

REPORT OF THE CROP HARMONISATION WORKING GROUP

JULY 2005

1. INTRODUCTION

1.1 Background

1. At the November 2003 Budget and Work Programme Session, the Forum Officials Committee (FOC) agreed to convene a working group composed of the Suva-based Missions of the Governing Bodies to further evaluate the issues arising from the 2003 triennial review of the CROP harmonised terms and conditions of remuneration.

2. The Working Group report (dated June 2004) addressed all of the issues arising from the 2003 triennial review with the exception of housing and education allowances. “On these two allowances there was a difference of opinion between members of the Working Group. One view was that these allowances should only be associated with the cost of relocation and hence the wish to see them associated with the “relocation” principle. The alternative view was that these benefits were linked to the position, independent of the incumbent’s location on appointment, and thus the wish to see these allowances assigned to the “salary and benefits” principle. The Working Group wished to explore every avenue for achieving consensus on this issue and therefore agreed to seek further information on the matter from an independent HR consultant.¹”

3. The terms of reference for the review of housing and education allowances was drawn up by the Chair in consultation with the Working Group (refer annex 1). Mercer HR Consultants (Wellington, New Zealand) were awarded the contract and completed their report in December 2004. The executive summary of Mercer’s report is attached as annex II.

4. The Working Group reconvened in July 2005 to consider the recommendations of Mercer’s December 2004 report. The findings and recommendations of the Working Group on these issues are discussed in this report.

1.2 Working Group Composition

5. New Zealand continued to chair the Working Group. Of the ten members of the Suva-based Working Group, seven participated in a meeting on 11 July 2005 to discuss the review of housing and education allowances, namely:

- Australia;
- Federated States of Micronesia;
- Fiji;
- France;
- New Zealand;
- Papua New Guinea.

¹ Extract from “Report of the CROP Harmonisation Working Group, June 2004”, pg 16.

6. CROP agencies party to the harmonised remuneration process (participating CROP agencies) were observers to the Working Group and were invited by the Chair to contribute to inform the Working Group in its deliberations. CROP agencies participating as observers were:

- Forum Fisheries Agency (FFA);
- Forum Secretariat (ForSec);
- Secretariat of the Pacific Community (SPC);
- South Pacific Applied Geoscience Commission (SOPAC);
- South Pacific Regional Environment Programme (SPREP).

2. FINDINGS AND RECOMMENDATIONS

7. The Working Group considered each of the nineteen recommendations of the Mercer report.

Recommendation 1

8. The Working Group noted that housing and education allowances are currently included in the remuneration package of the participating CROP agencies. The Working Group supported Mercer's recommendation 1 but **recommends** that the following wording be adopted:

Both housing and education allowances should continue to be paid by the participating CROP agencies.

Recommendation 2

9. The Working Group noted the previous difference of opinion between members of the Working Group with respect to whether housing and education allowances should be associated with relocation or with the position. It was further noted that, as a result of the consultant's report, some members were prepared to change their previous views. The Working Group **recommends** that Mercer's recommendation 2 be adopted:

Both housing and education allowances should in future be regarded as benefits associated with appointment to a professional grade (i.e., Grades I to M.)

10. The Working Group noted that this recommendation will not impact adversely on the budgets of the participating CROP agencies.

Recommendation 3

11. The Working Group noted that Mercer's recommendation 3 was consistent with recommendation 2 and **recommends** that the following wording be adopted:

Payment of either housing or education allowance should not be regarded as compensation for staff who relocate in order to take up an appointment at a participating CROP agency.

12. Australia and New Zealand stated that they were willing to support this recommendation so long as the participating CROP agencies were able to demonstrate in some financial detail that any cost increases associated with implementing these recommendations could be absorbed within existing baselines. If this is not possible, New Zealand noted it would only support the changes if an increase to core membership fees was acceptable to all members. New Zealand stated it did not want to see a situation where development partners alone were expected to meet the costs of this recommendation.

