Ordinary Weekly Pay

Summary

One of the awkward aspects of the Holidays Act is it's insistence on paying staff at "Ordinary Weekly Pay".

From analysis of leave records from a variety of client sites, it is rare indeed that anyone actually takes a complete week of leave except at Christmas time. The majority of leave taken is for half a day to a few days, the majority being a single day's leave. To express this for a person who works a standard 8 hour day, 5 days per week, is really easy: 1 day=.2 of a week, ½ day=.1 of a week. It gets much harder though where an employee works irregular hours or shift work, and no thought has been put into such "real life" situations which employers experience all the time.

SmoothPay deals with "Ordinary Weekly Pay" by computing the average rate for 12 months up to the end of the last company pay period, and compares it with the employee's current pay rate. The higher rate is automatically recommended. When this rate is combined with the number of hours to be paid, the employee is effectively being paid at the correct proportion of their "Ordinary Weekly Pay". The number of hours being paid is deducted from the employee's leave entitlement.

If Pay Rate Checking has not been turned off (Company Setup..Options), the recommended rates will be displayed when you choose holiday from the pay type. If it has been turned off, you can display the rates by pressing F2 in the rate field. Note that pay rate checking is not performed for salaried staff.

Salaried Staff

SmoothPay definition: This is a special category of employment that is generally accepted to be recompense for 12 months of service in return for an agreed annual amount, divided and paid equally over each pay period – regardless of the hours worked, holidays taken etc. Any extra allowances are deemed to be outside their regular salary and are therefore not subject to inclusion in leave calculations (the salary is full recompense for the year's service, anything extra is outside that agreement).

The Holidays Act does not recognise any such thing as a salaried employee, and does not treat such an employee any differently to any other type of employee. This is an unfortunate omission, as many employees are still regarded as "salaried". No doubt this will keep the lawyers happy for years to come.

SmoothPay provides for the concept of a salaried employee, and will treat them as described above.

Note that this is outside the scope of the Holidays Act, and as such means you may need to remove salaried status from salaried staff to comply with the Act. But read on.

However, it can be demonstrated that a salaried employee's pay should remain the same whether they are on Public Holiday, Annual Leave or are taking an alternative day, as the proportion is exactly the same as their normal weekly earnings. It IS only if you disagree with this viewpoint that you should treat your salaried staff as normal waged workers.

Waged workers

Waged workers are classified in SmoothPay as follows:

- Casual: an employee who works on an "on-call" basis
- Pieceworkers: an employee who works on a productivity basis – not paid per hour
- Part-time: works irregular hours or less than a standard number of hours (usually 30 per week)
- Full time: works a regular 8 hour day, 5 days each week.

The cases for dealing with each of these classifications is discussed below.

Casual staff

Casual staff work on an on-call basis and their period of employment ceases each pay period end. This enables you to pay the employee their 6% annual leave entitlement each pay. SmoothPay will do this automatically, and show the calculation on their Pay Input screen as well as separately on their payslip.

You have no further obligation towards annual leave entitlements for this type of employee.

Pieceworkers

Pieceworkers are paid on productivity only, not by the hour. The difficulty here is that you cannot calculate a reliable, accurate or fair representation of "Ordinary Weekly Pay", due to seasonal workload, additional or altered duties etc.

The Act provides for this by permitting these employees to be paid out as if they were casual staff.

However, this doesn't help if the employee wishes to accrue annual leave and be paid out at Christmas. Again, the Holidays Act doesn't cater well for real-life situations.

The solution here is to ensure that a standard number of hours be established, just like a salaried employee. Simply fix the employee as salaried, zero salary and 40 hours per week. This provides a nominal number of hours that represents the employee's working week, and permits the calculation of a number of hours, and a rate of pay per hour based on the employee's average productivity.

Again, this will no doubt have to be lawyered before an acceptable method is determined, and until then everyone will have a different interpretation of the rules and the amount to be paid. Have fun.

SmoothPay provides the tool, and its up to you to use the tool correctly, fairly and consistently. Failure to do so may make you liable for additional holiday pay or other penalties.

Part-time staff

Part-time staff are defined as workers who work irregular, shift or standard hours (usually less than 30 per week). Their annual leave entitlement method should be set to 6% each pay. This provides a fair method of calculating their leave based on the hours they have worked for you. This is the same method used to determine the balance of leave liability should an employee leave before their anniversary date. The rate of pay used to pay these employees for the accrued leave is based on the higher of their earnings rate to the end of the last company pay period end, or their current rate. Again, this is a fair representation of the value of each hour for which they are being paid.

Difficulty arises where you consider the wording of the Holidays Act which provides for Ordinary Weekly Pay to be established by comparing a "normal week" against an "average week". Obviously this takes little account of the fact that part-time employees typically get paid per hour (or by piecework), and that those hours may vary. An alternative calculation method provided by the Act is to calculate an average based on the last 4 weeks earnings, however this doesn't in our view accurately or fairly reflect the rate and amount of leave due to the employee (especially if they take 2 hours annual leave for example). A further option is to pay annual leave as you go, like casual staff, but this is not the fairest method, nor does it cater for employees who prefer to receive holiday pay paid out at Christmas.

We believe SmoothPay provides a fair and reasonable method of catering for Annual Leave accrual and value for part-time staff.

Full-time staff

Generally, full-time staff receive an annual leave accrual, rather than per pay period (though it's up to you, both methods are reasonable).

Given that a full-time employee works a regular number of hours each day, and a regular number of days each week, then the method used to determine the higher of their current hourly rate (which produces their ordinary week's pay), or the average rate for 12 months to the last company pay period end will satisfactorily produce a rate that meets the requirements of "Ordinary Weekly Pay".

Feel free to contact our HelpDesk if you have any questions.

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