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FORTIETH MEETING OF THE
COMMITTEE OF REPRESENTATIVES OF GOVERNMENTS AND ADMINISTRATIONS
(Noumea, New Caledonia, 25–29 October 2010)

ADMINISTRATIVE AND STAFFFING ISSUES

AGENDA ITEM 10.1 – UPDATE ON THE IMPLEMETATION OF THE 2009 CROP TRIENNIAL REMUNERATION REVIEW

Summary

1. The triennial review of the remuneration terms and conditions of participating members of the Council of Regional Organisations in the Pacific (CROP) was conducted in 2009 by a consortium of consultants from Strategic Pay (New Zealand) and Price Waterhouse (Fiji Islands). Among the many recommendations resulting from the review were two major ones: i) to replace the current Mercer Egan Dell banding model with a new SP (Strategic Pay) 10 banding model for CROP remuneration, and ii) to introduce a new performance management system across all CROP agencies.

2. The new SP 10 banding model suits SPC better than the existing model and has already been endorsed in principle by CRGA 39. It provides a total of 18 bands, with bands 1–7 for positions advertised nationally, bands 8–16 for positions advertised internationally and bands 17 and 18 reserved for CEOs. While accepting the new banding model as an improvement on the current situation, the Secretariat will seek further consideration to increase the number of bands equivalent to grade J in the current model by one, and also to increase the number of technical / scientific specialist bands by one. SPC will have a total of over 600 staff members in 2011, and these adjustments are therefore essential.

3. The bands are defined by a range of job points, with the midpoint of the band representing the job performance that is expected at that level. Each band has a range of +/-20 per cent; thus, the full range for each band goes from 80 per cent to 120 per cent of the midpoint. Most staff currently working at SPC will be expected to be between 95 per cent and 105 per cent based on performance, and none should be below 90 per cent. New appointees should normally begin in the lower half of the range – usually below 90 per cent on the first appointment.

4. Only 11 per cent of SPC staff had salaries below 90 per cent of the midpoint for their new band when their positions were transferred into the new bands. These are staff members who are performing well and would normally be above 90 per cent. In order to avoid having newly appointed staff begin at higher salaries than current staff with proven performance in equivalent positions, the salaries of these staff members were increased to 90 per cent of the midpoints of their respective bands. The total additional cost for this adjustment is 181,000 CFP units, which has been built into the 2011 budget.

5. With respect to the CEO banding model the consultants recommended that the CEOs of SPC and the Pacific Islands Forum Secretariat (PIFS) be placed in band 18 and the CEOs of the Forum Fisheries Agency (FFA), the Pacific Islands Applied Geoscience Commission (SOPAC) and the Secretariat of the Pacific Regional Environment Programme (SPREP) be placed in band 17. In relation to performance management for CEOs, it is proposed for CRGA's consideration that this be conducted by a special CRGA Standing Committee comprising the previous, current and future chairs of CRGA, in accordance with paragraph 34 of this paper.

Recommendations

1. With regard to the new job banding model, CRGA is invited to:

   i. **approve** the proposed new CROP Harmonised Banding model presented in Table 2 of this paper as endorsed by the participating CROP Executives for presentation to and consideration by their respective governing bodies;

   ii. **note** that the new banding model has been considered and approved by FOC and the SPREP Council respectively for implementation at PIFS and SPREP from January 2011;

   iii. **note** that the cost of implementation of this new banding model is approximately 181,000 CFP units, for which provision has been made in the 2011 budget; and

   iv. **approve** implementation of the new banding model from January 2011.

2. With regard to the remuneration arrangements for the Director-General, CRGA is invited to:

   i. **accept** the ‘Report on the Banding of CEO Roles’ prepared by Strategic Pay and endorsed by CROP Heads;

   ii. **approve** the implementation of the new CEO band for SPC from January 2011; and

   iii. **agree** to the establishment of a CRGA Standing Committee comprised of the previous, current and future Chairs of CRGA to undertake the assessment of the Director-General’s performance annually and report to CRGA including recommendations on the Director-General’s remuneration and performance based rewards.

UPDATE ON THE IMPLEMETATION OF THE 2009 CROP TRIENNIAL REMUNERATION REVIEW

Purpose

1. This paper provides an update on the implementation of the 2009 CROP Triennial Remuneration Review and summarises those recommendations that require CRGA's consideration and approval, specifically those relating to:

   ii. The implementation of a new Council of Regional Organisations in the Pacific (CROP) harmonised job banding model with effect from 1 January 2011; and

   iii. The banding of CEO roles and associated remuneration and performance management arrangements and how this applies to the Director-General position at SPC.

3. The Forum Officials Committee (FOC) has considered and approved this paper on behalf of the Pacific Islands Forum Secretariat (PIFS) at its meeting in July 2010 and the Secretariat of the Pacific Regional Environment Programme (SPREP) Council also considered it on behalf of SPREP at its meeting in early September. Both the Pacific Islands Applied Geoscience Commission (SOPAC) Council and the Board of the South Pacific Board for Educational Assessment (SPBEA) will also be considering this paper in their final meetings in October and November respectively. Given the expectation that full implementation of the RIF (Regional Institutional Framework) reforms will be achieved in January 2011 with regard to SPC, SOPAC and SPBEA, it is also important that CRGA, the SOPAC Council and SPBEA Board approve the arrangements that are proposed in this paper. The Forum Fisheries Committee (FFC) will also consider this paper in due course on behalf of the Forum Fisheries Agency (FFA).

Background

4. Six CROP agencies of have adopted a harmonised approach to their remuneration principles and practices: FFA, PIFS, SPC, SOPAC, SPREP and SPBEA.[1]

5. To provide for a regular review of CROP remuneration, including principles and practices, the governing bodies of the participating CROP agencies have adopted a process of triennial reviews.

6. The 2009 CROP Triennial Remuneration Review was conducted by a consortium of consultants comprising Strategic Pay (New Zealand) and PricewaterhouseCoopers (Fiji Islands).

The job-banding – existing scale and the new scale

7. The current scale (based on Cullen-Mercer Egan Dell [CED] methodology) comprises two parts. One part involves positions that are advertised nationally (previously called support staff) and the other part involves positions that are advertised internationally (previously called professional staff). Each part has a separate scale. The scale for positions advertised nationally had a total of eight grades, from A through to H. The scale for positions advertised internationally only had 5 grades, from I through to M.

[1] SPBEA has since merged with SPC

8. Currently grade M is for CEOs, grade L is for deputy CEOs (and at SPC directors of divisions) and grade K is for managers of larger programmes; thus the major limitation of this model for SPC is simply the fact that almost 90 per cent of staff recruited internationally (approximately 250 positions) are crowded into the current grades I and J. This is the reason SPC presented a business case to CRGA in 2008 for the implementation of a composite graded structure for SPC, which CRGA approved. However, SPC had put the implementation of the composite grading structure on hold pending the outcome of this CROP-wide review of the scales.

