Designing effective pay systems for the public sector

For Te Kawa Mataaho Public Service Commission
Final Report

14 November 2022
Commercial in Confidence

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Preface

This report has been prepared for Te Kawa Mataaho Public Service Commission by EeMun Chen and Healy Jones from MartinJenkins (Martin, Jenkins & Associates Ltd).

For 30 years MartinJenkins has been a trusted adviser to clients in the government, private, and non-profit sectors in Aotearoa New Zealand and internationally. Our services include organisational performance, employment relations, financial and economic analysis, economic development, research and evaluation, data analytics, engagement, and public policy and regulatory systems.

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Key terms

Allowances	The purpose of allowances (for example, transport, housing, mobile phone, travel) is to enable the employee to be able to live in remote areas (housing), to arrive to the office in time (transport), and to be accessible for emergencies (mobile phone). In-kind rewards could also be an allowance provided across all employees in a public sector organisation – such as premium for subscription to government employees' group health or life insurance. Allowances also include on call or hire duties, as well as wellbeing allowances.
Base pay	The salary or wages that are received regularly (usually fortnightly or monthly) from the government by virtue of being on the payroll. Base pay is usually linked to an employee's position and is generally uniform across similar positions. The base wage is often cited to compare wages in the public and private sectors. It is, however, only one component of total rewards.
Bonus	A bonus is a one-off performance payment, which is not consolidated into basic pay, and has to be re-earned during each appraisal period.
Capability-based pay	A capability-based pay system is where employees are incentivised and receive financial reward for developing capability. 'Capability' refers directly to a person's ability to perform a job; it differs from the 'competency' model, which refers to what an employee offers in knowledge, skills and personal attributes. One way to spot the difference between these models is that competency models often include both soft and hard skills, while capabilities refer mainly to hard skills. The model generally rates capability as being at one of three levels: developing, competent, and expert. These ratings are then used to set an individual's base pay. Pay increases are then determined through an employee's capability development.
Career-based systems	In career-based remuneration systems, public sector employees are usually hired at the very beginning of their career and are expected to remain in the public service more or less throughout their working life. Initial entry is mostly based on academic credentials and/or a civil service entry examination. Promotion is based on a system of grades attached to the individual rather than to a specific position. This sort of system is characterised by limited possibilities for entering the public sector at mid-career and a strong emphasis on career development.
Central government	All units of government that exercise authority over the entire economic territory of a country. In general, the central government is responsible for those functions that affect the country as a whole: for example, national defence; conduct of relations with other countries and international organisations; establishment of the legislative, executive and judicial functions that cover the entire country, and delivery of public services such as healthcare and education.

Competency-based pay	A competency-based pay system is where employees receive financial rewards in the shape of salary increases to their base pay in line with the competency level they are at. The competency model describes a specific combination of knowledge, skills and other personality characteristics that are necessary for effective performance within the role. Pay increases are in reference to the level of competency they demonstrate in undertaking their job. This differs from the performance model as competency pay is not based on achieving agreed targets but on the employee increasing their skills and knowledge in each area.
Effectiveness	This means the extent to which programmes achieve their expected objectives or outcomes. Effectiveness is the most important element of value for money in the public sector. Goods or services may be provided economically and efficiently but if they do not achieve their intended objectives the resources used could be wasted.
Efficiency	The relationship between the goods and services produced by a programme or an activity (outputs) and the resources used to produce them (inputs).
Government employees **Public servants** **Civil servants**	Government employees refer to public employees working in ministries, departments, and government agencies to carry out the business of government and paid from public funds. The term "government employees" is used interchangeably with **public servants** in this report. In many countries, **civil servant** is used in a much more limited sense than "public servants" and is limited to core central public employment – that is, employees in the central executive and legislative administration, in departments directly dependent on the Head of State or the Parliament, together with all other ministries and administrative departments of central government, including autonomous agencies paid by central government.[1]
Individual performance agreements	These may take the form of a non-legal written agreement as part of an annual performance appraisal and goal setting, or be part of an employment contract process, regarding the work to be carried out over the coming year. Regardless of the format, performance agreements are generally evaluated and negotiated on an annual basis.
Merit increment	A merit increment, otherwise known as pay progression, is a payment added to the base salary of the recipient which becomes a permanent part of the basic pay. It is often delivered in the form of a "step".
Pay band	A unit in a system of remuneration consisting of a number of pay grades, showing how an employee can progress through the pay system.

1 There are exceptions to this rule. For example, in Canada all members of the public service are referred to as "civil servants".

Pay grade	A unit in a system of remuneration. A job classification in a pay grade usually depends on factors such as job description, education or seniority. A pay range is attributed to each pay grade, based on the spot rates of all job posts classified within the pay grade.
Pay package	The total amount of all compensation including base and other benefits an employer offers to an employee.
Pay range	The range between the lowest and highest pay rate within a pay grade.
Pay rate	An exact monetary rate attributed to a job post, also known as, "spot rate" or "pay tariff".
Pay spine	A single pay spine may be used by a single government employer to establish common pay and grading arrangements for all employees, while, at the same time, permitting a high level of flexibility in meeting the different management and organisational needs of different institutions within government. It is normally used as part of single, centralised pay-bargaining arrangements.
Performance appraisal	Performance appraisal is a methodology and set of procedures for rating the work performance of individuals according to objective standards and criteria applied uniformly across one or several organisations.
Performance management	Performance management systems are aimed at linking the management of people with institutional goals and strategies.
Performance-related pay	Performance-related pay (PRP) refers to the variable part of pay which is awarded to base pay each year (or on any other periodic basis) depending on performance. It is remuneration model that bases salary increases predominantly on employees annual performance. The definition of PRP excludes: • any automatic pay increase by, for example, grade promotion or service-based increments (not linked to performance) • various types of allowances which are attached to certain posts or certain working conditions (for example, overtime allowances, allowances for working in particular geographical areas).
Organisational performance agreements	Negotiated agreements between the minister and chief executive or between the chief executive and senior managers within the department or agency, which break down overall strategic goals into programme elements, setting specific, often detailed, operational, procedural and output oriented targets.
Public sector	The scope of the public sector is not defined on the basis of functional sub-sectors, but on the basis of employees paid from public funds, either directly by government, or on the basis of budget allocations from central government to services, departments or agencies. See Figure 3 for what is considered the public sector in New Zealand.

Public service	From section 10 of the Public Service Act 2020: "the public service— (a) means public service agencies, which are— (i) departments: (ii) departmental agencies: (iii) interdepartmental executive boards: (iv) interdepartmental ventures; and (b) includes Crown agents for the purposes of this subpart and subpart 4 (Public service values) of this Part. The public service is part of the executive branch of government (DPMC, 2017).
Remuneration	Remuneration refers to the ordinary, basic or minimum wage or salary and any additional emoluments payable directly or indirectly, whether in cash or in kind, by the employer to the worker and arising out of the worker's employment. **Remuneration**, **pay** and **compensation** are used as synonyms in this report. **Remuneration system** and **pay system** are used interchangeably in this report.
Remuneration framework	The full set of principles, policies and structures for determining pay and operating a pay system.
State sector	State sector is the common term for the organisations included in the annual financial statements of the government. The state sector is broader than the state services. The state sector includes (DPMC, 2017): • all the state services; • organisations that are part of the legislative branch of government, such as the Office of the Clerk of the House of Representatives and the Parliamentary Service; • the fifth category of Crown entities—tertiary education institutions and their Crown entity subsidiaries; • offices of Parliament; • state-owned enterprises, which are listed in Schedule 1 of the State-Owned Enterprises Act 1986; and • mixed ownership model companies listed in Schedule 5 of the Public Finance Act.
Tenure-based pay	The tenure-based model of remuneration is pay related to an employee's time spent at a company or organisation. Within the tenure model is a 'pay grade' or 'pay scale', a unit in remuneration systems, that increases incrementally. An employee's grade or scale therefore depends on the role one is undertaking and their seniority in the position. After a set period of time, an employee moves up the pay grade.

Sources: *Performance related pay policies for government* employees (OECD, 2005); *Total rewards for civil servants* (Mukherjee, 2001); *Remuneration and benefits in central government civil service in the EU Member States and European Commission* (Mikkelsen et al., 2017); *Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a "Single Pay Spine"* (The World Bank, 2009); *Removing gender bias from remuneration policies and practices, and implementing the Gender Pay Principles I Ngā Mātāpono Utu Ira Tangata* (Te Kawa Mataaho Public Service Commission et al., 2020)

Summary

Pay systems vary widely across New Zealand's public sector agencies

Public sector agencies in Aotearoa New Zealand are responsible for designing and implementing their own pay or remuneration systems. There is no requirement, or even a recommendation, for these systems to be consistent across the public service, and there is no guidance on what a well-designed pay system looks like. This has resulted in pay systems varying widely across agencies – in philosophy, design, operation, and pay rates.

This report canvasses different pay models and looks at public sector pay systems across six comparable countries

This report looks at how public sector remuneration systems are designed in various countries that are comparable with New Zealand – Australia, the UK, Canada, Denmark, Singapore, and Israel.

Tenure-based models dominated in the 1980s, but this model became costly and did not incentivise high performance

In the 1980s, tenure-based models dominated public sector remuneration, with pay levels generally relating to an employee's length of service.

These systems were highly centralised and facilitated a clear career progression for government employees. However, over time the model became expensive for governments to manage and did not incentivise high performance.

Major public sector reforms, both in New Zealand and overseas, were introduced to gain fiscal control and improve government efficiency. These reforms, culminating in New Zealand in the State Sector Act 1988, decentralised state controls. Tenure-based frameworks have now mostly been phased out, or have been explicitly removed.

Performance-based pay is now the dominant model, but it presents some challenges for the public sector

Performance-related pay is the dominant model used by central governments in those comparable countries and in New Zealand. This model allowed the public sector to incentivise individual performance, and to provide higher pay and promotions to those performing at a high level.

The research is mixed on whether performance-related pay "works" in the public sector and the broader state services. Studies do not find a clear link between performance pay and workplace performance in the public sector.

The main challenges for implementing performance-related pay in the state services are the unintended consequences for behaviour (for example, it can lead to less teamwork and collaboration), and difficulties in measuring outputs and performance. Pay-for-performance systems also require managers to be extremely capable in monitoring and measuring individual performance and giving constructive feedback.

Use of competency- and capability-based models has been increasing

Since the early 2000s there has been increased use of competency- and capability-based models ("capability" models are directly based on an employee's ability to do a job, while "competency" models have a broader scope, taking into account an employee's knowledge, skills, and personal attributes).

These pay models enabled agencies to recruit and promote staff based on workers having certain competencies or capabilities. This focus meant they could target skills and capabilities that might be in short supply. It also meant agencies were better able to control increases in their wage bill.

However, competency- and capability-based models have been used mainly for recruitment and selection, training and development, succession planning, and career guidance. They have been used less often for remuneration.

Governments here and overseas have been focussing on pay inequities

More recently, governments here and internationally have focused on pay inequities (mainly gender and ethnic wage gaps) and on representation in managerial and executive roles.

Pay inequities usually result from managers and other decision-makers using their discretion in setting pay and deciding on progression. There now appears to be more prescriptive guidance from governments, and less scope for discretion, with the aim of removing bias from decisions on pay.

Pay transparency is one way to address inequities, and there are many levels at which this can implemented. Full pay transparency has been used by some private-sector firms, but it is yet to be implemented in the public sector.

No single pay system is best for the public sector – there are always trade-offs to be decided

Overall, whether a pay system leads to better organisational and individual performance depends a lot on how the system is designed and on the occupational and organisational context.

There are many tensions inherent in designing a remuneration system, and public sector organisations must balance a number of factors – for example, attracting and keeping staff, incentivising good performance, ensuring the system is fair and equitable, and ensuring it rewards behaviour the organisation sees as important.

No one model will achieve all of an organisation's intended objectives for its pay system. Decisions on trade-offs need to be made intentionally and take into account organisational strategy, other human resource practices, the wellbeing of employees, the occupational and organisational context, and trends in pay models.

No single remuneration or pay system is best suited to public sector organisations. Remuneration approaches in the public sector, both here and overseas, have been on a journey from centralisation to decentralisation (that is, delegated to individual departments and ministries to design and implement), and arguably now towards more prescriptive approaches.

This report presents a framework for designing a pay system and deciding on the necessary trade-offs

Based on our research and on the experience of comparable countries, we have developed a framework for designing and implementing a public sector pay system. The framework has four areas or levels that need to be considered in designing a system that is functional, fair, and appropriate for your organisation.

These are the four areas:

1. the economic, legal, and institutional context
2. the employer
3. the workers
4. the workplace.

The following diagram summarises the areas that need to be considered, the lessons learned from comparator countries, and research findings on the efficiency and effectiveness of different pay models (see Figure 1).

Figure 1. Applying the decision framework to pay models, and the extent to which the models are aligned with those decisions

		Performance-related pay	Competency-based pay	Pay thresholds	Single pay spine	Tenure-based pay
Economic, legal and institutional context	EMPLOYMENT LAW, IMMIGRATION LAW PUBLIC SECTOR GUIDANCE	Widely used in the public sector internationally PSC asked agencies to remove at-risk pay and performance bonuses	Widely used by agencies in comparator countries	Widely used by the public sector in comparator countries	Adopted across the Australian public service	Prohibited in the UK public sector
	LABOUR MARKET CONDITIONS		Flexibility to adapt to economic conditions through competency-based job mobility			
Employer	ORGANISATIONAL STRATEGY	Evidence on effectiveness is mixed		Regarded as successful in organisational development		
	BUDGET AND COST EFFICIENCY	Relies on high management capability		Relies on high management capability	Unsuited to decentralised pay bargaining	
	WORKER WELLBEING	Can be demotivating if performance attribution is difficult				
Workers	AGE				Developed on the basis of 'equal pay for equal work'	Biased against younger workers
	TENURE		Can incentivise future performance, but there is a tendency for competencies to be backward looking		Developed on the basis of 'equal pay for equal work'	Rewards length of time in an organisation
	ETHNICITY	Concern that it may be biased against some ethnicities		Mixed evidence of ethnic bias	Developed on the basis of 'equal pay for equal work	
	GENDER	Concern that it is biased against women		Mixed evidence of gender bias	Developed on the basis of 'equal pay for equal work'	Can disadvantage individuals who take career breaks or maternity leave
	KNOWLEDGE AND SKILLS	Can attract and retain talent	Can incentivise hard to recruit skills and knowledge. Often used for senior managers	Regarded as successful in staff development		
The workplace	GEOGRAPHY				Nationally set pay means that the public sector premium in the UK is smaller in London and the South East	
	WORKING ENVIRONMENT	Detrimental affects to teamwork and collaboration				
	FLEXIBLE WORKING				In Australia, flexible working can be provided for through an individual flexibility agreement	

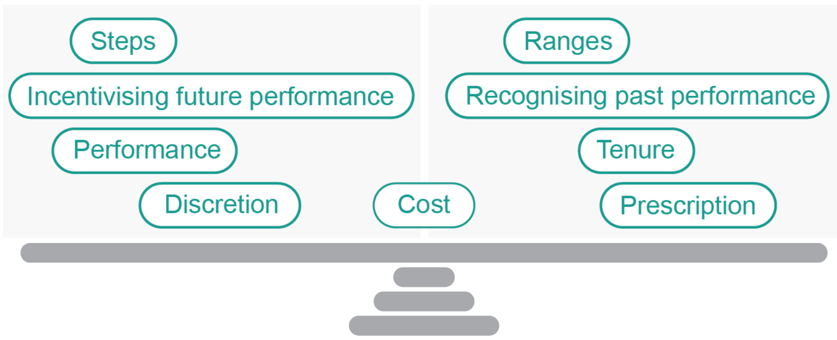
Introduction: The purpose and scope of this report

New Zealand public service agencies are responsible for designing and implementing their own remuneration systems. While they need to do this in a way that fits their organisational values, budget, and operational needs within the expectations of the Government of the day, there is no overriding consistency required, or recommended, from the Te Kawa Mataaho | Public Service Commission on what a well-designed remuneration system looks like. This has resulted in widely divergent remuneration systems across agencies – in philosophy, design, operation, and pay rates.

There are many tensions inherent in designing a remuneration system, where public service organisations are balancing a number of factors (Figure 2):

- Should there be steps or ranges in the remuneration system? What are the implications?
- How can a pay system incentivise future performance while also recognising past performance?
- Should employees progress based on their performance or on their length of employment (tenure)? How would a hybrid approach work?
- Should employers and managers be given discretion, or should the performance assessment and pay system be tightly prescribed? What does this mean for flexibility and consistency?

Figure 2: Factors to be balanced in designing and implementing a remuneration system in the public sector



A good remuneration system is probably one that makes well-considered, intentional decisions on these tensions, but there is currently no guidance on the principles and the trade-offs that will need to be made.

At the same time, there has been much academic research on "what works" in relation to pay system design in both the public and private sectors, and public services internationally are likely to have lessons learned from how their systems have been design and implemented.

To support Te Kawa Mataaho | Public Service Commission in its statutory role in approving changes to remuneration, this report seeks to answer the following research questions:

- What is the "state of the art" in the design of pay systems for public sector organisations?
- What types of pay systems are a good fit for what types of public sector organisations, given an organisation's principles and the outcomes it wants to achieve?
- What factors should be considered, and what decisions need to be intentionally made, in designing a pay system for a public sector organisation?

