



Council of Regional Organisations in the Pacific

Report on a review of CROP Positions Advertised Locally

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Prepared by: Geoff Summers
Executive Director
Strategic Pay Limited

And: Jenny Seeto
Managing Partner
PricewaterhouseCoopers

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Executive Summary

This is a report of an investigation undertaken on specific matters relating to the terms and conditions of employment of CROP Agencies' staff occupying Positions Advertised Locally (PAL). The investigation uncovered some dissatisfaction with certain conditions and makes recommendations with a view to eliminating some of those concerns. The CROP Agencies have been attempting to harmonise conditions across the various locations wherever possible, and two more conditions are recommended to be investigated further for harmonisation consideration. However, harmonisation of PAL staff salaries across the CROP Agencies is not recommended.

The terms of reference also required a recommendation on whether or not the housing and education allowances provided to staff in Positions Advertised Internationally should be extended to PAL staff. The Consultants have not recommended the extension of either allowance in the form that it is provided to PAI staff, but have recommended an investigation of a lesser allowance for PAL staff to assist to educate their children if that is affordable.

Recommendations

The Consultants recommend that the Crop Agencies:

- (1) **continue** to align PAL salaries to the local market and **note** that in locations outside of Fiji this will require some consistently applied robust methods of collecting and collating information from the local market from many different sources.
 - a. (i) **continue** the existing practice in Apia, of engaging a suitable consultant to test the local market on a regular basis, at a maximum of three yearly intervals; (ii) **conduct** a careful analysis to test the validity of the changes from one report to the next; and (iii) **consider** whether a closer relationship with the Samoan Government Public Service would produce a more regular and accurate salary movement analysis with mutual benefits.
 - b. **continue** the existing practice in Fiji of participating in the PwC survey and applying the results.
 - c. (i) **continue** the existing practice in Honiara, of engaging a suitable consultant to test the local market on a regular basis, at a maximum of three yearly intervals; and (ii) **conduct** a careful analysis to test the validity of the changes from one report to the next.
 - d. (i) **continue** the existing practice in Noumea, of utilising the government salary report whenever it is produced; and (ii) **conduct** a careful analysis to test the validity of the changes from one report to the next; and (iii) **continue** to align intermediate year's increases to movements in the public sector wage rates locally.
 - e. (i) **continue** the existing practice in Pohnpei, of seeking out as much information as possible, from as many different and relevant organisations as possible, from which to build a basket of rates that fairly reflects local pay; and (ii) **conduct** that analysis annually because such a system needs to be constantly monitored to maintain validity.
- (2) **consider** a small non-renewal payment for PAL staff when a fixed term ends without another term being offered.
- (3) **conduct** an investigation into the costs for each agency to harmonise the annual holidays provision across the CROP Agencies; that investigation to consider a standard rate of 20 working days per annum lifting to 25 working days after an agreed number of years of service (with grand-parenting of existing staff who have more than that entitlement; and ensuring that where local legislation provides a higher total than this the legislation prevails); the costs of altering standard terms to be quantified, including making such changes over time as affordability allows; and a decision be made once all the costs and other implications are known.
- (4) **conduct** an investigation into the costs for each agency to harmonise the sick leave benefit provisions across the CROP Agencies; that investigation to consider a standard rate of 30 days per annum, accumulating to a maximum of 90 days (with grand-parenting of existing staff who have more than that entitlement); provided that a location that has a high level of illness potential relating to that location might maintain higher levels where management deem it appropriate; the costs of altering standard terms to be quantified, including making such changes over time as affordability allows; and a decision be made once all the costs and other implications are known; and that the CROP Agencies **resist** any suggestions of allowing untaken sick leave to be used for other purposes.

- (5) **reject** the proposition of paying PAL staff according to SDRs with a COLDA and **also reject** any proposition to pay PAL staff according to any other pan-CROP formula, and **continue** to pay PAL staff in as close a direct comparison with the local labour market as is able to be achieved. (see Recommendation (1) above).
- (6) **reject** the suggestion that PAI style education and housing allowances be extended to PAL staff; **note** that in Honiara a housing allowance will continue to be provided as part of a legal requirement; and **investigate** the possible provision of a small assistance to PAL staff, specifically targeted to educating their children, to be implemented if it is affordable.
- (7) **continue**, wherever possible, to negotiate for tax free status for it's employees with countries within with they operate and comply fully with the local laws regardless of the outcomes of those negotiations.
- (8) **adopt** a Fixed Remuneration format for the regular communicating of employment reward to PAL staff

Final Draft - for CROP Comment

Background

1. Strategic Pay and PwC Fiji were selected by the CROP Agencies to conduct a review of Positions Advertised Locally ("PAL") - Reference CROP Request for Proposal entitled, 'Review of CROP positions advertised locally TOR 27.04.2011 Final'. In this report, PAL positions are differentiated from Positions Advertised Internationally ("PAI") the latter being mainly expatriate employees occupying roles requiring professional expertise.
2. The project was undertaken by Geoff Summers, Executive Director of Strategic Pay in Wellington, and Jenny Seeto, Managing Partner of PwC in Fiji ("the Consultants").
3. Geoff Summers travelled to Noumea where he met the SPC Director General, the Deputy Director General, the Director, Corporate Services, the SPC – Change Manager, Noumea, HR Officer (Noumea) and representatives from the Staff Representative Committee. He then travelled to Apia where he met the SPREP Director and Deputy Director, HR & Administration Manager, Finance Manager, a group of PAL staff and representatives of the Staff Committee.
4. Jenny Seeto travelled to Honiara and met with FFA Director Corporate Services and a group of Staff and spoke to the Deputy Director General and Manager HR, Administration and Performance Management by telephone. She also met with Coordinator SPC (Honiara). In Suva, she met with SPC Director General, Deputy Director General SPC, Suva, Deputy Director Corporate Services (Suva), HR Officer (Suva), SPC SOPAC Division, Director, Director Corporate Services, SPC SPBEA, Director and a group of PAL staff. She also met with the following from PIFS, Deputy Secretary General Strategic Partnerships and Coordination, Director Corporate Services, Team Leader HR & Administration and a group of PAL staff.
5. In completing the research for this report, and in making the recommendations, the Consultants were aware that the CROP Agencies have been implementing a policy to harmonise conditions across the various locations wherever possible. There is already a common job evaluation system and salary banding structure in place.
6. In this document, the Terms of Reference to which the Consultants were working are printed in blue, italics and times roman type.

Term of reference i.

i. Examine and report best practice trends, including emerging trends, with respect to PAL remuneration policies and practices in multinational and international organisations, both private and public sectors.

Search for trends

7. An extensive search was conducted through telephone queries and discussions with existing customers and other contacts, aligned with an extensive internet search. In the search, a significant amount of information had to be analysed because there are different situations relating to local verses international employees. Much of the information available related to the opposite situation to the CROP Agencies' activity – i.e. the international employees are in the low skilled, low paid roles such as is seen extensively in the construction industries and many tourism and hospitality roles across the middle east at present, so that had to be eliminated. In the remainder of this section therefore when terms such as locally employed staff are used they refer to similar activities to the CROP Agencies where local people are employed in support roles to internationally recruited professional staff.