9. The new banding model (recommended by the consultants and referred to as the SP 10 scale) was approved in principle by CRGA 39 in 2009 and is presented in more detail in this paper for further consideration. It proposes a single scale with 18 bands for the three groupings of staff employed in the participating regional organisations to be effective from January 2011, as follows:

   i. Bands 1–7 - positions advertised nationally
   ii. Bands 8–16 - positions advertised internationally
   iii. Bands 17–18 - CEOs

10. The bands are defined by a range of job points, with the midpoint of the band representing the job performance that is expected at that level. Each band has a range of +/-20 per cent in either direction; thus, the full range for each band goes from 80 per cent to 120 per cent.

11. Salary ranges are assigned to each band by determining the salary value for the midpoint of the band. Maximum and minimum values for each band are calculated as being +/- 20 per cent of the midpoint values.

12. Each position (job) is sized and assigned a number of job points. The number of job points for each position determines the band the position will be assigned to. Once the position is assigned to a band, the salary range and associated terms and conditions that apply to that band are applicable for the position.

13. Table 1 summarises the two scales for simple comparison.

Table 1. Comparison between the current Mercer CED scale and the new SP 10 scale

Position categories	CED Scale (grades)	SP-10 scales (bands)	Application to SPC based on SP 10 recommendations
Positions advertised nationally	A	1	The seven bands are adequate for positions advertised nationally.
	B		
	C	2	
	D	3	
	E	4	
	F	5	
	G	6	
	H	7	
Positions advertised Internationally	I	8	Having three new bands to replace the current grade I has addressed the bottlenecks for SPC. SPC has more than 120 staff at current grade I.
		9	
		10	
	J	11	SPC still has a considerable problem here, with only two bands for the current grade J and more than 130 staff in grade J.
		12	
	K	13	Having two bands to cater for current grade K has addressed SPC's challenges here.
		14	
	L	15	Having two bands at current grade L addresses the positioning of directors of divisions and Deputy Directors-General (DDGs).
		16	
CEOs	M	17	SP 10 recommended this for FFA, SOPAC and SPREP CEOs.
		18	SP 10 recommended this for PIFS and SPC CEOs.

14. The new scale with 18 bands complies with the following four specific recommendations pertaining to the job banding model from the consultants (see box below).

> i. We recommend that the agencies look to review their banding model expanding the number of bands.
> ii. In adopting this model we further recommend the agencies should look at abandoning the current professional/support distinctions as they are widely seen as emphasising unnecessary differences in roles.
> iii. In addition, we recommend that the agencies treat the Chief Executive roles as a separate 'band' supplying remuneration ranges for them based specifically on their job size.
>
> *With the revised bands we recommend further that:*
> iv. The incremental step system be abolished and be replaced with movement within the band determined by a percentage movement decided by individual performance and organisation affordability (PIFS have recently moved to this system). This additional recommendation is based on good pay practices and avoids both the entitlement culture that step increases bring with them and the expensive cumulative effect of paying for both step and percentage movements in any one year. In addition, it is designed to link closely and reinforce any performance management system the agencies may have.

Determining the midpoints and range for each band in the SP 10 scale

15. Table 2 below shows the midpoints and the range of points in each of the first 16 bands. It also shows (in the last column) the difference between the midpoints of each band.

Table 2. Proposed banding model

Band	From	Midpoint	To	Band width	% Difference
1	130	140	150	20	-
2	151	162	173	22	15.7%
3	174	187	200	26	15.4%
4	201	216	231	30	15.5%
5	232	250	267	35	15.7%
6	268	288	308	40	15.2%
7	309	333	356	47	15.6%
8	357	382	406	49	14.7%
9	407	431	455	48	12.8%
10	456	484	512	56	12.3%
11	513	544	574	61	12.4%
12	575	609	642	67	11.9%
13	643	686	728	85	12.6%
14	729	785	840	111	14.4%
15	841	903	965	124	15.0%
16	966	1048	1130	164	16.1%

Remaining challenges to be addressed

16. The introduction of the new SP-10 banding model has addressed the majority of SPC's challenges with the exception of the current grade J, for which the Secretariat will be making a further case for one additional band. If this suggestion is implemented, the current grade J will have three bands (11, 12 and 13) and the current grades K, L and M will shift up by one extra band. Thus, the current grade K will equate to bands 14 and 15, grade L will equate to bands 16 and 17 and CEOs will be in bands 18 and 19. Alternatively, the number of bands for positions recruited nationally could be reduced from 7 to 6. Under this scenario, the current grade I becomes bands 7, 8, and 9, and current grade J becomes bands 10, 11 and 12, thereby leaving the bands for the current grades K, L and M as they are.

17. If the current bottleneck that exists in grade J is addressed, SPC will still face a considerable problem, simply because SPC has more staff in a single grade (grade J) than the total number of staff at other CROP agencies such as PIFS or SOPAC. This challenge will be exacerbated in 2011 with the full implementation of RIF reforms (SOPAC and SPBEA will fully integrate with SPC). The number of staff who will fall into the current grade J may be more than 160, and two bands (11 and 12) are unlikely to provide enough flexibility to accommodate the different levels of job families that fall under this grade at the moment.

18. CROP CEOs endorsed bands 1–16 of the new banding model (as outlined in paragraph 8 (i) and (ii) above) at their February 2010 meeting to be presented to the respective governing bodies in 2010 for consideration and approval for implementation from January 2011. FOC and the SPREP Council have approved this for PIFS and SPREP.

Planned implementation of the new banding model at SPC

19. SPC employees will move from the old salary scale to the new banding model. Salaries for new employees appointed from the date of implementation will be aligned directly to the new model.

20. All SPC positions have been sized using the SP 10 methodology. The number of job-points for each position has been identified and each position will be moved from the current structure to the appropriate band in the new structure. For the vast majority of positions there is little impact or difference in salaries between the current and the new structure. The most important consideration in this process is ensuring that current staff are not put in the situation of being below the 90 per cent level in their new band, as this will mean that new staff with less experience being appointed into the organisation for the first time could be appointed to a level above that of existing staff. New staff appointments will normally fall between the 80 and 90 per cent level of each band.

21. Hence, employees whose current salaries fall below 90 per cent of the midpoint of the new salary range will have their salaries increased to 90 per cent of the midpoint of that range. For SPC this involves only about 11 per cent of all positions, and the estimated cost for this adjustment (approximately 181,000 CFP units) has been provided for in the 2011 budget.

22. It is proposed that the new banding model be implemented as from 1 January 2011. Consistent with recommendation (iv) from the consultants (paragraph 14 above) as endorsed by CROP Heads and approved for PIFS and SPREP by their respective governing bodies, the Secretariat will also, from 1 January 2011, abolish its current incremental salary advancement policy. All future salary movement within bands will be determined by a percentage movement decided by individual performance and organisational affordability.

CEO Banding – background

23. In their 2009 CROP Triennial Remuneration Review report, the consultants noted there was a broad range of job sizes for the CROP CEO positions and that to be able to accommodate all positions in the same band required a very broad band. From a job-sizing perspective, they noted that the roles of the CEOs were different and that it seemed inconsistent with the job evaluation mechanism that they all fall in the same grade (Grade M of the current salary scale). The consultants therefore recommended that the CROP CEO roles be treated as a separate band, supplying remuneration ranges for them based specifically on their job size.