How public sector remuneration works in New Zealand

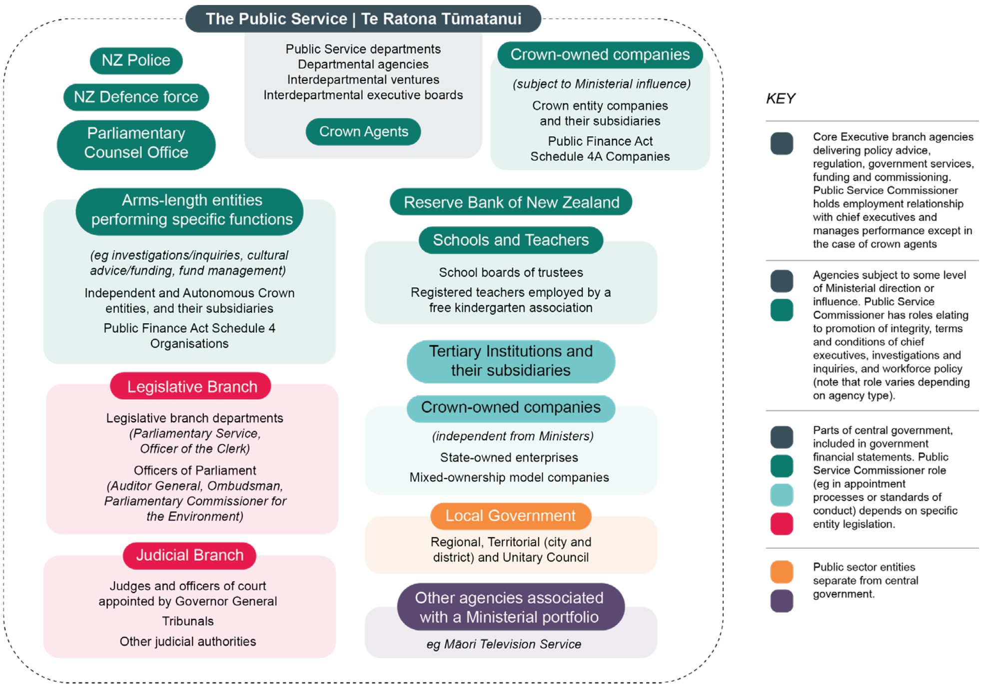
Defining the scope: What is the "public sector"?

The central focus of this report is the public service departments and the various organisations (such as schools and Crown-owned companies) shown in green bubbles in Figure 3 below. But the report's findings and the general principles it discusses apply also to the broader state sector and government services.

There are multiple organisational forms within New Zealand's public sector. Public service departments are close to Ministers (legally part of the Crown), while Crown entities are stand-alone corporate bodies and operate at a distance from the Crown. Most Crown entities are part of the state services, but tertiary education institutions (universities, Te Pūkenga, and private training organisations) are part of the wider state sector (Te Kawa Mataaho Public Service Commission, 2018).

There are also a range of largely government-funded agencies, such as social service providers and other service providers in aged care, that may be considered to come under a broader definition of government services.

Figure 3: New Zealand public sector – organisations highlighted in green



Source: *New Zealand's central government organisations* (Public Service Commission, 2022a)

New Zealand has a greater number of different types of public entities than most countries, and the degrees of freedom in operational matters and pay arrangements vary substantially between, and within, each type.

As of 2021, the public sector employed around 463,700 people, accounting for around 18.9% of New Zealand's total workforce (2,313,400).[2] The majority (88%) work in central government (384,400), with 12% working in local government (52,200).

The current institutional setting

Te Kawa Mataaho | Public Service Commission

Te Kawa Mataaho | Public Service Commission leads and oversees the public service and ensures that the purpose of the Public Service Act is carried out.

Te Kawa Mataaho also plays a key role in remuneration through issuing the government's expectations for employment relations in the public sector. This guidance is outlined in a suite of three documents.

The Government Workforce Policy Statement

The Government Workforce Policy Statement is intended to foster a consistent, efficient, and effective approach to the negotiation of employment agreements and management across the public service agencies.[3]

The current Workforce Policy Statement has four key priorities:

1. Employ people fairly, equitably and in a way that allows them to live good lives and participate in the economy.
2. Work collaboratively with unions and other groups to achieve shared goals.
3. Create an inclusive environment for all workers with the aim of achieving a diverse workforce.
4. Achieve the goals within the fiscal context of the Government. (Public Service Commission, 2020)

Public Service Pay Guidance 2021 issued by the Public Service Commissioner

This guidance, together with any further public service pay guidance issued, helps agencies support the government's fiscal strategy through continuing to show restraint in decisions on remuneration, particularly for higher-paid staff.[4]

[2] This is as measured by Stats NZ's Business Demography data (Public Service Commission, 2021b).

[3] The Government Workforce Policy Statement is issued under Part 4 of the Public Service Act 2020, in accordance with section 97.

[4] Guidance: Public Service Pay Guidance 2021 - Te Kawa Mataaho Public Service Commission

This guidance brings greater consistency of approach to remuneration decisions across the Public Service. It recognises that the specific context of agencies may vary but ensures there is a common framework within which agencies make remuneration decisions (Public Service Commission, 2021a) . The latest set of guidance specifically recognises the challenges of COVID-19 and continuing to address the gender and ethnicity pay gap (Public Service Commission, 2021a) .

The Remuneration Authority

The Remuneration Authority sets the remuneration for key public office holders not within the remit of the Public Service Commission (Remuneration Authority, 2021). These roles include the Governor General, Members of Parliament, Judicial Offices, Local Government elected members and independent public office holders and boards.

The Public Service Act 2020

The Public Service Act covers five key areas that help the public service join up services around New Zealanders' needs and secure public trust and confidence, so that it remains well-placed to serve New Zealand in the future. The five areas are:

- A unified public service
- Strengthening the Crown's relationships with Māori
- Employment and workforce
- Leadership
- Organisational flexibility

The Act provides a modern legislative framework that enables a more adaptive, agile and collaborative public service. It also includes stronger recognition of the role of the public service in supporting the partnership between Māori and the Crown. The key enablers to this are: public service culture and behaviour; an updated framework for employment; effective leadership; and a greater range of options for configuring fit-for-purpose public service organisations.

The Public Service Act 2020 sets out:

- Public service principles
- Public service values
- Chief executive of department and board of an interdepartmental venture to be good employer (Figure 4)
- The Employment Relations Act 2000 applies to the public service
- Roles and responsibilities in negotiation of collective agreements
- Roles and responsibilities in dealing with pay equity claims
- The potential drafting of Government workforce policy, and a Government Workforce Policy Statement.

Figure 4. Public Service Act 2020, section 73(3)

In this section, a **good employer** is an employer who operates an employment policy containing provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment, including for —

(a) the impartial selection of suitably qualified people for appointment (except in the case of ministerial staff); and

(b) good and safe working conditions; and

(c) an equal employment opportunities programme; and

(d) recognition of—

  (i) the aims and aspirations of Māori; and

  (ii) the employment requirements of Māori; and

  (iii) the need for greater involvement of Māori in the public service; and

(e) opportunities for the enhancement of the abilities of individual employees; and

(f) recognition of the aims and aspirations, employment requirements, and the cultural differences of ethnic and minority groups; and

(g) recognition of the employment requirements of women; and

(h) recognition of the employment requirements of people with disabilities; and

(i) recognition of the importance of achieving pay equity between female and male employees; and

(j) recognition of the importance of decisions about remuneration being free from bias including, but not limited to, gender bias.

Public sector pay in New Zealand since the 1980s

New Zealand's public sector was substantially reformed in the mid- and late 1980s. The objective was to improve the performance and efficiency of government-owned entities by improving their organisational design (Cahan et al 2005).

The 1980s reforms were heavily influenced by free-market economics

The first significant reform involved corporatising many of the government's trading activities, a move that was heavily influenced by the idea that free markets were preferable to state intervention. The State-owned Enterprises Act 1986 turned a number of government departments and organisations into state-owned enterprises – including mining, rail, shipping, banking, electricity, post, and telecommunications (Shaw, 2021).

The State Sector Act decentralised our public sector pay system

The State Sector Act 1988 was another crucial piece of legislation. Since 1912 all central government public servants had been employed by the Public Service Commission, and then the State Services Commission, and government departments had been managed by permanent heads of departments (Shaw, 2021). In 1988 the permanent heads made way for chief executives employed on fixed-term contracts. The 1988 Act also removed the career security of public service employment, and abolished compulsory industrial arbitration in the public sector (Shaw, 2021).

This fundamental shift from centralisation to decentralisation centred on the notion that by controlling inputs, the government could focus on generating good outcomes. A key driver for the State Sector

Act 1998 was that centralisation reduced flexibility, leading to unintended consequences that harm productivity in the long run.

A key aspect of the reforms was that every ministry or department became an employer in its own right (OECD, 2005). Input controls, like standard pay based on occupations, were replaced by output budgeting, and public servants were employed by each department under general labour law. Employees were now accountable to the chief executive for outputs and outcomes, rather than to the government at large.

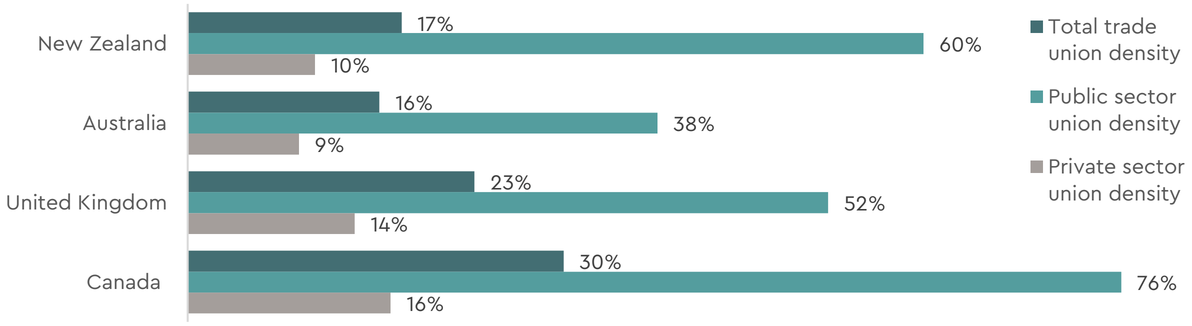
Responsibility for human-resource management, including remuneration, is exercised at the agency level. Generally, the chief executives of state entities have all the rights, responsibilities, and powers of an employer, including hiring and dismissing employees (Rexed et al., 2007).

The focus on collective bargaining has led to a wide range of pay systems in our public sector

Collective bargaining is seen as an important part of building productive employment relationships. However, in practice it has led to a diverse range of remuneration systems implemented across the public sector, and the wage flexibility that decentralisation promised has not materialised as much as envisaged:

- In sectors where unions have been strong voices, there have been national pay bargaining (for example, in allied health, and for nurses and doctors). See the relatively high union density rate in state services in Figure 5.
- In the state service, there has been a shift in pay structures where each department is a single employer with a single collective agreement (or collective agreements for groups of occupations).

Figure 5. Public/private sector union density – New Zealand and international comparisons, 2017



Source: Unions and union membership in New Zealand – report on 2017 survey (Ryall & Blumenfeld, 2018)

Note: We have been unable to locate data on union density for the public sector over time.

The 1980s saw a shift to performance-based pay, and then more emphasis on competency-based pay from the 1990s

Many individual government departments introduced pay-for-performance schemes as part of the general reforms that began in the 1980s. Internationally, New Zealand was at the forefront in introducing these policies in the public service (OECD, 2005).

Beginning in the 1990s, New Zealand has seen an increasing emphasis on competency-based pay, and some agencies have moved away from a pure performance model (see, for example, MBIE, 2020) (Table 1).

Examples of different pay systems in our state sector

Table 1: Examples of remuneration systems in the state sector in New Zealand

Organisation	Remuneration system
Department of Corrections	**Corrections' Performance Management System** Corrections reviews remuneration annually, for those staff employed under an Individual Employment Agreement. This is separate from any review of remuneration ranges. In reviewing individual remuneration and awarding increases, Corrections gives priority to: • encouraging and rewarding employees whose work and behaviour over the last year has consistently helped Corrections reach its current objectives • providing opportunities for high performers and contributors to progress along the remuneration range for their position • ensuring the final outcomes are affordable (Department of Corrections, 2021). Corrections does not provide performance bonuses.
Ministry of Business, Innovation and Employment	**Career and Pay Progression (CAPP) framework** A step-based pay system with automatic pay progression, de-linking performance from pay and reducing potential subjectivity and bias (MBIE, 2020).
New Zealand Police	**Executive Remuneration Policy** (NZ Police, 2021) Police will remunerate Executives relative to the level of the position within the organisation and their individual contribution to Police, as discussed with the employee during regular performance conversations and remuneration-related reviews. Relevant reviews might, for example, be related to the way outcomes have been achieved; particular competencies of an employee; and recruitment or retention issues. The outcome of performance reviews, along with market data, current placement in the remuneration band, available resources and any constraints will determine the Executive's movement within the band.

	Remuneration policy (NZ Police, 2021) Police operates a total remuneration environment. Total remuneration includes salary, insurance, PCT incentive payments, superannuation subsidy, etc. Police do not make payments for penal rates or overtime for constables. Overtime in excess of 5 hours per week is compensated by time off in lieu on an hour for hour basis. A higher duties allowance will be paid to recognise situations where an employee is required, on an acting basis, to perform the duties and carry the substantive responsibilities of a higher banded position. Progression within remuneration bands is on the basis of competency and service.
Ministry of Education	**For primary school teachers** • the Primary Teachers' Collective Agreement (PTCA), or an individual employment agreement, with similar terms and conditions as the PTCA. • A hybrid model of tenure and qualifications. The amount paid depends on qualifications, experience and whether the employee qualifies for any units or allowances (Ministry of Education, 2021).

Limiting discretion to reduce discrimination

The Equal Pay Act of 1972 made it unlawful to pay women and men differently if they are doing the same job. Today, the Gender Pay Principles provide a framework for creating working environments that are free from gender-based inequalities (State Services Commission et al. These principles are about generating pay equity. Pay equity is about women and men receiving the same pay for doing jobs that are different but are of equal value. It recognises that while on the surface two jobs may look very different to each other, they may require the same or similar degrees of skills, responsibility, conditions, experience, and effort.

The Fair Pay Agreements Act 2022 has now been passed and is on track to come into force by the end of 2022. The Fair Pay Agreement system will bring together employers and unions within a given sector to bargain for minimum terms and conditions for all employees in that industry or occupation.

Public sector pay systems in comparable countries

Public sector pay systems in other countries vary widely. The systems that countries adopt often derive from their particular geopolitical history, as well as the intentions and motivations for the development of their civil service.

We explored the public sector pay systems used in the following countries:

- Australia
- United Kingdom
- Canada
- Denmark
- Singapore
- Israel.

We selected these countries because they have a similar system of government to New Zealand, or share a similar history, or are a comparable size. Although some of them are quite different from New Zealand in their institutional framework, they still provide useful lessons.

Further detail on each of these countries' public service pay systems is in Appendix 1.

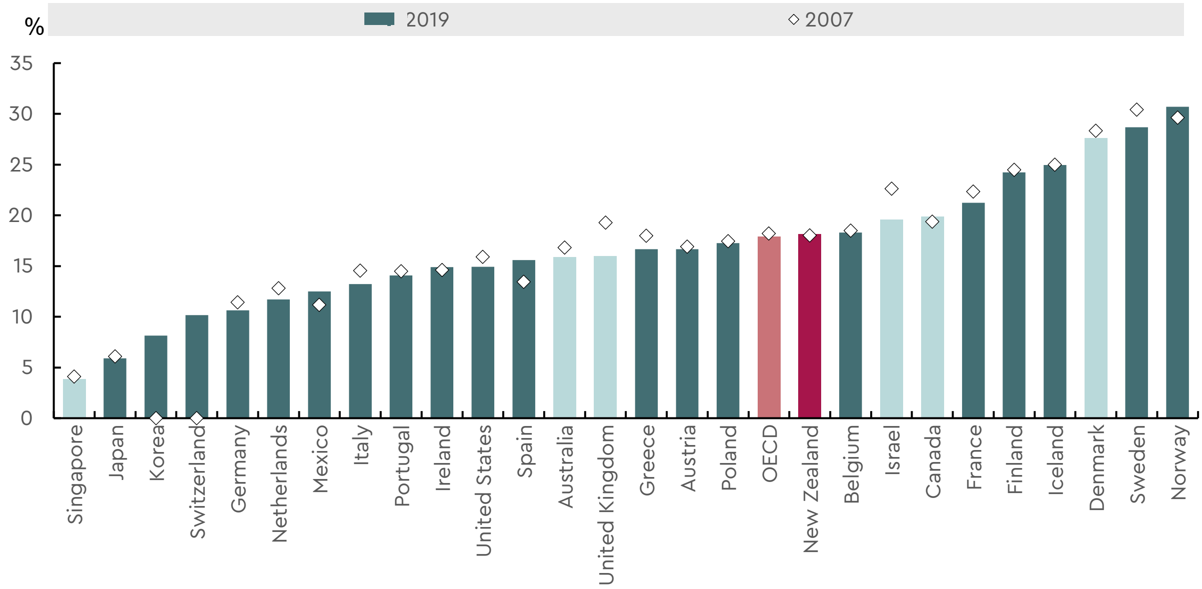
New Zealand's public service makes up 18% of total employment, matching the OECD average

New Zealand's public service employment is at the same level as the OECD average (18% in 2019) as a proportion of total employment (see Figure 6).[5]

The comparator countries were near the OECD average (for example in 2019, Australia's was 16% and Canada's was 20%), except for Denmark and Singapore. Denmark and Singapore are the outliers: a high proportion of Denmark's total employment is in the public service (28% in 2019, while Singapore has the lowest proportion of employment in the public service (only 3.9% in 2019).

[5] "Public service employment" covers employment in all levels of government (central, state, local, and social security funds) and includes core ministries, agencies, and departments, and also non-profit institutions that are controlled by public authorities.

Figure 6. Employment in public service as a percentage of total employment, 2007 and 2019



Source: Government at a glance 2021 (OECD, 2021b) , Statistics New Zealand, Australian Bureau of Statistics, Department of Statistics Singapore

Note: Public service employment covers employment in all levels of government (central, state, local and social security funds) and includes core ministries, agencies, departments and non-profit institutions that are controlled by public authorities.