13. The participating CROP responded that this recommendation did not have any additional financial implications since all professional staff were already receiving housing and education allowances. Thus the only impact on the CROP budgets would arise from increases in the value of the allowances. The participating CROP agencies, however, did agree that additional costs arising from the accepted recommendations would be met by the participating CROP agencies from their existing baselines, in the short term.

Recommendation 4

14. The Working Group noted that housing allowances were currently paid to professional staff but not to support staff. The Working Group supported Mercer's recommendation 4 but **recommends** that the following wording be adopted:

Housing allowance should be paid to all staff who hold appointment in a participating CROP agency in a professional grade (i.e., Grades I to M)

Recommendation 5

15. The Working Group in principle supported Mercer's recommendation 5 but noted that the wording was somewhat ambiguous and recommends that the following wording be adopted:

Education allowance should be paid to all staff in a participating CROP agency holding appointment a professional grade (i.e., Grades I to M) who have dependant children studying full time in a recognised educational institution.

Recommendation 6

16. The Working Group noted that Mercer's recommendation 6 was current practice by the participating CROP agencies except in some countries where local legislation requires otherwise. The Working Group therefore **recommends** that the following wording be adopted:

Neither housing nor education allowance should be paid to support staff in the participating CROP agencies (i.e., Grades A to H) unless required to do so to comply with host government legislation.

Recommendation 7

17. The Working Group noted that Mercer's recommendation 7 was current practice by the participating CROP agencies, and that the participating CROP agencies have defined minimum standards against which the allowance should be benchmarked. To provide clarity, the Working Group **recommends** that the following wording be adopted:

The maximum value of housing allowance should be set at 75% of the monthly rental for a property satisfying the standards prescribed by the participating CROP agencies.

Recommendation 8

18. The Working Group noted that the Suva-based participating CROP agencies had already commissioned a review of the Suva rental market in June/July 2005. The participating CROP agencies would inform their governing bodies of the outcome of this review.

Recommendation 9

19. The Working Group noted that the application of the housing allowance in some of the CROP agencies was such that the allowance was not an accountable allowance (i.e. not related to the actual rent paid by employees) but that in some of the CROP agencies it was directly related to the employee's actual rent. The Working Group **recommends** that Mercer's recommendation 9 be adopted as follows:

Participating CROP agencies should be responsible (however its administration is organised) for paying 75% of the actual rent on each eligible employee's accommodation, up to the set maximum allowance.

Recommendation 10

20. The Working Group noted that Mercer's recommendation 10 was consistent with recommendation 7 and **recommends** that it be adopted as follows:

There should continue to be no explicit linkage between the rental subsidy paid by an agency, and the individual employee's family size or hierarchical position.

Recommendation 11

21. The Working Group considered it was inappropriate to use a non-local school as a bench-mark for education allowances and that a multi-school benchmark was likely to be time consuming and expensive to administer for little positive return. The Working Group therefore **recommends** that Mercer's recommendation 11 not be adopted.

Recommendation 12

22. The Working Group noted that Mercer's recommendation 12 was current practice by the participating CROP agencies and **recommends** that it be adopted as follows:

Participating CROP agencies should continue to apply the current education allowance structure of a maximum rate per child per annum with a maximum rate per family per annum being calculated at three times the per child rate.

Recommendation 13

23. The Working Group noted that Mercer's recommendation 13 was consistent with the concept of employees contributing 25% towards the cost of housing, and considered it appropriate that staff should also contribute to their children's schooling. The Working Group **recommends** that Mercer's recommendation 13 be adopted for new staff, recognising existing contractual responsibilities:

Employees should in future be asked to contribute 25% towards the cost of their children's schooling. The maximum education allowance should be set at 75% of the benchmark rates (maximum per child, maximum per family) once they have been established.