24. The CROP Harmonisation Working Group considered this issue and presented a paper on best practice with a number of options for the CROP Heads to consider at their special meeting in February 2010. The CROP Heads asked the consultants (Strategic Pay and PricewaterhouseCoopers) to consider the issue further and to present a report to the June 2010 CROP Heads meeting.

25. At their June 2010 meeting, the CROP Heads considered the consultants' report on the CEO banding and endorsed the establishment of bands 17 and 18 for CEOs. The consultants recommended that band 17 be reserved for CEOs of FFA, SPREP and SOPAC and band 18 for CEOs of PIFS and SPC. In endorsing the two bands for CEOs, CROP Heads acknowledged the supremacy of governing bodies and noted that the final decision on where each CEO position is placed is a matter for the governing body on advice from the secretariat.

Implementation of CEO banding model

26. The report on the banding of CEO roles is attached as Annex 1. The report represents a framework for CEO remuneration, which differentiates ‘pay for the job’ from ‘pay for the person’. ‘Pay for the job’ refers to job size and market data relating to rates of salary, while ‘pay for the person’ relates to performance management and rewards for performance. This framework is very strongly aligned to the CROP Harmonisation and Remuneration – Guiding Principles and Strategies (attached as Annex 2). It is also consistent with the framework used for other CROP roles.

27. The report highlights the following key points:

a. Two new bands (bands 17 and 18) should be added to the CROP banding model and be reserved for the CEO roles.
b. The SPC Director-General’s job has been assessed at 1482 job points and therefore fits into band 18 (Figure 2, page 7 of the report).
c. The remuneration for these bands should be benchmarked against the average of the same three reference markets as used for all other CROP roles (i.e, the average of the median of the Australian and New Zealand public service sectors, and the upper quartile of the Fiji all organisations market).
d. The 2010 market data should be applied from 1 January 2011.
e. The market data should be reviewed annually through the annual market data review process along with those of the other CROP roles.
f. The current approach to managing and reviewing the Director-General’s performance should be reviewed with a view to implementing processes and documentation aligned with best practice and in accordance with the Secretariat’s performance management system.
g. Salary progression through the band should be linked to annual performance review in accordance with the guidelines used for the Secretariat’s employees.

28. With regard to point (f) above, the Secretariat proposes that CRGA consider establishing a Standing Committee comprising the previous, current and future Chairs of CRGA that is required to meet annually prior to the annual meeting of CRGA and / or Conference to conduct a performance appraisal on the Director-General and report to the full CRGA. Specifically, the CRGA Standing Committee would:

i. assess the Director-General’s performance in accordance with the Secretariat’s performance management system;

ii. agree on performance standards for the following year;

iii. review his/her remuneration based on the performance outcomes in accordance with the guidelines used for the Secretariat’s employees; and

iv. provide a report and make recommendations to CRGA.

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4 October 2010

ANNEX 1

CROP Agencies

1 Report on the Banding of CEO Roles

1.1.1 Prepared by Dennis O'Callaghan
1.1.2 Strategic Pay Limited
1.1.3 May 2010

Contents

1 Background

The issue of CEO banding was first raised by Strategic Pay and PricewaterhouseCoopers (PwC) in the 2009 Triennial Remuneration Review. Prior to 2009, all chief executive roles across the Agencies were sized on the basis of the Mercer CED job evaluation system and paid in Band M of the CROP scale. In practice, the roles had been sized differentially by those responsible for the original job evaluations, with SPC's CEO role sized above those in the other Agencies. Strategic Pay's interim evaluations of the CEO roles delivered a similar outcome.

The Consultants to the Triennial Review recommended "*that the agencies treat the Chief Executive roles as a separate "band" supplying remuneration ranges for them based specifically on their job size."* There was some discomfort by the CROP Executives with the Consultants' proposal, and the CROP Executives asked the Working Group on Harmonisation (WG) to consider this further and provide options for their consideration.

In response to this request, the WG presented a paper to the special meeting of the CROP Executives in February 2010. The CROP Executives discussed the issue of the CEO banding and requested the Consultants to build on the work done so far, and prepare a paper for their consideration in June 2010.

The purpose of this paper is to provide a set of recommendations for consideration by the CROP Executives and their governing bodies regarding

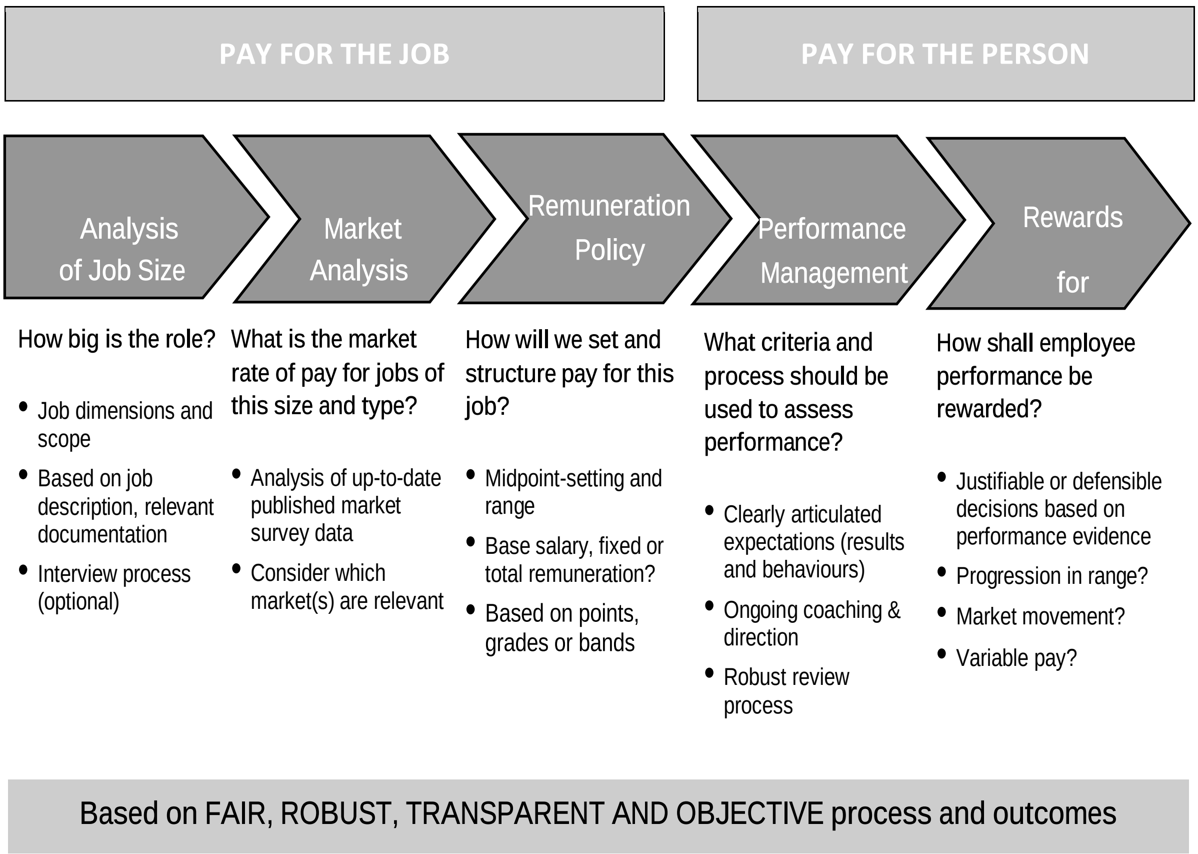
- the job evaluation of chief executive roles;
- how they should be banded for pay purposes;
- how market data should be applied and midpoints set;
- how performance should be managed; and
- how the annual salary review should consider the performance of the chief executive.

