in 2014 and 2015 and compares this to the pay band midpoints in 2013 and currently (2014). This table also shows the proposed pay band midpoints for 2015/16. It is proposed that pay band 25 be maintained at the 2013 level again while an increase to pay band 24 is proposed.

Table Three: Application of Market Movements to Midpoints

Salary Band / Current (2014) Midpoint	2013 Pay Band Midpoint	2014 Market Midpoint (Current)	2015 Market Midpoint	**Proposed 2015 Pay Band Midpoint**
Band 24 s9(2)(b)(ii)				
Band 25	s9(2)(a)			

9. s9(2)(a) who retains SLT remuneration package, chose to reject a 2013 offer to move to Total Fixed Remuneration (TFR) package. While s9(2)(a) doesn't officially have a TFR salary band[1], for review purposes, a notional range has been developed based on the total fixed package less Government Superannuation Fund (GSF) employer contributions.

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[1] s9(2)(a) declined to accept the TFR approach and pay band. No alternate pay band was subsequently offered to her so she remains on the 2012 pay band.

10. The midpoints set out in table three will produce the following pay bands (shown in table four):

Table Four: Application of Market Movements to Pay Bands

Salary Band	Effective	85%	100%	115%
Band 24	s9(2)(b)(ii)			
Band 25				
Band 25 Base Salary				
s9(2)(a)				

11. While an increase is proposed to pay band 24, no increase is proposed to pay band 25 which remains marginally above the relevant market median rate.

Retirement Savings

12. Effective 1 July 2015, the employer contributions to the GSF will decrease from 11.8% to 10.7%. While this change does not affect members Total Fixed Remuneration, it will affect member's base salary, increasing it by approximately 1%. Currently five SLT members contribute to GSF.

Staff Movements / Eligible SLT Members

13. s9(2)(a) have recently taken up new assignments with agreed remuneration. The general rule is that employees should be in their current position for a minimum of three months before they are eligible to have their remuneration reviewed. You should, however, determine what level of at risk pay, if any, should be given to s9(2)(a) for their previous roles as s9(2)(a) All three have been included in the one-off payment calculations.

Performance Increase

14. Remuneration movement within each band is dependent on performance and the achievement of agreed performance objectives. This should include the individual contribution to SLT together with an assessment of the Executive Leader Level capabilities set out in the MFAT Capability Framework.

15. Remuneration reviews are undertaken on the basis of a combination of performance and current position in the remuneration range. There is no provision for separate pay increases for market movements.

16. Where performance is high relative to position in the pay band, higher levels of increase may be appropriate. Conversely, lower levels of performance associated with higher placement in the pay band may warrant no or only a small increase.

17. As the proposed movement to band 24 is relatively large this year, individual SLT members on this band who do not move or move by only a small percent will experience a decrease in position in the band. Increases of the same or more than the level of increase to the pay band will see the position in the band maintained or improved (on the basis that performance warrants this). As no movement to band

25 is proposed, any increase rewarded to individuals in this band will see their position in range increase.

Performance Payment

18. An "at risk" payment is offered to SLT members. This is based on the following two components:

- Organisational Performance – up to 5% of the Band 25 midpoint ($16,885);
- Group Performance - up to 5% of individual band midpoint (either band 24 up to $15,138 or 25 up to $16,885). This is a measure of the performance of the Group/Division against operational plans.

19. The following table (table five) is provided in order to give you a sense of the level of payments made in previous years.

Table Five: Previous at risk payments

s9(2)(a)	2013 Actual	2013 Max Eligible	2013 % of lump sum	2014 Actual	2014 Max Eligible	2014 % of lump sum	2015 Max Eligible
	s9(2)(a)	$31,418	s9(2)(a)		$31,535	s9(2)(a)	**$32,024**
		$33,770			$33,770		**$33,770**
		$33,770			$33,770		**$33,770**
		$31,418			$31,535		**$32,024**
		$33,770			$33,770		**$33,770**
		$31,418			$31,535		**$32,024**
		$33,770			$33,770		**$33,770**
		N/A			$33,770		**$33,770**
		$31,418			$31,535		**$32,024**
		$33,770			$33,770		**$33,770**

20. As at risk pay, your decisions on these payments are not captured by the SSC's remuneration intentions approval (as they are considered contractual). This is an area of remuneration that allows you some additional latitude to reward performance.

