REMUNERATION POLICY

Status
This policy was formally adopted by the PSA executive board at its meeting of October 2017. It is made pursuant to rule 41 of the PSA Rules and derives its status from and sits under the purpose and objects set out in part 1 of the PSA Rules.

Business owner
Secretariat
REMUNERATION POLICY

Context

The break-up of the centralised wage fixing system in the state following the passage of the State Sector Act and the Employment Contracts Act, and the growth of NGO and private sector involvement in health, education and social services, placed the PSA and its members under huge pressure during the 1990s. The union tended to respond to these pressures employer by employer, which resulted in a variety of pay systems developing across the coverage of the PSA. In the public service and local government in particular remuneration systems developed that were driven by market rates and individual performance and many of the systems sat outside the collective agreement and were therefore not ratified by members.

In an effort to provide a more coherent approach to remuneration systems the executive board of the PSA adopted a policy on remuneration in 2004. This was followed by the development of the PSA model pay system in 2008, which was a useful tool for organisers in the public service and local government but was of less value to sectors where market mechanisms had made less headway through the 1990s.

Despite the prevailing HR environment, the PSA has been able in many instances to negotiate the design of pay systems and the involvement of the union in the processes that surround these systems. This has included:

- Involvement of the union in job evaluation processes and the development of a gender neutral version of job evaluation
- The incorporation (or retention in some cases) of pay systems into collective agreements with accompanying enforceable ground rules
- The incorporation (or retention in some cases) of graded / stepped systems and in some cases service based or qualification based progression
- The incorporation into collective agreements of performance management systems and associated rules and protections around any link to pay
- The incorporation of the PSA model pay system principles into collective agreements
- The incorporation of annual remuneration reviews into collective agreements
- The negotiation (irrespective of systems in place for market movement) of across-the-board pay increases in collective agreement negotiations
- The negotiation of member-only benefit payments.

The adoption of the policy and the model pay system succeeded in creating a coherent PSA view on remuneration systems and contributed to better outcomes for members in a number of organisations.

This policy supersedes both the 2004 policy and the PSA model pay system, and reflects lessons learned from their implementation.
Purpose

This policy is intended to:

- Ensure a consistent approach to the bargaining of remuneration in line with our strategic goals
- Establish a set of principles to guide the PSA in remuneration matters
- Ensure positive remuneration outcomes for members by defining approaches to bargaining structures, the setting of pay rates and individual salary progression that are consistent with the principles

Policy Statement

The role of pay

With the growth of the human resources revolution of the 1980s and 1990s employers came to view remuneration as “a part of management-worker relationships, or as a medium for the expression of management style or corporate culture”¹. In this context pay has been seen as a ‘reward’ provided by the more powerful party (the employer) for employees who met the expectations of the employer.

However, the PSA believes that pay is the compensation provided by an employer to a worker for their labour, time, knowledge and skills. It is part of an exchange between the worker and employer in which the employer provides pay to recruit and retain staff and workers receive pay to enable them buy food and shelter and the necessities of modern life. In legal terms it is also the ‘consideration’ or ‘material cause of the contract’ – that is, evidence that an employment agreement has been formed.

We do not accept that pay is a ‘reward’ neither do we accept that pay should be used to incentivise workers either individually or in teams. We have formed this view because:

- It reinforces the ‘master-servant’ relationship that sits behind much employment law but which is increasingly inappropriate in a modern workplace
- We are committed to high involvement/ high performance workplaces in which workers (and their union) are involved in making the business more effective, are empowered to contribute and are able to challenge and raise issues without fearing for the consequences, including whether incentive payments will be made
- Pay for performance can also rupture relationships and undermine teamwork through competition – the motivation to perform at peers’ expense²
- Work is complex and incentives “… do not create an enduring commitment to any value or action. Rather, incentives merely – and temporarily – change what we do”³.
- Research has consistently found that public sector employees have been found to be less motivated by pay expectancy than public sector employees⁴.

