

Annual Wage Review 2011

Fair Work Australia has decided that modern award minimum wages will increase by 3.4 per cent commencing the first full pay period on or after 1 July 2011, with commensurate increases in hourly rates on the basis of a 38 hour week.

The increase applies to minimum wages for junior employees, employees to whom training arrangements apply and employees with disability, and to piece rates. Wages in the National Training Wage Schedule (NTWS) will be also be adjusted by 3.4 per cent.

The National Minimum Wage Order provides a:

- National minimum wage of \$589.30 per week or \$15.51 per hour
- Two Special National Minimum Wages for award/agreement free employees with a disability:
- Wages for award/agreement free junior employees based on the percentages for juniors in the Miscellaneous Award 2010 applied to the National Minimum Wage
- The Apprentice Wage provisions and the National Training Wage Schedule in the Miscellaneous Award 2010 for award/agreement free employees to whom training arrangements apply, incorporated by reference and a provision that adult apprentices should not receive less than the National Minimum Wage, and
- A casual loading of 22 per cent for award/agreement free employees.

The increases may be absorbed in over-award payments.

Note that transitional minimum award wages continue during 2011/12. This means that the formula to calculate transitional minimum rates must be applied to the modern award rates to determine the true applicable minimum rate.

All modern awards have been updated to include the 2011 increases including changes to allowances. Subscribers to [Employee Relations Online](#) will have received notice of the updated modern award wage rates. Other clients should go to [Fair Work Australia](#) or contact [Paul Maguire](#) to discuss the implications for your business if you are unsure.

Paid Parental Leave

Employers are reminded that commencing on 1 July 2011 all employers are required to administer payments to eligible parents who are in receipt of the Australian Government's [Paid Parental Leave Scheme](#) payments. The eligible employee must apply to the Government for the payment and if accepted, the employee's employer will be contacted by the Family Assistance Office with instructions on how to administer the instalment payments.

[More](#)

Equal Remuneration Case

The Australian Services Union wants minimum wages in the social and community services sector to increase between 17% and 79.5%.

The claim is made in a submission to Fair Work Australia filed on 22 June 2011. It follows one of the most unusual decisions ever by an Australian industrial relations tribunal.

[Fair Work Australia](#) decided that in the social and community services (SACS) industry there is not equal remuneration for men and women workers for work of equal or comparable value by comparison with state and local government employment. However, it didn't explain why this would be the case or what proportion would be due to gender. Nevertheless, the members of the Full Bench are "...in no doubt that gender has an important influence." Consequently, it believes a remedy is required and has asked unions and employers to quantify how much award wages should be adjusted to compensate for the 'gender gap'.

The Full Bench of Fair Work Australia had this to say:

"... it is apparent that many factors are related and it is not possible to separate various factors entirely from each other" [paragraph 281]

"We agree that it would be wrong to conclude that the gap between pay in the sector with which we are concerned and pay in state and local government employment is attributable entirely to gender, but we are in no doubt that gender has an important influence. In order to give effect to the equal remuneration provisions in these complex circumstances, we consider that the proper approach is to attempt to identify the extent to which

gender has inhibited wages growth in the SACS industry and to mould a remedy which addresses that situation." [Paragraph 282]

The Australian Services Union has told FWA that the gap between the SACS Industry and equivalent public sector jobs is substantial and all of the differences are due to gender. For example, an employee currently classified at Level 3 under the modern award would need an increase of between 33% and 39% to receive 'equal remuneration' i.e. \$12,000 - \$16,000 per year more in salary.

This is going to be a very interesting decision when final submissions are made and heard in August.

Employers that are covered by the [Social Community Home Care and Disability Services Industry Award 2010](#) must continue to pay employees no less than the minimum wage in the relevant transitional minimum wage instrument and/or award - based transitional instrument for the classification concerned. Note that action to identify how current employees and job classifications translate into the classifications prescribed by the modern award should proceed as soon as convenient over the next few months. Transitional wage rates under the modern award will not commence until 1 February 2012.

Annual leave loading paid on termination of employment

The Fair Work Ombudsman has decided that where an employee is entitled to annual leave and annual leave loading, then they must be paid out for both entitlements when their employment is terminated. **This applies even if a clause in a modern award, agreement or contract expressly states that either entitlement is not payable.**

The interpretation for the entitlement is based on the annual leave on termination provision in s.90 (2) of the Fair Work Act 2009 which provides that a terminated employee with a period of untaken annual leave must be paid what they would have been paid if they had taken that period of leave. This section is part of the National Employment Standards so it cannot be excluded by any term in a modern award, agreement or other instrument that may provide for a lesser benefit.