Cost Implications

21. To apply the market increase of each band s9(2)(b)(ii) for band 25 and s9(2)(b)(ii) for band 24) to all SLT the cost of this would be $63,514. To apply, for example, a s9(2)(b)(ii) increase to all members of SLT, the cost would increase to $57,784. These scenarios and costs are examples only and do not take into account any individual performance. Details of what the current remuneration for your direct reports looks like and details of three scenarios costed (a market increase, a s9(2)(b)(ii) increase and a s9(2)(b)(ii) increase) are attached at appendices two to four. It is understood that variable levels of increase are likely to be required.

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2 s9(2)(a)

22. The maximum cost of performance payments, should all SLT receive the maximum of 10%, has been calculated at $366,229 (including s9(2)(a)
It is very unlikely that this reflects the true cost as last year the average increase was 51.05% across SLT. If this average was repeated, the cost of performance payments is more likely to be in the order of $186,960[3].

Car parks

23. Since 2013 the cost of car parks ($5,200) has been included in remuneration packages for senior staff wanting to have a car park allocated. There was no requirement to have FBT added to this figure as the car parks are on premises and part of our lease of the building. HRG has confirmed with Facilities that no adjustment is required to the cost of car parks through the remuneration round in 2015.

Recommendations

24. It is recommended that you:

a) **Approve** the new executive pay bands with effect from 1 July 2015 to align with Public Sector Fixed Package median for the appropriate band as set out below:

Salary Band	85%	100%	115%
Band 24	$257,345	$302,759	$348,173
Band 25	$287,048	$337,704	$388,360

b) **Complete** performance and remuneration reviews for each SLT member and determine:

- The level of increase in Total Fixed Remuneration for each member of SLT
- The lump sum "at risk" payment to be awarded to each member of SLT (of the amount they are eligible to receive)

(Bronwyn Kingdom can model options as required)

c) **Note** that Bronwyn Kingdom will prepare appropriate remuneration letters for you based on the decisions you make in relation to recommendations (a) and (b) above.

Attachments:

Appendix One – Current remuneration

Appendix Two - Impact of notional increases – market increase s9(2)(b)(ii)

Appendix Three - Impact of notional increases – increase

Appendix Four – Impact of notional increases – increase

s9(2)(b)(ii)

[3] A provision has been made for s9(2)(a) in these calculations however there is no contractual obligation.

Appendix One: Current Remuneration at 30 June 2015

Employee Details				Current Remuneration								
Name	Job Title	Band	Midpoint 2015	Base Salary	Car park	GSF (11.8%)	IRP (6%+ ESCT)	Kiwi Saver	Total Retirement Savings	SDA	30 June 2015 TFR	Current % in New Band
s9(2)(a)		25	337,704	s9(2)(a)								
		25	337,704									
		25	337,704									
		24	302,759									
		24	302,759									
		25	337,704									
		25	337,704									
		25	302,061									
		24	302,759									

pay band based on base salary, not TFR. The position in range does not include any retirement savings contributions, but are shown for reference.

Appendix Two: Market movement increase

Employee Details		Current Remuneration			Market increase							
Name	Band	30 June 2015 TFR	Current % in Band	Midpoint 2015	Base Salary	Car park	Total Retirement Savings [2]	SDA	Market increase	Market increase on TFR	New position in band	Cost of market increase
s9(2)(a)	25	s9(2)(a)		337,704	s9(2)(a)							
	25			337,704								
	25			337,704								
	24			302,759								
	24			302,759								
	25			337,704								
	25			337,704								
	25			302,061								
	24			302,759								

Total cost of market movement increase **63,514**

s9(2)(a) ...s a pay band based on base salary, not TFR. The position in range does not include any retirement savings contributions, but are shown for reference. The increase has been applied t... s9(2)(a) ...base salary.

