

From: Michael Wright [<mailto:michael@ieu.asn.au>]
Sent: Thursday, 19 July 2018 5:10 PM
To: Chambers - Hatcher VP
Cc: Sophie Margaret Whish; Jessica McDonald; Canning, Cherie; Lucy Saunders
Subject: FW: C2013/6333 - Application by Independent Education Union of Australia for an Equal Remuneration Order - evidence in reply

Dear Associate,

Further to previous email and the correspondence filed this afternoon with the Registry, we wish to file the additional statement in reply of Ms Leanne Issko, which is attached in PDF format. Please advise if the Commission would be assisted by the provision of a hard copy. We anticipate providing Ms Amanda Hilaire's statement in reply tomorrow morning.

Regards,

Michael Wright

Dr Michael Wright | Senior Industrial Officer



Independent
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of Australia
NSW/ACT Branch



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From: Michael Wright <michael@ieu.asn.au>
Date: Thursday, 19 July 2018 at 16:45
To: Chambers - Hatcher VP <Chambers.Hatcher.VP@fwc.gov.au>, Sophie Margaret Whish <Sophie.Whish@ablawyers.com.au>, Jessica McDonald <jessica.mcdonald@afei.org.au>, "Canning, Cherie" <Cherie.Canning@ags.gov.au>
Cc: Lucy Saunders <lucy.saunders@greenway.com.au>
Subject: C2013/6333 - Application by Independent Education Union of Australia for an Equal Remuneration Order - evidence in reply

Dear Associate,

Re. C2013/6333 - Application by Independent Education Union of Australia for an Equal Remuneration Order - evidence in reply

I write to advise that the IEU has filed its reply material with the registry today. Three USBs with identical contents have been provided. Please advise if the Commission would be assisted by the provision of hard copies.

I also advise that the IEU also intends to rely on two additional statements in reply of Amanda Hilaire and Leanne Issko, which are not included on the USB. These brief statements are in the process of

finalisation; we anticipate filing by tomorrow at the latest. Similarly, the IEU anticipates being in a position to file its outline of submissions by early next week. We apologise for any inconvenience, and to the extent necessary seek an extension of time to file this additional material.

Regards,

Michael Wright

Dr Michael Wright | Senior Industrial Officer



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IN THE FAIR WORK COMMISSION

Matter no: C2013/6333


Applicant: Independent Education Union of Australia

Fair Work Act 2009 s.302(3)(b) – Application for Equal Remuneration Order

STATEMENT IN REPLY OF LEANNE ISSKO

I, Leanne Issko of Collins Square, 727 Collins St Melbourne in the State of Victoria, say:

1. I have prepared a previous Expert Report in these proceedings.
2. Subsequently, I received a letter of instruction from the IEU requesting that I prepare a further report in reply. A copy of that letter is annexure **LK-01** to this statement.
3. My Expert Report in Reply is annexure **LK-02** to this statement.
4. I have followed the Federal Court of Australia Expert Evidence Practice Note as provided by the IEU when preparing my Expert Report in Reply (see IEU Bundle I at pages 1-12).



LEANNE ISSKO
19 JULY 2018

Lodged by: Applicant	Telephone:	(02) 8202 8900
Address for Service: GPO Box 116, Sydney NSW 2000	Fax:	(02) 9211 1455
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5 July 2018

Leanne Issko
Principal
Mercer Consulting (Australia) PL
727 Collins Street
MELBOURNE VIC 3008

By Email: leanne.issko@mercer.com

Dear Leanne,

Re. Letter of Instruction - IEU Equal Remuneration Case –Response to Statements produced by ACA & AFEI

I refer to previous discussions between the IEU and Mercer regarding you providing a Statement in reply in the Equal Remuneration Case (FWC Matter No. C2013/6333).

