



Payroll blues

Payroll problems are continuing in some of New Zealand's largest organisations.

There's been a lot of publicity about employees whose holiday pay has been underpaid - possibly for years - and unease at the chance that this might be widespread.

The problem has been found to exist in the Police Department and the Ministry of Business, Innovation and Employment but may also exist in private sector businesses.

The problems stem mainly from employers or payroll providers not using the correct formula for calculation of holiday pay.

The formulas are mandated in the Holidays Act, and opinion is divided over whether the Act itself is to blame, or the way it's interpreted.

The Act requires holiday pay to be calculated on the basis of *either* ordinary weekly earnings *or* the 52 week average of gross annual earnings - whichever gives the greater amount of pay.

Differences between these two approaches are greatest when pay varies from week to week, which is frequent for waged employees or those who receive intermittent allowances.

Confusingly, the average of the last four weeks' pay may be used if the calculation of ordinary weekly pay is too difficult.

The Government has taken the view that the problems arise from improper interpretation of the Act, rather than the Act itself.

Accordingly, Government has convened several stream of work with oversight from a panel drawn from business, payroll providers, academics, unions and lawyers. BusinessNZ is one of the members of this group.

Work is focused on payroll system design, payroll operation, operator competency requirements and audit and compliance processes and standards

The Government's intention is to review the use of the Act rather than review the Act itself.

However there are a number of issues that impact on how easy it is to choose the correct formula, including the way entitlements to leave are expressed.

The Act expresses entitlement in weeks. But employees typically apply for and take leave in days or part days. Payroll systems therefore typically calculate leave in hours, in order to align holiday pay with wages and salary payments.

A week means different things to different people. For a Monday to Friday worker it is five days or 40 hours, while 12-hour shift worker however could work 36 hours one week and 48 the next, an average of 42 hours per week. Many other variations exist.

By expressing leave entitlement in weeks, the Holidays Act reflects times past, when most employees worked a nine to five, Monday to Friday week. Those days have gone however, and employment patterns these days are so flexible that there is no consistent definition of a working week.

Getting the right unit of entitlement is just as important as using the right formula to calculate holiday pay.

Both need to be addressed and may lead to the conclusion that the Act needs to be reviewed.

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