2) GSF employer contributions have decreased from 11.8% to 10.7% from 1 July 2015

3) s9(2)(a) only received increase up to 115% of salary band

s9(2)(b)(ii)

Appendix Three: increase

s9(2)(b)(ii)

Employee Details		Current Remuneration			increase						
Name	Band	30 June 2015 TFR	Current % in Band	Midpoint 2015	Base Salary	Car park	Total Retirement Savings [2]	SDA	s9(2)(b)(ii)	New position in band	Co[illegible]f in[illegible]ase
s9(2)(a)	25	s9(2)(a)		337,704	s9(2)(a)					100.29%	6,641
	25			337,704						97.79%	6,476
	25			337,704						105.57%	6,990
	24			302,759						100.86%	5,988
	24			302,759						106.14%	6,301
	25			337,704						85.00%	5,628
	25			337,704						97.79%	6,476
	25			302,061						112.77%	6,679
	24			302,759						115.00%	6,606

Total cost of ' increase **57,784**

s9(2)(a) ıas a pay band based on base salary, not TFR. The position in range does not include any retirement savings contributions, but are shown for reference.

2) GSF employer contributions have decreased from 11.8% to 10.7% from 1 July 2015

3) only received increase up to 115% of salary band

Appendix Four: s9(2)(b)(ii) increase

Employee Details		Current Remuneration			s9(2)(b)(ii) increase						
Name	Band	30 June 2015 TFR	Current % in Band	Midpoint 2015	Base Salary	Car park	Total Retirement Savings [2]	SDA	s9(2)(b)(ii) TFR	New position in band	Cost of s9(2)(b)(ii) increase
s9(2)(a)	25	s9(2)(a)		337,704	s9(2)(a)						
	25			337,704							
	25			337,704							
	24			302,759							
	24			302,759							
	25			337,704							
	25			337,704							
	25			302,061							
	24			302,759							

Total cost of s9(2)(b)(ii) increase 83,373

s9(2)(a) nas a pay band based on base salary, not TFR. The position in range does not include any retirement savings contributions, but are shown for reference.

2) GSF employer contributions have decreased from 11.8% to 10.7% from 1 July 2015

3) s9(2)(a) only receives an increase up to 115% of salary band

MEMORANDUM

To: John Allen
Chief Executive

File Ref:

Date: 17 July 2014

Cc: Julie Townley
Group Manager Human Resources

From: Bronwyn Kingdom
Manager HR Organisational Capability

Subject: Executive Remuneration: Performance and Remuneration Review 2014

Purpose

1. The purpose of this paper is to provide information to assist you in decisions for your direct reports in relation to the 2014 performance and remuneration review.

Background

2. In 2012 a new remuneration approach and structure was introduced for the Senior Leadership Team (SLT). This included the introduction of two salary bands with a remuneration range of 85% to 115%. The midpoint of these bands is currently linked to percent movements to Hay Groups Public Sector Total Fixed Remuneration.

Market Comparisons

3. The following table (table one) shows market movements reported by Hay Group for executive positions with hay points between 1056 and 2140 (bands 22 – 25). This range includes all executive positions reporting to you. Movements for 'all organisations' has been included along with public sector information for your reference. Market information on total remuneration (including at risk components) has also been included for your reference as a comparison to our approach of fixed remuneration.

Table One: Market Movements for Executive Positions (medians)

Hay Points range 1056 - 2140	Fixed Remuneration	Total Remuneration
Public Sector	s9(2)(b)(ii)	
All Organisations		

4. Fixed package represents the sum of base salary and those significant benefits that are quantifiable in terms of cost to a company. Total package represents the sum of fixed package and actual short term incentives.

5. The Public Sector Fixed Package for all executive positions is slightly higher than the s9(2)(b)(ii) identified in table one at s9(2)(b)(ii). Smaller executive roles (between 735 – 1055 hay points) have a median increase of s9(2)(b)(ii) pulling the overall median up.

