STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga

Public Service chief executive performance management, remuneration and reward

The State Services Commissioner's role

Under the State Sector Act 1988, the State Services Commissioner (the Commissioner) is the employer of most Public Service chief executives and is responsible for their appointment and performance management, and the setting and reviewing of their terms and conditions of employment. This excludes those chief executives whose remuneration is set by the Remuneration Authority, which includes the chief executives of the State Services Commission (the Commission), the Crown Law Office and the Government Communications Security Bureau. The remuneration of 13 chief executives of government departments and officers of parliament is set by the Remuneration Authority.

For a number of departments outside of the Public Service, the Commissioner can have a role in the chief executive's appointment and/or performance management process(es) at the request of the department's responsible Minister. Currently these are the New Zealand Security Intelligence Service, the New Zealand Police, the New Zealand Defence Force and Parliamentary Service.

The Commissioner also advises on or approves the proposed terms and conditions of employment of 104 Crown entity chief executives (including tertiary education institutions and district health boards) and the chief executives of any of their subsidiaries.

The Commissioner therefore has a direct influence on the remuneration received by about 130 chief executive positions in the State sector.

Public Service chief executives

Under the State Sector Act 1988, the State Services Commissioner is the employer of most Public Service chief executives, responsible for their appointment and setting of their terms and conditions of employment.

A renewed approach to the performance management and remuneration system for Public Service chief executives came into effect on 1 January 2014. The key features of the remuneration system include:

- A standard set of performance expectations for all chief executives that focus on agency performance as well as collaboration and work to improve the entire State services.
- All performance reviews are with effect from 1 July each year, which is the same as the government reporting year (1 July to 30 June).
- Two performance components placing 25% of remuneration at risk, the 10% earn back component and 15% exceptional performance payment.
- Fewer remuneration reviews.

Crown entity chief executives

Under the Crown Entities Act 2004 Crown entity boards are the employer of Crown entity chief executives.

The State Services Commissioner (the Commissioner) advises on or approves the proposed terms and conditions, including remuneration, of Crown entity chief executives (including the chief executives of Crown entity subsidiaries) as determined by relevant legislation.

- The State Sector Act 1988 requires the boards of tertiary education institutions (universities, polytechnics and wānanga) to obtain the written concurrence of the Commissioner to the terms and conditions of employment for their chief executives.
- The Public Health and Disability Act 2000 requires district health boards to obtain the consent of the Commissioner to the terms and conditions of employment for their chief executives.
- The Crown Entities Act 2004 requires boards of statutory entities to consult the Commissioner about the terms and conditions of employment for their chief executives.
- There are a small number of other agencies whose enabling legislation requires the Commissioner to be involved in setting the terms and conditions of employment for their chief executives.

More information on the terms and conditions of employment for Crown entity chief executives can be found here.

Remuneration Authority

The Remuneration Authority (the Authority) sets and reviews the remuneration for the chief executives of three Public Service departments: the State Services Commission, the Crown Law Office and the Government Communications Security Bureau. In addition, the Authority sets and reviews the remuneration for ten other chief executives of departments and officers of parliament who are statutory officers (holders of office who are required to exercise a high degree of independence).

Setting Remuneration

The Remuneration Authority Act 1977, ss.18, 18A requires the Authority to consider the following criteria when setting remuneration:

- Fair relativity with comparable positions.
- The need to be fair to the individuals whose pay is being set, and to the taxpayer or ratepayer.
- The requirements of the job.
- The need to recruit and retain competent individuals.
- Any prevailing adverse economic conditions (which may lead the Authority to set remuneration at a rate lower than might otherwise have been the case).

Reviewing Remuneration

The Authority reviews the remuneration of all positions every year. In these reviews, the Authority considers information from a range of sources. This includes:

- Data collected by the State Services Commission through its annual survey of chief executive remuneration in the Public Service and wider State sector, and its monitoring of remuneration movements in the private sector.
- Trends and developments in remuneration in sectors relevant to those where the Authority sets remuneration. For example, movement in remuneration in the legal profession.
- Major changes, including legislative changes, in the role(s) concerned.
- The views of the individuals or groups concerned.