This entitlement to payment is on annual leave that has accrued since 1 January 2010. Employers that do not pay leave loading on termination of employment must now do so.

TIP OF THE MONTH: Leadership and execution are key drivers of successful performance management system

Maguire Consulting is regularly asked to advise clients on the design of performance management schemes for senior manager and staff. I normally advise clients not to make the investment unless it adds value to the business. In other words the time and effort to design and apply a system of performance review must provide a return on that investment. The challenge for most employers is to design and implement a system that effectively drives successful performance

The following article appeared in CCH Human Resources News, in November 2010¹. It reports on research conducted overseas on this very question. I have re-produced it below because it reflects the sort of challenges that most Australian businesses face on this subject.

There has been much written lately concerning the value that performance management brings to an organisation; some headlines have even gone so far as to state, "*Down with employee reviews; they don't add value.*" Going beyond the headline though, the story consistently emphasises the importance of setting expectations, measuring results and providing constructive developmental feedback.

To gather information about the current state of performance management effectiveness and outcomes, WorldatWork and Sibson Consulting collected feedback from a sample of WorldatWork members through participation in a confidential online survey. In May and June 2010, 750 individuals, primarily senior-level human resources (HR) professionals, responded.

The results of the WorldatWork/Sibson 2010 [Study on The State of Performance Management](#) indicate mixed reviews concerning the state of performance management.

While organisations still consider performance management as a means to achieve business objectives and differentiate high performers from low performers, there seem to be many challenges that impede an organisation's ability to achieve effective performance management.

¹ WorldatWork/Sibson 2010 Study on The State of Performance Management; www.worldatwork.org

Goals and challenges

Almost all of the survey respondents (91%) indicated that their organisation has a formal performance-management program. The study found that the top goal of performance management, which was selected by two-thirds of the respondents, is differentiated distribution of rewards based on individual performance. Other important goals are greater individual accountability and talent development.

According to more than half of the respondents, the top challenge faced by organisations is managers' inability to have difficult performance discussions. The second and third greatest challenges are performance management is viewed as an "HR process" rather than a business critical process and poor goal setting.

Individual performance goals or criteria

Half of the organisations include the achievement of goals and objectives as at least one of the criteria for performance evaluation. The goals are most often based on primary job accountabilities (76% of respondents). Smaller percentages of organisations base individual goals on performance against quantitative metrics, demonstration of competencies or acquisition of new skills.

According to respondents' perceptions, alignment between individual goals and organisational goals is strongest at the senior-management level. The perceived linkage decreases significantly at the middle-manager level and is lowest for employees who are not managers.

At the majority of organisations (61%), individuals have input in setting their goals. In contrast, goals "cascade down" to individuals from the top at 28% of organisations in the study.

Ratings and methods used to encourage differentiation

More than half of respondents reported that their organisations use a five-point scale for rating employee performance. This result was consistent regardless of organisation size or industry.

The WorldatWork/Sibson 2010 Study on The State of Performance Management found that the most common method used to encourage differentiation of individual performance ratings — the number one goal of performance management, as noted above — is an audit of ratings by HR. Two other methods, a specified ratings distribution and/or calibration of ratings among managers, are each used by about one-third of organisations in the study. Among 46% of organisations in the study, managers and

department/division leaders receive reports describing their distribution of performance ratings and comparing the distribution to the organisation's overall distribution.

In addition, 35% of organisations do not have a targeted method for differentiating assessments. Organisations with fewer than 5,000 employees were more likely than larger organisations to be in this category.

In the majority of organisations (81%), managers or line leaders are responsible for approving individual ratings. HR approves individual ratings in 37% of reporting organisations.

Managers' role in performance management

As already noted, the highest rated challenge to effective performance management cited by nearly half of respondents is that managers lack the courage to have difficult performance discussions with employees. More than half (56%) of organisations invest in manager and employee training in order to make performance management more effective. A similar percentage of respondents (55%) reported that managers complete their assessments on time. However, far fewer organisations (28%) felt their managers focus on having effective performance conversations, rather than just completing forms.

The study found no consensus on the thoroughness of managers' assessments. Although 36% of respondents agreed that managers complete thorough assessments, 33% disagreed and 31% neither agreed nor disagreed.