6. While information from the Strategic Pay Central Government Remuneration Report cannot be linked as tightly to our pay bands and job sizes (we use Hay Group methodology for our job sizing), their information supports relatively small increases in the market. Strategic Pay report fixed remuneration increases in the public sector of between s9(2)(b)(ii) and s9(2)(b)(ii) with a s9(2)(b)(ii) increase at the senior management level.

Application of Market Data

7. Last year the fixed remuneration movement for hay points 1056 – 2140 was s9(2)(b)(ii) applied to both executive bands, increasing both bands by s9(2)(b)(ii). Each band within the market moves at a different rate, with being the median movement across the four bands. The application of the overall market increase produced larger increases than would have occurred from the application of the specific band's new midpoint. In fact, the published midpoint for band 25 was approximately $24,000 less than the application of s9(2)(b)(ii) to our 2012 midpoints.

8. In line with the decisions made about the policy officers pay bands and the use of a consistent approach across the Ministry it is proposed that we standardise our approach to setting the pay bands for executive staff. The standardised approach involves updating band midpoints with the published public sector median for the applicable band.

9. Table two below shows the percent difference between the current bands midpoints and the new reported medians for the two bands covering SLT roles. This table shows a decrease at band 25 since last year, which can be explained by the larger increase last year. Interestingly, the latest median published for band 25 is $1,400 less than the 2012 midpoint. A decrease was also reported this year for band 23, which was reported to SLT in previous remuneration papers. In the instance where there was a decrease in the median, the practice is for the 2013 midpoint to be maintained.

Table Two: Market Movements per band (medians)

Salary Band	Remuneration Movement
Band 24 (Fixed Rem)	s9(2)(b)(ii)
Band 25 (Fixed Rem)	
Band 25 Base Salary	

Proposed Executive Pay Bands

10. Applying the fixed remuneration market movement for the specific band would have the following affect (shown in table three) to the current executive pay band mid-points. Band 25 has been maintained at the 2013 midpoint.

11. s9(2)(a)

Because of this, a separate pay band has been developed based on base salary market data.

Table Three: Application of Market Movements to Midpoints

Salary Band	2013 Midpoint	2014 Midpoint
Band 24	s9(2)(b)(ii)	
Band 25		
Band 25 Base Salary		

12. This midpoint increase will produce the following pay band changes (shown in table four):

Table Four: Application of Market Movements to Pay Bands

Salary Band	Effective	85%	100%	115%
Band 24	1 July 2013	s9(2)(b)(ii)		
	1 July 2014			
Band 25	1 July 2013			
	1 July 2014			
Band 25 Base Salary	1 July 2013			
	1 July 2014			

Retirement Savings

13. There have been no changes to Retirement savings that need to be implemented as part of this remuneration round.

Eligible SLT Members

14. The general rule is that employees should be in their current position for a minimum of three months before they are eligible to have their remuneration reviewed. s9(2)(a)
s9(2)(a)
increase effective 1 July s9(2)(a) has however been included in the costings to give you a full picture of your direct reports. You have the discretion to includ s9(2)(a) or not.

Performance Increase

15. Remuneration movement within each band is dependent on performance and the achievement of agreed performance objectives. This could include the individual contribution to SLT together with an assessment of the Executive Level Leadership capabilities set out in the Leadership Development Framework.

16. Remuneration reviews are undertaken on the basis of a combination of performance and current position in the remuneration range. There is no provision for separate pay increases for market movements.

17. Within the Ministry, it is envisioned that higher performers will be remunerated at the higher end of the salary band and where there is development required, the employee is remunerated at the lower end of the band. Where performance is high relative to position in the pay band, higher levels of increase may be appropriate. Conversely, lower levels of performance associated with higher placement in the pay band may warrant no or only a small increase. Table four demonstrates this principle.

Table Four: Performance and Placement in the Salary Band

Performance	Position in Band
Entry/Development Required	85% - 95%
Strong Capability/Contribution	95% - 105%
High Capability/Contribution	105% – 110%
Exceptional Capability/Contribution	110% - 115%

18. As the proposed movement to the executive pay bands is relatively small this year (including no movement at Band 25), individual SLT members who move by a small percent will maintain their position in the band. Increases of more will see the position in the band improve (on the basis that performance warrants this).