2

A Framework for CEO Remuneration and Performance

The remuneration of the CEOs requires a policy framework that covers two main areas and within those five key processes as set out in Figure 1.

Figure 1: Managing Pay and Rewards



The elements at the left-hand side of the diagram relate to how pay is structured around the job. The outcome of these three elements will be a market-related rate for the job and associated pay range to reflect performance. Pay will be delivered as a fixed or total remuneration package or as base salary with additional benefits paid as conditions of service.

The final two elements involve aligning employee rewards with performance, and how those rewards are structured, i.e. based on salary progression, variable pay or a mix of the two.

This is the essence of the CROP remuneration system and should underpin how the governing bodies approach the setting of CEO remuneration.

Underlying this is the need for an executive remuneration policy.

Best Practice

Jenny Seeto, Managing Partner of PricewaterhouseCoopers Fiji, has significant experience in job evaluation for organisations in Fiji and other Pacific islands. She describes best practice with respect to remuneration for CEOs as follows:

a. CEO job evaluation is conducted and discussed with the company's board (or a sub-committee of the board) in order to finalise the job points;

b. Based on the job points of the position, the market data is obtained;

c. The market data provides the mid-point of a base salary, fixed or total remuneration range which is described as +/- 20% of the mid-point. This range then provides a structure for CEO remuneration;

d. On appointment, the CEO would negotiate with the board (or sub-committee of the board) and a starting salary, and relevant terms and conditions, agreed;

e. Movement through the salary scale would then be based on annual performance review through some predetermined methodology;

f. Changes to the salary scale would be in accordance with the same process used for the rest of the organisation's salary scale grades (i.e. annual market data review);

g. A review of the job evaluation would normally occur before recruitment of a new CEO.

This approach is in use in approximately 60 organisations (including government departments) with which PwC works.

John McGill, now Managing Director of Strategic Pay, who co-authored the 2009 Triennial Review report, confirms that this is the predominant practice in Australia, New Zealand and internationally. He estimates that Strategic Pay is involved with 60 to 80 organisations a year that undertake a process similar to that described above.

3 Analysis of Job Size

3.1 Application of SP10 to CEO Roles

The job evaluation of CEO roles was undertaken by Strategic Pay and PwC Fiji in 2009. Each role was sized according to the 10 factors in the Strategic Pay SP10® system. The SP10® factors are set out in Appendix A.

Job evaluation provides a language about work. All job evaluation systems comprise a series of factors. The factors are effectively a series of language ladders, or criteria, such as education and experience, for assessing job content and forming a judgement about the level or degree to which that factor is required in the job. Each level has associated points. The factors are designed to encompass the major elements considered important in the market when assessing job size, and hence most job evaluation systems will include factors such as education and experience, problem solving, impact, interpersonal skills, although they may label them differently.

In this way, job evaluation is a tool for analysing all manner of jobs in widely differing organisations.

In the case of CEOs and senior executives, organisation size is an additional factor that needs to be taken into account. This recognises that the dimension and scope of these roles is impacted by the organisation's size, and that small not for profit organisations are very different in size, shape, and ultimately complexity, than a government ministry or a large multi-national. Rather than constituting an additional factor, most job evaluation systems build this dimension into the wording of the factor language, so that the highest levels in some factors, such as Scope and Authorities, are only available to the CEOs or senior executives in very large, diverse, multinational organisations.

The SP10 system recognises this factor by distinguishing three sizes of organisation:

- Small organisation - Up to NZ$55 million turnover and/or up to 200 employees
- Medium organisation - NZ$55 million to NZ$270 million turnover and/or 200 to 1000 employees
- Large organisation - NZ$270 million to NZ$3 billion turnover and/or over 1000 employees.

These definitions are used to 'fine tune' the scores within the factors where they are applied.

On this basis, SPC meets the criteria for a medium-sized organisation, PIFS in the small to medium range, with all the other Agencies ranking in the small category. This does have a bearing on how some of the factors are scored for the SPC role, such as People Management. In the Mercer system, the Impact chart was applied to recognise these distinctions.

3.2 Review of CEO Evaluations

We are conscious that changes have occurred for some of the CEO roles since the evaluations were conducted early in 2009. We are also conscious that the evaluations have not been finalised with the governing bodies. It is generally our practice to discuss the CEO evaluation with the governing body, in the form of a Board or Council, or its representative, generally the Chair.

The recent review of executive roles in Bands 14-16 and our on-going work with the CROP Agencies has afforded the Strategic Pay consultants a strong understanding of the chief executive roles across the CROP. We have had access to job descriptions and wider documentation across the Agencies.

While we had envisaged a process of telephone interviews with each CEO to ensure we have a solid grasp of the nature and scope of each CEO role, not all incumbents have been available. Instead, Dennis O'Callaghan and John McGill, the principals of Strategic Pay and two of NZ's foremost job evaluation specialists, have analysed the five CEO roles at length. We have reviewed the job descriptions supplied and other relevant documentation, as well as the job evaluations undertaken in 2009. We have examined our assumptions in the light of the SP10® job evaluation manual as well as appreciating the nuances of roles operating across the Region.

We have been mindful of feedback from the CROP chief executives about their own roles and the nuances that distinguish these roles from typical public service roles –

- The governing body, and in particular its Chairperson, operates differently in some respects and meets less frequently than a typical Board of Directors or elected public sector Council or Board.
- Stakeholder management, including a requirement for the highest levels of interpersonal skills for advocating, influencing, negotiating and diplomacy across the Leaders and senior Government officials of member countries and territories as well as with donors, development partners, and other related parties. This is a regular and exacting element of these roles and is reflected in the manner in which we have scored these roles in the Interpersonal Skills factor.
- The programmes delivered by the CROP Agencies have a significant social and economic impact across the region. While impact of this nature is not specifically measured in the Impact/Results of Decisions factor in the SP10® system, we have taken this into account when assigning the factor scores.

Figure 2 below outlines the outcome of this analysis:

Figure 2: Proposed CEO Job Evaluations

	Education	Experience	Complexity	Scope	Subtotal	Problem Solving	Freedom to Act	Impact/Results of Decisions	Interpersonal Skills	Authorities	People Management	Total Points
Director-General SPC	J 152	L 230	D 55	F 30	325	F 175	F 152	E 3 152	F 5 115	E 2 66	F 2 115	**1482**
Secretary-General PIFS	J 152	K 200	D 50	F 30	282	F 175	F 132	E 3 152	F 5 132	E 2 66	E 2 76	**1387**
Director SOPAC	J 152	K 200	D 50	F 30	282	F 152	F 132	E 2 115	F 5 115	E 2 66	E 2 76	**1290**
Director SPREP	J 152	K 200	D 50	F 30	282	F 152	F 132	E 2 115	F 5 115	E 2 66	D 2 57	**1271**
Director-General FFA	J 152	K 200	D 50	F 30	282	F 152	F 132	E 2 115	F 5 115	E 2 66	D 2 57	**1271**

Recommendation

1. That the Consultant's job evaluation results be received and recommended for adoption by each governing body.

4 Market Analysis

We recommend that the market referencing for the CEO roles be applied in the same manner as for Bands 1-16, i.e. on the basis of the average of the base salary data derived from three reference markets as in the past:

- Median of the New Zealand Public Service
- Median of the Australian Public Service
- Upper quartile of the Fiji All Organisations sector.

