

WINTER PRUNING PAYMENT METHOD
DISCUSSION PAPER
JUNE 2020



Executive Summary

The kiwifruit industry faces continuing challenges and scrutiny to ensure that it is compliant with employment legislation and Health & Safety workplace rules and regulations, especially in light of the volume of RSE workers in the Bay of Plenty and the strict rules enforced by MBIE and Immigration NZ to be part of that accredited employer programme. NZKGI has invested considerable funds over the last two years to lift the level of awareness of work available in the industry with a bold new labour strategy, tools and processes to assist Growers and investment in resourcing to manage and allocate the volume of enquires for jobs in the orchards.

The industry faces increased pressure this year with the change in New Zealand's border controls due to Covid-19 and the lack of backpackers in New Zealand, going forward a robust recruitment strategy will be required to attract New Zealanders to work in the orchards and one of the areas that requires consistency will be the remuneration that is paid for work carried out in the orchards.

There are a number of different payment methods across the orchards and recently there has been discussion on how the rate of pay should be calculated to ensure that there is compliance to paying the minimum wage for each hour worked. The Labour Inspectorate has stated there is case law which requires the minimum wage to be calculated for each hour worked, a calculation which can be challenging under piece rate calculations, due to a number of different factors. These include the weather, completion of a bay, start and finish of a bay not necessarily being completed in one day or crossing over to another week, which will begin a new pay cycle.

This paper provides information for discussion on different pay options, including hourly rate, piece rates and incentives payments. It will outline issues and challenges for both the employer and the employee with the various options of payment and seek feedback from employers for input prior to the paper being finalised.

The ultimate objective is to agree a remuneration structure that is uniform, attractive to workers, gives Kiwifruit a competitive edge over other industries, meets employment legislation and is easy to communicate and administer. Your feedback is welcomed.

Payment Options

Listed below are three payment options that can be applied to workers employed in the orchards, there are advantages and disadvantages listed for discussion:

Option 1: Hourly rate payment

Paying hourly rate for each hour worked on orchard and travelling time between orchards during the working day.

| Day | Start time | Finish time | Actual hours worked | Paid Breaks in mins | Hourly Rate | KPIN | Activity |
|---------------------|------------|-------------|---------------------|---------------------|--------------|------|-------------|
| Monday 22.06.20 | 8.00am | 4.30pm | 8 | 2 x 10 mins | \$23.00 | 1234 | Pruning |
| Tuesday 23.06.20 | 8.00am | 3.30pm | 7 | 2 x 10 mins | \$24.00 | 4560 | Supervising |
| Total | | | 15 | 40 mins | \$352 | | |

The timesheet reflects the hours worked each day, the number of paid breaks, the hourly rate for each activity and the KPIN where the work was carried out.

The employee and the Supervisor (or Manager) then signs the timesheet to verify the information.

****The hourly rate should be reflective of the income generated for the worked being carried out.***

Advantages

- Very simple calculation, pay for each hour worked
- Transparent and easy to explain to workers
- Easy to display on payslips and timesheets, low administration costs
- Hourly rate above minimum wage, compliant with legislation
- Provided the hourly rate is attractive, strong marketing tool, as above living wage for work in orchards
- Grower/Contractor can estimate the cost/hours for completion of the work knowing the hourly rate for each worker

Disadvantages

- Starting rate needs to be estimated based on average of last year's work completed, this is the rate that will be included in individual employment agreements
- Rate is not set up as performance based, it is an average and won't reflect different levels of individual performance
- High performing workers may feel dissatisfied they are getting paid the same rate as workers who are not working at the same level
- No incentive to work accurately with speed, worker is getting paid the same rate regardless of time taken to complete a Bay
- No guarantee for Grower of cost, higher level of individual management of performance to ensure that underperforming workers are trained to improve

Option 2: Piece Rates

Piece rates are a traditional method of paying people working in the orchards, especially at winter pruning time. The rate is usually calculated using the following method:

| Day | Start time | Finish time | Hours worked | Paid Breaks in mins | Bays | Bay Rate \$ | Total Bay \$ | KPIN | Activity |
|-----------------------|------------|-------------|--------------|---------------------|------|-------------|---------------|------|----------|
| Monday 22.06.20 | 8.00am | 4.30pm | 8 | 2 x 10 mins | 28 | 9.73 | 272.44 | 1234 | Pruning |
| Tuesday 23.06.20 | 8.00am | 3.30pm | 7 | 2 x 10 mins | 23 | 9.73 | 223.79 | 1235 | Pruning |
| Wednesday 24.06.20 | 8.00am | 5.00pm | 8.5 | 2 x 10 mins | 11 | 13.75 | 151.25 | 6950 | Pruning |
| Total | | | 23.5 | 60 mins | | | 647.48 | | |

****In this example although the overall weekly rate is above the minimum wage, on Wednesday the worker received less than the minimum hourly rate of \$18.90. Paid breaks need to be calculated at the overall hourly rate (\$647.48 divided into 23.5 hours \$27.55 per hour – in this example 1 hour of breaks = \$27.55 needs to be included - total gross payment \$675.03)***