Performance Payment

19. An "at risk" payment up to a maximum of 10% is offered to SLT members. This is based on the following two elements and is dependent on exceeding performance standards:

- Organisational Performance – up to 5% of the Band 25 midpoint ($16,885);
- Group Performance - up to 5% of individual band midpoint (either band 24 or 25). This is a measure of the performance of the Group/Division against operational plans.

Budget and Cost Implications

s9(2)(b)(ii)

20. The Ministry has made budget provision for the 2014 remuneration round. To apply the market increase to total fixed remuneration to all SLT the cost of this would be $93,339. To apply, for example, a increase to all members of SLT, the cost would increase to $62,231. These scenarios and costs are examples only and do not take into account any individual performance. Details of what the current remuneration for your direct reports looks like and details of the two scenarios costed above (a market increase of increase) are attached at appendices two and three.

s9(2)(b)(ii)

s9(2)(b)(ii)

21. The maximum cost of performance payments, should all SLT receive the maximum of 10%, has been calculated at $329,090. It is very unlikely that this reflects the true cost as last year the average increase was 5.5% across SLT. If this average was repeated, the cost of performance payments is more likely to be in the order of $180,999.

Car parks

22. In June 2012, SLT considered a paper on car parks (*Car park review* – 26 June 2012). It appears that in relation to *"eligible Wellington based senior staff"* the decision was that *"the cost of the car park lease will be included in their TFR from 30 June 2012."*

23. On that basis the cost of car parks ($6,279) was included in remuneration packages for senior staff wanting to have a car park allocated effective 1 July 2013. There was no requirement to have FBT added to this figure as the car parks are on premises and part of our lease of the building.

24. Since last year's review of senior staffs remuneration was undertaken, the cost of the car parks in the HSBC building have decreased from $6,279 to $5,200. s9(2)(a) are currently on the new rate but other affected staff will have the change incorporated into the 2014 remuneration round.

Recommendations

25. It is recommended that you:

a) **Approve** the new executive pay bands with effect from 1 July 2014 to align with Public Sector Fixed Package median for the appropriate band as set out below:

Salary Band	85%	100%	115%
Band 24	s9(2)(b)(ii)		
Band 25			
Band 25 Base Salary			

b) **Complete** performance and remuneration reviews for each SLT member and determine:

- The level of increase in Total Fixed Remuneration for each member of SLT
- The lump sum "at risk" payment to be awarded to each member of SLT (of the amount they are eligible to receive)

(HRG can model options as required)

c) **Note** that Bronwyn Kingdom will prepare appropriate remuneration letters for you based on the decisions you make in relation to recommendations (a) and (b) above.

Attachments:

Appendix One – Current remuneration s9(2)(b)(ii)

Appendix Two - Impact of notional increases - increase

Appendix Three - Impact of notional increases – increase

s9(2)(b)(ii)

Appendix One: Current Remuneration at 30 June 2014

Employee Details				Current Remuneration								
Name	Job Title	Band	Midpoint 2013	Base Salary	Car park	GSF	IRP (6%+ ESCT)	Kiwi Saver	Total Retirement Savings	SDA	30 June 2014 TFR	Current % in Band
s9(2)(a)		25	337,704	s9(2)(a)								
		25	337,704									
		25	337,704									
		25	337,704									
		25	337,704									
		24	290,657									
		24	290,657									
		24	290,657									
		25	306,600									
		25	337,704									

1) s9(2)(a) has a pay band based on base salary, not TFR. The position in range does not include any retirement savings contributions, but are show reference.