Recommendation 14

24. The Working Group noted that the participating CROP agencies have two levels of education allowances - one for expatriate staff and one for local staff – and considered this to be discriminatory. The Working Group also noted that the education allowance was a “reimbursable” allowance and thus this recommendation might lead to an increase in costs for the participating CROP. The Working Group **recommends** that Mercer’s recommendation 14 be adopted as follows:

Differential rates for education allowance for local staff and expatriates should be abolished. In future, all professional staff (i.e., Grades I to M) should be eligible for the same level of education allowance (in the same family circumstances).

Recommendation 15

25. The Working Group noted the different tax treatment of agencies and staff and **recommends** that Mercer’s recommendation 15 be adopted:

The Fiji Government should be approached to seek tax-free status for all CROP agency employees.

Recommendation 16

26. The Working Group noted the minimum housing standards used by the participating CROP agencies in setting the level of housing allowance and noted that these standards included appropriate security measures. They further noted that security is a landlord responsibility and is reflected in the rent. The Working Group therefore **recommends** that Mercer’s recommendation 16 should not be adopted.

Recommendation 17

27. The Working Group noted that the participating CROP agencies do provide education allowances for tertiary study for dependent children and thus concluded that Mercer’s recommendation 17 was already implemented.

Recommendation 18

28. The Working Group supported Mercer’s recommendation 18 and **recommends** that it be adopted as follows:

Participating CROP agencies should review their definition and practice regarding “Dependent Children” to ensure that payment of education allowance in each case is appropriate and consistent across the participating CROP agencies.

Recommendation 19

29. The Working Group noted that the education allowance was a reimbursable allowance providing for payment of tuition and boarding fees. The Working Group considered the idea of providing more flexibility but felt this might lead to inconsistent application. The Working Group therefore **recommends** that Mercer’s recommendation 19 should not be adopted.

TERMS OF REFERENCE REVIEW OF BENEFITS

PREAMBLE

1. A number of the agencies of the Council of Regional Organisations (CROP) have adopted a “harmonized” approach to their remuneration principles and practices. The participating agencies are:

- Forum Fisheries Agency (FFA);
- Pacific Islands Forum Secretariat (PIFS);
- Secretariat of the Pacific Community (SPC);
- South Pacific Applied Geoscience Commission (SOPAC);
- South Pacific Board for Educational Assessment (SPBEA);
- South Pacific Regional Environment Programme (SPREP).

2. Broadly speaking, the CROP agencies employ two categories of staff: professional staff and support staff. Professional staff are recruited internationally but largely from the countries which make up the membership of the CROP Governing Bodies, while support staff are recruited from the local markets in which the agencies are based.

3. As part of a process to review the CROP remuneration arrangements a Working Group (WG) comprising the Suva-based Missions of the CROP Governing Bodies was convened in early 2004. During this review process, the WG considered the appropriateness of the benefits included in the CROP professional staff remuneration package. While the underlying philosophy of most benefits was clear, two emerged as being contentious, namely, the housing allowance and the education allowance.

4. In order to progress the discussion on the education and housing allowances in an informed way, the WG considered it appropriate to seek input from an external expert.

BACKGROUND

5. As a result of the deliberations of the WG, the CROP Harmonisation and Remuneration Guiding Principles and Strategies have been developed. (Refer appendix I). These are supported by the principles of the remuneration arrangements. The overarching principle associated with the remuneration arrangements is “To provide a fair, equitable and competitive remuneration package”. Within this lies three categories, with a sub-principle as follows:

- Salary and Benefits
- To recruit and retain talented, skilled and motivated people.
- Relocation Provisions
- To assist with adjustments arising from relocation
- Other Terms & Conditions
- To clearly define entitlements and provide clarity to the employment relationship

6. The CROP benefits have been readily assigned to these three categories (refer Appendix II) with the exception of housing and education allowances. On these two allowances there was a difference of opinion between members of the WG. One view was that these allowances should only be associated with relocation and hence the wish to see them associated with the “relocation” principle. The alternative view was that these benefits were linked to the position, independent of the incumbent’s location on appointment, and thus the wish to see these allowances assigned to the “salary and benefits” principle.