More respondents disagreed (46%) than agreed (22%) with the statement, "*The performance management program consumes too much time for the value it provides.*"

Relationship of rewards to performance management

The study found that performance management is much more likely to be linked to merit increases than to either short-term or long-term incentives. Performance management appears to provide opportunity for differentiation among low and high performers. Low performers receive significantly lower/no pay increases at 65% of organisations. High performers receive significantly differentiated pay from average performers at 42% of organisations.

However, the distribution of ratings generally does not change when organisational performance changes, which decreases the linkage between individual and corporate results. Only 20% of

organisations report that the percentage of employees with the highest rating goes down when organisational performance is poor. This suggests that managers, in a good number of organisations, give as many high performance ratings as they can, regardless of organisational performance.

The process

The study found that performance management is a two-way process. At almost three-quarters of organisations in the study (72%), employees complete self-assessments. Respondents reported that performance management is tied to the annual budget and goal-setting process, but is also a year-round process. The most frequent timing (reported by 37% of respondents) is within two to three months of the end of the fiscal year. No respondents said their organisations conduct performance assessments based on employees' anniversary dates.

More than half of respondents (64%) said that the tools and forms their organisations use for performance management are simple and easily accessible by end users throughout the organisation. Nearly three-quarters of organisations (74%) use a process that is either entirely online (34%) or a combination of online and paper (40%). Not surprisingly, organisations with more employees are more likely to have an entirely online process, and organisations with fewer employees are more likely to have an entirely paper process.

Biggest champions of performance management

The study found the biggest champion of performance management at most organisations (73%) is the top HR executive. At nearly one-third of organisations, the president/CEO is the biggest champion of performance management.

The study found strong leadership support for performance management. Most respondents agreed with the following statements:

- Senior management in the organisation publicly supports performance management (74%).
- Senior management in the organisation privately supports performance management (56%).
- Senior management requires completed assessments for all employees (65%).

However, only 40% of respondents agreed with the following statement: "*Leaders model performance management through evaluation and coaching of the direct reports.*" Moreover, 30% of respondents disagreed with that statement.

Only 12% of respondents indicated that their organisations' top management view performance management strongly as business-critical, although an additional 20% reported that performance management is mostly viewed by leadership as business-critical. An equal percentage felt that top management view performance management as mostly an administrative process.

Key outcomes

One key outcome of successful performance management is its ability to support strategic objectives. Forty seven per cent of respondents indicated that a performance-management system has helped the organisation achieve its strategic goals.

Performance versus competitors is also a key outcome of performance management. Sixty per cent of study participants indicated company performance as better than average versus competitors, and 40% indicated performance was about average.

Employee trust in the process is another essential outcome of a strong performance-management system. However, only 30% of the study respondents reported their employees trust the performance management system.

Perceived effectiveness of performance management systems

More than half of the respondents (58%) gave their organisation's performance-management system a grade of "C" or below. Only 43% view their organisation's performance-management system as effective (with an overall grade of "A" or "B"), with very few selecting an "A" grade (extremely effective).

One of the important findings of the WorldatWork/Sibson 2010 Study on The State of Performance Management is that the perceived effectiveness of performance management is influenced by support from senior management. Respondents who gave better grades to their organisations' performance-management systems were most likely to agree that senior management publicly supports performance management.

Sibson divided the publicly traded companies in the study into quartiles and according to their three-year total return to shareholders. That breakdown of the study data revealed that top-quartile companies were more likely to agree that their senior management both publicly and privately support the performance management process.

Conclusion

The results of the WorldatWork/Sibson 2010 [Study on The State of Performance Management](#) indicate that improvement in performance management is needed in many organisations and that performance management is generally stronger in higher-performing companies. In general, this has not changed since the study was conducted in 2007. While some organisations are effective in using performance management to differentiate high performers from low performers, many still struggle to move performance management from an HR process to something that is business-critical to the organisation. Particularly in a time of economic struggle, when improving business results is essential, driving performance management through leadership support and effective execution (e.g. proper goal alignment and delivery of performance messages) is critical. Leadership support remains important even during better economic times, as was the case during the 2007 study.

To improve performance management, an organisation must analyse not only the design of its program, but also the key drivers of a successful system: leadership and execution. The organisations getting the most impact from performance management are those that have strong leadership support and that execute well in differentiating performance and giving performance messages. The 2010 study indicates that the groundwork is set for performance management, but the value comes when organisations look beyond the challenges, engage senior leadership and use performance management as a tool to differentiate performance and drive business results.

For specific advice on the development of a suitable performance management systems for your workplace [contact us](#).

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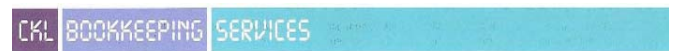
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