Appendix Two: Market increase of s9(2)(b)(ii)

Employee Details		Current Remuneration		Midpoint 2014	s9(2)(b)(ii) .ncrease						
Name	Band	30 June 2014 TFR	Current % in Band		Base Salary	Car park	Total Retirement Savings	SDA	s9(2)(b)(ii)	New position in band	Cost of s9(2)(b)(ii)
s9(2)(a)	25	s9(2)(a)		337,704	s9(2)(a)				s9(2)(b)(ii)		
	25			337,704							
	25			337,704							
	25			337,704							
	25			337,704							
	24			293,000							
	24			293,000							
	24			293,000							
	25			307,050							
	25			337,704							
									Total cost (increase		94,339

s9(2)(a) has a payband baseu un base salary, not TFR. The position in range does not include any retirement savings contributions, but are shown for reference.

s9(2)(b)(ii)

Appendix Three: increase

Employee Details		Current Remuneration		Midpoint 2014	s9(2)(b)(ii) rease						
Name	Band	30 June 2014 TFR	Current % in Band		Base Salary	Car park	Total Retirement Savings	SDA	s9(2)(b)(ii)	New position in band	s9(2)(b)(ii) Cost of increase
s9(2)(a)	25	s9(2)(a)		337,704	s9(2)(a)				s9(2)(b)(ii)		
	25			337,704							
	25			337,704							
	25			337,704							
	25			337,704							
	24			293,000							
	24			293,000							
	24			293,000							
	25			307,050							
	25			337,704							

s9(2)(a) has a payband based on base salary, not ... The position in range does not include any retirement savings contributions, but are shown for reference.

Total cost of increase **62,892**

MEMORANDUM

To: John Allen
Chief Executive

File Ref:

Date: 3 July 2013

Cc: Julie Townley
Group Manager Human Resources

From: Bronwyn Kingdom
Manager HR Organisational Capability

Subject: Executive Remuneration

Purpose

1. The purpose of this paper is to provide information to assist you in decisions for your direct reports in relation to the 2013 performance and remuneration review.

Background

2. In 2012 a new remuneration approach and structure was introduced for the Senior Leadership Team (SLT). This included the introduction of two salary bands with a remuneration range of 85% to 115%. The midpoint of these bands is currently linked to HayGroup Public Sector Total Fixed Remuneration. This approach is in line with wider state sector pay practices.

Market Comparisons

3. The following table (table one) shows market movements reported by HayGroup for executive positions with hay points between 1056 and 2140. This range includes all positions reporting to you (except s9(2)(a) Movements for 'all organisations' has been included along with public sector information for your reference. Market information on total remuneration (including at risk components) has also been included for your reference as a comparison to our approach of fixed remuneration.

Table One: Market Movements for Executive Positions

Hay Points range 1056 - 2140	Fixed Remuneration	Total Remuneration
Public Sector	s9(2)(b)(ii)	
All Organisations		

4. The information in table one reflects remuneration data of organisations that took part in both the March 2012 and the March 2013 surveys. Same Companies data is useful for identifying market movements in organisations' pay policies. Where the labour market is tight, it is common for Same Companies movements to be

high as organisations pay a premium to recruit new staff, particularly at the earlier stages of the market tightening. Conversely, when unemployment rates are higher, Same Companies movements tend to lag as firms can recruit new staff at lower pay rates.

Proposed Executive Pay Bands

5. Applying the fixed remuneration market movement of s9(2)(b)(ii) would have the following affect (shown in table two) to the current executive pay band mid-points.

Table Two: Application of Market Movements to Mid-points

Salary Band	2012 Midpoint	2013 Midpoint
Band 24	s9(2)(b)(ii)	
Band 25		

6. This mid-point increase will produce the following pay band changes (shown in table three):

Table Three: Application of Market Movements to Pay Bands

Salary Band	Effective	85%	100%	115%
Band 24	1 July 2012		s9(2)(b)(ii)	
	s9(2)(b)(ii)			
Band 25	1 July 2012			
	s9(2)(b)(ii)			

Retirement Savings

7. KiwiSaver employer contributions increased effective 1 April 2013 from 2% to 3%. In the *new remuneration system decision document*, the decision to add the increase in employer contributions to KiwiSaver to the employees' total fixed remuneration is recorded. It is unclear whether there was any intention to off-set this increase against performance based increases proposed in the 2013 remuneration round. The changes to the employer contributions that will affect employees total fixed remuneration have been included in the individual employee information later in this paper.