7. Housing allowances across the CROP agencies are paid in slightly different ways (refer Appendix III), but essentially they are a flat rate, the same for all professional positions recruited locally or internationally, based on a percentage of the market rental rate.

8. Education allowances across the CROP agencies are also paid in slightly different ways (refer Appendix IV), but can be summarized as being a reimbursable allowance to a maximum rate per child up to a maximum of (normally) three children. The rates for expatriate staff are based on the fees at the Suva International School and for local staff on the fees of the USP foundation level.

9. Since 2001, the professional staff salary scales have been directly linked to the median of the Australian Public Service (APS) sector. This linkage to the median of the APS has come under scrutiny by the WG, which has proposed that it be replaced with the concept of a flexible comparison with a number of “reference” markets. The reference markets considered appropriate are the Australian public service sector, the Fiji all organizations sector, and the New Zealand public service sector.

PURPOSE OF THIS PROJECT

10. The purpose of this project is to gain further understanding of best practice relating to the application of housing and education allowances to determine whether the current CROP practice with respect to the provision of housing and education allowances to professional staff is appropriate, and whether the levels provided are realistic.

TERMS OF REFERENCE

11. The terms of reference for this project are to provide:

- a) Specific recommendations regarding the inclusion or otherwise of housing and education allowances in the CROP remuneration arrangements;
- b) Specific recommendations regarding which staff, if any, should be entitled to housing and education allowances;
- c) Specific recommendations regarding the level of housing and education allowances;
- d) To suggest alternatives or options, if these exist, and their merits.

12. In undertaking the project, the successful consultant should:

- a) Consult with the members of the WG (all of which are based in Suva);
- b) Consult with the participating CROP agencies (by telephone or mail for the non-Suva based agencies);
- c) Consider the historical context of the housing and education allowances;
- d) Consider trends and best practice in the reference markets;
- e) Consider current practice and trends of similar organizations;
- f) Make any recommendations in the context of the total remuneration package of the CROP agencies, and not in isolation.

REQUEST FOR PROPOSAL

13. The participating CROP agencies are requesting proposals from interested parties. In developing your proposal, based on the terms of reference, you should indicate:

- a) Your competence to undertake the project;
- b) The process you would use;
- c) What additional information, other than that identified in the terms of reference you might consider relevant;
- d) A timeline;

- e) Your price and availability;
 - f) Any other issues that you consider relevant.
14. Requests for further information and proposals should be addressed via e-mail to:

Stephanie Jones
Director Corporate Services
Pacific Islands Forum Secretariat
stephanie.j@forumsec.org.fj
Telephone (+679) 331 2600

Proposals should arrive before the close of day on 3rd September 2004.

**MERCER HR CONSULTING
REVIEW OF HOUSING AND EDUCATION ALLOWANCES
DECEMBER 2004**

EXECUTIVE SUMMARY

Mercer Human Resource Consulting (Mercer) was commissioned by the Council of Regional Organisations of the Pacific (CROP) to undertake a review of housing and education allowances paid to professional staff of the participating agencies. The purpose of the review was:

- to gain an understanding of best practice relating to the application of housing and education allowances;
- to determine whether the current CROP practice with respect to the provision of housing and education allowances to professional staff is appropriate; and
- to establish whether the levels provided are realistic.

The central issue underlying the review was the Council's need to establish whether housing and education allowances should be restricted to compensation for staff relocating away from their homes in order to take up CROP appointments, or whether they should be regarded as a condition of service in the professional grades, regardless of the incumbent's origin or nationality.

Fieldwork was undertaken by Neil Jury, an Associate in Mercer's Wellington office, in late October 2004. A thorough study was done of the historical context of the Allowances, a wide ranging consultation followed with both staff and management in the agencies, and "best practice" information was supplied by the International Consultants Centre (ICC), an associate company of Mercer in Melbourne, who are specialists in international remuneration.