Advantages

- The payment is reflective of the performance of the worker
- The worker has the ability to earn a rate that reflects their individual performance and can be much higher than an average rate for all workers for strong performers
- A price per hectare is agreed and this rate is apportioned based on the time to complete the work, the Contractor is aware of their costs and is not paying an inflated rate for workers that are not performing
- A traditional model that is understood by Growers and Contractors

Disadvantages

- If the hours of work in any one day falls below the minimum wage the Grower/Contractor is in breach of employment legislation and is required to top up the worker
- Growers/Contractors are obliged to complete a double calculation to ensure that the worker is being paid the minimum wage
- It is a very confusing rate structure for new workers to the industry, especially overseas workers who struggle to understand the payment calculation
- It can be demotivating for workers when they first start out as their level of productivity is low due to training and learning the correct technique and skill required for pruning, the pay they receive might not necessarily reflect the effort being applied and could result in staff turnover
- If a bay is not completed in any one week then payment for that bay rolls into the next week and again, the Grower/Contractor could be in breach of paying the minimum wage. The following week they will receive the full payment but it can't be applied retrospectively to another week.

Option 3: Incentive payment

This option is a calculation of both hourly rate and piece rates and displays the difference between the two pay structures, a typical timesheet would be displayed as below:

| Day | Start time | Finish time | Hours worked | Paid Breaks in mins | Hourly Rate \$ | Bays | Bay Rate | KPIN | Activity |
|----------------------|-----------------|-------------|--------------|---------------------|----------------|------------|----------|------|----------|
| Monday 22.6.20 | 8.00am | 5.00pm | 8.30 | 2 x 10 mins | 18.90 | 28 | | 1002 | Pruning |
| Tuesday 23.6.20 | 8.00am | 8.00pm | 8.30 | 2 x 10 mins | 18.90 | 31 | | 1002 | Pruning |
| Wednesday 24.6.30 | 8.00am | 5.00pm | 8.30 | 2 x 10 mins | 18.90 | 27 | | 1002 | Pruning |
| Thursday 25.6.30 | 8.00am | 3.00pm | 6.30 | 1 x 10 mins | 18.90 | 23 | | 1002 | Pruning |
| Friday 26.6.20 | No work raining | | | | | | | | |
| Saturday 27.6.20 | 8.00am | 5.00pm | 8.30 | 2 x 10 mins | 18.90 | 30 | | 1002 | Pruning |
| Sunday 28.6.20 | 8.00am | 5.00pm | 8.30 | 2 x 15 mins | 18.90 | 15 | | 1002 | Pruning |
| Total | | | 49 | 130 mins | | 154 | | | |

Summary

| KPIN | Variety | Costing | Actual Hours | Hourly Rate \$ | Total Hourly Rate \$ | Bays | Bay Rate \$ | Total Bay \$ | Incentive paid over hourly rate \$ |
|------|---------|---------|--------------|----------------|----------------------|------|-------------|--------------|------------------------------------|
| 1002 | HW | WP | 49 | 18.90 | 926.10 | 154 | 9.73 | 1498.42 | 572.32 |

****This example shows calculation of minimum hourly rate total of \$926.10 gross must be paid, piece rate totals \$1498.42, this example means an additional incentive payment of \$572.32 gross to be paid to bring the total payment up to the piece rate calculation.***

Advantages

- Each worker is guaranteed to be paid the minimum wage which will mean all payments are compliant with employment legislation
- Workers are incentivised to work with speed and accuracy to finish bays and be paid a substantially higher hourly rate (in this case over \$30 per hour)
- The pay structure has the potential to lift the level of performance of workers when they realise how much of an incentive can be earned
- It is easy to explain as a pay range – minimum \$18.90 but ability to earn well over \$30 per hour – great selling tool for attraction of workers
- Once the formula is set up, the calculation can be automatic when the data is applied

Disadvantages

- Both payments will need to show on payslips, it will mean an adjustment to the payroll to reflect the incentive payment
- Non performers are being topped up to minimum wage, however, this is a legislative requirement

- If bays are not completed in one week then there is a top up required and the following week when the bay may be completed incentives are paid. However, minimum wage is required to be paid by law.

Recommendation

Option 3 – incentive payment is recommended as the preferred option for the following reasons:

- All workers will be paid in line with current employment legislation
- The payment incentivises and rewards strong performers
- The worker has the ability to earn an hourly rate well above minimum wage for the effort that is applied
- The structure of the payment means most workers will be motivated to learn quickly and work diligently to complete the work in a quick timeframe
- The payment is easy to explain and calculate
- It can be used as a selling point to attract new workers to the industry –
“Ability to earn 50 – 70% above minimum wage”
- Will move the perception that the industry pays low hourly rates to one that pays well above minimum wage
- Will highlight workers that are not performing the work to the required standard