Local staff relationship to market

8. Importantly for the other Terms of Reference for this project, all the research concluded that locally employed staff had remuneration terms and conditions aligned to the local market for labour. Not one contrary instance was found. This relates to both private and public sector organisations. Customers with overseas offices were also contacted and it was found that the expatriate staff were paid according to their home country terms and conditions (often with special allowances to compensate for housing and education etc.) whereas locally employed staff worked on locally determined terms, and were paid in the local currency.
9. The type of organisations involved included a large consulting engineering company based in New Zealand but with significant business being conducted on many large, some quite long term, projects in Asia. In that case, the local staff are often well qualified people because the company does not undertake the actual construction but rather plans, designs and manages the projects. The only local staff they need are professionals to supplement the expatriate capability but they still pay those local staff according to the local labour market for those skills.
10. An example of a public sector organisation considered is New Zealand Trade and Enterprise which assists and promotes New Zealand businesses internationally. That company has expatriate staff in many countries around the world, and employs local staff for support roles in nearly every location. The expatriate staff are paid according to New Zealand remuneration systems and information supplied by Strategic Pay (with appropriate location-specific allowances). Locally employed staff are paid according to market information obtained from other local sources, and they are paid in the local currency. This practice was also found to be the method adopted by AusAid in a number of Pacific locations where they employ expatriate and local staff, and similar practices were explained to the Consultants in other international organisations consulted. With regard to one of the international organisations in Fiji, SPC had provided some data on the organisation's practice in Fiji. However, the data needs to be verified and understood in the context of fixed remuneration.
11. We found that major banks (including specifically in Fiji), embassies, universities, hotels, mining companies and other multi-national organisations also operate in that manner where they have expatriate and local staff in a location. At the time of conducting this research, Strategic Pay was competing for a project to inform a major USA Corporation of the local New Zealand rates that it should pay its locally employed staff (while it intends to continue to reward is fixed term NZ-based American staff on USA terms), so the system outlined above system also operates in developed economies.

Conclusion

12. Our conclusion on that particular aspect is that organisations employing expatriate professional staff, and supporting them with locally employed staff, universally pay their locally employed staff according to the prevailing local levels of remuneration for the roles concerned.

Equity

13. The research into Term of Reference i also noted that the practice of paying local staff lower rates than expatriate staff creates feelings of inequity in some non-CROP international organisations. Quotes were discovered from expatriates who felt some guilt at being better rewarded than the local people (although the quotes did not say that these people asked for less pay). So the questions that CROP Agency managers are asked about the disparities between the PAI and PAL staff are not unusual. Importantly, all the available research indicates that the fairness aspect is covered by matching the expatriate staff to home conditions (as close as possible) and local staff to local conditions. That the local conditions are different to the expatriate's home conditions is not the point, each group is being properly related to the appropriate market for their labour.

14. This matches closely to the widely practiced policy adopted in remuneration management around the world, that is, to align the remuneration of the role, or group of roles, concerned to the market for that specific labour. This is often expressed as being the market from which the organisation tends to receive its new hires and to which it tends to lose its current staff. In the CROP Agencies situation, the market for the PAI staff is an international market (currently rewarded according to SDRs and COLDA) and the market for PAL staff is the local market where the Agency is located.
15. A further point of note is that the current practice implements an 'equal pay for work of equal value' principle. PAI staff are rewarded similarly without consideration of the location of their home country and the Consultants believe that principle is appropriate for the CROP agencies' employment practice. It is a fact that the work performed by PAI staff is of different value to that performed by PAL staff, so the different remuneration systems in use for the two categories of staff do not offend against that principle.
16. Equity Theory¹ (Adams 1963) theorises that people are motivated by a desire to reduce the tension associated with the perception of inequity in the workplace.
17. Adams suggested that people compare themselves with others on the basis of what each has to contribute versus what they receive in return. This is not therefore a straight comparison with others but a qualified one.
18. The Consultants believe that the CROP agencies' treatment of PAI staff meets an Equity Theory test, but a comparison between PAI staff and PAL staff is not so easy to conduct on an Equity Theory basis. The work performed, the qualifications required, the necessity to work away from their home location (in the majority of cases), and other aspects of the PAI roles are different to the PAL staff roles. Therefore the different terms and conditions of employment are not easily compared.

Conclusion

19. Our conclusion on that particular aspect is that correct remuneration policy and practice for the CROP Agencies is to reward their PAI staff according to the international market and PAL staff according to the local market in the country where the roles operate.

Testing the local market

20. A separate aspect of the research was informative in relation to how organisations obtain the information from the local market. Much of the material located referred to the alignment of local employed staff rates with the local market, but many articles acknowledged that this was often not easy. E.g. Heaps (2011)² says, "One of the key questions for human resources professionals is how to set salaries for locally-hired staff in these locations. The answer is usually "pay according to the market." But sometimes, "the market" is rather elusive."
21. This may be comforting to the CROP Agencies, because that mirrors the difficulties within the Pacific (outside of Fiji where the PwC survey provides the data) and the Birches Group White Paper shows that this is not unusual. Unfortunately, that Paper does not provide any new or innovative solutions to this problem. The collective wisdom we found from many sources in relation to difficulties in obtaining local market data, can be summarised as, 'find as much information as possible, from as many sources as possible, and match that consistently to the roles in your organisation as best you can'. Where there is no quality market survey available, that is good advice, albeit a difficult task.

¹ See Adams, J.S. (1963). Toward and understanding of inequity. *Journal of Abnormal and Social Psychology*, vol 67, pp 422-36.

² Heaps., W. (2011). *Labour Market Data in Developing Countries: A Birches Group White Paper*. Birches Group: New York.

Conclusion

22. Our conclusion on that particular aspect is that many locations where CROP Agencies operate will continue to have difficulty in obtaining accurate market information but that this must be dealt with by ensuring there is a robust method of collecting whatever information there is available, and implementing a consistent process to apply that information to the CROP Agency's roles. All the research shows that alignment to the local market is the appropriate policy for salaries, and so harmonisation is not appropriate for that issue. (These comments should be considered in conjunction with the comments and conclusions reached under term of reference iv below.)

23. However, the related matters of job evaluation and salary banding were sensible harmonisation matters. As long as the jobs are similarly evaluated and aligned to a harmonised banding structure, fairness is applied when the local wage rates are brought into those bands. In this manner, harmonisation needs to be seen as a practical system applied when it makes good sense.

Recommendation

24. We recommend that the Crop Agencies continue to align PAL salaries to the local market and note that in locations outside of Fiji this will require some consistently applied robust methods of collecting and collating information from the local market from many different sources.

Term of reference ii.

ii. Examine and document terms and conditions and remuneration packages currently offered to staff in PALs by each of the participating CROP agencies in their various locations and analyse any areas of difference.

Tables of terms and conditions

25. The following tables document the various aspects of employment reward provided to PAL staff by the four CROP Agencies in the various locations. Overall, the tables show that the harmonisation programme that the CROP Agencies embarked upon some time ago has been reasonably effective, within the constraints of legal and other location-specific considerations.

26. However, harmonisation did not necessarily mean that everything was to be absolutely identical, that would probably be inappropriate in some instances and possibly even legally wrong in others, given that the Agencies are operating in separate sovereign countries.