Public Service chief executive performance management, remuneration and reward

Achieving a sustained improvement in Public Service performance has required a significant shift in how government departments operate and work together.

Performance management and remuneration approaches for chief executives have been designed to drive a step-up in performance and measurably better results for New Zealanders, with strong links between chief executives' performance, the results their agencies achieve and their remuneration.

The approach is based on **performance expectations** that are common to all Public Service chief executives and a number of chief executives outside the core Public Service. There are corresponding portions of a chief executive's remuneration (except for those chief executives whose remuneration is set by the Remuneration Authority) which are at risk and must be earned through individual **and** collective performance.

The bar for performance has been set high. Chief executives have to clearly demonstrate that they are acting in the best interests of the Public Service and delivering better public services, now and into the future.

The drivers for change

Achieving a step-up in performance and measurably better results for New Zealanders requires stronger links between chief executives' performance and the results their agency achieves, recognised through their remuneration.

The renewed approach is designed to support:

- the expectation of a more collaborative/sector-focused approach to the way chief executives operate in order to deliver results that matter for New Zealanders
- a greater emphasis on the management of the Public Service for now **and** for the medium term – an emphasis on stewardship
- the need for increased transparency about the framework(s) and processes used by the Commission and on individual outcomes for chief executives which can be clearly communicated
- the legislative changes to governance in the State sector which were enacted in 2013. (The Commissioner can now transfer chief executives between Public Service departments. This requires greater flexibility in the way that chief executive remuneration (among other things) is structured, while maintaining transparency and integrity of approach.)

Chief executives' expectations

The role of chief executives as agency, sector and system leaders is critical to the delivery of Better Public Services results and the reforms enabled by the 2013 amendments to the State Sector and Public Finance legislation.

Chief executives are expected to lead in new ways with a greater focus on system and sector-wide outcomes. A new set of expectations for all Public Service chief executives was implemented on 1 January 2014 and is revised annually as at 1 July.

The expectations are designed to encourage cross-system behaviour and achieve better alignment with government priorities and chief executives' stewardship obligations.

Supporting chief executive performance

The Commission ensures that agencies work to achieve results over the medium-term and provides support to chief executives at different levels:

- Through regular engagement with Ministers to provide a well informed and timely view of performance across the system. This includes providing advice and assessment on different situations and potential implications within sectors and agencies, identifying and mitigating key risks before they are realised, and reinforcing policy direction with agencies and sectors.
- With chief executives, through regular engagement on management and leadership issues. Commission staff regularly engage with chief executives, support them to capitalise on opportunities, assist with problem solving, and develop future leaders. Through this engagement, Deputy and Assistant Commissioners (working with chief executives on behalf of the Commissioner) aim to ensure a closer connection between a chief executive's performance and their development.
- Across the public management system as a whole. Commission staff identify and work to remove barriers to good performance, and encourage relevant parts of the State services to work together to achieve results for New Zealand. Through assessment of performance across the system, the Commission identifies collective development needs for the Public Service chief executive cohort, and works with the Leadership Development Centre and other providers to ensure the availability and alignment of solutions that target these areas to ensure chief executives are able to lead effectively in the current and emerging environment.

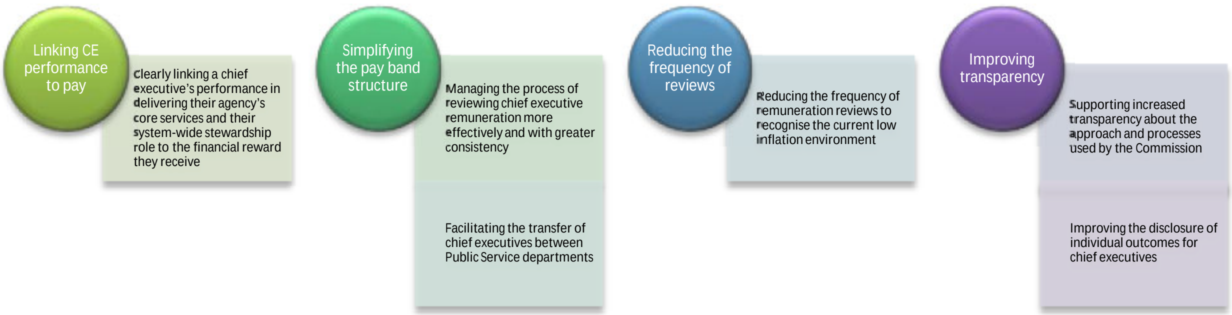
Assessing the effectiveness of agency, sector and system performance

The Commissioner reviews the performance of each chief executive in terms of achievement of results, investment in the capability of their organisations and contribution to system-wide performance. A chief executive's overall performance is discussed with relevant ministers and considered in relation to the wider group of chief executives.