Performance-related pay is the dominant model used by central governments in our comparator countries

Within each of those comparator countries, there is not a single model of pay system across its public sector. The choice of pay system at the ministry, department, and agency level will usually relate to the organisation's goals and desired outcomes, and the types of skills and knowledge it wants to attract and keep.

Tenure-based models were dominant 20 years ago

Twenty years ago, nearly all public servants across the OECD were paid according to incremental salary scales – the tenure-based model (Mikkelsen et al., 2017; Willems et al., 2006). Different roles were assigned different grades or scales (or some other term) that differentiate base pay based on the value or difficulty of the role (Mogultay, 2012).

> **Tenure-based model**
>
> In this model, pay is related to the employee's time spent at the company or organisation. The key unit in this pay system is a "pay grade" or "pay scale", which includes within it a range of pay rates or steps that increase incrementally.
>
> An employee's grade or scale depends on their role, while their particular rate or step within the range of that grade or scale depends on their seniority in the position. After a set period, an employee moves up the pay grade (Mikkelsen et al., 2017).

The popularity of this incremental, step-based approach to remuneration can be traced back to the era of scientific management when the work of Frederick Winslow Taylor. His work did much to develop the idea that jobs can be studied and specified, and that work methods for doing them can be improved and rationalised (Lawler, 1994). This led to the development of hierarchies, line/staff jobs, job evaluation methods, and an array of organisational approaches, all resting on the idea of individuals holding jobs that fit within a hierarchy (Lawler, 1994). For example, a receptionist or a cleaner would generally have a lower pay grade than a senior policy advisor.

Once in a position a government employee would then be compensated according to their role and seniority, with their pay increasing within the range of their particular grade or scale based on the time spent in their role – the employee's "tenure" – or they would be promoted to a more senior role with a different scale or grade (Mogultay, 2012). This tenure model established a hierarchy of seniority and clearly linked this to pay.

This remuneration system, using incremental salary scales, more or less guaranteed that a government worker's pay would increase after a specified time in their position. Often these raises were annual and were automatic based on seniority. It led to pay gravitating to the mean, with no flexibility to reward very high performers. Further, in the public sector it was and continues to be hard to dismiss workers from their positions even if they were performing poorly (Cahan et al., 2005).

Employers therefore had little control over incremental cost increases. That problem got worse when turnover slowed, with many employees being paid at the highest step, leading to increases in the average wage. This has led to longstanding "public perceptions of civil servants as under-worked and overpaid" (OECD, 2005, p. 200).

With the need for more flexibility, governments moved away for hierarchical job classifications

Searching for a more "objective and systematic" way of classifying jobs, the public sector began using quantitative job evaluations, using certain criteria to weight jobs[6] (Willems et al., 2006, p. 610).

This happened as organisational structures, especially within the public sector, began to "flatten", and the need for organisational flexibility increased, bringing into question the use of classifying jobs hierarchically (Willems et al., 2006).

As organisations flattened, it became harder for employees to move up the scale. Job-based remuneration systems also did not allow for horizontal movement across job classifications, which was detrimental to employees (Lawler, 1994).

A global trend emerged in the public sector in the 1980s of reducing costs in order to be more competitive (Lawler, 1994). The tenure model was criticised for being inflexible and for preventing managers rewarding strong performance and so contribute to the goal of competitiveness.

One of the most significant concrete shifts in pay models was from tenure-based systems to performance-related pay. There was a new pay language in which the word "new" was prominent, derived from the New Public Management approaches developed during the 1980s. These approaches were part of an effort to make the public service more "businesslike" and efficient, using private-sector management models (Baig et al., 2021). So, significantly, performance-related pay was co-opted from the private sector, and was seen as key to making governments more like private corporations (Hasnain et al., 2014).

From the 1980s, Canada, Denmark, Spain, the UK, and the US began adopting pay-for-performance systems in at least some parts of their public sectors, followed by the majority of other developed counties in the 1990s (OECD, 2005).

Across the various performance-related pay systems, two key assumptions unite them:

Performance-related pay

"Performance-related pay" and "pay for performance" are commonly used as synonyms. In these systems, either an employee's total pay is based on their own performance or they have the opportunity to earn a bonus for above-average performance (The Work Foundation, 2014).

Pay for performance as a remuneration system was first adopted in the private sector in the context of the economic and budgetary difficulties many countries faced from the mid-1970s. The OECD (2005) has described it as a way to incentivise performance and improve productivity within government.

[6] Job weighting refers to the importance, or weight, given to the factors used to measure jobs. The job weighting process attaches points to each factor, with the total points of all factors of a job relating to the total weighting score.

- financial rewards are key motivators for employee performance, and
- tying financial rewards to measurable work will increase productivity, as employees will always aim to maximise their total earnings.

A 2016 survey[7] of OECD members suggests that New Zealand and the comparators countries all now tend to use performance-related pay (see Figure 7 below). Despite these countries' different histories and institutional structures, large elements of performance-related pay practices were universally adopted from the 1980s in attempts to make the public sector more efficient.

Figure 7. Extent of the use of performance-related pay in central government, 2010 and 2016

Source: Government at a glance 2017 (OECD, 2017)

Note: The index score is a composite of the responses to the following questions: Is performance related pay in use in your country's central government? If yes, for who does performance related pay applies? Do organisations mostly use: a) One-off performance bonuses b) Performance-based permanent pay increments? What is the maximum proportion of basic that PRP can represent?

[7] In 2016, the OECD Directorate for Public Governance conducted a strategic human resources survey of 36 OECD countries (OECD, 2017). The goal of the survey was to gather data to provide an improved understanding of the broad trends that have affected public employment and human resources management across OECD members, and provide OECD members with a better picture of where they stand compared to other countries in these fields.

HR management, including pay systems, is usually delegated to individual departments and ministries

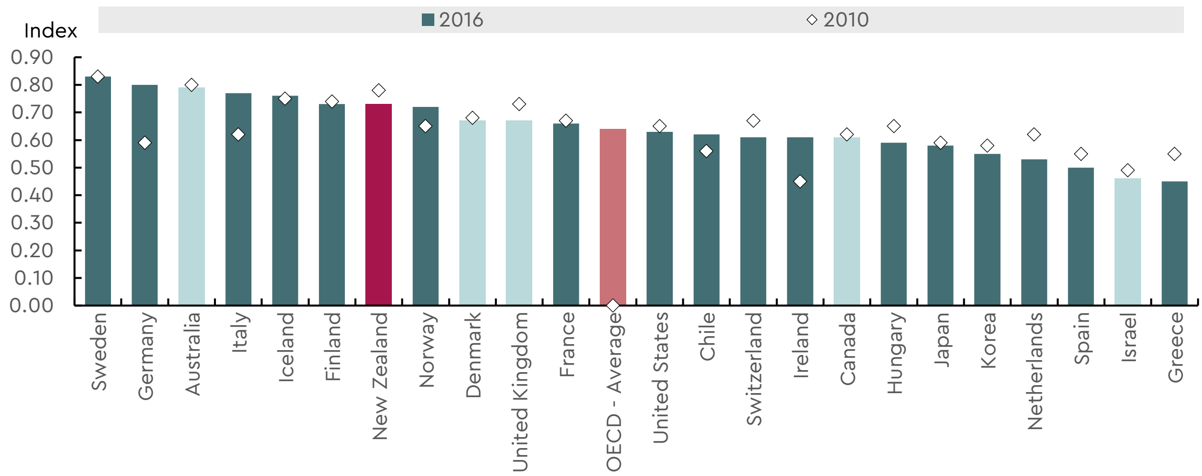
Most of the comparator countries delegate decisions on pay systems and HR practices to individual departments, agencies, and ministries, rather than using a centralised system (Figure 8).

Decentralisation rests on the assumption that individual organisation know more about their specific context and what they want from their workers and are therefore better placed to choose HR practices and pay models that suit their needs. This could mean deciding to have fewer but more highly paid staff, contracting out of some functions, or changing the make-up of a workforce.

Centralised pay setting has become less efficient and rational and decentralisation has increased alongside the trend towards performance-related pay. This trend is depicted in the case-study analysis. New Zealand sits well above the OECD average for level of decentralisation (that is, New Zealand is more decentralised than the OECD average) and Australia is ranked third most decentralised (matching its position for performance-related pay).

However, decentralisation increases the overhead costs of pay models, since a single bargaining process is replaced by multiple processes (Rexed et al., 2007).

Figure 8. Extent of delegation of HR practices to line ministries in central government, 2010 and 2016



Source: Government at a glance 2017 (OECD, 2017)

Note: The index score is a composite of the responses to the following questions: Is there a central agency/department/unit in charge of human resources at central/national/federal government level? Delegation of establishment is primarily determined by: (options provided) Where are the following issues primarily determined? (1). Numbers and types of posts within organisations; (2). Allocation of budget envelope between payroll and other expenses.

Australia is usually thought of as more centralised than New Zealand. This graph is based on the OECD's composite index score. Australia's job classification system is centralised, but pay scales and settings are devolved to individual agencies.

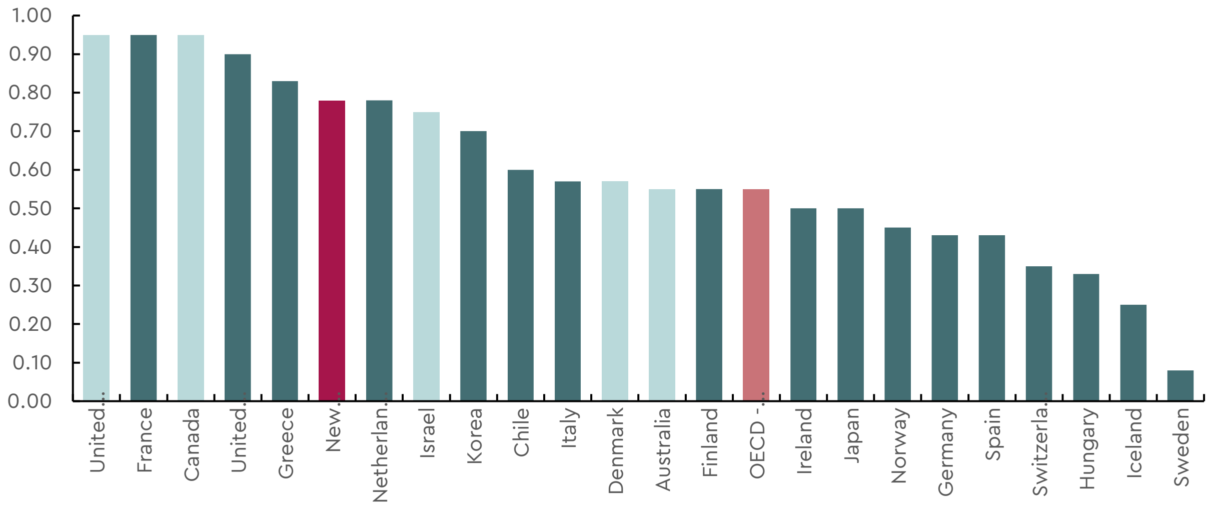
Most comparator countries have separate pay systems for senior public servants

Most OECD countries have established specific systems for senior leaders and managers, in recognition of the significant role of senior public sector leaders in how the sector performs (OECD, 2021a) (Figure 9).

This is especially true of New Zealand and the OECD comparator countries (that is, excluding Singapore). New Zealand and all those comparator countries use separate HR practices for senior leaders and managers in central government, and all sit above the OECD average for the extent to which they use those practices. (See Example 1 below for some details on pay setting for the senior civil service in the UK.)

New Zealand sits broadly in the middle of OECD comparator countries for the extent of human resource practices applied to the senior management and leadership tier.

Figure 9. Extent of the use of separate HR practices for senior leaders and managers in central government, 2016



Source: Government at a glance 2017 (OECD, 2017)

Note: The index score is a composite of the weighted responses to the following questions: Is there a defined group of staff in central/national/federal government who are widely understood to be the 'senior management'? Are there policies in place to identify potential senior managers early on in their careers? Is there a centrally defined skills profile for senior managers? How different is the employment framework of senior managers from that of regular staff?

Example 1. UK: Civil Service remuneration setting

For civil servants not in the Senior Civil Service (who are covered by the Senior Salaries Review Body), individual departments set the pay of their officials, according to guidance issued by the Treasury and Cabinet Office.

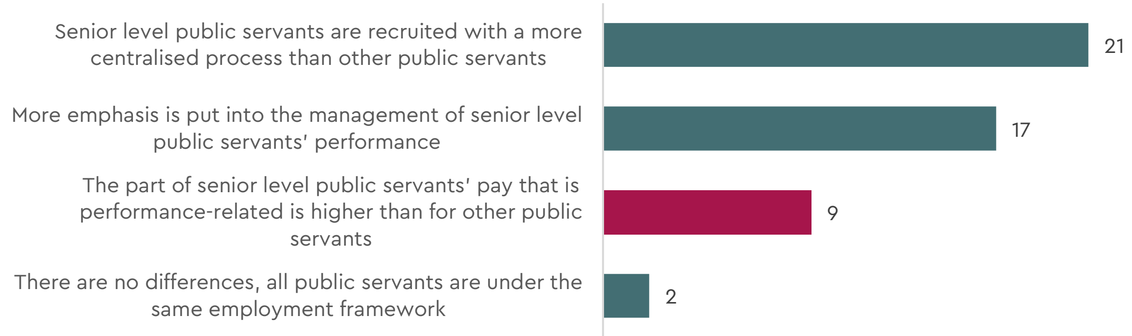
Bonuses (known as non-consolidated performance payments) are awarded annually to staff based on their performance at an individual, team or organisational level.

Source: Hourston & Tetlow (2022)

The systems for the senior public sector aim to ensure that the administrative leaders at the top of organisations have the appropriate skills and resources, and are supported through an enabling operating environment (OECD, 2021a). Performance-related pay, and a higher proportion of pay being contingent, are often a common component. An OECD survey on public sector leadership and capability found that nine out of 32 OECD countries had implemented systems where the proportion of pay that depended on performance was higher for senior employees than other employees (Figure 10).

In an older survey of governments, only a small proportion of senior salary was performance-related – between 1 and 3% across most governments who responded, with the highest in Germany (8%) and Switzerland (12%) (Ketelaar et al., 2007).

Figure 10. Differences between Senior Level employment frameworks and those of other public service employees, 2020 (number of OECD countries = 32)



Source: OECD (2021a)

Note: Original survey question: "How different is the employment framework of senior level public servants from that of other public servants?"

Cuts in public service jobs and pay are often used as a fiscal policy measure during an economic crisis

Globally, the public service wage bill averages approximately 9% of GDP (World Bank (2020). Spending on the wage bill absorbs, on average, around 20% of total spending, and ranges between 25% in advanced economies to around 27% in emerging and developing economies (IMF Fiscal Affairs, 2020).

The World Bank and the IMF have a standard menu of reforms aimed at managing wage bills during fiscal crises (IMF Fiscal Affairs, 2020; World Bank Group, 2020) (Table 2).

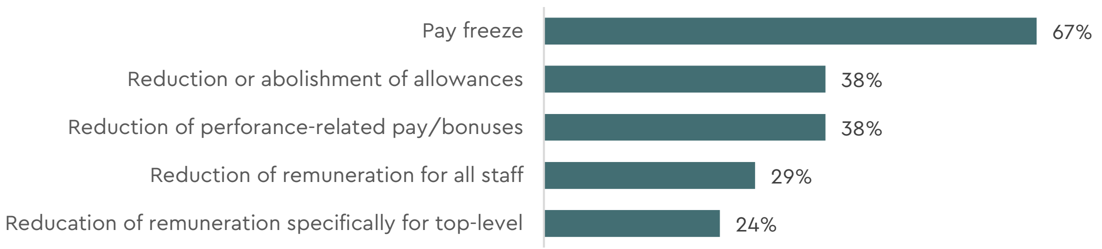
Table 2: The standard menu of policy options for managing wage bills in a fiscal crisis

Short-term measures	Medium-term measures
• Retaining savings from vacant positions • Freezing or cutting wages across the board or for some sectors or grades • Freezing recruitment across the board, or with exceptions for teachers, medical personnel, and police • Attrition targets such as filling only 1 out of 2 positions that become vacant due to retirement • Introducing a voluntary retirement scheme • Eliminating large-scale vacancies	• Implementing a single salary spine for the public sector • Folding allowances into basic pay • Targeted staff rationalisation based on horizontal and vertical functional reviews • Strengthening establishment control and payroll management

Source: Van Acker and Hasnain (2019) as cited in World Bank Group (2020)

In response to the Global Financial Crisis, various measures to reduce public service pay were adopted across the OECD (Figure 11).

Figure 11. Instruments for cutting public service compensation 2008–2013 (percentage of responding countries)



Source: OECD (2017)

With the COVID-19 pandemic, similar pay freezes have been adopted (Example 2), but the World Bank and IMF warn there may be unintended consequences from focusing on cost efficiency. The following are some issues they recommend that governments contemplate when determining their public sector pay systems in the short and medium term in response to an economic crisis (IMF Fiscal Affairs, 2020; World Bank Group, 2020):

Progressive

- Those in higher-paid positions should take on a higher share of the burden. But organisations need to be careful this doesn't lead to disincentivising staff from moving into senior roles, or performing at a higher level, or accumulating skills.
- Essential workers should receive adequate compensation.

Gender equality implications

- The public sector is a disproportionately large employer of women. In most countries, the share of women working in the public sector is higher than the share of women working in the private sector, and women have a higher public sector wage premium than men. Any cuts to the wage bill have significant gender implications, and by extension implications for household welfare.
- In New Zealand, gender and ethnic pay inequities were addressed in Public Service Pay Guidance during COVID-19, separately from collective bargaining and remuneration structure (Public Service Commission, 2021a).

Targeted

- Pay cuts should not apply to those who are directly responding to the crisis, such as frontline workers.
  - In New Zealand, the 2021 guidance prioritised "addressing acute recruitment and retention issues demonstrably impacting frontline service delivery". It also specified that strategies for collective bargaining needed to be consistent with the guidance (Public Service Commission, 2021a).
- Voluntary retirement schemes tend not to reduce public sector employment and often come with a significant increase in pension costs.