Salaries:

PIFS	SPC	SPREP	FFA
<p>Bands 1-7</p> <p>3 year terms. (although some PAL staff are permanent employees). Those on fixed terms can be extended provided the funding for their programme continues.</p> <p>Market alignment to 10% above the upper quartile of the local Fiji market (PwC Fiji survey).</p> <p>Salaries expressed and paid in Fiji dollars.</p> <p>Percentage salary range movements based on performance.</p>	<p>Bands 1-7 (except Pohnpei where the roles are not evaluated and a job matching process occurs to the local basket of rates).</p> <p>3 year terms (Renewal depends on satisfactory performance and funding.)</p> <p>In Noumea, market alignment to within the upper quartile of the local market (align to Government salary review 3 yearly).</p> <p>In Fiji, market alignment to 10% above the upper quartile of the local market. (PwC Fiji survey).</p>	<p>Bands 1 - 7</p> <p>3 year terms (renewable at end of every term depending on performance, organisational need and available funding)</p> <p>Market alignment to 10% above the upper quartile of the local market (Triennial review, contracted locally, based on local market conditions.)</p> <p>Salaries expressed and paid in Samoan Tala.</p> <p>Annual performance rewards based on established Performance Development System</p>	<p>Band 1-7</p> <p>4 year terms (at present there are some other terms, but from 1 January 2012 all will be fixed for 4 years, renewable once before the role may be advertised again).</p> <p>Market alignment</p> <p>Salaries expressed and paid in SBD.</p> <p>Annual increments on satisfactory performance.</p> <p>All performance based contract staff.</p>

	<p>In Pohnpei, market alignment to the 'upper reaches' of the local market (build 'basket' of rates from local sources).</p> <p>Salaries expressed and paid in the local currency.</p> <p>Annual performance rewards based on established Performance Development System</p>		
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27. The salary alignment policy appears to be different in some locations albeit all are stated as being in the upper quartile, so there is some general standardised practice. Salaries are specifically addressed under the next term of reference so are not addressed here.

Superannuation:

PIFS	SPC	SPREP	FFA
8% contribution by staff and matched by the organisation	8% contribution by staff and matched by the organisation. Prevailing Public Service Conditions for those based in locations other than Fiji and New Caledonia.	5% contribution by staff as national requirement. Organisation pays 7% - 2% more than national requirement to the Samoan National Provident Fund	7.5% of all income paid to the SI National Provident Fund. 5% contribution by FFA.

28. There is a reasonable harmonisation in this topic. Given that there are separate superannuation providers with separate management and rules in each country, the practices outlined in the table are appropriate. We note that in Fiji the 8% contribution is a legal requirement. The employer contributions of between 7% and 8% are more than double that which applies in New Zealand and not far behind those prevailing in Australia.

29. There is a situation in Noumea which causes disquiet within the staff, and this the inability for them to become part of the local New Caledonian Government pension scheme (CAFAT). Although initial advice from the CAFAT indicates that membership may be difficult, Management is continuing to pursue this with the CAFAT and the New Caledonian Government.

30. The Consultants do not recommend any changes to the current subsidised superannuation practices.

Health insurance:

PIFS	SPC	SPREP	FFA
<p>Health insurance covered for: local medical consultation, pharmaceutical benefits and overseas medical treatment (subject to certain conditions) outpatient medical, optical, for staff member and dependants. Includes maternity schemes for staff members.</p> <p>Outpatient, Optical and maternity are "self-insured".</p>	<p>Separately arranged Group Health insurance coverage for Noumea and Suva based staff: local medical consultation, hospitalisation, pharmaceutical benefits and overseas medical treatment (subject to certain conditions), outpatient medical, optical, dental.</p> <p>(Optical and dental are self-insured in the case of Suva).</p> <p>Insurance cover for fulltime SPC staff based in Pohnpei, PNG and other country locations.</p>	<p>SPREP In-House Medical Scheme covers all reasonable medical, optical and dental expenses based on established limits in Scheme. Medical Evacuation for overseas medical treatment (subject to certain conditions) is also provided.</p>	<p>Medical Insurance using a managed fund. Any reasonable medical, dental, and optical expenses to be supported by receipts as well as prescriptions for medications. Over the counter medicines not included.</p> <p>Payment for routine medical check up for staff, spouse and dependent children every two years including DSA for 4 nights at the country where the examination is undertaken.</p>

	Eligibility extends to staff member and eligible dependants. Includes maternity schemes for staff members.		Medical Evacuation for overseas medical treatment (subject to certain conditions) is also provided.
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31. This is another topic where there is reasonable harmonisation, given the separate country locations of the PAL staff. The provision is generous. Staff groups were of the view that this was an area where the provision was well ahead of what employees in that locality could expect to receive from other employers. To highlight the generosity of the provision, in New Zealand the Strategic Pay latest survey of policy and practice showed that only 38% of employers offered subsidised medical insurance to their staff, and it is highly unusual in New Zealand for dental, optical or maternity benefits to be included in the insurance offered. The PwC Fiji Remuneration Survey showed that 72.5% of employers subsidised all or part of medical insurance claims for staff. However, coverage was generally not as comprehensive as the CROP agencies and mostly did not cover dental and optical.

32. The Consultants do not recommend any changes to the current practices relating to subsidised health insurance practices.

Life and disability insurance:

PIFS	SPC	SPREP	FFA
Term life insurance equivalent to three times base salary for staff member.	Term life insurance equivalent to twice base salary for the staff member. Daily indemnity paid in case of incapacity to work equal to 50% base salary during one year (deductible 90 days)	Life insurance cover equivalent to three times base salary for staff member. Personal accident cover is also provided.	Life insurance equivalent to three times base salary.

33. This is a reasonably consistent provision across locations. The Strategic Pay latest policy and practice analysis showed that only 37% of employers offered these sorts of insurance policies in New Zealand, and in the 'other staff' category (i.e. non-management or sales roles) this is only offered to 24% of staff. The PwC latest policy and practice analysis showed that less than 10% of employers offered life insurance which included companies in the Life Insurance business.

34. The Consultants do not recommend any changes to the current subsidised life and disability insurance practices.

Housing allowance:

PIFS	SPC	SPREP	FFA
Nil	None for those based in Fiji, New Caledonia and Pohnpei. Honiara - \$3,000 Housing Assistance per month. Prevailing Public Service conditions for those based in other countries.	Nil	\$3,000 Housing Assistance per month.

35. Term of reference v. specifically addresses housing allowances so that is also not dealt with in this section.

Retention incentive:

PIFS	SPC	SPREP	FFA
Nil	Nil	Nil	<p>Support staff members completing a 4 year contract will be entitled to a retention incentive payment of 28 per cent (%) of the final year's base salary</p> <p>Retentions paid at 7% per year of contract completed, payable only at end of third and fourth year of contract. Applicable rate to be at the end of year completed</p>

36. In May 2011 the Forum Fisheries Committee approved a retention allowance in-lieu of long service leave. No other CROP organisation gives long service leave. The Consultants were asked about similar payments by staff groups during the Review information gathering phase. The request was not for a payment the same as the FFA allowance, but more as a type of severance payment (so paid in different circumstances). One staff group was quite strong in their belief that the current system is unfair. They pointed out that international PAI staff who are not reappointed in a competitive application process are provided with a repatriation allowance although this does not apply to locally employed PAI staff. Yet PAL staff do not have any similar provision.