8. The Government Superannuation Fund (GSF) is increasing the employer contributions to the scheme effective 1 July 2013. This will take the employer contributions from 10.7% to 11.8%. The increase will have an effect on employees who are members of GSF in that it will increase their total fixed remuneration. SLT members in GSF include s9(2)(a) s9(2)(a) On this occasion, it is recommended that a similar approach to the approach taken with the increase in KiwiSaver, be taken in respect of the increase in GSF. The increased employer contributions have been included in individual employee information for the year 2013/14 later in this paper.

9. The alternative to absorbing the cost of the superannuation increases is to off-set these increases in employer contributions to superannuation against the proposed performance based increases in remuneration. This would be the approach normally recommended.

Eligible SLT Members

10. The general rule is that employees should be in their current position for a minimum of three months before they are eligible to have their remuneration reviewed. s9(2)(a)

11. s9(2)(a)

Performance Increase

12. Remuneration movement within each band is dependent on performance and the achievement of agreed performance objectives. This could include the individual contribution to SLT together with an assessment of the Executive Level Leadership capabilities set out in the Leadership Development Framework.

13. Remuneration reviews are undertaken on the basis of a combination of performance and current position in the remuneration range. There is no provision for separate pay increases for market movements.

14. Within the Ministry, it is envisioned that higher performers will be remunerated at the higher end of the salary band and where there is development required, the employee is remunerated at the lower end of the band. Where performance is high relative to position in the pay band, higher levels of increase may be appropriate. Conversely, lower levels of performance associated with higher placement in the pay band may warrant no or only a small increase. Table four demonstrates this principle.

Table Four: Performance and Placement in the Salary Band

Performance	Position in Band
Entry/Development Required	85% - 95%
Strong Capability/Contribution	95% - 105%
High Capability/Contribution	105% – 110%
Exceptional Capability/Contribution	110% - 115%

15. As a movement of s9(2)(b)(ii) is proposed to the executive pay bands, individual SLT members who move by s9(2)(b)(ii) will maintain their position in the band. Movement of

less than this will see their position in the band decline (which may be an appropriate outcome). Increases of more than this will see the position in the band improve (on the basis that performance warrants this).

Performance Payment

16. An "at risk" payment up to a maximum of 10% is offered to SLT members. This is based on the following two elements and is dependent on exceeding performance standards:
    - Organisational Performance – up to 5% of the Band 25 midpoint;
    - Group Performance - up to 5% of individual band midpoint (either band 24 or 25). This is a measure of the performance of the Group/Division against operational plans.

Budget and Cost Implications

17. The Ministry has made budget provision for the 2013 remuneration round. The 2013/14 budget provision was made taking into account that the Ministry is committed to improve its remuneration practice and market position over a two-year period. This is the second year of this adjustment.

18. To apply the market increase to total fixed remuneration to all SLT the cost of this would be 105,533. To apply, for example, a increase to all members of SLT, the cost would increase to $124,156. These figures are additional to the $34,141 cost of increasing to employer contributions to GSF and KiwiSaver. These scenarios and costs are examples only and do not take into account any individual performance. Details of what the current remuneration for your direct reports looks like and how the changes to GSF and KiwiSaver affect Total Fixed Remuneration is attached at appendix one. The details of the two scenarios costed above (a market increase of and a increase) are attached at appendices two and three. s9(2)(b)(ii) s9(2)(b)(ii) s9(2)(b)(ii)

19. The maximum cost of performance payments, should all SLT receive the maximum of 10%, has been calculated at $322,805. It is very unlikely that this reflects the true cost as last year the average increase was 5.5% across SLT. If this average was repeated, the cost of performance payments is more likely to be in the order of $177,543.