New Zealand Data

Data on the New Zealand public service is based on the Strategic Pay database, and in particular the March 2010 Central Government survey, released in April and published annually. This covers 50 State Sector organisations, primarily Government departments and ministries/agencies, and a sample of 14,657 employees. This survey is now a pre-eminent source of data on Central Government remuneration levels. The median base salary is used as the CROP's market reference point.

Australian Data

The Australian data is sourced from the Australian public service (APS) rates using median base salary data in the publicly available 2008 APS Remuneration Survey, prepared by Mercer Australia. This annual survey of federal public service rates relies on data collected in December 2008, with the full report published in July 2009. It is set out as a series of broad bands, each derived from job sizing using the Mercer Cullen Egan Dell job evaluation system as far back as 2001.

In order to access and analyse this data for the current study, we have a correlation framework to convert the Mercer CED points to SP10® format. This framework is illustrated in the following table:

CED	SP10
1100	1185
1150	1251
1200	1318
1250	1385
1300	1448

The December 2009 APS Survey has not yet been released. Therefore, we have updated the 2008 APS data on the basis of estimated movement in the median data to December 2009. Our estimate is guided by information from the Department of Education, Employment and Workplace Relations (DEEWR), who reported an average annualised wage increase (AAWI) in all public sector wage agreements concluded in the September 2009 quarter of 4.0%.

In the absence of the December 2009 APS Remuneration Survey, and for the purposes of this report, an increase of 4.0% has been applied to the 2008 APS Remuneration survey data.

Fiji Data

As in earlier years, data on the Fiji All Organisations market has been sourced from the PwC Fiji database, or more particularly the April 2010 All Organisations survey. Upper quartile data is used in this case as the CROP market reference point for deriving the averaged scale.

Recommendation

2. That the remuneration of the CEO roles be related to the average of the same three reference markets as is used for all other CROP roles.

5 Remuneration Policy

This section of the paper relates exclusively to the development of a pay structure for the CEO roles, loosely referred to as "banding" in earlier papers on this subject.

It is unfortunate that the term "banding" is used in conjunction with developing a pay structure for CEO roles. The outcome of a job evaluation exercise is a points total for every job. It is common practice to cluster these points into groupings or "bands" for pay purposes. e.g. all roles between 130 and 150 points are grouped together as Band A in the CROP remuneration system. In this manner, all the roles below the CROP CEOs have been sized and placed into one of bands 1-16.

Hence the term "band" refers to a cluster of points. In practice, neither Strategic Pay not PwC has encountered the notion of a pay "band" for CEOs. However, the CROP Agencies are unique in their bold initiative to harmonise remuneration across a number of discrete organisations, and that does beg the question of how that applies to the CEOs.

5.1 Why Change the Status Quo?

The current M banding of CROP CEO roles is highly unusual and out of step with market practice.

The CEO role is almost always treated separately when Strategic Pay or PwC conduct a remuneration study. This is because the remuneration issues around the CEO role are often focussed on the appointment and management of a particular type of individual relevant to the organisation at that stage of its development. While the CEO is generally the "employer" of all staff below their own level, the CEO is employed by and reports to a multi-member Board or governing council. Governance issues alone make the CEO role unique and in that sense it is appropriate that they lie outside and above the banding model for other staff.

Both Strategic Pay and PwC use job evaluation as the starting point for these roles. Market data is applied to the job points for each role to determine a 100% "midpoint" and associated range.

The composition and shape of the CROP has changed. When full implementation of RIF occurs, only four Agencies will be part of the CROP remuneration system, and SPC is demonstrably larger than any of the others, and, we understand, will continue to grow.

The new CROP banding model has created nine bands for the staff previously on the I-M Professional scale. The new banding model provides for narrower pay bands and hence allows the Agencies to recognise that not all Advisor roles are necessarily the same size and hence in the same pay band. The same holds true for the senior executive roles, which now fit across bands 14-16. The consultants believe the same logic should hold true for the CEO roles.

The new CROP remuneration system represents a major break from the past. A new Job Families model, underpinned by the SP10® system, has been has been introduced for evaluating roles. A new banding model has been introduced, with progression in range subject to performance. Revised performance systems are being introduced across the CROP and new pay linkages. Retaining the status quo, one pay band for CEOs, would be highly anomalous in the context of the work to date.

5.2 The Options for CEO "Banding"

In the 2009 Triennial Review report, the Consultants' noted the "*wide disparity in organisation size between the agencies*". This disparity results in a discernable difference in job size reflecting the different scope of operations, the resources under their management (breadth) and the associated complexity and impact of the different roles. Hence, the Consultants recommended that the CEO roles should not be grouped together, but should be treated individually and a market rate derived for each role based on job points.

We recognise that this recommendation, and the resulting exclusion of the chief executive roles from the banding model developed for other CROP staff, has created a level of discomfort and uncertainty for the chief executives and their governing bodies. As requested by the chief executives at their February 2010 meeting, the Consultants have reviewed the Triennial Review recommendation. We have taken into consideration the views of the Working Group, as reported to the CROP chief executives in February 2010. Their report is attached as Appendix 2.

Broadly speaking, the Working Group identified two alternatives to the separate banding of each CEO role:

Alternative 1

> *"To create two bands for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 and 18 would be reserved for the CEOs that would provide the opportunity for some differentiation recognising the discernable difference in job size…."*

Alternative 2

> *"To create one band for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 would be reserved for the CEOs although it would not provide the opportunity to differentiate due to the job size differences."*

5.3 Proposed Model

The Consultants have reviewed their 2009 recommendation in light of the feedback from the chief executives and the Working Group, but also recognising that the principle of harmonisation should be applied equally to the chief executive roles as it is for other CROP staff.

The 16 band model approved by the CEOs at their February meeting provides a compelling logic for the banding of CEO roles. With the exception of bands 9-13, where the bands were narrowed to provide for additional flexibility in the job families, there is a relatively consistent progression of around 15-16% in the job points between each band.