37. They were asking for a small payment, possibly two weeks pay, paid only in the circumstances where a fixed term PAL staff member came the end of a term and was not reappointed (the PAL staff pointed out that regular reappointment practices means that severance can come as a sudden surprise to the staff member because it is rare).

38. The Consultants are sympathetic to the request. PAL staff are, in the main, fixed term employees (for good reasons). In most economies, there are costs to employers in employing staff on fixed terms due to the long term uncertainty that is inherent in that practice. A small non-renewal payment on the rare occasions that a PAL staff member is not reappointed should not have serious affordability concerns since such costs occur over a period and only for a few positions annually if at all. This would be a good employer initiative allowing the non-renewed employee to have a small period of paid time to find new work although the reality would probably be that an employee would know in advance if their contract will not be renewed. The Consultants are of the view that this would not apply in resignation circumstances.

39. The Consultants recommend that the CROP Agencies consider a small non-renewal payment for PAL staff when a fixed term ends without another term being offered.

Working hours:

PIFS	SPC	SPREP	FFA
<p>Mon-Thurs: 8.30 to 5</p> <p>Fri: 8.30 to 4.30</p> <p>Lunch: 1 hr between 12 & 2</p>	<p>Suva Based Staff:</p> <p>Maintenance Staff:</p> <p>Mon-Thurs: 7.30 to 4.30</p> <p>Fri: 7.30 to 3.30</p> <p>Other support Staff:</p> <p>Mon-Thurs: 8.00 to 4.30</p> <p>Fri: 8.00 to 4.00</p> <p>New Caledonia:</p> <p>Maintenance Staff:</p> <p>7.00 to 3.30</p>	<p>Mon-Fri: 8.00 to 12 and 1.00 to 4.35</p> <p>Overtime is paid including transport and meal allowances depending on hours worked.</p>	<p>Mon-Fri: 8.00 to 4.30</p> <p>Lunch: 1 hr between 12 & 1</p>

	<p>Other Support Staff: 7.30 to 4.00</p> <p>Pohnpei: Mon–Fri:8.00 to 5.00</p> <p>Other locations: Observe local practice.</p>		
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40. Working hours are reasonably similar across the agencies, although this is not a matter that the Consultants believe is necessarily a harmonisation issue. Working hours must relate specifically to the business being conducted in each location, so they must be aligned to the business need rather than what others are working.

41. The Consultants do not recommend any changes to the current working hours practices.

Annual holidays:

PIFS	SPC	SPREP	FFA
<p>18 working days p.a. 1st 5 yrs service</p> <p>21 working days p.a. from year 6 onwards.</p> <p>Maximum accumulation of 50 days.</p>	<p>25 working days per annum.</p> <p>Maximum accumulation of twice annual leave provision (50 days).</p>	<p>15 working days p.a.</p> <p>Maximum accrual 50 days.</p>	<p>22 working days for each year service.</p> <p>Also, Reg 25 (13) of the FFA Staff Regulations says: Subject to approval by the Director-General, support staff who travel home from Honiara on annual leave may once a year, in addition to their annual leave, receive up to 7 days time off on full pay each way to compensate for time actually and necessarily spent on such travel.</p>

42. This is an employment condition where there are serious discrepancies between agencies, and it is one where there was serious discord expressed by staff in other agencies apart from SPC, based on what they saw as unfairness. It should be noted that this discrepancy has resulted from leave entitlements being aligned to local market conditions. The differences are obviously historic rather than relating to different countries' legislative requirements, because in Fiji there are two different sets of conditions between the two agencies operating there.

43. FFA staff have additional days that they can use to travel (by boat) for leave. The PAL staff there want airfares to get to and from their homes faster. This is a local matter for the FFA management to consider in cost benefit analysis related to the cost of the additional leave. It is not a harmonisation matter so the Consultants make no recommendation on it.

44. Annual holidays is a standard term and condition of employment in most economies, and so it is one of the matters that could reasonably be seen as a logical harmonisation issue. Of course, it is very difficult to reduce any entitlements during a harmonisation programme, and that leads to the best terms becoming the norm, which is a problem because that impacts directly on affordability. That is a problem in this situation because the SPC annual holiday provision of 25 working days per year is generous compared to the New Zealand and Fiji situations but less generous than those prevailing in Europe and in line with the laws applicable in New Caledonia.

45. In Fiji the law states that "an employer may agree in writing with all or any of the workers that paid annual holidays may be deferred and accumulated over a period not exceeding 4 years, provided that one week leave must be taken after the completion of each year of service."

46. Internationally, every additional week's annual holiday provided is costed at 2% of the annual salary of the employee (the actual calculation is 1.923% which is rounded up to 2% or 0.4% per day). So for every SPREP PAL staff member who was increased from 15 to (the SPC rate of) 25 days, the increased cost to the employer would be $10 \times 0.4\% = 4\%$ of the employee's annual salary.
47. Of course this is not a direct increased cost, the employer is paying that person that money now in regular salary payments, it is more correct to state that the employer receives 4% less work for the same cost in that scenario. Depending upon how many PAL staff are in that situation, there could be true additional costs incurred. E.g. if a lot of additional annual holidays were to be taken, there is a high chance that some temporary staff need to be employed to ensure that all the necessary work gets done, so it is not completely an esoteric calculation.
48. Equity Theory (as discussed in paragraph 16) comes into this condition of employment. Those PAL staff who operate in different countries do make a comparison between what they receive in annual holidays compared to the quantity received by comparable others in separate CROP agencies and they see inequity. For this reason, and the CROP practice of attempting to harmonise conditions where it is appropriate, the Consultants conclude that this is a matter that should be investigated for possible harmonisation.
49. The Consultants recommend that the CROP Agencies conduct an investigation into the costs for each agency to harmonise the annual holidays provision across the CROP Agencies; that investigation to consider a standard rate of 20 working days per annum lifting to 25 working days after an agreed number of years of service (with grand-parenting³ of existing staff who have more than that entitlement; and ensuring that where local legislation provides a higher total than this the legislation prevails); the costs of altering standard terms to be quantified, including making such changes over time as affordability allows; and a decision be made once all the costs and other implications are known.

Sick leave:

PIFS	SPC	SPREP	FFA
21 days p.a. 6 days uncertified Maximum accrual 90 days.	30 days p.a. Maximum accrual 90 days.	30 days p.a. Maximum accrual 90 days.	36 days p.a. Maximum accrual 108 days.

50. The amounts of sick leave documented in this table are generous. To provide a comparison again, the Strategic Pay latest policy and practice analysis in relation to sick leave in New Zealand concluded, "The most common allocation of sick leave in the public service is between 9 and 12 days, while in the private sector 5 – 8 days is the most common." And it is not as if the sick leave in the CROP Agencies tables covers a lot more types for which additional leave entitlements are given. The New Zealand leave is able to be taken to: deal with a sick dependent; as bereavement leave on the death of a close relative; and for similar events at the discretion of the employer. The PwC Fiji latest policy and practice analysis in relation to sick leave in Fiji concluded, "The most common allocation of sick leave is 10 days per annum." The Fiji Public Service provides 21 days per annum for outpatient sick leave and the leave cannot be accumulated. An Officer required to undergo treatment as an inpatient or as required by a registered Medical Practitioner to be confined on the grounds of illness shall be entitled to a further period of 60 days sick leave.
51. The accumulation rules are also generous. The New Zealand legal situation is 10 days, and the CROP Agencies' tables show between 90 days and 108 days. In Fiji, some Union Agreements provide for payment for unutilised sick leave entitlements.

