



Report Title:	Allowances in the Public Service		
Report No:	2023-0287		
Date:	14 December 2023		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Indicate if a further discussion is desired	Due Date	n/a
Contact Person:	Alex Chadwick, Deputy Commissioner Workforce		
Contact No:	9(2)(a) privacy		
Encl:	Yes – appendix one	Priority:	Low
Security Level:	IN CONFIDENCE		

Executive Summary

1. Allowances for public servants are extremely varied and are provided for a range of reasons and in a range of ways across the system.
2. To some extent the diversity of types and levels of allowance has been supported by the devolved structure of the public service, with individual agencies negotiating their own terms and conditions in response to individual claims or issues. The nature of the workforce, for instance if there is the existence of shift work or unsocial hours, also tends to influence the availability and range of allowances.
3. Part of the context for the development of allowances is the flexibility and operation of wider system remuneration policies such as pay restraint or promotion of specific concepts such as wellness opportunities.
4. Other levers to influence future allowance design exist at Ministerial level and the paper outlines these options.

Recommended Action

We recommend that you:

- a **indicate** whether you want further advice or a discussion on public service allowances

Yes/no

Hon Nicola Willis
Minister for the Public Service

IN CONFIDENCE

Purpose of Report

5. You have asked for advice on the scope and scale of allowances in the Public Service, how allowances are negotiated and an understanding of what levers you have for influencing these.

Allowances defined


6. An allowance is a payment made to an employee in addition to “base salary”. They differ from other forms of compensation or reimbursement (not covered in this report) such as overtime payments, superannuation contributions, performance elements of pay (where these exist) or reimbursement for receipted expenses incurred while on official business.
7. Allowances can be in employment agreements or in human resource policies. Existing allowances can be difficult to change in the short term as they may need to be negotiated out of agreements or consulted on if in policy documents. However, over the long term an agency paying specific attention to its allowance environment can lead to change, usually through a mix of ‘buying out’ the allowance or redesign. For instance, many specific allowances might be consolidated into a single general allowance such as has happened in some wellness allowances.
8. When the Public Service Commission (the Commission) reviews a new allowance (or a change in its rate), along with aligning with the Government Workforce Policy Statement, we would be looking to see that it is for a clearly defined purpose that is of benefit to the employer. For instance, a higher duties allowance is paid to recognise the additional work and responsibility of an individual acting in a more senior role and encourages flexibility and short-term mobility in our workforce.
9. A result of our highly devolved system for setting employment terms and conditions is that while agencies often have similar sounding allowances, the definition and application vary. This makes direct comparisons difficult, but broadly we group allowances as:

Description of type of allowance	Example of allowances
<p>Allowances based on the nature of the work</p> <p>Allowances paid due to the type of work individuals are performing, where that is not remunerated through the annual salary.</p>	<ul style="list-style-type: none"> • Shift allowances • Travel and meal allowances (where there is no reimbursement structure) • On-call allowances; • Location allowances; • Specific role allowances
<p>Additional work allowances</p> <p>Where staff perform additional duties beyond their own role.</p>	<ul style="list-style-type: none"> • Higher duties • Special duties
<p>Cultural allowances</p> <p>Payments specifically to recognise cultural contribution or skills of staff in addition to any element that is built into base salary rates.</p>	<ul style="list-style-type: none"> • This is not limited to any one particular culture, but in practice we have only found examples relating to Māori language or Māori cultural capability.

<p>Wellbeing allowances</p> <p>An allowance to support activities that help the employee to manage health and wellness.</p>	<ul style="list-style-type: none"> • General wellbeing allowances which can be quite broadly defined, or limited to a list of approved activities • Vision and hearing allowances to contribute to costs of tests and/or glasses or hearing aids • Insurance contributions
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10. A more detailed list of allowances, including specific examples and also some examples of infrequent historical/legacy allowances, is attached as appendix A.
11. The type and frequency of allowances also varies by workforce type:
 - a. Office based workforces where there is some degree of flexibility to work arrangements will tend to have the lowest number of allowances, with those used focusing on higher duties, development and wellness. Overtime or travel allowances are less common (instead reimbursement for travel costs may occur).
 - b. Large, client-facing, generally low-paid workforces where work tasks are relatively prescribed tend to have arrangements similar to the above, but also allowances that recognise overtime and travel requirements.
 - c. Workforces that have unsocial hours or shift work (such as Department of Corrections, Immigration New Zealand and New Zealand Customs Service staff), and workforces which work remotely (for example Department of Conservation rangers) tend to also have specific allowances that recognise these arrangements or other requirements of the role such as footwear or travel between locations.