We propose to apply the same principle to the chief executive banding, thereby deriving two additional bands, as outlined below:

Figure 3: Revised CROP Banding Model

Band	From	Midpoint	To	Band Width	% Difference
1	130	140	150	20	-
2	151	162	173	22	15.7%
3	174	187	200	26	15.4%
4	201	216	231	30	15.5%
5	232	250	267	35	15.7%
6	268	288	308	40	15.2%
7	309	333	356	47	15.6%
8	357	382	406	49	14.7%
9	407	431	455	48	12.8%
10	456	484	512	56	12.3%
11	513	544	574	61	12.4%
12	575	609	642	67	11.9%
13	643	686	728	85	12.6%
14	729	785	840	111	14.4%
15	841	903	965	124	15.0%
16	966	1048	1130	164	16.1%
Proposed CEO Bands					
17	1131	1216	1301	170	16.0%
18	1302	1411	1520	218	16.0%

All figures are expressed in SP10® points

On this basis the CROP CEO roles would be sized as follows:

	Role	JE points
Band 17	Director-General FFA	1271
	Director SPREP	1271
	Director SOPAC	1290
Band 18	Secretary-General PIFS	1387
	Director-General SPC	1482

5.4 Proposed Midpoints

The market referencing assumptions outlined in Section 4 of this report have been applied, and the average of the three markets has been calculated to each of the three reference markets to derive the following midpoints for 2011.

Figure 4: Market Data as at May 2010

(all figures expressed in base salary)

Strategic Pay SP10 Points				March 2010 Market Data - SDR			
Band	From	To	Midpoint	NZ Central Govt Median as at Mar 10	Australia APS Median as at Dec 2008	Fiji All Orgs UQ as at April 2010	Average
17	1131	1301	1216	119,005	104,972	49,644	**91,207**
18	1302	1520	1411	139,081	112,829	65,566	**105,825**

These mid-points would result in salary ranges (+/- 20% of the mid-point) as follows:

Band	Minimum	Mid-point	Maximum
17	72,996	91,207	109,448
18	84,660	105,825	126.990

In our view, this scale will provide each of the Agencies with a fair and equitable market framework for the recruitment and remuneration of the chief executives. Based on the 80-120% range recommended for the harmonised CROP scale, there is sufficient overlap for a high performing chief executive in Band 17 to be paid at or above the same level of a newly appointed CEO in Band 18. That is a key principle of modern salary administration.

Recommendation

3. That the CEO roles be assigned to new bands 17 and 18 as proposed by the Consultants in Figure 3; and that the market midpoints outlined in Figure 4 be applied effective from 1 January 2011 or at the applicable salary review date for the chief executive in each Agency.

4. That the market mid-points be reviewed annually through the annual Market Data Review process along with those of the other CROP roles.

6 Performance Management

The performance review process for the CEOs varies across the agencies. For example, most CEO review processes enable the CEO (or a representative) to present a summary of outcomes or results either to the Chair, or the governing body, or a sub-committee of the governing body. But there is little opportunity for most CEOs to receive feedback from members. Since the agencies are looking to promote best practice performance management for their staff, it might be timely to do the same for the CEOs.

In FFA’s case the Director-General’s performance review is conducted by a sub-Committee of FFC. The process includes 360 degree feedback, which is sought from the Director-General’s direct reports as well as from members and key stakeholders.

The sub-committee approach provides a robust and effective mechanism for performance review and feedback. This is consistent with best practice in governance regimes. The sub-committee could also have an additional role during the appointment of a new CEO – to review the job description and job evaluation before recruiting a new CEO.

Recommendation

5. That each governing body review its current approach to managing and reviewing CEO performance with a view to implementing process and documentation aligned with best practice and in accordance with the performance management of other Agency staff.

7 Rewards for Performance

The Triennial Review report recommended the development of performance-related pay mechanisms for all staff and an end to the step-based scale in the former system. Strategic Pay has been working with each of the Agencies to implement performance-related pay, including the use of pay matrix guidelines to give effect to the performance zones identified in Figure 5 below.

Figure 5: Movement in Range Depends on Performance

High Performance zone – 110-120%	**$ Maximum**
Adding Value zone – performance consistently exceeds requirements	
Competence zone 98-102%	**Midpoint Range**
Developing zone (appropriate for new recruits, CEO tracking to full competence, marginal performance) – 80-98%	**$ Minimum**

Over time, it is the intention of each Agency to ensure that remuneration for each employee is positioned in the appropriate zone above.

We recommend that the chief executives be treated in the same manner as for other staff, not simply in the interests of harmonisation but also to give effect to key principles such as pay fairness in relation to performance.

We have provided the following guidelines to assist the governing bodies to implement performance - related pay movement for the chief executives:

- The Chief Executive's performance shall be reviewed annually at a mutually agreed time, but ideally within two months of the start of the business year, by the governing body, or the Chair or a sub-committee with delegated authority to conduct the review and determine the overall level of performance in the year under review.

- Performance shall be reviewed according to performance documentation agreed between the chief executive and governing body, with input and agreement from the chief executive officer. The chief executive's performance shall be reviewed against each of the agreed measures and assessed as Exceeds, Fully Effective, On Track or Needs Improvement.

- The governing body shall review the chief executive's remuneration package as soon as possible after completion of the performance review, based on the following guidelines:

Figure 6: Sample Guidelines for Salary Movement

Performance Outcome	Salary Review
Performance issues exist, and a plan is in place to address these	Hard to justify an increase, even for market movement. 95% of new midpoint should be the ceiling for any increase. Governing body discretion.
Competent performance, as evidenced by overall performance ratings of Fully Effective for **both** Expected Results and Behaviours	Target payment should be around the midpoint (98-102%). Market movement if already at that level, otherwise performance movement as well. If already above that level, Governing body may elect to withhold all or part of the market movement.
Performance above the requirements for the role, as evidenced by overall performance ratings of Exceeds or Outstanding for **either** or **both** Expected Results and Expected Behaviours	Package should be in the range of 102% to 120% of the midpoint. Market movement plus consideration of a performance movement. At the upper levels any percentage increase would need to be supported by demonstrable evidence of added value for the organisation and wider stakeholders from the CEO's performance.

- ➢ Any change in remuneration shall apply from the Agency's operative salary review date.

Recommendation

6. That the harmonised CROP remuneration system relating salary progression in range to performance be applied to the chief executives, with each governing body reviewing its CEO's remuneration on an annual basis in accordance with the guidelines above.

8 Conclusions

The work of the CROP Agencies over the past decade to harmonise their remuneration policies and practices, both for staff and the chief executives, is probably unique in the world of remuneration. In preparing this report and identifying the recommendations, we have been mindful of the need to balance remuneration best practice against the commitment of the Agencies to harmonisation and the associated Guiding Principles.

We have drawn the conclusion that there remains a place for harmonisation in the remuneration of the chief executives. To that end, our recommendations all have a strong commitment to harmonisation:

- The two band approach recognises that both similarities and differences exist in the “size” of the CEO roles, and have been derived using the same logic as the 16 bands for all other CROP roles;

- The market referencing approach retains the commitment of the CROP Agencies to market comparisons from three chosen markets, and is undertaken in the same manner as for Bands 1-16; and

- The recommendations on performance and the linkage to remuneration are consistent with the approaches now being adopted by each CROP Agency as they move to harmonise performance systems and the linkage to performance, as declared in the guiding principles, and as agreed by the CROP chief executives at their February 2010 meeting.

We believe that adoption of the recommendations in this report will provide a workable, fair and defensible structure for setting and managing CEO remuneration and performance.