³ Grand-parenting is a term used to refer to the situation where someone already has better conditions of employment than ones now being implemented, and that individual is entitled to continue with those conditions until they leave the employment.

52. The above comments need to be considered in light of the locations where these staff operate. There are illnesses that these staff can contract (particularly malaria but there are others as well) that are not found in less temperate climates and this could well be the reasoning behind the levels of annual sick leave and accumulation totals provided. This was specifically addressed in a submission from FFA in Honiara relating to this topic.
53. There was one agency whose staff suggested consider bonuses for staff who do not take sick leave or an incentive not to miss work, however, this would amount to paying people to not take sick leave when they are sick and that is philosophically wrong. Sick leave is for taking when people are sick and it should be used for that purpose only. These sort of staff requests are one of the logical outcomes of a high accumulation condition, staff will look to see how they can use it.
54. Equity Theory (as discussed in paragraph 166) also comes into this condition of employment. Those PAL staff who operate in different countries do make a comparison between what they receive in sick leave benefits compared to the quantity received by comparable others in separate CROP agencies and they see inequity. For this reason, and the CROP practice of attempting to harmonise conditions where it is appropriate, the Consultants conclude that this is a matter that should be investigated for possible harmonisation.
55. The Consultants recommend that the CROP Agencies conduct an investigation into the costs for each agency to harmonise the sick leave benefit provisions across the CROP Agencies; that investigation to consider a standard rate of 30 days per annum, accumulating to a maximum of 90 days (with grand-parenting of existing staff who have more than that entitlement); provided that a location that has a high level of illness potential relating to that location might maintain higher levels where management deem it appropriate; the costs of altering standard terms to be quantified, including making such changes over time as affordability allows; and a decision be made once all the costs and other implications are known; and that the CROP Agencies resist any suggestions of allowing untaken sick leave to be used for other purposes.

Other leave:

PIFS	SPC	SPREP	FFA
<p>Maternity Leave – 60 days after 1 yr service.</p> <p>Family Leave – 6 days per annum (immediate family members).</p> <p>Special Leave or Leave Without pay on discretion of Secretary General.</p> <p>Study leave – 2 hours per unit per week</p>	<p>Maternity leave: 16 weeks on full pay each confinement.</p> <p>Upon producing a certificate that complications arose at the time of birth, a further period of up to six weeks may be granted.</p> <p>Paternity leave: up to 10 working days.</p> <p>Special leave: (with or without pay) - at discretion of DG.</p> <p>Compassionate Leave: Local law and practice to be applied.</p> <p>Carer's Leave: up to five days per year to look after a sick dependant.</p> <p>Adoption Leave: up to 10 weeks (subject to conditions)</p> <p>Travel Compensatory Leave: Staff who are away on mission are compensated for weekends lost according to a formula.</p>	<p>Maternity Leave: 60 working days after probation is confirmed</p> <p>Family Leave: 6 days p.a. including Paternity and Compassionate leave (for immediate family members only).</p> <p>Special Leave Without Pay: at discretion of Director</p> <p>Examination Leave: a day and a half for exam per subject for approved course of study</p>	<p>Maternity Leave: 60 days after 1 yr service. (1A) Upon producing a certificate that complications arose at the time of birth, a further period of up to 6 weeks leave may be granted provided that the maternity leave period of 60 working days has already expired.</p> <p>Family Leave: up to 6 days p.a. (Applies to paternity leave only).</p> <p>Special leave With or Without Pay: on discretion of Director after Annual Leave has been expended.</p> <p>Compassionate Leave: up to 6 days p.a. Compassionate leave would normally only apply in relation to circumstances that directly relate to immediate family members such as spouse, dependant children, or parents.</p>

56. There are some discrepancies in these provisions. Some PIFS staff expressed dissatisfaction and questioned why they do not get other types of leave offered to other agencies. PIFS staff believe that their study allowance is too little and asked for more.

57. The Consultants suggest that this be reviewed and possibly harmonised in the future. Where there are differences between agencies, the various management and staff can discuss over time if the changes are relevant.

Training and development:

PIFS	SPC	SPREP	FFA
Short-term training available based on Learning & Development priorities and subject to funding. Fees for approved tertiary courses reimbursable subject to funding and pass. Membership fee of up to FJD300 in a recognised professional body.	Short-term training available and approved based on learning & development priorities and direct relevance to performance of duties. Professional membership fee is not covered.	Short-term training available based on Learning & Development priorities Reimbursable fee of USD\$200 for membership in a recognised professional body	Short term training available based on Capability development process. Support available for technical trainings (face to face in Honiara and/or distance learning mode) at USP and other tertiary institutions.

58. There are some discrepancies in these provisions, but the Consultants do not see them as serious issues in the harmonisation programme. Where there are differences, the various management and staff can look and discuss over time if they are relevant in any other areas.

59. The Consultants do not recommend any changes to the training and development provisions.

Child allowance:

PIFS	SPC	SPREP	FFA
Nil	XPF 7,500 per month for Noumea staff (local legal requirement)	Nil	Nil

60. Whilst this is a one-off provision in Noumea only, it needs to be considered in context. SPC has a tax free agreement with the New Caledonian Government, and that government provides all families in that country with a child allowance at similar level to that specified in the table. However, because the PAL staff do not pay tax, they do not get the government allowance, a reasonable quid-pro-quo. So the employer provides it to put their staff on the same footing in relation to child allowance as other families in the locality. There is therefore a locality-specific reason for this payment.

61. The Consultants do not recommend any changes to the child allowance provisions.

Term of reference iii.

iii. Review specifically current practices concerning benchmarking of salaries in each location.

62. Salaries of PAL staff are currently benchmarked in the different locations as follows:

Apia

63. Salaries of PAL staff are benchmarked against the Apia market according to the policy of paying a base salary at 10% above the Upper Quartile of the Local Market. PAL staff are paid base salary within their Band based on a mid-point that was obtained from the external benchmarking exercise. There is no structured remuneration survey publicly available in the locality.

64. The benchmarking occurs about every 2 or 3 years, it is a one-off process that is contracted separately on each occasion. A local professional services firm (Accounting) had been used until the last review (2009) when the local CROP Agency was able to secure the services, on a consultancy basis, of the Chair of the Samoan Government's Remuneration Committee who has access to all the market rates paid both public and private sectors.
65. The local Agency believes that this latest system worked best due to the perceived accuracy of the data that the Consultant was able to use as the base information. The previous practice involved the company concerned finding data from wherever it could, and the accuracy could not be verified (because there was no way to do so, although that is also the case with the latest system). There is a difficulty with this system because the local market to which salaries are being aligned is quite small for roles of similar sizes to those employed by SPERP. There is little that can be done about that matter, the local market is what it is, and alignment has to be applied as best as can be achieved.
66. The 2009 process led to the Consultant recommending no increases in rates due to all PAL staff being either at the policy position (10% above the Upper Quartile of the Local Market) or above that level.
67. The Consultants recommend that the CROP Agencies (i) continue the existing practice in Apia, of engaging a suitable consultant to test the local market on a regular basis, at a maximum of three yearly intervals; (ii) conduct a careful analysis to test the validity of the changes from one report to the next; and (iii) consider whether a closer relationship with the Samoan Government Public Service would produce a more regular and accurate salary movement analysis with mutual benefits.