Changes in chief executive remuneration

The approach to Public Service chief executive performance management and remuneration has been renewed to align with the system transformation that is currently underway in New Zealand's Public Service.

The changes to chief executive **performance management** and remuneration have focused on four key areas:



Rewards reflect chief executive performance

One of the objectives of redesigning the remuneration approach has been to create a stronger and clearer link between chief executives' **performance expectations** and remuneration.

To achieve this, we have changed the way chief executive **Total Potential Remuneration** is structured, which has increased the proportion of a chief executive's remuneration that is now at risk.

These at risk payments are clearly linked to a chief executive's performance in delivering their agency's core services and their system-wide stewardship role through a set of performance expectations that are common to all chief executives.

There are two components to the at-risk proportion of a chief executive's pay:

- the first (called '**Earn Back**') is up to 10% of Target Remuneration and is linked to a chief executive's performance in delivering against expectations.
- the second (called exceptional '**Performance Payment**') is up to 15% of Target Remuneration and is linked to exceptional performance against system-wide stewardship expectations. The bar for receiving this payment has been set high.

Payment of some or all of the at-risk components is considered each year as part of the chief executive end of year performance review and is at the Commissioner's discretion. The changes to the way chief executive pay is structured have been introduced within the previously established appropriation for chief executive remuneration.

Band structure

To provide greater consistency in remuneration decisions across the chief executive group and simplify the process of remuneration administration, chief executive roles are now grouped into three broad bands based on job size, with corresponding remuneration ranges (referred to as **Target Remuneration** ranges). This also provides the flexibility needed to support the movement of chief executives when conditions require this.

Frequency of remuneration reviews

An important feature of the remuneration system is the reduced frequency of **remuneration reviews** to recognise the current low inflation environment (this may be revisited if the rate of inflation warrants it).

Under the renewed approach, there is generally only one mid-term review of Target Remuneration where the Chief Executive's appointment term is for more than three years. A chief executive appointed for a term of less than three years will generally have the same remuneration for the duration of their term. A chief executive who is reappointed will receive a remuneration review at their closest performance review, and any change will take effect from their reappointment start date.

Standardising the performance year

All chief executives managed by the State Services Commissioner now have the same performance review date to align the performance year with the government's financial year. This allows for:

- decisions on chief executive performance to be aligned with the government reporting year
- chief executives to communicate the expectations to their second tier managers so that goals and expectations are clearly stated and all Public Service senior managers are heading in the same direction
- the development of processes aimed at improving consistency and fairness in terms of performance and pay outcomes.

Public Service chief executive remuneration and reward - guiding principles

Achieving a sustained improvement in Public Service performance requires a significant shift in how government departments operate and work together, now and over time.

Encouraging this shift is dependent on an appropriate performance management and remuneration system that rewards better cross-system behaviour and ensures chief executives meet their system-wide stewardship responsibilities.

We have developed Reward Philosophy and Principles which guide the design, application and review of the remuneration paid to Public Service chief executives to support these aims.

Philosophy

The State Services Commissioner is able to attract, lead, develop and recognise high calibre chief executives and senior executives who contribute to a high-performing and world-class Public Service and wider State sector.

This is achieved by ensuring the rewards, remuneration and expectations frameworks are founded on good practice; are responsible, sustainable and flexible; and encourage outstanding leadership.