2 APPENDIX A:

3 The Strategic Pay SP10® Job Evaluation System

This job evaluation system was first development by Pricewaterhouse and was acquired by Strategic Pay in 2004. It has a wide following in the public and private sectors, particularly at executive level, and with its associated linkage to executive remuneration data. It suits the executive scene and environments where points differentials are considered important.

The ten factors are:

1. **Education**

   The level of education required to perform the functions required of the position, however obtained.

2. **Experience**

   The length of practical experience and nature of specialist or managerial familiarity required. This experience is in addition to the knowledge required in Factor 1.

3. **Complexity** - measured in terms of:

   - The time taken to learn and adjust to the specific job requirements.
   - The level to which the job function is defined and follows established and predictable patterns.
   - The thinking challenge required to adapt to rapidly changing circumstances and innovative or conceptual thinking needed to initiate new corporate directions.

4. **Scope of Work**

   The breadth or scope of the position (i.e. the span of influence in the organisation).

5. **Problem Solving**

   The nature and complexity of problem solving expected of the job. This considers the judgement exercised, availability of rules and guidelines to assist in problem solving, the degree of analysis and research required, and the originality, ingenuity or initiative required to arrive at a solution.

6. **Freedom to Act**

   The extent of supervision, direction or guidance imposed on the jobholder and the freedom the jobholder has to take action.

7. **Impact / Results of Decisions**

   The level of discretionary decision making delegated to the job holder.

8. **Interpersonal Skills**

   The requirement for interpersonal skills in dealing with other personnel and external contacts.

9. **Authorities**

   Authority levels expressed in terms of routine expenditure and investments, granting loans, and employing and dismissing staff.

10. People Management

The responsibility for the control and management of staff within the organisation, including direct line management, and other forms of supervision, direction, co-ordination or influence over other staff.

APPENDIX B:

Working Group Paper on CEO Banding February 2010

3.1.1.1.1 PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(10)CROP.

COUNCIL OF REGIONAL ORGANISATIONS IN THE PACIFIC

Noumea, New Caledonia

4th February 2010

CEO BANDING

Purpose

The purpose of this paper is to provide additional information for consideration by the CROP Executives regarding the proposal in the 2009 Triennial Remuneration Review to treat the Chief Executive roles as a separate band.

Background

3. The 2009 Triennial Remuneration Review was undertaken by PricewaterhouseCoopers (PwC) and Strategic Pay (the Consultants). Their review report was presented to the CROP Executives at their meeting in June 2009.

4. In their report, the Consultants proposed that a new banding (salary scale) model be considered by the CROP agencies. In addition, they recommended "*that the agencies treat the Chief Executive roles as a separate "band" supplying remuneration ranges for them based specifically on their job size.*"

5. There was some discomfort by the CROP Executives with the Consultants' proposal, and the CROP Executives *asked the Working Group (WG) to consider this further and provide options for their consideration*.

6. This paper outlines in more detail the Consultants' proposal and how this might work in practice, and provides a number of alternatives for consideration by the CROP Executives. It also proposes developing guidelines, or regulations, for the appointment, remuneration and terms and conditions of the CROP CEOs.

Why Change the Status Quo?

7. The proposed new banding for staff is based on the premise that jobs of similar size should be grouped together and should be paid at similar levels of pay. This logic holds for the CEOs – or more to the point, there is little to suggest that this logic should not hold for the CEOs.

8. According to John McGill, Strategic Pay, the CEO's role is often put into a band of its own (and in some organisations, the senior management team as well). This is because the remuneration issues around the most senior executives are often focussed on the appointment and management of a particular type of individual relevant to the organisation at that stage of its development. Because the CEOs stand apart from the rest of the organisation, they have a separate band attached to the job points of that job.

9. In this case, Strategic Pay note that we are dealing with a group of organisations, which while they are different with respect to their mandate, they share common overall goals and philosophies and so, they argue that the CEOs could be treated in a similar manner to each other, but only to a point.

10. In the 2009 Triennial Review report, the Consultants' noted the "*wide disparity in organisation size between the agencies*". This disparity results in a discernable difference in job size reflecting the different scope of operations, the resources under their management (breadth) and the associated complexity and impact of the different roles.

11. Based on the premise that jobs of similar size should be grouped together, this discernable difference in job size suggests that CEO roles should not be grouped together. This argument forms the basis of the rationale of the Consultants' recommendations.

12. Furthermore, the Consultants' view their recommendations as representing best practice.

Best Practice

13. Jenny Seeto, PwC, has significant experience in job evaluation for organisations in Fiji and other Pacific islands. She describes the emerging best practice with respect to salaries for CEOs as follows:

a. CEO job evaluation is conducted and discussed with the company's board (or a sub-committee of the board) in order to finalise the job points;

b. Based on the job points of the position, the market data is obtained;

c. The market data provides the mid-point of a salary range which is described as +/- 20% of the mid-point. This range then determines the salary range for the CEO;

d. On appointment, the CEO would negotiate with the board (or sub-committee of the board) and a starting salary agreed;

e. Movement through the salary scale would then be based on annual performance review through some predetermined methodology;

f. Changes to the salary scale would be in accordance with the same process used for the rest of the organisation's salary scale grades (i.e. annual market data review);

g. A review of the job evaluation would normally occur before recruitment of a new CEO.

14. The approach is in use in approximately 60 organisations (including government departments) with which Jenny works.

15. John McGill, Strategic Pay, confirms this practice is also becoming predominant in Australia, New Zealand and internationally. He estimates that Strategic Pay is involved with 50 to 80 organisations a year that undertake a process similar to that described above.

Translating Best Practice into Practice

16. The CEO job evaluations need to be validated, and a mechanism to do so needs to be established. To align with best practice, the CEOs may consider it appropriate to ask a sub-committee of their governing bodies (similar to FFA's sub-committee) to engage with the Consultants to validate the relativity of the CEO job evaluations. It would be preferable that this sub-committee represent all governing bodies.

17. Once the job points for each of the CEO positions have been finalised, these would be used as the "midpoint" and the monetary value of this mid-point would be assigned based on the average of the three reference markets (in exactly the same way as current practice). The upper and lower limits of the range, for each CEO position would be determined as +/- 20% of the mid-point. Thus, essentially, each CEO position would have its own salary grade.

18. The process of annual assessment of the salary scale to the reference market data would continue, and any recommendations to increase the CEO's salary scale, if necessary, would be put to the relevant governing body along with any recommendations regarding staff salary scales, in exactly the same way as is current practice.

19. The WG notes that the performance review process for the CEOs varies across the agencies. For example, most CEO review processes enable the CEO (or a representative) to present a summary of outcomes or results, but there is little opportunity for most CEOs for feedback from members. Since the agencies are looking to promote best practice performance management for their staff, it might be timely to do the same for the CEOs. The sub-committee (paragraph 15) might also provide the mechanism for performance review and feedback.

20. In summary, once the job size of each of the positions has been finalised, this would be used to fix a salary band for each CEO position which would be reviewed annually with the staff salary scales. The job description and job evaluation (and thus the "mid-point" for the salary scale) would be reviewed before recruiting a new CEO (it would be preferable for the same sub-committee to undertake this review).