Temporary

- Measures should have fixed end dates to provide assurance to public sector employees.
- Public sector employees are among the few with relative job security, and reducing their household consumption levels could further suppress economic demand.

Flexible

- Pay scales based on a set of rules (the single salary spine) and limiting variable pay by folding allowances into basic pay can reduce flexibility, but can also have unintended consequences that harm productivity in the long run. The World Bank (2020) gives the example of Cameroon, where wage limits led to an increase in non-pay allowances, which led to a less transparent pay system and a larger total wage bill.

- Centralised pay scales increase the wage bill in the short term, and lead to more rigid, rather than more flexible, pay systems.
- Governments should consider introducing targeted performance bonuses to more directly link compensation to productivity. The World Bank (2020) advocates this approach for functions that have clear outputs and measures (such as licensing, registration, and administering benefits) and for senior management. Performance bonuses also provide more wage bill flexibility as they can be cut more easily than basic pay.

Consistent

- Removing distortionary allowances and reducing pay inequity (particularly at the top end) is one way to achieve wage reductions that can also provide fiscal savings and improve staff motivation and productivity.

Example 2. Pay restraint guidance for New Zealand, UK, and Australia in response to COVID-19

New Zealand	At the beginning of April 2020, the Public Service Commissioner asked chief executives in the public sector to exercise pay restraint following the Government's Workforce Policy Statement (Public Service Commission, 2021a). The advice has meant that the majority of public servants (those earning above $60,000) will be offered pay increases in very few situations. Those earning more than $100,000 or in senior management positions would not be entitled to pay increases.
United Kingdom	A one-year public sector pay freeze was announced by Treasury under the 2020 Spending Review (Powell & Booth, 2021). The pay restraint did not apply to lower wage earners (or those in the National Health Service). Unlike New Zealand, however, the restraint applied for only one year, and pay increases are planned across the public sector for the next three years (Powell & Booth, 2021).
Australia	In 2020, the Australian Government deferred all non-senior executive general wage increases by six months and also suspended senior-executive remuneration increases. The deferral of wage increases resulted in the majority of non-senior executive employees (61%) receiving two wage increases in 2021 – the deferred 2020 increase and the scheduled 2021 increase (APSC, 2021b).

Pay and employment equity has been a key driver for revising pay systems across all the comparator countries

A key trend over the last 10 years in public sector organisations has been a push towards practices that improve equity, including across pay systems (Thomson et al., 2018). Equity includes aspects of gender, ethnicity, and transparency. Example 3 shows what guidance the public service in the comparator countries need to comply with.

Example 3. New Zealand, UK, Canada, and Singapore: Equity-related legislation and guidance as it relates to pay

New Zealand	United Kingdom	Canada	Singapore
• Gender Pay Principles • Public Service Gender Pay Gap Action Plan • Public Service Pay Guidance 2021 – addressing gender and ethnic pay inequities.	• Civil Service Diversity and Inclusion strategy: 2022 to 2025 • Civil Service Diversity Targets • From 2017, employers with a headcount of 250 or more must comply with regulations on gender pay gap reporting.	• Pay Equity Act 2018 • The Act introduces a new proactive pay equity regime for federally regulated workplaces with 10 or more employees.	• Singapore does not have any legislation or guidance that mandates equal pay for equal work • White paper on Singapore women's development launched in 2022

It has been argued that the New Public Management model increases pay inequity, as it focuses on motivating or controlling staff performance through pay systems especially through variable pay (OECD, 2005; Willems et al., 2006). In contrast, the historically more centralised pay arrangements across the public sector played an important role in slowing the increase in wage inequality and narrowing the gender pay gap (Grimshaw, 2000).

One of the criticisms of performance-related pay is that different criteria may be applied for good performance or amount of effort because of assumptions about women's commitment to work, such as women will not be willing to accept unlimited overtime (Benson et al., 2007).

Another concern often raised is that women are less likely to ask for promotions or salary increases even when deserving, and performance-driven packages often require self-promotion (Babcock & Laschever, 2003). As a result, performance-related pay models can end up increasing pay inequity through promoting men more frequently, not because they perform better but because men are far more likely to self-promote their work or speak up to authority (Babcock & Laschever, 2003).

Pay transparency has been used in the private sector to address inequities, but public sector pay has not been fully transparent since 1988

Transparency in remuneration is closely tied to the push for equity. Transparency of the remuneration system means that employees know what others in the organisation are being paid, so they can be reassured that they are being paid fairly.

Pay transparency

Pay transparency, whether internal, external or both, allows employees to compare their salary to colleagues and gain reassurance that they are being paid fairly.

Some organisations opt for full pay transparency, where the salary for each role is available. Others elect to reveal partial salary information, such as a salary range for each role.

1988 was the last publication date of the annual New Zealand "Stud Book". This publication supported full pay transparency in the public sector, holding names, position, rank, salary, date of birth, years of service, and qualifications, of every public service employee (Wilkins, 2015). However, in practice, this was not readily available for employees to view.

In the US in 2017, about 17% of private sector firms practiced pay transparency, while 41% discouraged it, and 25% explicitly prohibited discussion on pay information (Cooney, 2018).

While there is little research on transparent pay, due to the small proportion of organisations that have adopted it in recent years, the emerging literature suggests the following advantages and disadvantages:

Strengths of pay transparency	Weaknesses of pay transparency
• Employees can be more productive and collaborative. More likely to ask for help from the right people • Improvements in employee satisfaction • Improvements in trust, morale, and engagement • Reductions in pay inequities • Improvements in employee motivation • Improves employee attraction	• Organisations may hire or retain fewer people. – May make it easier for competitors to poach employees • Can cause tension and internal resentment between employees • Pay differences can be taken out of context

Source: Adapted from Cooney (2018) and Hays (2022)

There are no current examples of pay transparency in the public sector, but the European Commission adopted a Recommendation on strengthening the principle of equal pay between men and women through transparency in March 2014. This Recommendation was not binding and the Commission has had difficulty in implementation and enforcement.

In March 2021, the European Commission presented a proposal on pay transparency to ensure that women and men in the EU get equal pay for equal work (European Commission, 2021). The proposal sets out pay transparency measures, such as pay information for job seekers, a right to know the pay levels for workers doing the same work, and reporting obligations for large companies on their gender pay gap. Employees will also have the right to compensation for discrimination in pay.

The proposal is going through the European Parliament and the Council for approval. If adopted, Member States will have two years to include the Directive into national law and communicate the relevant texts to the Commission. The Commission intends to evaluate the proposed Directive after eight years.

What the research tells us about what works

There is mixed evidence for whether performance-related pay works in the public sector

Various studies and meta-analyses have found that a range of "high performance work practices", including performance-based compensation and merit-based promotion, have a significant positive impact on business performance (for example, Saridakis et al., 2016).

But the research is less clear on whether these practices – designed and developed for businesses – translate well to the public sector in terms of practice and outcomes (for example, Bryson et al., 2017).

Performance-based pay is anchored in the "abilities, motivation, opportunities" theory

An established theory of human performance states that people can achieve their goals when they have the right abilities, motivation, and opportunities (or "AMO") (Boxall & Purcell, 2011; OECD, 2020).

Practices like performance-related pay are anchored in this AMO model, which suggests that ability, motivation, and opportunity will lead to increased effort and, in turn, better performance (Blom et al., 2020):

- Ability is defined as employees having the skills, knowledge, and abilities they need in order to perform.
- Motivation is defined as employees' willingness and drive to perform.
- Opportunity refers to employees having the authority and opportunity to solve problems and make decisions.

Contingent rewards, such as performance-related pay, are seen as increasing motivation.

In the private sector, the relationship between human resource (HR) management practices (including performance-related pay) and organisational performance has been extensively tested, finding positive and direct associations (Saridakis et al., 2016). These studies also show that it is difficult to attribute individual and organisational performance to a single HR practice, as practices are usually implemented as part of a package of initiatives or a system response (Saridakis et al., 2016).

At the same time, those private-sector studies show that different but complementary HR management practices have a stronger effect on performance than individual HR practices. More does appear to be better – a system of HR management interventions has stronger effects than individual ones (Saridakis et al., 2016).

The Work Foundation (2014) reviewed the evidence on the impact and effectiveness of performance-related pay in the public sector and whether it provided value for money.[8] The review found evidence that performance-related pay schemes can be somewhat effective in the three sectors they had evidence for – health, education, and the civil service. However, their central conclusion was that the evidence is mixed, and success depended on how the system was designed, as well as the occupation and organisational context (The Work Foundation, 2014).

The key challenges for the successful implementation of performance-related pay in the public sector were (The Work Foundation, 2014):

- **Unintended behavioural consequences**
    - Employees and managers "gaming" the system
    - Financial incentives "crowding out" intrinsic motivation
    - May not change behaviour at all
    - Effort may be misallocated
    - Negative consequences for teamwork and co-operation
- **Difficulties in measuring outputs**
    - Different types of performance measures can lead to negative effects[9]
    - Subjectivity of managers during assessments
- **Lack of reliable research on the links between incentivised outputs and desired outcomes**
    - Also, sustainability of intended outcomes has been poor and there has been little research on the cost-effectiveness of performance pay.

      "Where positive effects have been found, effect sizes are often small and may be short-lived – emphasising the value of long term follow-up evaluations." (The Work Foundation, 2014, p. 59)

A more recent meta-analysis compared the effects of different types of HR management practices and organisational performance across the public, semi-public, and private sectors: it found only small differences between the public and private sector (Blom et al., 2020). Another study found that performance pay is negatively correlated with workplace performance in the public sector (Bryson et al., 2017).

[8] The review was commissioned by the UK Office of Manpower Economics.

[9] For example, absolute measures of performance reduce the incentive for low performing providers, given their reduced likelihood of attaining the targets, but relative measures that reward improvement can end up rewarding the lowest performing providers the most because they are often able to improve the most.

Unlike in the private sector, performance-related pay can be demotivating in the public sector, as targets and outcomes are less clear and attributable, and it can discourage collaboration

One of the key arguments in favour of adopting performance-related pay is that it will make employees more motivated, and so make them more productive. It is expected that wage premiums will boost worker efficiency and productivity, or reduce staff turnover, or both (Baig et al., 2021).

It has been argued that public sector workers have distinct values, motives, and attitudes that may influence how effective a remuneration model is (Blom et al., 2020; Perry & Petrakis, 2006). Notably, workers in the public sector have been shown to have higher levels of intrinsic and altruistic motivation than workers in the private sector (Chun & Rainey, 2005; Hasnain et al., 2014). In other words, the motivations for employees to work in public sector organisations are generally based on their personal values or their desire to serve a public cause, instead of extrinsic (usually monetary) reasons.

This raises the concern that performance-related pay promotes extrinsic motivation for public sector employees, and reduces their intrinsic motivation. That is, public sector employees would lose their sense of purpose, and the emphasis of monetary incentives would cause them to feel a loss of autonomy – ultimately leading to not motivating employees at all (Pink, 2009; Weibel et al., 2010).

In 1998, the UK Centre for Economic Performance at the London School of economics published a report based on surveys on performance pay of two government departments, two National Health Services trust hospitals, and primary- and secondary-school head teachers. The study sought to understand:

- employees' views on how their performance pay scheme had affected their own motivation and that of their colleagues, and
- the judgements of line managers who assess the effects of performance-based pay on staff performance.

Across the three sectors studied, the report found that:

- most staff, except head teachers, agree with the principle of performance pay
- up to a half of line managers in the civil service and hospitals believe performance-related pay has raised productivity, improved goal setting, and, to a lesser extent, increased quality. (Marsden & French, 1998; OECD, 2005)

However, the report also found that:

- most staff believed it had not increased their own motivation
- most staff believed that performance-related pay is divisive, undermines morale, causes jealousies, and inhibits cooperation in the workplace. (Marsden & French, 1998)

Other surveys in Denmark and in the Netherlands found the same negative effects. In a 2001 survey of Danish public sector workers, the majority of respondents (60% of union representatives and 5% of managers) believed that performance-related pay created uncertainty among staff. Further, only 15% of managers believed it led to increased satisfaction among employees, and 32% of union representative and 11% of managers believed the scheme actually decreased satisfaction (OECD, 2005).

In the Netherlands, Vermeeren (2014) found that ability-enhancing practices (recall the AMO model discussed earlier) consistently showed a higher effect on job satisfaction in comparison with motivation- and opportunity-enhancing practices. Also, motivation-enhancing practices didn't affect job satisfaction as much as other types of practices.

Pay-for-performance systems may not be well suited to public sector roles

Public sector work, particularly within the core civil service, can be difficult to measure, and the outputs produced or outcomes achieved may not have a monetary value. This can lead to arbitrary measures of work performance that may not reflect the actual work done.

Hasnain and colleagues (2014) highlight an example of this with test-score-based school and teacher evaluations. They argue that teacher performance can't be neatly summarised by student test scores and can lead to teacher behaviour that undermines the goals of teaching. Incentivising only the observable and measurable tasks will not necessarily improve overall outcomes but may lead to teachers shifting effort from unobservable to observable tasks. This ultimately leads to worse outcomes and performance.

> *"[T]he multiplicity of goals and principals implies that the provision of high-powered incentives are less likely to be suitable for the public sector than in the private sector where individuals may have to perform fewer, better defined, tasks" (Propper & Wilson, 2003, p. 2)*

Government employees also often work in large teams, supervised by multiple managers. This complicates the question of who is responsible for assessing a particular worker's performance, as well as making it more difficult to attribute particular achievements or outcomes to particular employees (Hasnain et al., 2014).

Pay-for-performance systems depend on managers having the right skills and capability

Two-thirds of OECD governments use some form of pay-for-performance system. However, its effectiveness depends on managers having the right skills and capability to assess, critique, and provide feedback on their workers' performance. The World Bank (2020) notes that in many systems promotions are formally linked to good performance evaluations, but that weaknesses in performance management and management capability mean that most employees get the highest ratings. As a result, promotion-based wage increases are in fact largely based on seniority.

The research supports these arguments. It finds that when the system relies on the expertise and judgement of managers but they manage performance poorly, the results are likely to demotivate employees, because they will see the pay system as being operated unfairly and inconsistently by incompetent people (Armstrong & Baron, 2005; Suff et al., 2007).

The emerging empirical literature has shown the importance of the quality of management – including goal setting and how goals are communicated to staff, the extent of monitoring of the achievement of these goals, and the regularity and robustness of performance evaluations and conversations. The literature shows that the quality of management is a major determinant of productivity, not just in the private sector but also in public administrations (Bloom et al. 2015 and Rasul & Rogger 2017, as cited in World Bank Group, 2020).

Pay based on skills, competencies, and capabilities have been suggested as an alternative model

As an alternative to performance-related pay, there has been some movement toward models that focus on employees developing knowledge and skills. These are generally referred to as "skills-based" pay, "competency-based" pay, and "capability-based" pay. While each has a slightly different focus and trigger for pay increments, they are all aimed at employees developing or acquiring specific knowledge or skills or both.

Capability-based pay frameworks are specifically mentioned in the latest pay guidance for the UK civil service. The UK guidance also calls for tenure-based frameworks to be immediately removed.

Commentators on pay systems in the UK note that the most popular approach to pay progression includes a combination of factors, as shown by a survey of employers where skills were often used by 57% of respondents and competencies often used by 61% (Brown, 2018). They note that while performance-based pay is the most common, competencies and skills have become more important in recent years, including for the public sector.

Competency-based pay

A competency-based pay system is where employees receive financial rewards in the shape of salary increases to their base pay in line with their competency level.

The competency model describes a specific combination of knowledge, skills, and other personality characteristics that are necessary to perform the relevant role effectively. Pay increases in line with the level of competency they demonstrate in doing their job.

This differs from the performance model as competency pay is not based on the employee achieving agreed targets but on them expanding their skills and knowledge in each area.

Capability-based pay

A capability-based pay system is where employees are incentivised and receive financial reward for developing capability. A capability refers directly to a person's ability to perform a job – it's different from the competency model, which considers what an employee offers in relation to knowledge, skills, and personal attributes.

One way to spot the difference between these models is that competency models often include a combination of hard and soft skills, while capabilities refer mainly to hard skills.

The capability model generally rates capability on a scale of three levels: developing, competent, and expert. These ratings are then used to set the worker's base pay, with pay increases depending on the worker developing their capability.

For example, the Department for Education in the UK has developed guidance for schools on appraisal and capability policies, as well as a model policy (Department for Education, 2019).

> *Capability-based pay frameworks*
>
> *Departments or professions may, subject to approval by Cabinet Office and HM Treasury, look to introduce arrangements that enable movement through pay bands based on achievement of higher workforce productivity e.g. growth of capability. Cases must be cost neutral and must not place a cost pressure on the departments' budgets….*
>
> *… Departments should have removed automatic progression pay based on time-served from their workforces and it should not be reintroduced. Any progression pay still in place in core departments or their ALBs not agreed through business case approvals will be in breach of government policy and must be notified to the Cabinet Office and HM Treasury immediately. Going forward, departments should ensure that pay arrangements they put in place do not involve automatic time-served progression pay, or create an entitlement for employees to receive automatic increments.*
>
> *- Civil Service Pay Remit guidance, 2022 to 2023 (Cabinet Office, 2022b)*

The distinguishing features of competency-based pay, as distinct from performance-related pay, are that:

- it is based on an agreed framework of competencies, and
- it is not based on achieving specific results, such as targets or projects completed. However, it is concerned with the attainment of agreed standards of performance. (Neathey & Reilly, 2003)

Another aspect of competency-based pay is that it is a method of paying people for the ability to perform now and in the future (Mikkelsen et al., 2017). However, in the field, the defined competencies most often end up being backward- rather than forward-looking (Op de Beeck & Hondeghem, 2010).