Principles

The principles are designed to:

- help us recruit and retain the calibre of leaders needed to deliver high quality public services while at the same time making sure there is good value for the taxpayer
- motivate chief executives to achieve a step-up in performance and measurably better results for New Zealanders, through a stronger link between chief executives' performance, the results their agencies achieve, their contribution to improved performance in the system and their remuneration
- support increased transparency about the framework(s) and processes used by the State Services Commission, and about individual outcomes for chief executives, which can be clearly communicated to Ministers and the wider public
- allow us to achieve greater consistency across the Public Service as a whole.

Principles

The underpinning principles that guide the design, application and future review of the remuneration policies and framework are:

Fair reward

Remuneration will be set at a level that reflects:

- the scope and complexity of the role within the relevant market that the role and organisation operate in.
- the knowledge, expertise and demonstrated capabilities of the role holder.

Performance guides remuneration

There is a clear alignment between the level of performance demonstrated and the total remuneration received.

Simplicity

The remuneration approach must be readily understood by all parties, able to be efficiently administered by the Commission, and clearly communicated to Ministers and the wider public.

Value for money

Levels of remuneration must be fiscally defensible and able to be demonstrated as good value for public money.

Transparency

Disclosure of information on the framework(s) and processes used by the Commission and on individual outcomes will be determined through a balanced consideration of statutory, privacy and public interest requirements and expectations.

Flexibility

The remuneration approach must be able to handle changes in agreed performance levels; must be able to adjust to evolving roles and system requirements and changes in the fiscal and economic situation, and must be able to support the Commissioner's (and other State sector employers') ability to flexibly deploy leadership talent across the State sector.

Credibility

The rewards and remuneration policies and framework are designed to reinforce the credibility of our reward practices by encouraging highly effective performance, competence and capability and rewarding consistent improvement in these elements.

Effectiveness

These policies, and the framework, will be periodically reviewed to ensure the desired outcomes are being achieved in line with these principles.

Public Service chief executive remuneration approach

How chief executive remuneration is structured

A Public Service chief executive's remuneration package is typically made up of three components:

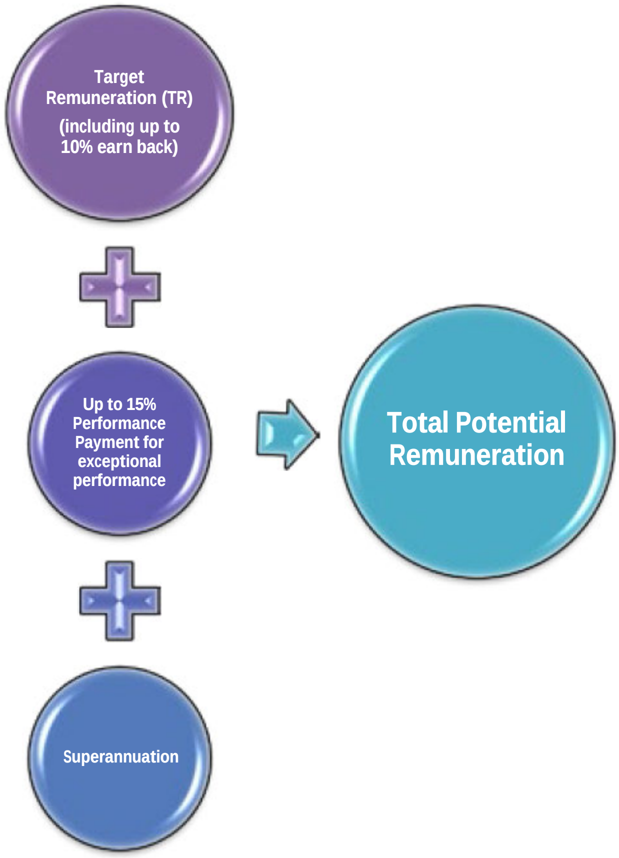
- **Target Remuneration**
- **Superannuation**
- **Performance Payment**

When referring to the potential remuneration a chief executive can earn, the term Total Potential Remuneration (TPR) is used.

Total Potential Remuneration

Total Potential Remuneration (TPR) is the term used to describe the potential remuneration a chief executive can earn.

The combination of the different components that make up a chief executive's pay is called **Total Potential Remuneration**



Target Remuneration includes an 'Earn Back' component where 10% is withheld until after performance has been assessed at the end of the year. This payment is dependent on very good performance by the chief executive against achievement of the **expectations** which relate to the effective operation of the agency. In addition, chief executives are expected to contribute to system-wide performance.

