

## Cover note to MartinJenkins report on designing effective pay systems for the public sector

In 2022 the Public Service Commission commissioned research from Martin, Jenkins and Associates (MartinJenkins) on what makes an effective public sector remuneration system, and how similar systems are operated in other jurisdictions internationally.

The full report of MartinJenkins' research is attached. **The report is the work of MartinJenkins, and not the Public Service Commission.** The views, opinions, findings, and conclusions or recommendations expressed in this report are strictly those of the authors. The Commission is sharing this work for the benefit of public sector agencies who may be reviewing their remuneration frameworks, and to support conversations they may have with us, and each other.

This cover note is to support agencies' reading of the report. For ease of reading please note that we consider a remuneration system (system) includes both how pay rates are structured, such as bands, grades, steps, pay rates, and so forth (the "design"), and how they are operated, such as how pay rates change and how increases are delivered to staff (its "operation").

### How do we currently do it in New Zealand?

In the New Zealand public sector, systems are not determined centrally. Each agency, as an employer, sets their own remuneration policies, often in conjunction with their workforce and unions.

Over the long term, systems are regularly tweaked, or entirely overhauled, to meet the needs of the employer or workforce of the day. At the time of writing, the most common design for public remuneration is pay ranges, divided into stepped-rates, and the most common way of operating them is via tenure-based progression. However, we do not need to go back too far to find a time when the most common design was range-based systems without stepped-rates, which were operated using staff performance measures to determine the sizes of pay increases. Further back still, the predominant system was closer to what is currently common, with steps and tenure progression.

### Why is this relevant?

**Changing systems, either design, operation, or both, is not problematic in and of itself.** As organisational goals and finances change, and as the needs of the workforce change, so too might systems need to adapt. However, because redesigning systems and then implementing any changes from that redesign is costly, and because, in the public sector, those costs are born by the Government, **it is important that changes are effective and only occur when needed.**

If systems changes are to be effective, those changes should balance the various dimensions of remunerations systems against each other and with organisational goals, and the expectations of the Government. There are many such dimensions, including:

Dimension	One end of the spectrum		The other end of the spectrum
Prescription of rates	Individually negotiated rates	↔	Prescriptive Steps
Complexity of progression	Multiple criteria using performance and capability criteria	↔	Automatic, tenure-based
Ease of operation	Requires no administration	↔	High managerial engagement
Cost of Salaries	Salary costs are static	↔	Multiple avenues to deliver salary increases
Uniformity/Discretion	No discretion, all staff receive the same increases	↔	Bespoke increases determined on an employee-by-employee basis
Are staff performing?	We assume all staff are performing if they are still employed	↔	Performance is highly managed and measured
Intention	Reward past performance	↔	Incentivise future performance

**Systems can be “set” at different point along any of these dimensions independently from others.**

While we see that certain “settings” accompany each other in practice, for example providing tenure-based progression for systems that use stepped-rate ranges, it is important to recognise that this does not have to be the case. There is nothing stopping agencies using a step-based remuneration design and operating it using capability measures, for example, to provide progression.

**Public Service Commission reflections**

The MartinJenkins research has looked at how some of these dimensions present themselves in international public sector remuneration systems. This will be extremely valuable for agencies reflecting on their systems in context of their economic, legal, and institutional context, organisational goals, workforce, and workplace.

In providing this research **the Commission is not directing, or recommending, that agencies should review their remuneration systems.**

Rather, for those considering such a review (for example, if considering introduction of a performance element to pay systems which do not currently include performance), whether that is of design, operation, or both, we would encourage agencies to:

- Consider how their current remuneration system delivers on a range of organisational goals, including effective delivery of services, and cost efficiency.
- Reflect on whether hybrid models for either design or operation of remuneration systems could ease any current tensions, and be resilient to future challenges.

Specifically:

1. When designing how your system will operate to provide progression, there are more choices available than just “performance” or “tenure”. For example, there could be benefit in exploring what capability- or competency-based progression may look like in your agency.
2. Administratively, tenure-based remuneration systems appear to provide lower cost of operation than other approaches, but this relies on employers being able to effectively manage employee performance issues in a timely and satisfactory

manner; this may not be well captured when considering the cost of tenure-based progression systems as it relates to management in the first instance, not remuneration. Generally, agencies should consider what other assumptions, such as sufficient performance management, are underpinning system design choices.

3. Agencies need to consider whether a change to remuneration system will require changes to other policies. For example, tenure-based progression where all staff receive the same progression increase on a similar timeframe will “lock in” pay relativities between staff, this may influence policies concerning the rate at which a new, or newly promoted, employee is paid.
4. Changing remuneration systems, and particularly the design of systems (rather than operation) is a slow process and both costs and benefits of such a change may take some time to be realised. Agencies should be careful when considering a reactionary adjustment to system design when fiscal conditions shift (either easing or tightening) as this may have unintended down-stream effects, such as being unable to attract/retain talent, or being fiscally unsustainable long term.

We expect agencies would make considered decisions around all elements of remuneration system design, how they interact with other policies, their enduring fiscal obligations to government, and what precedent they may set for other parts of the public sector.

We challenge agencies to consider how they can develop a remuneration system that both meets organisational needs, and is robust enough to deliver on the expectations of the government of the day, regardless of the nature of that government. As noted, changes to systems themselves are costly and may have negative implications for employees.

#### **Note**

Please note that the report was written in 2022, and includes references to the Government Workforce Policy Statement on public sector employment relations that was current at that time. While the research remains relevant in any context, agencies should be aware of any changes to Government expectations alongside their consideration of the information in this report.