A range of alternatives and options for each Allowance were developed, and these were circulated to the CROP Working Group for comment. When this feedback had been received, a draft report was prepared and circulated. Further feedback was incorporated, and a final report compiled, and distributed.

RECOMMENDATIONS

Mercer makes the following recommendations based on the principle that the CROP agencies are recruiting specialist staff in a global "mobility" market and need to attract staff in light of their options for employment elsewhere in the world. Our recommendations take a position-based approach to both the allowances.

Term of Reference:

"Specific recommendations regarding the inclusion or otherwise of housing and education allowances in the CROP remuneration arrangements"

1. Both housing and education allowances should continue to be paid by the CROP agencies.
2. Both housing and education allowances should in future be regarded as benefits associated with appointment to a professional grade (i.e., Grades I to M).
3. Payment of either housing or education allowance should no longer be regarded as compensation for staff who relocate in order to take up an appointment at a CROP agency.

Term of Reference:

"Specific recommendations regarding which staff, if any, should be entitled to housing and education allowances"

4. Housing allowance should be paid to all staff who hold appointment in a CROP agency in a professional grade (i.e., Grades I to M).

5. Education allowance should be paid to all staff with school age dependent children who hold appointment in a CROP agency in a professional grade (i.e., Grades I to M).
6. Neither housing nor education allowance should be paid to support staff in the CROP agencies (i.e., Grades A to H).

Term of Reference:

“Specific recommendations regarding the level of housing and education allowances”

7. The policy of setting the maximum value of housing allowance at 75% of the monthly rental for a standard three bedroom executive house should continue unchanged.
8. A new survey of the rental housing market in Suva should be carried out urgently to ensure that the maximum available housing allowance is set at a realistic figure. The survey should be carried out by a reputable local real estate firm, sponsored by Pacific Islands Forum Secretariat (“PIFS”), and supervised by a steering group comprising representatives of PIFS management and the Staff Association.
9. CROP agencies should be responsible (however its administration is organised) for paying 75% of the actual rent on each eligible employee’s accommodation, up to the set maximum Allowance.
10. There should continue to be no explicit linkage between the rental subsidy paid by an agency, and the individual employee’s family size or hierarchical position.
11. A new multi-school benchmark should be established as the basis for the maximum education allowance to remove the reliance on the single benchmark currently in use. The benchmark schools should be selected from the CROP remuneration “Reference Markets”: Australia, New Zealand, and Fiji.
12. The current education allowance structure of a maximum rate per child per annum with a maximum rate per family per annum being calculated at three times the per child rate should continue.
13. Employees should in future be asked to contribute 25% towards the cost of their children’s schooling. The maximum education allowance should be set at 75% of the benchmark rates (maximum per child, maximum per family) once they have been established.
14. Differential rates for education allowance for local staff and expatriates should be abolished. In future, all professional staff (i.e., Grades I to M) should be eligible for the same level of education allowance (in the same family circumstances).

Term of Reference:

“To suggest alternatives or options, if these exist, and their merits”

15. The Fiji Government should be approached to seek tax-free status for all CROP agency employees, in recognition of the contribution made by the agencies to Pacific communities.
16. A new “Security Fit Out Allowance” should be established, at least for Suva-based missions, to ensure that incoming employees are able to install at least basic security features in their accommodation: deadlocks and grilles on doors and windows, and if necessary, an alarm system.
17. The Working Group should investigate further the possibility of meeting some costs associated with tertiary study by a dependent child of a CROP professional employee, with a view to matching best practice.
18. CROP agencies should review their definition and practice regarding “Dependent Children” to ensure that payment of education allowance in each case is appropriate.
19. Agency management should be advised that provided the set maximum rates of education allowance are not exceeded, there is to be a degree of flexibility in the administration of education allowance, provided always that the business purpose of what is proposed (i.e., it must contribute to the core education of the child) is maintained.