Chief executives can also potentially earn an exceptional Performance Payment of up to 15% of their Target Remuneration. This payment is specifically linked to exceptional performance against the **system-wide stewardship expectations**.

Under the previous system, chief executives could earn up to 15% of total remuneration as a performance related payment at the Commissioner's discretion.

Target Remuneration

Target Remuneration is the level of pay that chief executives can expect to earn if they perform very well against the expected performance levels for the job.

To ensure there are consequences of a chief executive's performance against expected levels, only 90% of the Target Remuneration amount is paid fortnightly as salary, and 10% (the 'Earn Back') is withheld until after performance has been assessed at the end of the year.

Full payment of the Earn Back is specifically linked to very good performance consistently over the year against achievement of the **expectations** for chief executives.

For chief executives to receive the Earn Back payment, their departments have to be well-managed and deliver core services effectively and efficiently. If they are not, then money can and will be withheld.

Superannuation

Chief executives also receive an employer contribution to their superannuation arrangements which, for most chief executives, is 10% of **salary**.

Slightly different calculations are made for those chief executives who are members of the Government Superannuation Fund (GSF) (www.gsfa.govt.nz), a scheme that has been closed to new members since 1 July 1992.

Performance Payment

Chief executives can also potentially earn an exceptional Performance Payment based on up to 15 percent of their **Target Remuneration**.

This payment is specifically linked to a chief executive demonstrating exceptional performance against the **system-wide stewardship expectations** and is paid at the Commissioner's discretion. The bar for receiving the system-wide performance payment has been set high.

Remuneration ranges (as at 1 July 2015)

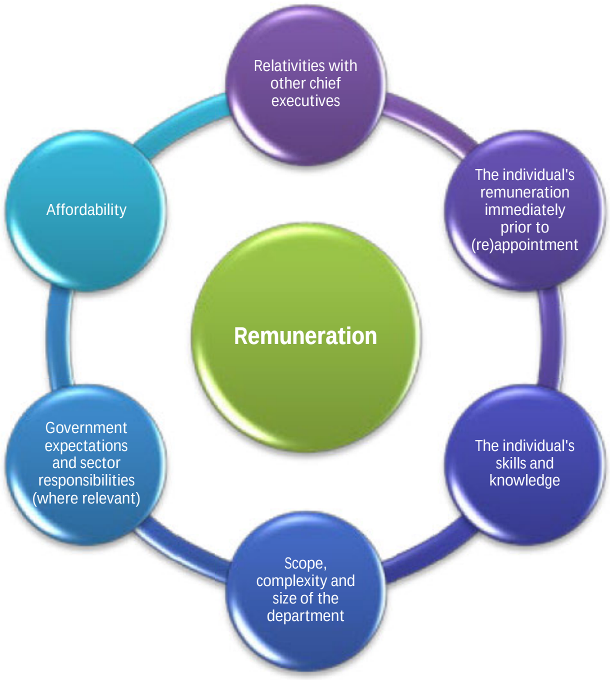
Public Service chief executive positions are grouped into three broad bands according to job size.

Remuneration range dimensions for each band are a minimum of 80% to a maximum of 120% of the midpoint. Zones may be established within the remuneration range to allow roles of different size, scope and complexity to be managed within different parts of the range.

Setting chief executive remuneration on appointment

Remuneration is set when an individual is appointed to a chief executive role, and also on any subsequent re-appointment.

When the Commissioner decides on the level of remuneration for a chief executive, the following factors are taken into account:



The Commissioner sets remuneration at a level that reflects the scope and complexity of the particular chief executive role, and the knowledge and expertise required of the role holder.

Reviewing remuneration during a chief executive's term

There is a minimum of one mid-term review of **Target Remuneration** where the chief executive's appointment term is for more than three years, with flexibility for the Commissioner to undertake additional reviews as he sees fit.

The reduced frequency of the reviews (which previously were annual) has been set to reflect the current low inflation environment. The Commissioner may revisit the frequency if the rate of inflation warrants it in the future.