Fiji

68. Salaries of PAL staff are benchmarked against the PwC Fiji Remuneration Survey according to the policy of paying a base salary at 10% above Upper Quartile of the All Organisations Market. The new Banding Structure is implemented and PAL staff are paid base salary within their Band based on a mid-point that was obtained from the external benchmarking exercise.
69. The benchmarking is effective as the PwC Survey is conducted annually. The PAL pay rates are perceived to have fallen and a number of PAL staff have not received any increases since the implementation of the banding structure as they are above the 120%.
70. PAL staff made numerous comparisons to UN agencies. However, it was pointed out that the PwC Remuneration Survey included high paying private sector organisations.
71. The Consultants recommend that the CROP Agencies continue the existing practice in Fiji of participating in the PwC survey and applying the results.

Honiara

72. Salaries of PAL staff are benchmarked against the Honiara market according to the policy of paying a base salary at 10% above Upper Quartile of the Local Market.
73. The benchmarking occurs annually and is conducted by a Consultant based in Canberra. A fundamental review is carried at intervals of not less than 3 years. According to the Consultant, the results show a noticeable drop between the 75th percentiles of the 2010 sample at each pay point and those of the 2011 sample. However, the loss of a key peer organisation from the 2011 sample has significantly reduced the results.
74. The Consultant's report showed that the Honiara Consumer Price Index has increased by 21.7% since 2008. The report showed that present FFA remuneration package is significantly higher than the 2011 benchmark at all job grades. This resulted from the fall in benchmark value and the size of the housing allowance awarded in May 2010.

75. PAL staff acknowledged that their cash component was higher than the market. However, Government provides houses to their staff and therefore PAL staff felt they were at a disadvantage since the monthly rentals were much higher than their allowance. Due to RAMSI staff being domiciled in Honiara, housing costs are extremely high.
76. The Consultants recommend that the CROP Agencies (i) continue the existing practice in Honiara, of engaging a suitable consultant to test the local market on a regular basis, at a maximum of three yearly intervals; and (ii) conduct a careful analysis to test the validity of the changes from one report to the next.

Noumea

77. Salaries of PAL staff are benchmarked against the Noumea market according to the policy of paying a base salary above the Upper Quartile of the Local Market. The new Banding Structure is implemented and PAL staff are paid base salary within their Band based on a mid-point that was obtained from the external benchmarking exercise. There is no structured remuneration survey publicly available in the locality.
78. The benchmarking is effective but there are some difficulties with it. The PAL pay rates are based on a report on base salary levels produced about every three years by a New Caledonia Government Agency, from information collected through government processes (taxation etc.). The triennial timeframe is a problem in itself, because that means that accurate information on the market can only be obtained on that frequency. In the years between surveys, the practice has been to follow public sector wage increases.
79. The second problem is that the external report does not have to be produced, and the CROP Agency has no influence over that aspect. If the Government chooses to delay publication for its own reasons, which it does, then the CROP Agency has no choice but to wait.
80. The Consultants recommend that the CROP Agencies (i) continue the existing practice in Noumea, of utilising the government salary report whenever it is produced; and (ii) conduct a careful analysis to test the validity of the changes from one report to the next; and (iii) continue to align intermediate year's increases to movements in the public sector wage rates locally.

Pohnpei

81. Salaries of PAL staff are benchmarked against the Pohnpei market according to the policy of paying a base salary within the upper levels of the Local Market. PAL staff are paid base salary based on a mid-point that was obtained from the external benchmarking exercise. There is no structured remuneration survey publicly available in the locality.
82. The local benchmarking exercise is difficult for the management to complete with any high degree of confidence in its accuracy or validity. There are published Public Service rates, but these have not changed for many years, and some other agencies are prepared to share paid rates with other Pohnpei based organisations. These include FSM Telecom, the Western Pacific Fisheries Commission, Embassies based in Pohnpei, the United Nations office and similar agencies. The process involves the management collecting as much information as possible from as many sources as possible and collating it into a 'basket' of local rates. That basket and its outcomes are then utilised to inform the Band mid-points.
83. The Consultants recommend that the CROP Agencies (i) continue the existing practice in Pohnpei, of seeking out as much information as possible, from as many different and relevant organisations as possible, from which to build a basket of rates that fairly reflects local pay; and (ii) conduct that analysis annually because such a system needs to be constantly monitored to maintain validity.

General

84. None of the locations benchmark across other locations. No history was uncovered of that practice having ever occurred.

Term of reference iv.

iv. Provide specific advice on the advantages and disadvantages of moving to a salary scale for PALs that is common to all locations, including the possible use of Special Drawing Rights (SDR) as the currency in which such salary scale could be set and the use of a Cost of Living Differential Adjustment to compensate for different cost of living in locations.

Opinions of those interviewed

85. There were some people who thought that a common scale would be useful and that the SDRs and COLDA generally work for the Positions Advertised Internationally ("PAI") staff so they thought that it would work fine for the PAL staff.
86. In Noumea and Apia the opposite was the universally expressed opinion. In both these locations management, staff and the staff committees all rejected this concept. In fact one of the Staff Committees was very vocal in immediate rejection. Their rationale was that, unlike the opinions expressed in Pohnpei, the SDRs and COLDA are not seen to be working well for the PAI staff. PAL staff wages are generally much lower than the PAI staff rewards and therefore the former were in a vulnerable situation in relation to the regular fluctuations in SDRs that currently afflict the PAI staff. The people opposed to SDR/COLDA for PAL staff thought that the PAL staff would find their employment reward fluctuating significantly to their individual personal disadvantage.
87. In Fiji and Honiara there was a mixture of views on the payment in SDRs although most preferred SDRs. However, it is clear that staff do not fully understand how the SDR works. A number of staff who were opposed to the idea of SDRs, stated that it does not seem to be working for PAI staff.
88. However, there was significant discussion and requests to consider COLA as an additional payment because of the increased cost of living in Fiji and Honiara.

SDRs with COLDA for PAL?

89. No advantages for the adoption of a common scale for PAL staff across CROP locations were uncovered. This highlights a difficulty with a harmonisation policy across separate countries with different laws and practices. It is clear that no other international agencies or multi-national companies harmonise salary rates of locally employed staff, so for the CROP Agencies to do so would be a step away from international best practice.
90. Harmonising salaries would also potentially be expensive to implement. Unless there was a decision to reduce rates at the highest paid locations, which would be highly problematic, the only option would be to lift all rates to the highest paying country. There is an obvious cost to such an exercise and the cost-benefit analysis would have to show a substantially positive result. Given that each location currently pays in the upper levels of the local market, it is hard to believe that a cost-benefit analysis could achieve such an outcome.
91. A further problem would be maintaining the harmonised approach over time. For example, what would be the situation should the local market rates in one location move upward to the extent that the prevailing rates in that location lifted above those applying in the harmonised system, would that require the lifting of all rates throughout the CROP Agencies, placing all the other locations further ahead of the local conditions? There would seem to be little alternative, and yet there would be additional costs incurred with no accompanying benefits to

the Agencies. The Consultants concluded therefore that harmonising salaries was not a sensible option.