Car parks

20. In June 2012, SLT considered a paper on car parks (*Car park review* – 26 June 2012). It appears that in relation to *"eligible Wellington based senior staff"* the decision was that *"the cost of the car park lease will be included in their TFR from 30 June 2012."*

21. On this basis we have included the cost of car parks ($6,279) in the current remuneration packages of those senior staff that currently have a car park

allocated. There is no requirement to have FBT added to this figure as the car parks are on premises and part of our lease of the building.

22. Given the cost of this benefit, some senior staff may prefer to cash this benefit up. The *Car park review paper* recommended "*Wellington based senior staff that are currently eligible for a car park and currently have a car park allocated, can elect to surrender the benefit and have it cashed up at any time prior to the car park lease expiring.*"

Recommendations

23. It is recommended that you:

a) **Approve** increasing the executive pay bands by s9(2)(b)(ii) with effect from 1 July 2013 to maintain the alignment with Public Sector Fixed Package median as set out below:

Salary Band	85%	100%	115%
Band 24	$247,058	$290,657	$334,256
Band 25	287,048	$337,704	$388,360

b) **Approve** absorbing the cost of the increase in employer contributions to superannuation (KiwiSaver effective 1 April 2013 and GSF effective 1 July 2013) and increase TFR accordingly without off-setting it against any performance increases.

c) **Complete** performance and remuneration reviews for each SLT member and determine:

- The level of increase in Total Fixed Remuneration for each member of SLT
- The lump sum "at risk" payment to be awarded to each member of SLT (of the amount they are eligible to receive)

(HRG can model options as required)

d) **Note** that the cost of car parks has been added to the remuneration packages of SLT members who currently have a car park allocated.

e) **Note** that Bronwyn Kingdom will prepare appropriate remuneration letters for you based on the decisions you make in relation to recommendations (a), (b) and (c) above.

Attachments:

Appendix One – Current remuneration

Appendix Two - Impact of notional increases – s9(2)(b)(ii)ase

Appendix Three - Impact of notional increases – s9(2)(b)(ii)se

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Appendix One: Current Remuneration including increases to retirement savings effective 1 July 2013

Employee Details				Current Remuneration											
Name	Job Title	Band	Midpoint 2012	Salary	Car park	GSF %	GSF $	IRP (6%+ ESCT)	RSA (5%)	KS %	KS $	Total Retirement Savings	30 June 2013 TFR	1 July 2013 TFR	Current % in Band
s9(2)(a)		24	281,100	s9(2)(a)											
		25	326,600												
		25	326,600												
		24	281,100												
		25	326,600												
		25	326,600												
		24	281,100												
		25	326,600												
		25	326,600												

Appendix Two: Market increase of s9(2)(b)(ii)

Employee Details		Current Remuneration 1 July 2013 (incl. increases to retirement savings)						2013 Midpoints reporting by HayGroup	s9(2)(b)(ii)				
Name	Job Title	Band	Salary	Car Park	Total Retirement Savings	Current TFR	Current % in Band		2013 Base salary	Car Park	Total Retirement Savings	s9(2)(b)(ii) ...ew ...osition ...Band	Cost of s9(2)(b)(ii)
s9(2)(a)								290,657	s9(2)(a)			s9(2)(b)(ii)	
								337,704					
								337,704					
								290,657					
								337,704					
								337,704					
								290,657					
								337,704					
								337,704					
													$93,63[illegible]

Appendix Three: s9(2)(b)(ii) increase

Employee Details			Current Remuneration 1 July 2013 (incl. increases to retirement savings)					2013 Midpoints reporting by HayGroup	s9(2)(b)(ii) increase					
Name	Job Title	Band	Salary	Car Park	Total Retirement Savings	Current TFR	Current % in Band		2013 Base salary	Car Park	Total Retirement Savings	s9(2)(b)(ii)	New Position in Band	s9(2)(b)(ii) ii
s9(2)(a)		24	s9(2)(a)					290,657	s9(2)(a)					
		25						337,704						
		25						337,704						
		24						290,657						
		25						337,704						
		25						337,704						
		24						290,657						
		25						337,704						
		25						337,704						

Cost of s9(2)(b)(ii) increas $110,153