The context for public service allowance design

12. There is a long history of allowances being a core feature of public service remuneration. A number of allowances and other employment features that we observe in the public service have their genesis in employment arrangements that pre-date the reforms of the 1980's and 1990's. This is particularly true of those allowances that serve to reimburse for expenses or compensate for additional responsibility.
13. Against that background, and in our highly unionised employment environment, allowances have continued as a remuneration tool for both employers and unions.
14. 9(2)(g)(i) free and frank

15. Allowances enable chief executives to reward and recognise outcomes where flexibility does not exist within the remuneration structure as is common with tenure-based pay systems or during the recent period of pay restraint. Allowances can also offer a cost-effective way to recognise individual employee effort. One of the arguments put forward for the recent focus on wellness and skill development allowances, is the ability to support and recognise additional effort during the post-COVID environment without lifting pay levels.

16. In the course of collective bargaining, the introduction of allowances can be seen by employers as a relatively minor cost compared to a claim to increase base salary for all, and thus an adjustment to allowances can act as a circuit-breaker to stalled negotiations. There is also a ratcheting effect in the public service where the introduction of a new allowance, or a substantial increase in the rate paid, starts a ripple effect across the sector with other agencies following suit.
17. Over time, agencies may also seek to consolidate or remove allowances in order to simplify pay arrangements, only to later face claims to re-introduce specific allowances, particularly where salary increases are constrained.
18. This high use of allowances can mean that it is harder to compare salaries both across agencies and across roles within an agency. Roles that traditionally feature a high proportion of their salary paid by allowances (such as Corrections officers) can often look like they pay lower rates than those that have incorporated all allowances and sometimes also superannuation contributions into the advertised rate for the role. This variability in allowances has added to the complexity in pay equity comparisons and other processes that require a consistent definition of 'what is core remuneration'.

Influence over allowance design and value – direct levers

19. Within that context, there are direct and indirect ways to influence allowance design (including value). The key direct lever that Ministers have to establish the framework for allowances is through a Government Workforce Policy Statement. The draft Statement attached to the briefing *Delivering Outcomes through Effective Employment Relations – Implementing a Government Workforce Policy Statement on Public Sector Employment Relations* [2023-0280] 9(2)(f)(iv) confidentiality of advice

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Influence over allowance design and value – indirect levers

22. The overall approach to remuneration setting is perhaps the most significant, albeit indirect, lever that influences the value and commonality of allowances. Because allowances are a tool that tend to compensate for inflexibility or inadequacy (perceived or

actual) in base salaries, greater flexibility in remuneration design to adequately compensate for that particular role or person's efforts and clearer agreed views on what base salary covers will reduce the focus on allowances. For instance, a salary that is seen to cover for hours above a normal workday reduces requests for overtime allowances.

23. The management of the employment relations environment by the Commission can help to support agencies to give effect to your expectations and to focus on Government priorities through what is incentivised by allowances. Alongside signals sent in Budget Advice on affordability and fiscal consideration, this will work to moderate expectations of costs associated with allowances.
24. Longer term, we could look to consider if there are advantages in having a clear definition of what a base salary in the Public Service should cover. This could also support controlling the development of add-on or workaround allowances and helping to articulate expectations for a direction of travel for remuneration design. There is a risk however, that it would lead to debate and legal challenge if done poorly or associated with inflexible remuneration design and it would not lead to a quick reduction in existing allowances (but may do so over time). We can provide you with further advice if you are interested in considering this approach.

Reporting on allowances

25. Allowances are not part of base pay and do not currently get reported to the Commission. Consequently, information on allowances does not form part of the information provided to you on the size and composition of the public service workforce 9(2)(f)(iv) confidentiality of advice

26. The Commission has recently begun to collate data on the existence of terms and conditions in Public Service collective agreements, to be able to identify trends. This has been collated annually for the last two years and includes some allowances.
27. Options can be developed to monitor for types of allowances, or total cost of allowances, but this may take some time, and could present significant cost to agencies to provide this data.