92. Significant questioning by the Lead Consultants failed to find any compelling business case for changing the current PAL staff employment reward structure, either through SDRs and a COLDA or any other form of common scale across CROP locations. Some Fiji and Honiara based staff wanted a common scale across CROP locations when they compared their situation with other better paying CROP locations. However, when the Consultants put forward the proposition of a common pay scale against the lower paying CROP locations, they then changed their minds. There was strong support in most locations for the PAL staff being paid in a direct relationship with the local market, as is the current situation. Importantly, this was not expressed in any manner that would have indicated that it was change resistance. A number PAL staff expressed strong reasons for the rejection of the idea based on the effects likely to accrue to the PAL staff's wages – which were all seen to be negative.

Rejection reasoning

93. The reasoning for rejecting the concept of SDR and COLDA for PAL lent heavily on the current experience with those systems for PAI staff.

SDR fluctuations

94. Many interviewees were seriously concerned with the SDR fluctuations at present. These regular changes lift and drop the take home pay, in real terms, of the staff receiving reward in SDRs. There appears to be an acceptance that this is normal for PAI staff and other benefits may somewhat compensate for this effect.

Ceiling and floor calculations

95. Further, the ceiling and floor policy, that is an important part of SDR implementation, could have detrimental affects on PAL staff over time similar to that currently affecting PAI staff in Samoa. There, the SDR has lowered to be held at the floor regularly, only then for the next year's ceiling and floor to be based on the past year's calculations with a consequential new floor lower than the previous, and the SDRs find that floor again before the year's end. This creates a downward spiral that is not beneficial to the staff in that location. One PAI staff member informed the Lead Consultant that the current rate of SDR for that role was less than it was nine years ago when the incumbent entered the role. The Lead Consultant was informed that all longer serving PAI staff in Samoa are likely to have rates that are lower now than when the incumbents were employed in their current role.

COLDA

96. The Lead Consultants were also made aware of a difficulty with the COLDA. Part of the problem with this process is that it is based on a complex formula that has been in existence for many years, and there are no longer any people about who fully understand it. Nevertheless, until recently it has been operating at least satisfactorily. It uses the Fiji economy as a base, a decision that was probably appropriate at the time. At the time of the COLDA's initiation, Fiji was probably the largest and most stable Pacific economy.
97. An international consulting organisation "ECA International"⁴ undertakes an assignment which provides a cost-of-living relationship to the Fiji base for each CROP Agency location and, following the application of the formula, a percentage is expressed which becomes the COLDA applied to each PAI staff member's pay. That worked well until recently when the Fiji inflation rate climbed and overtook Noumea. Consequently, even though the cost-of-living is rising in Noumea, the COLDA went down in that location. This has, unsurprisingly, created considerable disquiet within the Noumea PAI staff.

⁴ <http://www.eca-international.com/home>

Conclusion and recommendation

98. That history is compelling evidence toward rejecting any change to use of SDRs and COLDA for PAL staff. Far from finding a compelling case for change to a SDR/COLDA system, or any other form of harmonised salaries, for PAL staff, the result is a compelling case against such a change.
99. The Consultants recommend that the CROP Agencies reject the proposition of paying PAL staff according to SDRs with a COLDA and also reject any proposition to pay PAL staff according to any other pan-CROP formula, and continue to pay PAL staff in as close a direct comparison with the local labour market as is able to be achieved.

Term of reference v.

v. Examine and provide an opinion and advice on whether two benefits provided to positions advertised internationally namely education allowance and housing allowance should be extended to PALs, and if so recommend the mechanisms and levels for such allowances.

Interviewees' opinions

100. There was strong suggestion, from some Staff Committees and PAL Staff generally, that these two allowances should be extended to PAL staff, but that was not echoed by everybody. The arguments made by staff for the allowances to be extended can be summarised as fairness concerns. Many see it as being unfair that PAL staff have these benefits but PAL staff do not. This is especially so in relation to the fact that local staff who have successfully competed for PAL roles are extended these benefits.

Expatriate benefits

101. The reasoning for the PAL staff to have these benefits dates back many years and is aligned to the normal rewarding system for expatriate staff in many professions, including: diplomatic postings; commercial company postings; government agency postings; and many aid agency postings. The general rationale was that these people had taken the decision to live temporarily in another country and they should not be disadvantaged by that decision – aligned to the reality that convincing the very best people for the roles to take the postings would be difficult without these compensatory benefits.
102. Often, people who take expatriate roles maintain their own house in their home country while on the assignment, because these roles are inevitably fixed term in nature. Therefore it is necessary to provide them with housing in the host country to prevent them from having to maintain two houses, one in each location, at considerable financial disadvantage. Further, the schooling available to their children in the host country is often not up to the same standard as their home location, or even where it is, there is often a language problem. In both situations, differing standards or new language, the choice is between schooling their children at a boarding school in the home country or having significant additional costs incurred through private tuition.

Locally Employed PAL staff

103. Obviously, the above arguments do not hold up to scrutiny when the internationally advertised role is filled by a local person. However, there is a clear equity issue involved in this situation. Those appointees are too subjected to all the conditions of the internationally appointed PAL staff, and are undertaking the duties of an international appointment. They have two three-year terms after which they have to compete internationally again for their job, with no guarantee of success, and this repeats every three years. In many cases they are competing against a significant number of well qualified international applicants.

104. There would be no equity in the situation where these staff sat alongside other internationally appointed staff on significantly different terms and conditions. That was the rationale for the CROP Agencies agreeing to PAI terms and conditions for PAI staff recruited locally, and that was a reasonable decision.

PAL staff

105. None of these arguments apply to the provision of the two benefits in question to PAL staff. They are not away from their normal home location so do not have the 'two houses maintenance' difficulty and their children will presumably go to the same schools that they would have attended had the parent not been employed in the PAL role.

The business case?