Competency management developed alongside New Public Management and has become a trend within the public sector. Most of the comparator countries for this report are known to use competency management within their public service, namely Australia, Canada, Denmark and the United Kingdom (Op de Beeck & Hondeghem, 2010). However, it tends to be used mainly for recruitment and selection, training and development, succession planning, and career guidance, and its use for remuneration was relatively limited (Op de Beeck & Hondeghem, 2010).

One example of linking competency to pay is Belgium and its "competency allowance" (Example 4). However, commentators warn that the competency allowance is currently disconnected from the pay system, and there is the concern that employees and managers would place too much emphasis on competencies at the expense of results and individual performance (Op de Beeck & Hondeghem, 2010).

Example 4. Belgium: Competency allowance for public sector employees

The appraisal system in Belgium offers public servants from levels A to D the possibility to earn an extra "competency allowance" on top of their normal pay.

This additional allowance depends on passing an examination at the end of the certified training. Once public servants pass this competency examination, they receive the competency allowance each year for six to eight years, depending on the their specific situation.

This connects remuneration to public servants' ability and willingness to develop their competencies in order to meet their personal as well as organisational objectives.

Source: Hondeghem & Parys, 2002 and Hondeghem et al., 2005, as cited in Op de Beeck & Hondeghem, 2010

The following benefits of a competency-based framework for human resource management in the public sector have been identified:

- emphasising people as essential to the organisation's success
- moving away from narrowly defined functions and jobs to integrated processes and teamwork
- the flexibility to quickly adapt to changing customer/client needs and economic conditions through deploying employees based on the competencies they have

- consistency in identifying and measuring people quality at all stages of the employment cycle
- giving employees opportunities to develop and apply new knowledge and skills in exchange for their work and commitment
- using competency standards to test the effectiveness of training and so improve recruitment and identify training gaps. This would then lead to improved efficiency, productivity, and worker safety, and less staff turnover
- creating a culture of continuous learning
- substituting lateral growth for career ladders and promotion. (Op de Beeck & Hondeghem, 2010)

Competency frameworks are used for senior leaders, but tend not to be tied to pay

Leadership competency frameworks are common practice across OECD countries (OECD, 2021a). Most OECD countries have a standard competency framework for senior public servants. Across New Zealand and the comparator countries, most have a competency framework that is specific to senior public servants in the central or federal administration. The outlier is the UK, where the same competency framework applies to all public servants.

The competency framework is usually used in job profiles, recruitment processes, and performance assessment. Most of these frameworks emphasise competencies related to strategy, vision, results and integrity, and countries are now starting to emphasise inclusion, innovation, digital, and crisis management (OECD, 2020, 2021a).

Sixteen of 34 OECD countries provide senior public servants with rewards for high performance (OECD, 2021a). It seems that most are related to specific performance objectives, outcome-based metrics, or productivity-based management metrics. It is unclear to what extent assessment against a leadership competency-based framework is related to remuneration.

There is little research on "pay thresholds", but they tend to be effective in improving employee and organisation development

'Pay thresholds' are a complicated and detailed aspect of reward systems and there is little research on their efficiency and effectiveness (IDR, 2020). Pay thresholds are usually used in relation to movement over or within salary bands, steps, or ranges. The principle of a pay threshold is a hybrid of both performance- and competency, qualification -related approaches. There may also be a range of informal mechanisms which serve to manage progression, but in general progression over or within pay thresholds is usually based on performance appraisal. See

Pay threshold

A pay threshold is a pay progression mechanism where an employee needs to meet specified criteria before receiving an increase in pay, with the core responsibilities of the job role remaining the same pre- and post-threshold.

Example 5 for a competency and performance-based system at the UK Met Office which uses pay thresholds.

There have been concerns that pay thresholds, due to the subjective nature of performance appraisals, have the potential for gender bias. Studies on teachers' pay mechanisms in the UK show mixed results for this – one finding no evidence of a gender or ethnic bias, and another finding bias (IDR, 2020). Encouragingly, one of the studies did find that there was more flexibility and ability for employees to progress to upper pay ranges, compared to its previous pay system.

A review of pay thresholds in the public sector found (IDR, 2020):

- They are aimed at helping retention (and to a lesser extent recruitment)
- That they tend to focus on rewarding continuing development by providing professionals with additional progression
- There is typically the potential for all staff to progress; only a minority of staff might expect not to[10]
- Financial rewards are usually additional points or increments, with published pay structures which detail salary levels for both 'normal' progression and additional post-threshold progression.
- Public sector organisations regard pay thresholds as effective. Success is measured by improvement in staff and organisational development
- Organisations don't intend to change the pay threshold mechanism in the near future, and where they do, the changes are generally minor.

Example 5. UK Met Office: Pay system in 2009 (IES, 2012)

In 2009 there was a move from a pay progression system based on performance and length of service to a structure that emphasised contribution and skills.

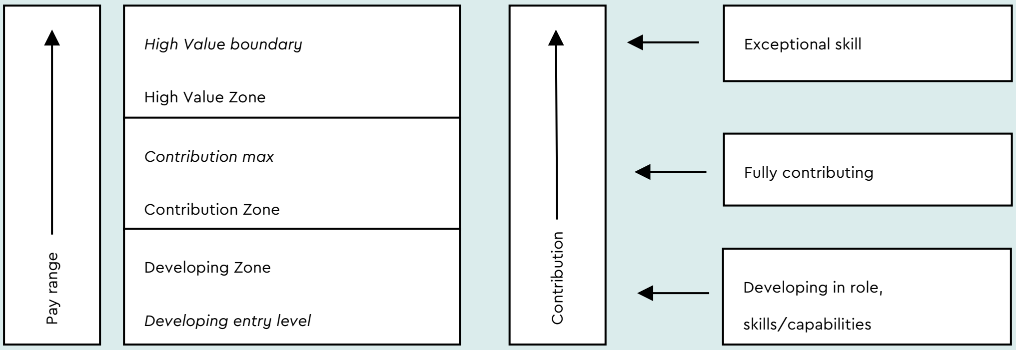
The first stage in implementing the new pay system was describing all the professions within the Met Office and the different job levels within the professions. 13 different professions were identified, with the leadership and management professions sitting across the rest of the professions and business administration supporting all the professions.

<table>
<tr><td colspan="13">Leadership and management</td></tr>
<tr><td colspan="13">Business Administration</td></tr>
<tr><td>Internal Audit</td><td>Assurance</td><td>Communications</td><td>Finance</td><td>Human Resources</td><td>IT & Engineering</td><td>Legal & Procurement</td><td>Library & Archive</td><td>Operational Meteorology</td><td>Project & Programme Management</td><td>Sales & Marketing</td><td>Science & Engineering</td></tr>
</table>

[10] In the private sector, only some people are likely to pass the threshold.

130 generic roles were agreed upon, job evaluated, and benchmarked against the market, using slightly below market median pay levels, creating 130 separate pay ranges.

Each pay range is divided into three pay zones: a development/entry zone, contribution zone (the market median falls midway within this zone) and a high value zone for the exceptionally skilled.



Pay progression is linked to an assessment of individual contribution conducted through the performance management system. Staff are appraised on three separate categories, which allow for a wider definition of 'performance': (i) performance against objectives, (ii) capabilities (applying and developing knowledge and skills), and (iii) demonstrating Met Office values and behaviours.

The "single pay spine" has been promoted by the World Bank and has been adopted by some public sector agencies in New Zealand

The World Bank (2009) state that a single pay spine is normally used as part of single, centralised pay-bargaining arrangements, and that it is unsuited to decentralised pay-bargaining.

A single pay spine is a way to assign common financial values to all public service jobs, while recognising differences in the content and context of those jobs, and position pay at the desired position in the labour market (The World Bank, 2009).

Single pay spine

A single pay spine is one of a set of human resource management tools that, taken together, may be used by a single government employer to establish common pay and grading arrangements for all employees, while, at the same time, permitting a high level of flexibility in meeting the different management and organisational needs of different institutions within government.

The benefits of a single pay spine, within the context of centralised pay-bargaining, include:

- ensuring equal pay for equal work
- promoting competitive pay for public sector jobs relative to the wider labour market
- increasing affordability – budget planning is improved as all pay is controlled through a single set of financial values, making modeling of alternative pay proposals a simpler process

- improving efficiency of the pay-bargaining process, as all wage negotiations relate to centralised financial values. (The World Bank, 2009)

To be effective, a single pay spine needs to be implemented in conjunction with:

- rigorous job evaluation methodology, so that an appropriate grading system can be designed.
- a pay system in which basic pay is the only, or at least the primary, means of compensating employees, with little (if any) use made of allowances or benefits-in-kind
- a systematic survey of pay for comparable jobs in relevant labour markets, to help ensure that rates of pay in the public service are competitive, and set at appropriate levels. (The World Bank, 2009)

Australia's classification system is an example of the single classification spine, that can form the basis of a single pay spine. The Public Service Classification Rules 2000 provides guidance on determining and managing classification arrangements in the public service. The guide came into force in 2014 and adopts a single spine of classification levels, underpinned by a suite of training classifications (APSC, 2013) (Example 6). Note that individual agencies have responsibility for setting the pay scales, but the classification system is used across the public sector.

The classification framework is based on a set of principles that provide a common foundation for the consistent application of classification management across the Australian public service (APSC, 2013):

- Jobs are classified, not people.
  - Jobs are classified on the basis of the work to be performed rather than the particular qualities of the person performing it.
- Jobs are classified based on work value.
  - The work value of a job is established by considering the type and nature of the work to be performed and assessed against the relevant work level standards.
- A classification level is determined according to the highest level of function performed most regularly.
  - Comprehensive analysis of the job to be performed may identify a range of duties across different levels of work value. The classification level allocated is based on the level of the highest function most regularly performed.
- Classification and remuneration are related, but assessed independently.
  - Remuneration does not drive or determine a classification level, only work value does. The remuneration applicable to each classification level is determined in an agency's enterprise agreement, including the flexibility to consider an alternative salary for an individual employee under an individual flexibility arrangement and in keeping with the bargaining framework for Australian public service enterprise agreements.

The classification system is applied to broad banding of pay. Broad banding uses wide salary bands, so there is more flexibility in setting pay levels for roles where there may be similar accountabilities, but a wide range of expertise needed.

Australia's Government changed in June 2022 and the Public Service Commission is working with the new Government and the Minister for the Public Service to determine future policy arrangements for workplace relations in Commonwealth agencies (APSC, 2022). Substantial negotiations and significant actions are advised to pause until the new workplace relations policy arrangements are known.

Example 6. Australia: Public service remuneration classification levels which form the basis of the single pay spine

Schedule 1—Approved classifications

(paragraph 5(b))

Column 1 APS group	Column 2 Classification
Group 1	APS Level 1
Group 2	APS Level 2
Group 3	APS Level 3 APS Meat Inspector 1 Customs Level 1
Group 4	APS Level 4 APS Meat Inspector 2 DAFF Band 1
Group 5	APS Level 5 APS Meat Inspector 3 Customs Level 2
Group 6	APS Level 6 APS Meat Inspector 4 Customs Level 3 DAFF Band 2 Examiner of Patents Medical Officer Class 1 Valuer
Group 7	Antarctic Medical Practitioner Level 1 Customs Level 4 Executive Level 1 Medical Officer Class 2
Group 8	Antarctic Medical Practitioner Level 2 Customs Level 5 DAFF Band 3 Executive Level 2 Medical Officer Class 3 Medical Officer Class 4
Group 9	Antarctic Medical Practitioner Level 3 Chief of Division Grade 1 Chief Research Scientist Grade 1 Medical Officer Class 5 Senior Executive Band 1
Group 10	Chief of Division Grade 2 Chief Research Scientist Grade 2 Medical Officer Class 6 Senior Executive Band 2
Group 11	Chief of Division Grade 3 DAFF Band 4 Senior Executive Band 3

A framework for designing a public sector pay system

A framework for thinking about remuneration

There are many issues that need to be factored into the design of a remuneration system:

- How will we attract and keep high-quality staff?
- How do we incentivise future performance while also recognising past performance?
- Are we designing something that is legal?
- How do we show what's important to us as an organisation, and reward behaviour that is in line with that?
- Is the system fair and equitable?

In designing a remuneration system, it is not only an organisation's systems and practices that need to be incorporated with what it is wanting to achieve through the remuneration system, but there will be influences from both inside and outside the organisation.

Remuneration decisions are not made in a vacuum: the following four domains should be considered in designing a system that is functional, attractive, fit-for-purpose, and fair (Figure 12):

1. The economic, legal, and institutional context
2. The employer
3. The worker
4. The workplace.

Figure 12. Model of remuneration decisions

Economic, legal and institutional context	Employment law, immigration law Public sector guidance Labour market conditions
Employer	Organisational strategy Budget and cost efficiency Worker wellbeing
Workers	Age Tenure Ethnicity Gender Knowledge and skills
The workplace	Geography Working environment Flexible working

The economic, legal, and institutional context

Public sector organisations exist within a broader economic, legal, and institutional context. In designing a remuneration system, legal minimums need to be considered. It may also be an organisation's explicit policy to go beyond these legal minimums. In New Zealand, key relevant legislation[11] are:

- **Public Service Act 2020**: provides a modern legislative framework that enables a more adaptive, agile and collaborative public service and includes stronger recognition of the role of the public service in supporting the partnership between Māori and the Crown.
- **Employment Relations Act 2000:** Regulates relationships between employees, employers and unions, including promoting good faith, fair process and collective bargaining. Sets out dispute resolution processes and the provision of mediation services, governs personal grievances and establishes the Employment Relations Authority and Employment Court. Also establishes Labour Inspectors to monitor and enforce compliance with employment standards.
- **Holidays Act 2003:** Provides all employees with the right to paid days of leave and annual holidays for the purposes of rest and recreation, observance of significant days, and for when an

[11] Other legislation that may be relevant include Volunteers Employment Protection Act 1973, Accident Compensation Act, Public Service Act, Mines Rescue Act, Marine and Power Engineers' Institute Incorporation Act, WorkSafe New Zealand Act, Union Representatives Education Leave Act Repeal Act, Privacy Act, Protected Disclosures Act.

employee is unable to attend work due to an illness or a bereavement. Sets out how employees are to be paid for their leave, and requires employers to keep records of hours and wages.

- **Wages Protection Act 1983:** Sets out how wages are to be paid to an employee and prohibits employers from making unlawful deductions.
- **Minimum Wage Act 1983:** Prescribes minimum wages for all employees (including starting-out and training minimum wages), and establishes a process for reviewing the minimum wages annually.
- **Parental Leave and Employment Protection Act 1987:** Provides parents who are employees or are self-employed with entitlements to paid or unpaid time off work, and job-protected extended leave.
- **Equal Pay Act 1972:** Establishes the right to equal pay for male and female employees. On 6 November 2022 the Act will be amended by the Equal Pay Amendment Act 2020 to expressly provide for a pay equity regime, creating a process for raising pay equity claims directly with an employer, and if any issues are identified, addressing them through a process that is aligned with New Zealand's existing bargaining framework.
- **Health and Safety at Work Act 2015:** Places duties on businesses, their officers (for example, company directors), and workers to protect workers and other persons against harm to their health and safety by managing the risks arising from work. Provides for work health and safety engagement, participation and representation, consultation, and issue resolution. Promotes the provision of advice, information, education and training for work health and safety, and provides for compliance and enforcement measures.
- **Human Rights Act 1993:** Prohibits discrimination in employment on the basis of various grounds, such as sex, race or age. The Human Rights Commission can help to resolve complaints of unlawful discrimination. The Human Rights Review Tribunal can hear claims relating to breaches of the Human Rights Act 1993 brought by employees against their employer.
- **Remuneration Authority Act 1977:** Creates the Remuneration Authority to set the pay for key office holders such as Judges and Members of Parliament.
- **Trade Unions Act 1908:** Sets out some requirements for trade unions to operate, including requiring a registry of unions to be kept.

It is also upon public sector organisations to ensure all employees have a legal entitlement to work in New Zealand (or on behalf, as in the case of offshore postings). In these cases, the Immigration Act will be relevant.

Other than legislation, there may be guidance and overall public sector employment strategies that should be considered. Examples of this are:

- Government Workforce Policy Statement on the Government's expectations for employment relations in the public sector
- 2021-2024 Kia Toipoto | Public Service Pay Gaps Action Plan
- Gender Pay Principles

- Public Service Pay Guidance 2021

One of the Government expectations for employment relations in the public sector is that employers work towards removing at-risk pay and performance bonuses from pay policies and employment agreements (Te Kawa Mataaho Public Service Commission, 2021c).

The labour market and the broader economic context

A public sector organisation's current and future workforce has choices about where to gain employment. The labour market includes the private sector, not-for-profit sector and other public sector organisations. Maintaining, or exceeding, pay consistency with other organisations could be part of an organisation's overall remuneration strategy system – offering remuneration at the 'market rate' for a similar role in the private sector. This has been a growing trend across governments to ensure they maintain a skilled workforce (National Institute of Economic and Social Research, 2020; Risher, 1994).

On the other hand, the World Bank warns that during an economic crisis, a sustained or increasing wage premium for the public sector can hurt private sector recovery and cause longer term labour supply challenges to the private sector (World Bank Group, 2020). The World Bank notes that there is already a public sector wage premium globally, about 17% across the 111 countries for which it has data. 80 of the 111 countries have a positive public sector wage premium (Baig et al., 2021; World Bank Group, 2020). However, other quantitative analysis suggests that in the long-term, the public-private pay gap is negligible in many countries (Postel-Vinay, 2015). In the UK, once workforce characteristics are controlled for (such as age, location, skills/occupation), the public sector premia narrows considerably (Powell & Booth, 2021).

Empirical evidence also suggests that public sector wage developments influence wages in the private sector. Analysis of government and private sector wage trends in advanced economies during 1995 and 2015 finds that a 1% increase in the average real government wage is associated with a 0.4% increase in private wages within three years (IMF, 2016).

Economic, legal, and institutional context: Questions to consider

Employment law

- What employment legislation do we have to comply with?
- Do we want to meet minimum legal standards, or go beyond them?
- What immigration law might be relevant?