Appendix One: Examples of allowances in the public service

Allowances based on the nature of the work

1. These allowances relate to the type of work being performed. Examples include:
 - a. Shift allowances; payments made to recognise the unusual, long, or anti-social hours staff are required to work. At Department of Corrections this recently increased to \$4,000 per annum.
 - b. Travel allowances; payments made while staff are required to travel for work, but which are not made as reimbursements on provision of receipts. Examples of this include vehicle allowances for use of own vehicle (rates are normally at Inland Revenue mileage rates) and overnight allowances where staff are required to stay away from their usual place of residence (Corrections provides for between \$75 and \$125 per day depending on whether food is provided).
 - c. On-call allowances; payments made to recognise constraints on an employee when they may be required to work outside their normal hours of work. This is common for some occupations such as for IT staff who can be called on at any time to resolve urgent matters. These are typically paid in addition to any overtime payments made if staff are called back to work. At the Ministry of Social Development, the IT on-call allowance is \$245 per week (\$35 per day).
 - d. Location allowances; payments made due to inconvenience or costs arising from location, for example, higher costs relating to isolated areas.
 - e. Meal allowances where these are not claimed as expenses (for example a fixed allowance per meal or day to compensate for purchasing meals). These may be related to working additional hours – for example at Inland Revenue a meal allowance of \$20 is payable where at least two hours' overtime is worked.
2. Agencies often provide allowances that are unique to that agency reflecting the nature of the work that they undertake. Examples include:
 - a. Department of Conservation provides a “back country” allowance of \$25.20 per day
 - b. Department of Corrections has a Violence and Capability allowance to recognise completion of key frontline training, providing a one-off payment of \$3,000
 - c. New Zealand Customs Service offers an “internal concealment” allowance, payable when staff are required to undertake certain unpleasant activities.

Additional work allowances

3. On occasion, staff will perform the additional duties beyond their own role, such as when a staff member acts into their manager's role for a period. Where those duties have additional responsibility, an agency can provide an allowance to compensate for the additional work. These are usually called higher duties or special/additional duties and rates will vary.

Cultural allowances

4. Cultural allowances are payments to recognise cultural contribution or skills that staff bring in addition to any element that is built into base remuneration rates. This is not limited to

any one particular culture, but in practice we have only found examples relating to Māori language or Māori cultural capability.

5. Some agencies require those whose skills are being recognised by an allowance, to be available to support organisational activities related to those skills or competencies, even where those activities do not form part of the position held by the employee. Others may grant it solely based on whether the competency level has been assessed and recognised.

Wellbeing or Wellness allowances

6. Many public service employers provide an allowance to staff to support their wellbeing. Commonly these are an annual or biennial entitlement, specified as a maximum dollar value, such as \$300.00 per year, rather than a full reimbursement regardless of cost. For example:
 - a. General wellbeing allowances; these are provided, either in advance or on provision of receipts, for undertaking wellbeing related activities. This can be quite broadly defined, or limited to a list of approved activities (such as gym memberships).
 - b. Vision and Hearing allowances; these are provided to reimburse for optometrist or audiologist appointments, as well as for any resulting lenses or hearing aids that may be required.
 - c. Health insurance contributions; some staff either receive insurance through their employer directly or are able to claim a subsidy or reimbursement to cover insurance costs, if they choose to have insurance through a specified provider.
7. Advice provided by the Office of the Auditor General (OAG) on sensitive expenditure will apply to wellbeing allowances. OAG guidance states a public organisation can decide to make payments to meet its “good employer” obligations, for example wellbeing payments for preventative health screenings or prescription glasses or for less specific purposes that contribute to a good relationship between it and its workforce.
8. In the last two years we have seen additional wellbeing allowances being claimed in bargaining. We have encouraged agencies to consider bringing existing vision/eyecare allowances under a broader wellbeing heading and providing employee flexibility for claim type, without necessarily increasing the amount which may be claimed.

Other allowances

9. We are also aware of other payments which may be considered allowances, depending on the circumstances under which a payment is made. These include:
 - a. Market allowance/supplement, usually payable to attract new staff, typically recognising market difficulty in recruitment and retention of people in key roles.
 - b. Equalisation allowances, a form of protected pay after redeployment to a lower paid role.
 - c. Parental leave ex-gratia payments, payable to staff who return from parental leave, historically for the purpose of attracting staff back. These allowances were common prior to the availability of paid parental leave, and usually equate to six-weeks’ pay.
10. Additionally, there are many agencies and staff which will hold “grandparented” (or protected) allowances that are no longer available to new employees.