106. These two benefits are expensive, and so affordability would become an issue if a decision was made to extend them to PAL staff. There would need to be an extremely compelling business case for such and extension, and the Lead Consultants did not hear any arguments that met that test.
107. There were arguments based on equity between the locally employed PAI staff and the PAL staff, based on the fact that they both come from the same location. Equity is of course very important, the extension of international PAI staff conditions to locally employed PAI staff was an equity-based decision (see paragraph 104 above). However the comparison between locally employed PAI staff and PAL staff is not an equity argument, both of these groups are being appropriately aligned to the correct labour market so equity is not the issue.
108. One group questioned why the issue of housing and education allowances had come up, since they understood that these entitlements are tied to the international market. There were also arguments based on equity between those who own houses and those who rent and in respect of education allowance, those who have children in school and those who do not. Staff suggested that a lump sum should be given to everyone irrespective of circumstances. However, the Consultants do not agree with that suggestion, if an allowance is to be granted to staff to assist with the education of their children, it should be specifically for that purpose. Some staff were concerned with the tax that would have to be paid on these allowances, unfortunately the employer has little capability to influence that aspect, whatever taxes are required by the government have to be paid.
109. The locally employed PAI staff are specifically recruited to undertake roles that normally require extensive experience and qualifications such as University degrees, and they have to compete with highly qualified international applicants as outlined in paragraph 103 above. Conversely, PAL staff are recruited locally to undertake primarily support and operational roles, they compete only with other local applicants and they do not have to continually reapply for their jobs when each three year terms ends. As long as they are performing the role in a reasonable manner, and the funding stream for the role continues, they are usually 'rolled over' into another term. So these staff are not comparable with the locally employed PAI staff in any manner other than their home country location. The Consultants noted that in Noumea, 'local' is able to mean European Union citizens residing in New Caledonia, so competition for employment may be higher in this location. Also, in Noumea the PAL staff have to reapply for their roles just like PAI staff.
110. The Lead Consultants find that there is no compelling business case made for the extension of these two conditions to the PAL staff.
111. In one location, the PAL staff who occupy the upper levels of the band structure suggested that, because they overlap with PAI staff in the bands, the conditions of employment should be the same because they sometimes act in the PAI role. PAL staff who act in roles do get some form of compensation based on base salary. The Consultants do not accept that this is a valid argument for change, just because the roles are in a similar place in a band

structure does not mean they are the same. As outlined above, the roles are not comparable.

112. There are other matters that impinge upon this conclusion. The main one is the level of base salary market alignment provided to PAL staff. The alignment policy to above the upper quartile of the local market provided to PAL staff was likely to have been determined for a number of valid reasons:
 - firstly, to ensure that the best local candidates were enticed to apply of the roles;
 - secondly, that valuable employees were not enticed away to other employers from the CROP Agency (these two are normal reasons for an Upper Quartile alignment);
 - thirdly, that it is regular practice in many countries to pay at a higher rate where longevity of employment is not promised (and all PAL staff are on three year fixed term contracts); and
 - fourthly, (and only possibly) to ensure that the differential between PAI and PAL staff was minimised.
113. In 2006, PwC Fiji reviewed the CROP (excluding SPC) market alignment practice against the PwC survey All Organisations data outcomes. It was found that the CROP agencies were paying 6% to 13% above the upper quartile, and in some cases 1% to 10% above the upper decile. In SPC's case, the SPC Suva line was up to 50% above the upper quartile and up to 35% above the upper decile. This is where the policy position was developed to pay 10% above the upper quartile of the All Organisations line. It is worth noting that the policy came out of an attempt to rationalise the existing reality of the time. How the practice lines had got to the position of being so far up the quartiles is not actually known, the possibilities mentioned in paragraph 105 are likely reasons.
114. Paying at this level of the local market must, at least in some way, compensate for the differential in benefits with the other category of employees. Upper Quartile is an aggressive market alignment, for example in many western countries that would usually only be seen in highly competitive private sector companies who are attempting to lead the market and want to attract and retain the best talent. A market alignment above UQ is unusual.
115. In Honiara, the PAL staff are given a housing allowance, and this is due to local legal requirements. The law says,

"Where an employer's undertaking is so located that a worker cannot reasonably be expected to return to his home at the conclusion of his daily work, the employer shall cause such worker, together with his wife and children, to be adequately and properly housed in or near the undertaking, or pay to such worker a housing allowance: Provided that-

 - (a) nothing in this section shall be deemed to confer upon the worker a right to free housing for himself and his family; and
 - (b) in the event of an employer charging rent for housing supplied to the worker under this section, such rent shall not exceed such rate as may from time to time be approved by the Commissioner
116. Also, the Consultants noted that some assistance to local staff for the education of their children would be within the ethos of the CROP Agencies objectives if it were affordable and would also align with the Millennium Development Goals. Therefore, the Consultants believe that this is a matter than could be investigated further, not with a view to extending the PAI benefit, but as small assistance where it was proven to be affordable.
117. The Consultants recommend that the CROP Agencies reject the suggestion that PAI style education and housing allowances be extended to PAL staff; noting that in Honiara a housing allowance will continue to be provided as part of a legal requirement; and

investigate the possible provision of a small assistance to PAL staff, specifically targeted to educating their children, to be implemented if it is affordable.

Term of reference vi.

vi. Based on i. through v., make recommendations for changes to current terms and conditions including for further harmonisation between participating agencies and locations as appropriate

Tax status

118. The tax status of many of the different PAL employees creates disquiet in many staff. This came through in the information gathering phase. In Noumea there is a no-tax agreement that works well for all staff. In Fiji it is not the same, currently PAL staff do not pay tax but PAL staff do, and the government is currently considering changing the tax status. There is an internationally implemented convention for embassies and agencies such as the United Nations to seek this tax-free status, and the CROP Agencies have followed that convention wherever possible.
119. There is little that the employer (the CROP Agencies) can do about this. It is the government of the country that determines the tax status, and all a CROP agency can do is negotiate with the government concerned. The Government has the sole right to determine this outcome, so the employers of CROP Agency staff can only live within the law and the agreements made with the governments concerned.
120. The Consultants therefore recommend that the CROP Agencies continue, wherever possible, to negotiate for tax free status for its employees with countries within which they operate and comply fully with the local laws regardless of the outcomes of those negotiations.

Fixed remuneration

121. The Consultants were concerned that many of the questions raised in connection with the amount of reward each PAL person was receiving for their work indicated that they were only looking at the base salary and ignoring the substantial benefits they receive within their employment, benefits that are substantially better in most cases than available locally outside of CROP employment. The previous sections of this report have shown that each person receives a substantial reward over and above their base salary.
122. The Consultants recommend that the CROP Agencies adopt a 'Fixed Remuneration' system to employee reward for PAL roles. This means that, for every employee, a calculation is produced and provided to the employee that shows (in the local currency values) how they are rewarded. A sample remuneration calculation is shown below:

Reward item	Value	Amount in local currency
Base Salary	Upper Quartile of the local market for your role	\$xyz.00
Superannuation	Employer provided contribution at x%	\$uvw.00
Medical insurance	Cost for total family cover	\$mop.00
Other insurance	Life and disability	\$klm.00
Annual leave	x weeks leave at 2% of annual salary per week	\$hij.00
Other quantifiable benefits		
	Fixed remuneration	\$total of all the above

123. Any bonus paid following the performance development process is paid in addition to Fixed Remuneration.
124. This format should become a regular annual communication to staff following the performance review. This is to emphasise the levels of fixed remuneration that are provided, and prevent the dissatisfaction that is apparent with PAL staff focusing only on their base salary. Hertzberg's two factor theory is relevant here, Hertzberg theorised that there are two sets of factors at work in motivating (or demotivating) employees: Motivation factors and Hygiene factors. Importantly, pay and employment status, working conditions and contextual factors are Hygiene factors, which (according to Hertzberg and widely accepted to this day) do not motivate employees, but in some situations can de-motivate. A regular communication to staff about their true levels of fixed pay might not motivate them, but it should minimise the negative affects that were apparent in the information gathering phase of this project.
125. The Consultants recommend that the CROP Agencies adopt a Fixed Remuneration format for the regular communicating of employment reward to PAL staff.

Final Draft - for CROP Commercial