Public sector guidance

- What existing guidance is provided by Te Kawa Mataaho | Public Service Commission?
- What directives and advice are mandatory?

Labour-market conditions

- What is the current state of the labour market for the types of skills and knowledge we want to recruit and maintain?
- Who are we competing with?
- How might paying a premium lead to negative effects for the private sector?

The employer

Organisational strategy

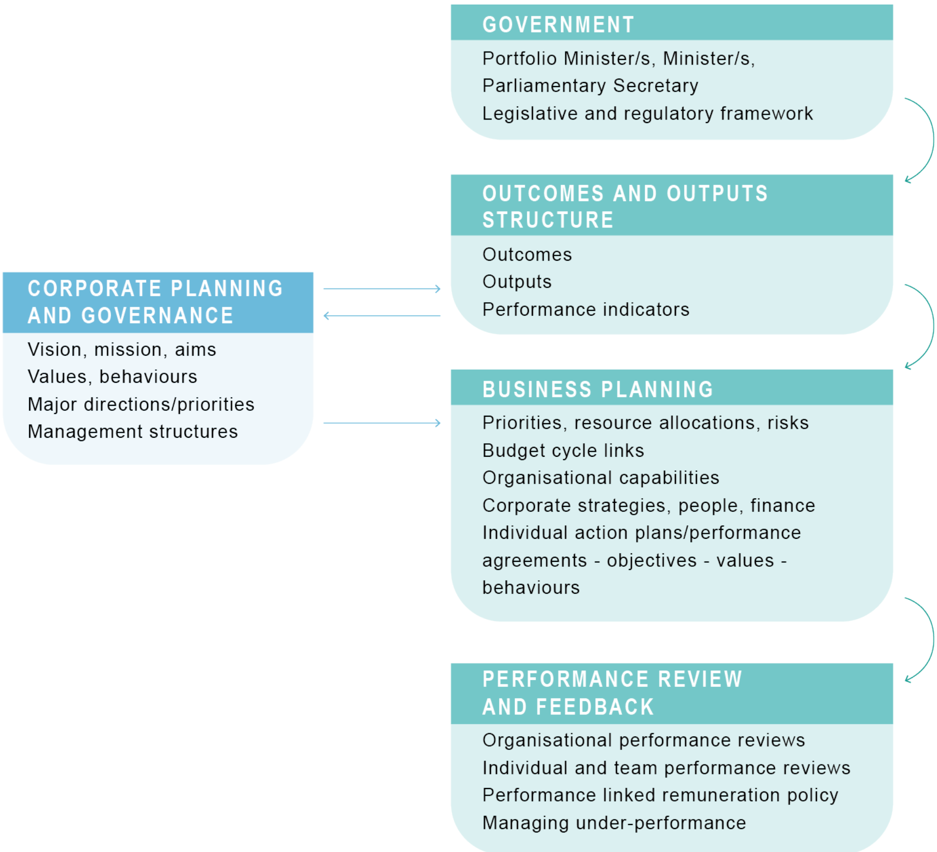
The current remuneration system needs to be reflected on – does it need to be reviewed? Does it align with organisational values? Is it effective? How does it align with organisational strategy?

Employers need to consider the organisational strategy when designing their remuneration system. What is the budget they are working within and how can that be used most effectively? Organisational aims provide a blueprint for remuneration design through making clear the priorities of the organisation, for example, certain strategies could focus on growth, equality or an environment that enables whānau to thrive.

Organisational strategies provide the basis of job evaluation. Job evaluation is the process of gathering and analysing information about the content and the requirements of positions, as well as the context in which they are performed (Schneider & Konz, 1999). Job evaluation allows governments to determine the placement of jobs and how to effectively compensate a given position.

Employers then need to consider how the chosen remuneration system will motivate employees and reward good performance, at the correct level for the job. The two main approaches discussed have been pay-for-performance and competency-based. Figure 13 shows how government and organisational strategy can be linked to remuneration policy.

Figure 13. The performance budgeting and reporting framework in Australia under the Howard Administration



Source: Adapted from Ho, de Jong & Zhao (2019)

An organisation's hierarchy and strategy (as well as its size and number of roles) also has a bearing on its pay structures. Grades work well in organisations where there is a clear hierarchy and movement from one step to another is easy to recognise. They also work well for organisations that need to keep within a budget, because the difference in salary between grades is relatively small. Grading is commonly used in some public sector organisations in New Zealand (Whelan, 2019).

Where organisations have flatter structures and need more flexibility in how employees are used it's common to move from a grade structure to a broader, band structure. This is commonly used in medium to large-size organisations where there is considerable range and diversity of roles within the organisation (Whelan, 2019).

For larger organisations again (and usually those with very flat organisational structures), broad banding is usually used as there is more flexibility in setting pay levels where accountabilities may be similar, but a wide range of expertise is required (Whelan, 2019).

Budget and cost efficiency

Effective management of an agency's wage bill is needed to ensure that the desired public services are delivered in a cost-effective and fiscally sustainable manner. This requires (IMF, 2016):

- adequate fiscal planning to ensure appropriate financing of remuneration and the remuneration system
- competitive compensation to attract and retain skilled employees and incentivise performance, and
- the flexibility to adjust the level and composition of employment to respond efficiently to demographic and technological developments.

The New Zealand Treasury data shows that personnel expenses for core government agencies increased by 10.4% to $9,358 million in the 2021 June year, while the total Crown personnel expenditure increased by 7.4% to $29,817 million (Te Kawa Mataaho Public Service Commission, 2021c). When salary costs are examined by different types of occupations, the largest percentage increase was in Other Professionals Not Elsewhere Included (up $59.4 million or 26%). The largest absolute increase was in Social, Health and Education Workers (up $110.7 million or 15%). Contact Centre Workers was the only occupational group where there was little increase, between 2019 and 2021.

Pay systems can be designed with sound objectives, but budget constraints can mean that the system cannot be implemented as intended, and therefore not reach its objectives.

> *For some organisations, committing to following through with a reward change and fully operating a new system has been limited due to tight budgets. For example, at the Met Office the public sector pay constraints have halted employees' pay progression under the new model relative to contribution and their impact on the business. A well-developed mechanism for progression exists but the ability to operate it, as designed, is not, due to the pay constraints in place*
>
> *- IES (2012, p. 30)*

It should be noted that competency-based models, pay thresholds, and pay for performance, require high management capability and for managers conducting performance appraisals to be adequately skilled and trained at undertaking performance conversations and determining pay. This should be considered an administrative cost of the pay system and within the overall cost of a remuneration system.

The IMF (2016) find the following in ensuring the remuneration bill and system are cost efficient and effective:

- Improving wage forecasting models, especially over the medium term, is important.
- No automatic indexation to inflation, or other variables, is associated with better fiscal planning.
- Systematic pay negotiations (for example, annual or biannual) are associated with a smaller short-term impact on the fiscal deficit compared to ad hoc or ongoing negotiations.

- Ad hoc negotiations and the lack of formal frameworks tend to result in periodic large increases in wages, reflecting built up pressures, and have made budgeting and planning for the remuneration more difficult.
- In advanced economies, decentralised arrangements were associated with a smaller short-term impact on fiscal deficits.
  - Prior to the global financial crisis many countries, especially in Europe, moved towards decentralised pay determination to promote greater flexibility and sustainability. Following the crisis, governments have moved towards more centralised frameworks.
- Performance-related pay is associated with better fiscal planning.
- Flexibility in adjusting the workforce is associated with position-based employment systems (hiring for specific roles and positions) and decentralised pay determination arrangements.
- The adoption of a unified wage scale can help ensure wage levels are competitive, equitable and transparent. However, the transition to such a system requires administrative capacity and needs to be carefully managed to avoid unintended wage increases and reduced wage flexibility.
- Investment in developing information technology systems to monitor the wage bill and work processes could greatly contribute to improving the management of wage bill spending and enhancing service delivery.

There was little peer-reviewed research available on the cost implications and costliness of different remunerations models. This gap warrants future research. Generally, tenure models tend to be costly for organisations to fund through automatic pay progression across staff (OECD, 2005), although beneficial in terms of smaller administrative costs. Performance-related models tend to be less costly by only increasing wages for some; however, there is an associated increased administrative cost for managerial training to conduct performance appraisals and greater contract variation (Bryson & White, 2021; IMF, 2016; OECD, 2005). Competency-. capability- and skills-based pay can help reduce wage costs by only increasing wages for those who meet the standard.

Responsibility for employee wellbeing

Many public agencies state as part of their long-term outcome their contribution to New Zealanders' wellbeing. This should be extended to employees. In addition, the Health and Safety at Work Act 2015 states that organisations must take reasonably practicable steps to protect health and prevent harm at work, including psychological harm.

Consideration of employer responsibility for employee wellbeing has grown drastically over the last few years (Clema et al., 2018; Martono et al., 2018). There has been greater emphasis placed on ethical approaches to human resource management and how employees are compensated. Wellbeing is most commonly thought to be three-fold (Clema et al., 2018):

- Happiness-related wellbeing, which is based on subjective experiences and functioning at work
- Health dimension of wellbeing, which refers to objective physiological measures and subjective experiences of bodily health

- Social wellbeing dimension, which refers to the quality of the relationship between employees and their employer and/or manager.

In designing a pay system, it is important to consider its effects on wellbeing, as well as what monetary and non-monetary benefits can be included to enhance wellbeing.

The employer: Questions to consider

Organisational strategy

- Do we need to review our remuneration system? Is it effective?
- How should the organisation's strategy and priorities be reflected in our remuneration policy and settings?
- Is our remuneration system consistent with our values and what we want to achieve for New Zealand and New Zealanders?

Budget and cost efficiency

- What is our investment in our human resources information system (HRIS)? Is it providing us with good monitoring and modelling information to inform decisions?
- Are we modelling wages over the medium term?
- Do we negotiate pay in a systematic way, rather than ad hoc?
- What are the implications of our choice of pay system for the overall cost of a remuneration system?

Employee wellbeing

- In what way does our remuneration system consider the wellbeing of our workers?

The workers

In this section we look at the demography of employees (gender, ethnicity, age, and length of employment), and the knowledge and skills that agencies want to attract or keep.

Gender and ethnicity

In the past 20 years, a spotlight has been shone on gender pay inequality (Badkar et al., 2007; Burnette & Zhang, 2019; Grimshaw, 2000). This has led to major reforms at the agency and governmental level. As discussed previously, some remuneration systems, like performance-related pay, can advantage some genders over others.

More recently, ethnicity has grown as a factor of consideration for governments and their employment practices and systems. In New Zealand, the public service is committed to addressing low pay and closing gender and ethnic pay gaps. Te Kawa Mataaho Public Service Commission continues to monitor and report on wage trends and pay gaps.

As at 30 June 2021 (Te Kawa Mataaho Public Service Commission, 2021b):

- The gender pay gap continued to decrease. The average salary was $92,600 for men and $84,600 for women, up 3.0% for men since 30 June 2020 and up 4.2% for women. The gender pay gap decreased by 1.0 percentage point to 8.6%.
- The biggest increases in pay were for the lowest paid and frontline staff. The average pay of the lowest paid group (Pacific women and men) increased more than for any other group. Less than 20% of the public service workforce now earn less than $60,000. Pay for highest paid staff and occupations (including managers) was relatively static, consistent with pay guidance.
- Māori, Pacific, and Asian pay gaps have also dropped, but more progress needs to be made.

Transparent pay models have been advocated as one way to close pay equity gaps.

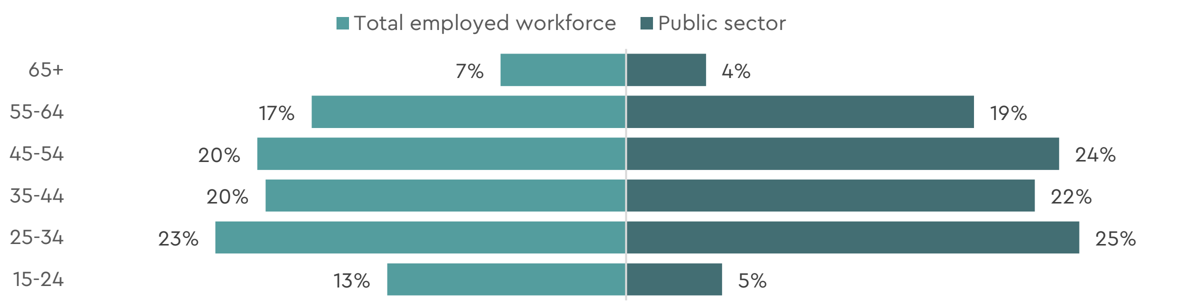
Age and length of employment (tenure)

Governments face a difficult challenge of trying to incentivise highly skilled, most commonly older staff to stay in public positions, or attract them from the private sector, whilst simultaneously being a place of growth, development, and opportunity for younger and less experienced staff earlier on in their careers. The challenge of attracting younger staff into the civil service began to be documented as the private sector became a more attractive option for new graduates (Cribb et al., 2014).

As with gender and ethnicity, public services strive to be representative of the populations they serve. The average age of the New Zealand public service workforce as of 30 June 2021 was 44.0 years (Te Kawa Mataaho Public Service Commission, 2021a). The average age of the workforce has been trending down slightly from a peak in 2015–16 of 44.8 years. Before then, the workforce had been aging steadily, with the average age in 2000 being 40.8 years. New recruits are generally younger and more ethnically diverse than the existing workforce. The average age of those recruited into public service departments in the year to 30 June 2021 was 37 years, compared to 46 years for the existing workforce.

Figure 14 shows that the age profile of the public sector is broadly in line with the national workforce age profile, other than proportionately less youth and those aged over 65 years old.

Figure 14. Age profile of the public sector workforce compared to the total workforce, June 2021



Source: Stats NZ Household labour force survey and Te Kawa Mataaho (2021a)

As discussed previously, tenure-based remuneration systems are at odds with contemporary remuneration approaches. The UK government specifically states that they should be phased out (Cabinet Office, 2022b). It is important to consider how a remuneration system might be inadvertently incentivising number of years in an organisation through how promotions and bonuses are made, and salaries are set.

> *Some people say they have twenty years' experience, when, in reality, they only have one year's experience, repeated twenty times*
>
> - Stephen M R Covey, American leadership development author

Knowledge and skills

Governments need to implement remuneration models that allow adequate compensation for hard to find or niche skills. Skills gaps are common in the public services of the comparator countries and across the OECD countries generally. Most governments across the OECD find it hard to recruit candidates with specific skills, usually in IT or science, technology, engineering and mathematics-related fields (STEM) (OECD, 2021a).

In New Zealand, specific knowledge and skills that could be remunerated for are kaupapa Māori approaches to research and evaluation, tikanga Māori, te ao Māori, and fluent te reo Māori. The Primary Teachers' Collective Agreement includes an allowance for Māori immersion teaching (Example 7).

Example 7. New Zealand: Primary Teachers' Collective Agreement, effective: 1 July 2019 to 30 June 2022 – Māori immersion teaching allowance

3.17 Māori Immersion Teaching Allowance (MITA)

3.17 (a) All teachers, as defined in clause 1.6.14, required to teach in te Reo Māori immersion classes at levels one, two or three as defined in Schedule 1 to this Agreement shall receive an allowance of $4,000 per annum. This allowance shall be pro-rated for part time teachers (based on the teacher's total hours).

(b) From the start of the 2017 school year, all teachers, as defined in clause 1.6.14, required to teach in te Reo Māori immersion classes at level one who have more than three continuous years' service teaching in level one Māori immersion classes shall receive an additional allowance of $2,000 per annum. This is in addition to the allowance described in clause 3.17(a). This allowance shall be pro-rated for part time teachers (based on the teacher's total hours).

(c) From the start of the 2017 school year, for all teachers, as defined in clause 1.6.14, required to teach in te Reo Māori immersion classes at level one who have more than six continuous years' service teaching in level one Māori immersion classes the additional allowance described in clause 3.17(b) shall increase to $4,000 per annum. This is in addition to the allowance described in clause 3.17(a). This allowance shall be pro-rated for part time teachers (based on the teacher's total hours).

(d) The employer shall attest to the eligibility of teachers for these allowances according to the levels of te Reo Māori immersion outlined in Schedule 1 of this agreement.

(e) For clarity continuous service for the payment of the allowance in (b) and (c) above shall be interrupted but not broken by any periods of unpaid leave and/or breaks in teaching service and/or teaching service in classes other than Māori immersion level one.

Uncompetitive pay is often cited as a barrier to hiring the right people in the public sector, particularly for in-demand skill sets and leadership positions (OECD, 2021a). Some governments are working to embed flexibility in their pay and reward systems so that, under certain conditions, compensation for some key positions and skill sets can come closer to matching relevant market rates. Non-pay elements of attractiveness should also be considered, such as working conditions and opportunities for career development.

The OECD specifically recommends the following principles in improving employer attractiveness to recruit and retain high-quality public sector employees (OECD, 2019):

- Promote an employer brand which appeals to candidates' values, motivation and pride
- Determine what attracts and retains skilled employees – using this to inform policies
- Provide adequate remuneration and equitable pay
- Proactively attract under-represented groups and skill sets.

There are various systems that allow for the selection and reward of certain skills or knowledge such as the competency-based system or a qualification-based system. Note that research shows mixed results for the effectiveness and cost efficiency of market and skill supplement payments (IES, 2017). Their successful application depends on the situations and settings they are applied to, and the aims and nature of the payments.

Workers: Questions to consider

Gender and ethnicity

- What is the current gender and ethnic wage gap in my organisation? What policies may contribute to, or mitigate, that wage gap?
- Could full transparent pay be implemented in the organisation? How transparent are current pay ranges, and how employees move between bands/steps?
- What guidance is required to be followed?
- What reporting requirements do we need to adhere to?

Age and tenure

- What is our workforce age profile compared to the age profile of the populations we serve?
- How can we incentivise our workforce to be more reflective of the populations we serve?
- How does the current system reward tenure?