¹ White, Michael “What’s New in Pay?”, Personnel Management, Feb 1985 p.272
• It can undermine effective, formative performance management\(^5\)
• It is one of the contributors to unequal pay outcomes for women and other disadvantaged groups\(^6\)

However, the way that remuneration systems structure and deliver pay can *de-motivate*\(^7\) staff and undermine team work. Organisations (both employers and management consultants) focusing on approaches to pay fit for the future increasingly share our view and the emerging trend is to delink performance management and pay and in particular to remove rating systems\(^8\). We therefore support remuneration systems that meet the principles below.

**Principles**

1. *Fairness and equal pay*
   Members are confident the relative rates of pay between different jobs are fair, neutral of bias and do not perpetuate historical undervaluation. The inequalities of the market are addressed rather than being imported into the remuneration system. The gap between the best paid and lowest paid, across occupational groups and within them, is not excessive and the value of women’s work is recognised. There are collectively negotiated pay increases, which are applied to the scale as a whole, thus adjusting the rates of pay of all those covered by the scales.

2. *Employees feel valued*
   Employees feel that they are paid well, and that their needs and aspirations are taken into account. Remuneration supports progression pathways within and across roles and is sufficient to live on, as well as sufficient to attract and retain staff. Progression is on the basis of transparent and objective criteria, rather than individual performance.

3. *Transparency*
   The pay system is simple and easily communicated, and information about it is available. Employees know not only how the system works, but also what roles are paid. Pay rates are in the collective agreement. Employees are not bound by employer imposed confidentiality around their pay.

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\(^6\) For example May and Lonti in their survey of public service pay systems conclude that there is “large scope for gender bias due to the subjective judgements made in every building block of the pay fixing system”.


\(^8\) The literature to support this is summarised in Auckland City Council’s 2014 Pay Project: Literature Review to Inform Pay Project.
4. **Ownership**
   Employees are equal participants through their union in the setting of pay rates. They take ownership of pay rates through voting on collective agreement ratification.

5. **Sustainability**
   The system is enduring, affordable, simple and easily administered.

6. **Predictability/certainty**
   Any reasonable expectations staff have of how they will progress through the pay scales will be met. The organisation will be able to plan and budget.

**Equal pay**
The PSA is committed to equal pay and to the development of remuneration systems that value the work of women and other groups disadvantaged in the workplace. The application of the provisions of this policy will help address the gender and ethnic pay gaps in our workplaces.

**Remuneration in collective agreements**
The PSA believes that remuneration must be bargained collectively and ratified by members affected by the remuneration system. The decision in *First Union Inc v Jacks Hardware and Timber Limited* [2015] NZEmpC 230, supports this view. Policies may be used to refine or apply aspects of the system but the system, including pay rates, should be located in the collective agreement.

**Setting the rates**
Reliance on market rate benchmarking in setting pay rates is particularly common in the public service, parts of the wider state sector and in local government. The use of market rate benchmarking provides scope for the manipulation of the system by the employer, locking in of market and gender inequities, the isolation of staff from the pay setting process and subjective judgements by managers.

The PSA believes that market rate surveys can be useful as a source of information for collective bargaining in conjunction with other sources of information about pay movement within and across sectors such as the Labour Cost Index and the Quarterly Employment Survey. Information on wage rates also needs to be balanced by information on the costs that workers face through such tools as the Consumer Price Index.

Remuneration systems must have mechanisms for dealing with gender and ethnic inequalities, such as fair starting salary processes and gender neutral job evaluation systems. Starting salaries should be based on clear criteria that reflect the full range of relevant skills, knowledge and experience to be taken into account. They should be commensurate with the salaries of existing staff and grant new appointees the opportunity to challenge how their starting salaries are assessed. Starting rates should be taken into account the time it takes to gain the skills etc. to reach the competent rate.
Consideration should be given to limiting the number of steps and compressing bands to avoid inequitable dispersion of pay within bands⁹.

Across-the-board adjustments should constitute part of any settlement which is collectively bargained. An across the board increase is defined as being an adjustment to base rates (which may or may not be standard) applied across all workers in a bargaining unit. Across-the-board increases are a collective mechanism for addressing the costs facing workers regardless of their individual performance, competency, contribution or skill level. It is recognised that to address pay inequities between groups of workers sometimes variable increases may be applied to particular groups (such as lower paid groups) within the bargaining unit.