Alternative 1

21. An alternative to the Consultants' proposal could be to create two bands for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 and 18 would be reserved for the CEOs that would provide the opportunity for some differentiation recognising the discernable difference in job size.

22. This would ensure that agencies were well placed in the future to attract and retain the appropriate calibre of CEO with the appropriate skills and experience to meet those required to lead and manage the agencies. It would also provide opportunities for movement through the grades in order to reward individuals based on performance during the term of their contract.

Alternative 2

23. A third alternative to the Consultants proposal would be to create one band for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 would be reserved for the CEOs although it would not provide the opportunity to differentiate due to the job size differences.

24. This may limit the agencies in the future in their ability to attract and retain the appropriate skills and experience for CEOs for some of the agencies. Alternatively, it may mean that salaries may need to be negotiated at the top of the band, limiting options to reward incumbents based on performance outcomes during the term of their engagement.

Summary of Alternatives

25. The WG have discussed the alternatives identified above with the Consultants. Both Strategic Pay and PwC stand by the recommendations of the 2009 Triennial Review Report and believe that each CEO should have their "own band".

26. The 2009 Triennial Review recommendation is based on the principles of best practice - that jobs of a similar size should be paid at a similar rate in accordance with internal and external relativity. The recommendation also considers the principles of fairness and equity. In the case of the CEOs, these principles need to be considered in the political context.

27. The WG supports the Consultants recommendations because these recommendations reflect best practice. Of some concern to the WG, is the possibility that members perceive "salary blow-out" for the CEOs and this needs to be balanced against the political sensitivities.

28. One way of maintaining the principles of best practice while managing the political sensitivity would be to develop a benchmark for the CEOs salaries which is pitched against the lower quartiles of the reference markets rather than the medians as is the case for staff.

29. The WP recommends Alternative 1, as the most appropriate alternative to that of the Consultant's proposal. This alternative follows best practice in so far as it provides some differentiation for the differences in job size.

30. The WG does not support alternative 2 because it does not represent best practice due to the discernable differences in job size of the positions under consideration.

Conclusions

31. It is unusual in human resource management terms for CEOs to have input into this level of detail regarding their remuneration. Generally, best practice would be for the Strategic HR Manager of an organisation to work closely with the board (or the board's sub-committee), perhaps in conjunction with a consultant, to determine the approach to take with respect to the CEO's salary structure. The agreed approach would normally be approved by the board **before** appointment of the CEO.

32. The CROP CEOs may prefer to suggest to their governing bodies that a governing body sub-committee be convened to assess the options presented in this paper. Representatives of the CROP Working Group could be nominated as a proxy for the "CROP Strategic HR Manager" to work with the sub-committee, supported by the Consultants as necessary. It is envisaged that this sub-committee be the same as that referred to in paragraph 15 above.

Other Observations

33. The WG has been progressing a number of the 2009 Triennial Remuneration Review recommendations. In doing so, it is obvious that the agencies have a number of remuneration policies and regulations which clearly apply to the CEOs, a number which the CEOs are clearly excluded from, and many for which no clarity exists. Few of the agencies have a consolidated, clear set of regulations relating to appointment procedures, remuneration, terms and conditions and other HR practices as they relate to the CEOs.

34. For clarity and transparency, the WG suggests that a set of regulations pertaining to the CEOs be developed. These regulations would in the first instance, be a collation all the current regulations, policies, procedures and governing body decisions pertaining to the CEOs' employment. If obvious differences between the agencies become apparent as a result of this process, this document could form the basis of a recommendation to governing bodies on where the governing bodies could harmonise with respect to their CEOs. The sub-committee mentioned above, may be useful in this respect.

Recommendations

35. The CEOs are invited to **discuss** the contents on this paper in closed session with Dennis and Jenny at the meeting in February 2010, and **agree** a way.

36. The CEOs are invited to **agree** that the WG progress development of a consolidated set of regulations pertaining to the appointment, remuneration, terms and conditions and other HR practices of the CEOs.

ANNEX 2

CROP HARMONISATION AND REMUNERATION GUIDING PRINICPLES AND STRATEGIES

Shared Commitment to and Understanding of Harmonisation Principles

The Governing Bodies of the CROP agencies reaffirm the usefulness of harmonisation as a means of simplifying their oversight of agencies, providing more robust, joint corporate policy development processes and allowing cost sharing across the agencies. The Governing Bodies recognise that harmonisation can lead to opportunities for on-going integration, increased equity and reduced scope for competition between agencies. Harmonisation in the human resources and remuneration context is defined as alignment of key principles and philosophies and specifically includes salary structure, benefits, review processes and performance management.

2. Harmonisation, to be most effective in practice, should be seen as a flexible guideline for participating agencies rather than a set of rules of implementation that must be rigidly applied. Harmonised positions should be the starting point for all CROP agencies, and wherever possible they should be adhered to. But where harmonisation cannot meet the business needs of agencies, other options may be explored. Each CROP agency will choose its own mode of implementation of the CROP agreed harmonised principles based on its needs resulting from its own particular situation and location. CEOs will report to their Governing Bodies on deviations from CROP common practice.

Remuneration Principles

3. The Governing Bodies are committed to a remuneration policy that provides for pay for performance related to the reference markets and which is affordable. They agree that the CROP remuneration system adopted by the agencies will be robust, fair, and competitive and allow for the recruitment and retention of talented, skilled and motivated people focused and committed to the vision of the Members and delivery of agency goals. They further agree that the system must be equitable to both the Members and to staff.

4. Each CROP agency's reward and recognition system will have the active support and commitment of staff, management and Members, will be open and transparent, and easy to understand and administer. Furthermore, the systems will be consistently applied, flexible, affordable and related to the market with pay being directly linked to performance.

Implementation Strategies

5. The guiding strategies the CROP agencies will use to implement the above principles are:

a. All positions will be sized using a CROP wide job evaluation methodology to determine into which of the broad-banded salary ranges the positions will be placed. Regular independent validation of job descriptions will be undertaken.

b. To ensure the salary ranges remain affordable for Members and CROP agencies and equitable to staff, external relativity and competitiveness will be maintained through an objective and systematic benchmarking process which will annually assess reference markets and recruitment and retention statistics together with consideration of the Members and CROP agencies ability to pay. This assessment will consider the tax exempt status of some of the agencies' staff.

c. The mid-point of each range will represent the fair level of remuneration for competent performance in any position sized into that range. Therefore:

   (i) Remuneration on appointment will normally be in the lower half of the salary range. In exceptional circumstances, the CEO has discretion to apply a market allowance as inducement, over and above base salary in order to secure staff with either scarce or highly sought-after skills.

   (ii) The link between remuneration and performance will be open and transparent; the remuneration of staff who have demonstrated competent performance will be progressed towards the mid-point; only staff who have demonstrated exceptional performance will be progressed beyond the mid-point; and staff whose performance is less than satisfactory will not be progressed.

d. Bonuses, if used, will be provided in recognition of one-off outstanding achievements. Improvement in competency and performance will otherwise be rewarded through base pay.

e. As a responsible and good employer, the CROP agencies will provide appropriate terms and conditions including benefits and allowances in addition to take-home pay.