Knowledge and skills

- How can our remuneration approach proactively attract under-represented groups/skill sets?
- What is the market-rate for in-demand knowledge and skills?
- What sorts of knowledge and skills do we need now and in the future?

The workplace

Geography

Public sector organisations are varied, exist in different locations, and each have their unique workplace cultures. In designing remuneration systems, organisations need to consider how these external and internal features play a part.

With decentralisation and diversification, public sector organisations are now in multiple locations across a country. Geographically differentiated pay is a term used to describe differences in pay policies based on difference in locations (IDS, 2012). Public sector organisations need to think about where they want their staff to be located for certain roles, and how that affects the compensation they receive. The London Weighting is an example of this, which provides differential pay for employees located in London to account for the higher cost of living, particularly the cost of public transport, housing and childcare (Example 8). There is no standard formula for the London Weighting and the public and private sector supplement has been criticised as not aligned with the rise in the cost of living (Hirsch, 2016; Padley, 2022).

An Auckland Weighting was raised when the Auckland Policy Office was established in downtown Auckland. Geographically-differentiated pay rates arose among nurses when collective bargaining was undertaken at the enterprise level. In 2003, nurses employed by district health boards outside of Auckland found that they were paid significantly less than Auckland nurses and subsequent negotiations focused on gaining parity (Brooker, 2003).

Geographically-differentiated pay rates have been resisted by the Public Service Association, and union negotiated collective agreements often lead to national pay rates. However, the use of pay ranges and discretion within those pay ranges may lead to de facto geographically-differentiated pay rates.

Example 8. UK: London Weighting or London Allowance

The London Weighting had its origins in the civil service from the 1920s where there were separate London and provincial pay scales. It was later systematised in the 1960s and 1970s. The aim at that time was to create cost-reflective premiums across employment sectors, as a fair basis for wage bargaining.

However, in the 1980s, a coherent system for setting London Weighting based on costs was abandoned, and since then London Weightings and supplements have been largely based on efforts to secure staff in London, especially in shortage areas.

There is no systematic or agreed approach to calculating this weighting or allowance, with significant variation across employers and sectors. Under this more market-based approach, London Weightings have become more variable and in general have declined in value relative to the cost of living in London.

Occupation / sector	London Weighting in 2002	London Weighting in 2016
Prison officer	£3,000	£4,250
Police officer	£6,000	£6,687
Nurse	£3,268	£4,158
Banks	£3,000 (1988)	£4,000
Private sector	£1,050 to £3,000 (1988)	£900 to £5,500

The most recent analysis suggests that a minimum London Weighting needs to be £9,600 in Inner London and £6,549 in Outer London to cover the additional costs of a minimum living standard.

Source: Hirsch (2016) and Padley (2022)

A review of nine private sector firms and their experiences of geographically differentiated pay had the following lessons for the public sector (IDS, 2012):

- All the employers used market data to set basic pay. This market data included location, so location pay is often an integral part of the market pay medians set for roles.
- Labour turnover, absence, the cost of living and staff satisfaction with pay are also taken into account when setting basic (and local) pay.
- Pay structures for the nine employers include spot rates, negotiated pay scales, broad bands and individual salaries for managers. Progression was through performance and position relative to market for middle and senior managers while progression for unionised employees is generally through negotiated pay settlements.
- The key objective for a local pay system was competitiveness with the external labour market.
- There were three forms of geographically-differentiated pay.
  - location-specific pay bands/zones
  - traditional London allowances
  - no specific location payments but geographical differentials arising from the use of market data.
- Employers had no data on what it had cost to install local pay, or what it cost to administer.
- Most employers thought they obtained value for money from their spend on local pay, because they had no recruitment and retention problems.

Most UK public sector pay scales are set nationally, while private sector pay varies substantially by region and devolved nation. This means that public sector pay is lower relative to private sector pay in London and the South East than in other parts of the UK (Powell & Booth, 2021; Zaranko et al., 2019), despite wide application of the London Weighting.

The working environment

Job evaluations often take into account the working environment, ensuring that resulting pay levels account for this factor that is particularly important for some roles (Example 9). For example, Armed Forces employees operate in a very different environment to policy professionals. In an older survey of UK employers, 58% include working environment as one of the factors assessed in a job evaluation process, but almost all (96%) used 'knowledge and skills' and 'problem-solving and decision-making' (IES, 2016).

Example 9. UK: The Armed Forces (IES, 2016)

The UK Armed Forces examined representative roles from various trades and assesses each one against a set of six factors:

1. Knowledge, skills and experience
2. Complexity and mental challenge
3. Judgement, decision-making and job impact
4. Use of resources, level of supervision and influence
5. Communication
6. Working conditions.

The last factor is particularly designed to reflect the unique environment in which Service personnel operate. The resulting job weight assessment is expressed as a score, known as a Whole Trade Score (WTS), which is used to inform pay differentiation and grade.

Flexible working

Since the start of the COVID-19 pandemic, attitudes to and expectations about workplace flexibility have rapidly evolved.

Flexible working arrangements include work being achieved from various locations, variable hours of work, and compressed working weeks. Pro rata approaches are generally sufficient for these types of flexible working arrangements. In some cases, organisations have provided allowances to set up home offices.

Premium payments, on top of basic pay, have historically been used to compensate staff for working unsocial hours. A review of premia in a range of sectors in the UK found that premia are highest for Sunday, then night working, then for unsocial hours worked on Saturdays (IDS, 2015). Payments for unsocial hours working are typically higher for junior staff than senior staff (as a proportion of basic pay), and in some cases senior staff do not receive any premia.

Across most sectors of the economy, unsocial hours working arrangements and the associated premiums have changed as 24/7 operations have become more prevalent (IDS, 2015). With reductions in central government funding, local government in the UK have sought to make savings on pay and conditions for staff by reducing overtime premiums through an increase in 'core hours' (IDS, 2015). For central government, shifts were unusual but standby and call-out arrangements were important for the work of some agencies (for example, Department for Environment, Food and Rural Affairs and the Environment Agency). Agencies tended to make retainer payments for standby, and overtime is paid for the hours worked as a result of on-call arrangements.

Questions to consider

Geography

- Are there employees based overseas where different pay scales need to apply?
- Would a geographically-differentiated pay approach help attract and retain employees in certain locations, or with certain knowledge and skills?

Working conditions

- What sorts of working conditions apply to all the roles across the organisation?
  - How might those working conditions need to be accounted for in job evaluation and pay settings?

Flexible working

- How flexible is the pay system to easily allow for pro-rata of salary?
- What sorts of premia could apply for unsocial work hours?
- What sorts of premia could apply for standby and on-call arrangements?

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Appendix 1: Country summaries

Australia

The public sector, for the purposes of remuneration The public sector, more commonly referred to as the Australian Public Service (APS) comprises of all the entities that employ their staff under the *Public Service Act 1999* (*PS Act*). This includes all departments of state, and some other entities. As of June 2021, there were **153, 945 employees** in the Australian public service, an increase (of 2.3%) from the same time in 2020 (APSC, 2021b).
Institutional and legislative settings The Australian Public Service Commission is a central agency within the Prime Minister and Cabinet portfolio, and it supports the public workforce to meet the needs of the government and Australians. Its primary functions are to improve people management, manager capability, and professional development across the Australian public sector. Remuneration settings are within this remit. The principle Act governing the operation of the Australian Public Service is the Public Service Act 1999. The Act is supported by the following subordinate legislation: • **Public Service Regulations 1999.** These Regulations include provisions relating to the functions of the Australian Public Service Commissioner and the Merit Protection Commissioner (MPC); the employer powers of Agency Heads; non-ongoing (temporary) employment arrangements; and use and disclosure of personal information. • **Public Service Classification Rules 2000.** These Rules provide an Australian public service wide approach to the classification of duties (jobs) and employees with work value as the underlying basis. • **Australian Public Service Commissioner's Directions.** These Directions include provisions relating to the Australian public sector values; recruitment and selection; performance management; handling of suspected Code of Conduct breaches; and other employment matters.

Remuneration

Australia underwent a period of decentralisation from mid-1970s that impacted public employees' remuneration. In 1974, the Prime Minister announced the establishment of a Royal Commission to examine government administration. The examination led to significant public service change with a focus on 'public management philosophy', focused on efficiency in delivering programmes and services through outsourcing and privatisation, and had a heavy emphasis on performance management (Department of the Prime Minister and Cabinet, 2019).

The Australian public service began adopting performance-based pay in 1999 (Elliott & Bender, 1997).

Australia's Government changed in June 2022 and the Public Service Commission is working with the new Government and the Minister for the Public Service to determine future policy arrangements for workplace relations in Commonwealth agencies (APSC, 2022). Substantial negotiations, significant actions are advised to pause until the new workplace relations policy arrangements are known.

Current settings are the Public Service Classification Rules 2000 (*Public Service Classification Rules*, 2000) which provides guidance on determining and managing classification arrangements in the public service. The guide came into force in 2014 and adopts a single spine of classification levels, underpinned by a suite of training classifications (APSC, 2013) (Table 3).

The Classification Rules facilitate mobility within the public service, and provides a structure that enables the merit-based promotion of employees to a higher classification level (APSC, 2013). The pay scale for these classifications is a matter for each agency to determine according to its own needs. Agencies are encouraged to incorporate performance-related pay elements in their pay systems.

Table 3. Australian public service remuneration classification levels

Schedule 1—Approved classifications

(paragraph 5(b))

Column 1 APS group	Column 2 Classification
Group 1	APS Level 1
Group 2	APS Level 2
Group 3	APS Level 3 APS Meat Inspector 1 Customs Level 1
Group 4	APS Level 4 APS Meat Inspector 2 DAFF Band 1
Group 5	APS Level 5 APS Meat Inspector 3 Customs Level 2
Group 6	APS Level 6 APS Meat Inspector 4 Customs Level 3 DAFF Band 2 Examiner of Patents Medical Officer Class 1 Valuer
Group 7	Antarctic Medical Practitioner Level 1 Customs Level 4 Executive Level 1 Medical Officer Class 2
Group 8	Antarctic Medical Practitioner Level 2 Customs Level 5 DAFF Band 3 Executive Level 2 Medical Officer Class 3 Medical Officer Class 4
Group 9	Antarctic Medical Practitioner Level 3 Chief of Division Grade 1 Chief Research Scientist Grade 1 Medical Officer Class 5 Senior Executive Band 1
Group 10	Chief of Division Grade 2 Chief Research Scientist Grade 2 Medical Officer Class 6 Senior Executive Band 2
Group 11	Chief of Division Grade 3 DAFF Band 4 Senior Executive Band 3

The Classification principles

The classification framework is based on a set of principles that provide a common foundation for the consistent application of classification management across the Australian public service (APSC, 2013):

1. *Jobs are classified, not people.*
   Jobs are classified on the basis of the work to be performed rather than the particular qualities of the person performing it.
2. *Jobs are classified based on work value.*
   The work value of a job is established by considering the type and nature of the work to be performed and assessed against the relevant work level standards.
3. *A classification level is determined according to the highest level of function performed most regularly.*
   Comprehensive analysis of the job to be performed may identify a range of duties across different levels of work value. The classification level allocated is based on the level of the highest function most regularly performed.
4. *Classification and remuneration are related, but assessed independently.*
   Remuneration does not drive or determine a classification level, only work value does. The remuneration applicable to each classification level is determined in an agency's enterprise agreement, including the flexibility to consider an alternative salary for an individual employee under an individual flexibility arrangement and in keeping with the bargaining framework for APS enterprise agreements.

The Classification objectives (APSC, 2013, 2021a)

- **Consistency:** The classification system seeks to be consistent and equitable by grouping together duties of a similar work value within the same classification level. Consistency requires a credible and defensible method of establishing the work value of each job and the relativities between all work levels. This is achieved through a job evaluation system based on work value standards set for each work level.
- **Transparency:** Classification arrangements that are supported by clearly defined work level standards support an open and transparent classification system.
- **Flexibility:** The classification system supports flexibility by recognising that some jobs in the Australian public service are quite different to most others.
- **Mobility:** The classification systems supports a unified Australian public service and mobility within the service by providing a common language to identify and describe the common elements of public service jobs, enabling comparison of roles across agencies and job types.

The Public Service Commission also provides guidance on Performance Bonus, the latest released on 13 August 2021.

The under-review Public Sector Workplace Relations Policy 2020 states that

> *"Annual remuneration adjustments may be negotiated, capped however in line with the year to date percentage change in the Wage Price Index (WPI) for the Private Sector from the most recently released June quarter. For the avoidance of doubt:*
>
> *- the APSC will publish advice each year notifying agencies of this figure[1];*

- each annual remuneration adjustment will reflect the most recently applicable WPI figure. This is likely to mean that the adjustment will be at a different rate in each year of a workplace arrangement; and

- an agency may negotiate a remuneration adjustment, based on affordability, of a set rate or the WPI (Private) figure, whichever is the lower."

Denmark

The public sector, for the purposes of remuneration Denmark's public sector industrial relations model has a relatively high level of decentralisation (Hendeliowitz, 2008). On 1 January 2007, a reform of the public sector structure was implemented (known as the Danish Local Government Reform), which implied significant changes to the organisational structure and division of tasks in the public sector. A total of 271 municipalities were reduced to 98 large municipalities and 14 counties were abolished and replaced by five regions. Today, the public sector comprises: • **The state sector:** which is in charge of tasks at central level, including central administration, the defence, the police and education (youth and higher education programmes) • **The regions**: which are in charge of tasks at regional level, including public health service • **The municipalities:** which are in charge of tasks at local level, including the environment, employment, primary and lower secondary schools, child care and care for the elderly. As at March 2022, there were 757,803 full-time equivalent employees in the public service (Statistics Denmark, 2022). The public sector is a reasonably large proportion of Denmark's workforce. In 2019, public employment was 28% of the total workforce, and third highest in the OECD (OECD, 2021b)
Institutional settings The Agency for the Modernisation of Public Administration is part of the organisation of the Ministry of Finance and carries out the function of overall central government employer with respect to HR, collective agreements, management, employment law, pay and pension. The Agency for the Modernisation of Public Administration negotiates and concludes collective agreements and other agreements with the employee organisations in the state sector and takes part in the legislative preparatory work within its entire remit (Agency for the Modernisation of Public Administration, 2011). In addition, the Agency for the Modernisation of Public Administration provides ministries and government agencies with advice on employment law, collective agreements, pay and pension. The Agency for the Modernisation of Public Administration also develops HR tools as well as a number of pay and personnel-related statistical instruments for local HR functions.
Remuneration system Denmark underwent significant remuneration reform in the 1990s. Throughout the 1970s the right of each ministry to negotiate pay and working conditions within its sector was transferred to the Ministry of Finance, which has subsequently acted as the employers' organisation for the separate ministries and institutions (Ministry of the Presidency, 2010). Under that former remuneration system, public employees were paid in accordance with a series of pay scales that increased according to tenure, generally every two years. A new remuneration system was introduced in 1998 (Hendeliowitz, 2008). This system, referred to as New Pay is based on three key principles: • Decentralisation, towards bodies that have a better understanding of the working conditions, and employees skills and effort.

- Pay for performance, linking pay to results, and the individual skills of employees.
- Motivation, using pay as a management tool to increase motivation as a way to achieve a more efficient public sector.

The decentralisation trend continued with the Danish Local Government Reform of 2007 that gave local government considerably more autonomy.

The majority of those working in the state sector are employed under a collective agreement or as civil servants. There pay is determined by the collective bargaining competence of the 'central organisations'. There are five central organisations in Denmark which represent a number of associated employee organisations (Agency for the Modernisation of Public Administration, 2011)..

These five central organisations have established a joint collective bargaining committee, The Danish Central Federation of State Employees' Organisation (CFU). As such, pay and employment terms are negotiated between the Ministry of Finance (Agency for the Modernisation of Public Administration) and the CFU, through the collective bargaining process every two years.

In 2011, approximately four out of five state employees are comprised by New Pay against compared to only 3% in 1998 when the scheme was introduced.

This New Pay system, which continues to today, is a basic pay rate system. This of consists of a basic pay rate, or pay interval (centrally agreed) and an allowance (non-centrally agreed) subject to negotiation. Bonuses are agreed at the local level, and are related to (Ministry of the Presidency, 2010)
The basic pay rates hold typically no or only a very small number of automatic seniority-related pay increases. Individual pay development has been decentralised to the individual workplace, in line with the wish of the Agency for the Modernisation of Public Administration that a greater proportion of the pay formation local level (Agency for the Modernisation of Public Administration, 2011).

Denmark also seeks to pay employees in the public sector at similar levels to employees in the private sector. This is achieved through an "adjustment program", which is administered by the State Employers Authority. Public sector wages are increased or decreased to mirror the private sector (Eurostat, 2018).