**Individual salary progression**

Any remuneration system must address how individuals progress – that is, how they can increase their levels of pay within the system in order to reflect their individual experience of work for that employer. In order to be effective individual salary progression:

- Must be separated from across-the-board adjustments, in order to separate the needs of individuals from the needs of the group and the characteristics and contribution of the individual from issues such as the cost of living and fair relativities between groups.

- Must be separated from issues of individual or team performance. The PSA strongly supports progression by annual increment up a pay scale with clearly defined steps. This has the advantage of eliminating subjectivity from the process while reflecting growing experience in the job (which can act as a proxy for growing competence). Where appropriate, and where there is genuine access, we will also consider the role in progression of criteria such as competency, skills or qualifications where these are clearly defined and independently assessed.

The PSA recognises that there are limits to progression by annual increment. Whatever mechanism is put in place to address ‘topping out’ at the top of a pay scale it needs to be as objective as possible. For example, progression beyond pay thresholds:

- Could be criteria based, reflecting defined competencies or skills relevant to the job
- Could be in the form of lump sum payments that occur over a regular cycle (e.g. every 5 years) to recognise the value of workers’ institutional memory
- Should not be subject to moderation to a pre-determined number of proportion of workers
- Should be supported by processes that provide some distance between an individual worker and the judgement of her/his manager.

**Recognition**

The PSA believes that using the remuneration system as the main means of recognising the contribution of individual staff and teams can undermine both the remuneration system and the performance management system. We therefore support the development of non-monetary forms of recognition to sit alongside the remuneration system.

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⁹ Fabling, Grimes and Mare in the 2012 Motu paper *Performance Pay Systems and the Gender Wage Gap* say that firms with performance pay systems have greater internal wage dispersion and that men tend to benefit more from this, which contributes to a gender wage gap.
Monetary recognition may have a place where this reflects the performance of the organisation as a whole, rather than that of teams or individuals, but even here care must be taken with the design to ensure that expectations of both staff and management are realistic and unintended consequences minimised or eliminated.

**Total remuneration**

Total remuneration is about making some or all of the total compensation costs of a position available to an individual employee for her/him to receive as they see fit, rather than receive as predetermined benefit.

The PSA advises against introducing total remuneration packages as they can be used as a means of individualising and undermining collective terms and conditions. Some items, such as employer superannuation contributions, should clearly be excluded given that the purpose is to encourage retirement savings, which could be thwarted if employees have the option of taking the money now rather than waiting until retirement. Other benefits that are similarly designed to achieve a particular result, such as those designed to contribute to an employee’s health, should also be excluded.

The cautionary principle also applies when considering the inclusion of other benefits. The outcomes need to be fair and equitable to all, the value of benefits needs to be maintained, it needs to be supported by members and be included in collective agreements.

**Implementation of this policy**

This policy outlines what the PSA would see as an ideal approach to remuneration systems.

However, it is recognised that delegates and organisers work in a less than ideal world where it may take some time to achieve change.

Members may favour the retention of market rate and individual performance based systems however members also report dissatisfaction with existing systems. In our Workplace Dynamics surveys, members says there is little connection between their level of performance and the likelihood of them receiving a pay increase.

While employers may resist all pressures to change, there may be increasing opportunities now to de-link performance and pay as new thinking from international research is increasingly disseminated and understood by employers showing there is no clear link between performance pay and organisational performance. Equal pay also puts a spotlight on the need for increasing transparency and access to information / pay data, clear progression pathways and the inherent discrimination in discretionary systems due to unconscious bias.

In recognition of the pressures that organisers and delegates face, and in recognition of the goal of this policy to achieve a consistent approach to remuneration, it is expected that:

- Bargaining strategies will reflect the contents of this policy, tailored to the needs of sectors and enterprises
- A set of resources and training will be developed to assist organisers and delegates in making gradual change, tailored to the needs of sectors and enterprises
• There will be dialogue between assistant secretaries and organisers to ensure that there is progress towards achieving this policy as bargaining occurs. There is an obligation to keep each other informed.