United Kingdom

Public employment structure The public sector comprises of all workers that employed by the state these include: central government employees, local authorities, government agencies and public bodies (Hourston & Tetlow, 2022). Public employment has recently increased in the UK due to the demand that Brexit and COVID-19 has had on the public sector – there are now only 1% fewer people employed by the public sector than in its peak in 2009. 'Civil servants' (those working in Ministries and agencies) represent 9% of all public servants. The majority of public servants are regulated by their individual contract which are subject to employment law (Ministry of the Presidency, 2010). The UK uses a single-level system for collective agreements. Pay for certain groups of civil servants is however set by government decisions after proposals from independent pay review bodies.
Institutional setting The Minister for the Civil Service – typically the Prime Minister of the UK – has the authority to manage the civil service, including agreeing remuneration for civil servants and the conditions on which a civil servant may retire. The Cabinet Office, on behalf of the Minister for the Civil Service, oversees the Civil Service Management Code, which sets out regulations and instructions for the terms and conditions of service for civil servants. The management code also sets out delegations that have been made by the Minister for the Civil Service to Ministers or office holders in charge of departments and their arm's length bodies. The latter includes delegations to devolved administrations (Cabinet Office, 2021). The independent Civil Service Commission upholds the Civil Service Code and regulates recruitment to the civil service, providing assurance that appointments are made on merit following fair and open competition. Commissioners chair open recruitment competitions for the most senior posts in the civil service (Cabinet Office, 2021). The Cabinet Office issues the *Civil Service Pay Remit* guidance, ensuring that pay systems are affordable and flexible enough for all relevant government departments to apply (Cabinet Office, 2022b; OECD, 2021c). This guidance is published annually outlining the parameters for departments to pay their employees. That guidance states: *Departments are reminded of their obligation to comply with their* ***Public Sector Equality Duty*** *when considering pay awards for their staff and the requirements of the* ***HR Functional Standard*** *(including adherence to all legal and regulatory requirements).* *Departments are also expected to apply this guidance alongside the* ***HM Treasury*** *guidance on public sector pay and terms.* *Departments are encouraged to take legal advice on the drafting of any pay commitments to ensure that these are affordable and consistent with this guidance.* *Ministerial approval of pay remits is given on the basis that a department does not enter into any legally binding agreements in Trade Union negotiations that effectively commit it to automatic costs in the future.*

The Civil Service (within the Cabinet Office) provides services directly to employees, departments and agencies, including paying benefits and pensions and running employment services. Civil Service HR Expert Services provides advice on remuneration system setting.

The Office of Manpower Economics provides an independent secretariat to eight Pay Review Bodies which make recommendations impacting 2.5 million workers – around 45% of public sector staff – and a pay bill of £100 billion The eight review bodies are:

- Armed Forces' Pay Review Body (AFPRB)
- Review Body on Doctors' and Dentists' Remuneration (DDRB)
- NHS Pay Review Body (NHSPRB)
- Prison Service Pay Review Body (PSPRB)
- School Teachers' Review Body (STRB)
- Senior Salaries Review Body (SSRB)
- Police Remuneration Review Body (PRRB)
- National Crime Agency Remuneration Review Body (NCARRB)

Pay Review Bodies generally follow the same procedure to advise the government on pay. Firstly, the relevant secretary of state issues a remit letter to the pay review body covering sectors overseen by their department. Then secretaries of state will use their remit letter to formally request recommendations on employee pay and ask pay review bodies to consider certain objectives such as affordability, recruitment and retention and the state of the wider labour market (Hourston & Tetlow, 2022).

Remuneration

There is no one unique pay system in the UK. The civil service government departments have delegated authority to set pay terms and conditions of employment for junior grades, subject to compliance with the control set by the annual remit guidance (OECD, 2021c). There is, however, a near-universal application of individual performance-based pay across departments, following significant civil service reforms in 1987 and 1999 (OECD, 2005).

Each agency designs its own pay scales to meets its individual needs. A salary is linked to an employee's value to the organisation measured by a job grade (OECD, 2021c). Predominantly there are seven grades and three senior level grades, this means that pay is not automatically related to education or experience but a range of considerations including "size and challenge of the job; professional and leadership competence; an individual's market value" (OECD, 2021c, p. 29).

The wide use of performance-based pay is evidence by explicit mention in the last few years' Civil Service Pay Remit guidance on how performance related pay awards are to be managed. The guidance also mentions that further advice should be sought from the Civil Service HR Expert Services if wishing to implement a capability-based pay framework (Cabinet Office, 2022b).

There is also the option to implement the Digital Data and Technology (DDaT) pay framework (Cabinet Office, 2022b). That pay framework facilitates consistent pay ranges (based on current departmental ranges and market data) and allowances for use by departments seeking to recruit and retain staff and embed capability in roles, enable departments to compete more effectively on pay in the external market and reduce internal competition across the civil service. The DDaT pay framework seeks to achieve savings through the reduction of contingent labour use.

The Civil Service Pay Remit guidance explicitly prohibits use of automatic progression pay based on time-served (Cabinet Office, 2022b):

> *Departments should have removed automatic progression pay based on time-served from their workforces and it should not be reintroduced. Any progression pay still in place in core departments or their ALBs not agreed through business case approvals will be in breach of government policy and must be notified to the Cabinet Office and HM Treasury immediately. Going forward, departments should ensure that pay arrangements they put in place do not involve automatic time-served progression pay, or create an entitlement for employees to receive automatic increments.*

From 1 April 2022, departments must also ensure that they apply the legislative increase to the National Living Wage (NLW) and National Minimum Wage (NMW). As mentioned above, departments must also meet obligations under the Public Sector Equality Duty, and the Equality Act requirements to avoid discrimination.

The senior civil service has had its own, separate, pay system since 1996, consisting of a salary scale which is reviewed annually and based on recommendations from the Senior Salaries Review Body (SSRB, one of the bodies serviced by the Office of Manpower Economics) (Cabinet Office, 2022a; OECD, 2021c).

6.4.2 Reward

Organisational pay and reward packages should align with Civil Service reward principles, organisational objectives and wider industry comparisons and trends. Human resource professionals should prepare and distribute allowances, salary increases and adjustments, and bonuses to employees according to organisational policy.

The reward principles, launched in 2006, were:

1 Meet business need and be affordable	• Business, operational and workforce needs are the drivers for a reward strategy. • Business cases outline benefits, risks and costs and justify investment. • Reward arrangements must be sustainable.
2 Reflect nature of work	• Recognise and reflect workforce groups identified by function and skills utilised (e.g. operational, corporate or policy delivery service). • Organisations employing similar workforce groups in similar markets are encouraged to consider similar reward arrangements.

3 Recognise performance	• Reward reflects the continuing value and the sustained contribution of an employee and their performance in a given period. • Value and performance rewarded reflect how jobholders contribute to their organisation, impact delivery and meet Professional Skills for Government (PSG) requirements.
4 Manage total reward	• Reward includes all aspects of the "employee deal"; tangible and intangible elements of what is offered. • Total reward is tailored and promoted to attract, engage and retain the right talent as well as providing personal choice and flexibility. • Employers/employees need to develop a full understanding and appreciation of the value of the total reward package.
5 Manage all cash	• Total cash comprises base pay and variable pay. • Base pay reflects job challenge and individuals competence in the job. • Variable pay reflects performance delivered against agreed objectives.
6 Face the market	• Reward levels, generally and for specific skills, aligned with agreed market positioning to attract, motivate and retain the right talent. • Reward competitiveness covers each element of total reward (e.g. base pay, pensions, leave) and the overall deal.
7 Support equal pay	• Eliminate direct and indirect reward discrimination and reduce any unjustified gender pay gaps. • Operate reward systems that are perceived by staff to be reasonable and transparent. Reward systems and structures evaluated and kept up to date to ensure that they continue to meet the requirements of legislation.

Source: Armstrong's Handbook of human resource management practice (Armstrong, 2012)

Canada

Public employment structure In Canada, the public service, is more commonly referred to collectively as the 'civil service' and unlike other countries, no distinction is made between federal and local government (Doerr, 2013). A civil servant is someone appointed by merit to work for any level of government. Civil servants are members of the Public Service Commission of Canada. As of 2021, there were 319,601 employees working in Canada's federal public service, representing 0.84% of the Canadian population(Government of Canada, 2021). The federal public service consists of the core public administration and separate agencies. The term "core public administration" refers to approximately 70 departments and agencies for which the Treasury Board is the employer. The term "separate agencies" refers to agencies listed in Schedule V of the Financial Administration Act (Government of Canada, 2021).
Institutional setting The Government of Canada negotiates rates of pay for employees in the core public administration as part of the terms and conditions of employment. The Treasury Board, as the employer, negotiates 27 collective agreements with 15 different bargaining agents (Treasury Board of Canada Secretariat, 2015). The Public Service Commission of Canada is responsible for promoting and safeguarding a merit-based, representative and non-partisan public service, in collaboration with stakeholders (Government of Canada, 2022a). Responsibility for public service management is divided between departmental organisations, Treasury Board of Canada Secretariat (TBS), and the Public Servant Commission (PSC). Public servants are employees of their department and the public service as a whole. The Treasury Board has overall responsibility for management policies and represents the employer in collective bargaining, but the Public Service Commission, under the Public Service Employment Act 1967, establishes staffing criteria for departments and assists them in training and development (Doerr, 2013). The other key piece of legislation is Public Service Labour Relations Act 2005.
Remuneration Over the last two-decades, Canada has experienced major reforms within its public service. Predominantly, these reforms have focused on downsizing and streamlining of Cabinet, characterised through a workforce adjustment directive, in 1995, that legislated and facilitated the downsizing (Doerr, 2013). These reforms have been accompanied by the implementation of quality management and performance-oriented measures designed to provide better performance at lower costs to taxpayers. Canada has a unique bargaining system, unlike most country's negotiations are centralised. TSB is the employer and manages all wage negations (OECD, 2021c). This means that there is not one single remuneration system in place, but instead pay and compensation is agreed across the 27 collective agreements with 15 different bargaining agents (Government of Canada, 2007). The Occupational group structure forms the basis of the pay system. Occupational groups have a two-letter abbreviation based on its title (for example, "FS" stands for the Foreign Service group). Each group has a definition, the group and sub-group definitions have job evaluation and qualification standards, and are numerically coded.

A separate policy statement states that the rates of pay for excluded and unrepresented employees, including those of the core public service and senior public servants are determined by TSB (Government of Canada, 2022b). For senior public servants, pay has two components i) base salary and ii) performance pay. Performance pay has two elements i) a variable amount (at-risk pay) which must be re-earned each year and ii) a bonus for performance that surpasses expectations. Those who are rated "unable to assess" or "did not meet" receive no at-risk pay or bonus.

Deputy Ministers

Performance Pay	DM-1	DM-2/3	DM-4
No At-Risk Pay	---	---	---
At-Risk Pay	Up to 20%	Up to 25%	Up to 30%
Bonus	Up to an additional 6%	Up to an additional 8%	Up to an additional 9%

Heads of Agencies and other GiC Appointees

Performance Pay	GC-1 to GC-5	GC-6 to GC-9	GC-10
No At-Risk Pay	---	---	---
At-Risk Pay	Up to 10.6%	Up to 17.4%	Up to 20.4%
Bonus	Up to an additional 3%	Up to an additional 6%	Up to an additional 8%

Chief Executive Officers of Crown Corporations

Performance Pay	Groups 1 to 3 % of salary	Groups 4 and 5 % of salary	Groups 6 and 7 % of salary	Groups 8 % of salary
No At-Risk Pay	---	---	---	---
Some At-Risk Pay	Up to 11.25%	Up to 19.5%	Up to 21%	Up to 24.75%
Maximum At-Risk Pay	Up to 15%	Up to 26%	Up to 28%	Up to 33%

Remuneration decisions by TSB are guided by four overarching principles (Government of Canada, 2007):

- **External comparability**: Compensation should be competitive with, but not lead, that provided for similar work in relevant labour markets.
- **internal relativity**: Compensation should reflect the relative value to the employer of the work performed
- **Individual/group performance**: Compensation should reward performance, where appropriate and practicable, based on individual or group contributions to business results; and,
- **Affordability**: The cost of compensation must be affordable within the context of the commitments to provide services to Canadians, the fiscal circumstances, and the state of the Canadian economy."

Since 2012, a bilingualism bonus is payable to employees who occupy a bilingual position, and have Second Language Evaluation results confirming that they meet the language requirements of the position. The bonus is an annual payment of $800 (Government of Canada, 2012).

Since early 2018, the Treasury Board of Canada Secretariat and Shared Services Canada have been developing and piloting a future HR and pay digital solution that is mobile and accessible for the Government of Canada. As at July 2021, the pilot was being expanded to new departments (Shared Services Canada, 2021).

Singapore

Public employment structure Singapore has high centralisation of power and is viewed as an innovator in relation to public service policy (Quah, 2010). Singapore only has one level of government which means national and local government are one entity (Simanungkalit, 2013). The Singapore public service employs around 153,000 public officers working in 16 ministries and more than 50 statutory boards.[12] Within the public service is the civil service, comprising about 87,000 officers working in the ministries and functions of the State (Government of Singapore, 2021). Public employment is classified, based on various jobs in the public sector, into four Divisions (I to IV) with different levels of work and educational qualifications (Ngan, 2015).
Institutional setting Pay policies in Singapore are primarily implemented by the Public Service Division (PSD). PSD ensures that the different ministries implement pay in a consistent way and oversees the budget pool for specific salary components such as performance bonuses (PSD, 2022) . The PSD is distinct from the Singapore Public Service Commission. The Commission's key function is maintaining discipline, selecting and developing scholarship holders, and, appointing senior management (Public Service Commission, 2022b).
Remuneration Singapore's remuneration system underwent major reform in the late 1980s. A 'Flexible Wage System' was introduced in July 1988, driven by an economic recession in 1985 (Chew, 1997). The new system embedded wage increases, on top of standard salary increments, in the form of mid or end of year bonus. It also provided the government with increased flexibility to adjust wages in response to future economic situations. In the 1990s, Singapore introduced 'The Civil Service Performance Bonus' which allowed the civil service to link pay directly with individual performance on the job (Ngan, 2015). This gives the salary structure added flexibility and provides management a finer tool with which to reward public servants based on performance. Public servants' salary structure is characterised by a step-based system, that starts according to which division an employee is in. Each division is also divided into broad occupational groups such as administrative group or education group. These groups are then divided into a recruitment grade that reflects the level of job responsibly and difficulty. Employees can then receive a range of bonuses on top of their base pay (SCCS, 2011). Pay ranges are determined for each grade using job evaluation of the service provided and level of difficulty. The aim is to ensure two key principles: equal pay for equal jobs and that promotion results into movement to positions of higher job responsibility (SCCS, 2011). This system is based off three key principles (PSD, 2015): • **Paying a clean wage:** In many countries public sector jobs are attractive because of additional and often hidden benefits in the form of housing, cars and various and allowances. In

[12] Statutory board have their own recruitment and human resource management policies, they are considered independent from employers and employees from the civil service.

Singapore, a salary packages are kept clean, with out hidden perks, through our 'Clean wage policy'.

- **Performance-driven pay and promotions**: Part of public sect public sector salaries depends on performance bonus system was introduced to senior civil servants in 1989 and all other officers on 2000, and provides a direct link between an officers annual performance and pay.
- **Paying competitive rates:** The salaries of all public officers are reviewed regularly to keep pace with the market. To help attract talent to the public sector and reduce the likelihood of corruption, the salaries of top civil servants and politicians are benchmarked against those professions considered comparable in terms of scope.

Israel

Public employment structure
The State of Israel was founded in 1948, where organisations of the Jewish Community and the Hisadrut (Israel's original national trade union) became key influencers in the country's political sphere (Tzur & Cohen, 2018). Israel has no formal written constitution, and instead adopts systems of basic laws and rights that act as a constitutional replacement. The parliament of Israel – the Knesset – has passed eleven "Basic Laws" that broadly govern the State. Israel has a relatively large public sector comprising of 19.7% of total employment in 2017, above the OECD average (OECD, 2021c).
Institutional settings The Ministry of Finance in Israel has governance across the economic and financial decisions of the State. In the public sector, article 29 of the Budget Fundamental Law provide the Ministry of Finance authority on all public expenses, specifically how to compensate public servants (OECD, 2021c). The Ministry of Finance "centralises the three functions of budget, pay, and social dialogue/collective bargaining" (OECD, 2021c, p. 9). The Civil Service Commission is the employer for the central government agencies and ministries. The Civil Service Commission also plays a regulator role across government, as it determines regulation and procedures across recruitment, promotions, evaluation, and sets the structures and standards. The Commission also produces the mandatory 'Civil Service Regulations Code' (Cohen, 2019). The Histadrut, renamed "the New Histadrut" remains an important social partner in the public sector, with other unions such as the Grade School Teachers' Union, the High School Teachers' Union, the Doctors' Union and the Leumit National General Union (OECD, 2021c). In 1969, the Labour Courts Law created a separate judicial system to solve collective and individual legal labour disputes. The Labour Court System is composed of five Regional Labour Courts, with appeals to the National Labour Court (OECD, 2021c).
Remuneration Israel has had turbulent past of failed public service reforms. Mirroring other countries' reform timelines, attempts to adopt New Public Management practices were supported by Israeli officials throughout the 1980s and 1990s, but had limited success. Commentors noted that both the highly centralised control of public administration alongside the country's major security concerns, meant that immediate political considerations were prioritised, rather than the long-term issue of an ill-equipped civil service (Cohen, 2019; Tzur & Cohen, 2018). More recently, the Israeli government has adopted a plan for updating its civil service. As of 2017, the plan has been implemented and

> *"calls for creating a code of ethics, developing a common language for the civil service, devising strategic planning for long-term human capital, creating a theory and doctrine for personnel management, developing indices to compare offices, changing the methods of recruiting and selecting employees, developing methods for recruiting quality candidates, analysing jobs and training employees, strengthening the senior civil servants, and decentralizing HR management methods and rules." (Tzur & Cohen, 2018, p. 952)*

Currently, the remuneration system in Israel is largely tenure-based. The public sector gives high weight to seniority in salary (OECD, 2021c). Israel has implemented performance-related pay that targets mainly non-managerial employees (OECD, 2021).

Pay is determined through the collective bargaining process.

The OECD (2021b) recently reviewed Israel's pay system, and made the following recommendations:

- Rationalise the system of allowances: Allowances are an important component of public sector pay but many are outdated and no longer serve their original function (examples include car ownership, special pay for training). They should be incorporated into the salary structure.
- Identify key competencies to align pay with market levels for certain profiles. To attract employees with high-value skills.
- Simplify the job classification system: A more flexible and less distinct and numerous job categories would enable new ways of working and offer more flexibility.

MARTIN JENKINS

Wellington T +64 4 499 6130
Level 1, City Chambers, Cnr Johnston and Featherston Streets, Wellington 6011, PO Box 5256, Wellington 6140, New Zealand

Auckland T +64 9 915 1360
Level 16, 41 Shortland Street, Auckland 1010, New Zealand

info@martinjenkins.co.nz **martinjenkins.co.nz**