Following those discussions, the IEU requests that you:

1. read and provide a response to the following statements produced in the Equal Remuneration Case:
 - a) the statement of Nida Khoury (filed by ABL on behalf of the Australian Childcare Alliance); and
 - b) the statement of John Egan (filed by AFEI & ors).
2. in responding to a) & b) above, can you provide the following:
 - i) a discussion regarding the similarity (or otherwise) of the various job evaluation systems discussed in the reports, including that used by Mercer;
 - ii) review and discuss the differences (if any) between the various 'points' or level outcomes generated by the job evaluations discussed in the reports (and in Mercer's report) for the various early childhood teacher, primary school teacher and engineer positions/levels. We ask that such an analysis include a Table, with a layout similar to that found at page 6 of the Egan Associates report attached to John Egan's Statement;
 - iii) a brief discussion on employment costs and the validity of using total remuneration;

- iv) consider and respond to the criticisms in both reports regarding Mercer's use of position matching data;
- v) consider and respond to the commentary which suggests that early childhood teachers are more regulated/supervised in their work than engineers;
- vi) consider and respond to the commentary regarding experience, particularly the discussion of cumulative versus repetitive experience in the context of early childhood teacher, primary school teacher and engineer positions.

The IEU requests assumes and continues to expect that you will abide by the *Federal Court of Australia Expert Evidence Practice Note (GPN- EXPT)* as previously supplied by the Union.

If you have any questions, don't hesitate to call me on 02 8202 8900.

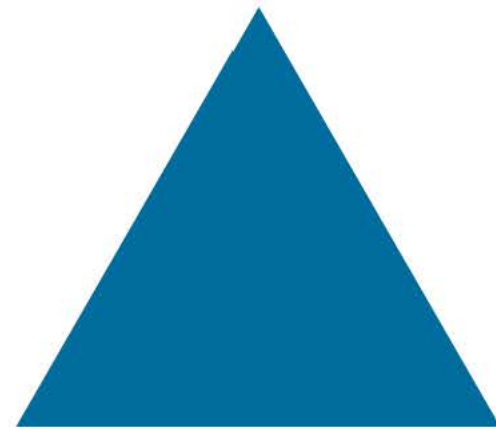
Thanking you again,

Yours faithfully

A black rectangular redaction box covering the signature area. There are some faint blue scribbles above the box.

Dr. Michael Wright
Industrial Officer

HEALTH WEALTH CAREER



EQUAL REMUNERATION CASE REPORT

RESPONSE TO STATEMENTS

19 JULY 2018

INDEPENDENT EDUCATION UNION



CONTENTS

1. Introduction	1
2. Job Evaluation methodologies.....	2
3. Job Evaluation Comparisons.....	5
4. Employment Cost.....	8
5. Position Matching Data	10

1

INTRODUCTION

1. The Independent Education Union (IEU) has requested that Mercer respond to statements produced by Australian Childcare Alliance (ACA) and the Australian Federation of Employers and Industries (AFEI). The statements concerned were prepared by Godfrey Remuneration Group (GRG) and Egan Associates. We note that the briefs provided to these consultancies were different to the scope of the Mercer review and addressed areas that are part of the broader Application for an Equal Remuneration Order. Mercer's initial scope was limited to the following areas:
 - To determine whether there is a job sizing difference between ELC teachers and Engineers with similar work experience
 - Provide remuneration data for Engineering roles from the Mercer database based on specific parameters.

Therefore this supplementary statement will be confined to addressing the following specific points:

- a) Discussion in relation to the job evaluation systems used in the reports,
- b) Review the differences between the various outcomes generated by the job evaluations discussed in the reports,
- c) Brief discussion on employment cost,
- d) Use of position matching data.

2

JOB EVALUATION METHODOLOGIES

2. Many organisations within Australia and globally utilise job evaluation methodologies to determine role size. Job evaluation is an analytical, systematic and quantitative assessment of the relative work value of positions. There are common features to all points-factor job evaluation methodologies, including:
 - a) Positions are evaluated by examining and assessing a series of factors and sub-factors,
 - b) All factors/sub-factors are common to all positions at a range of levels,
 - c) Points are allocated for each sub-factor at the appropriate level for the position,
 - d) Points for each sub-factor are added together, the outcome being a work value for the position,
 - e) The methodologies utilise a systematic rather than a scientific approach.
3. The Mercer CED methodology, which Mercer used in our initial report and was used by Egan Associates in their report, is a points-factor methodology. Mercer assumes that the Egan Associates Job Evaluation Methodology is also a points-factor methodology, however are unable to confirm this as we have had no exposure to it.
4. GRG references the Hay Group Guide Chart – Profile Method of Job EvaluationSM in their report, which is also a points-factor methodology. GRG states that the Hay Group method is the first job evaluation methodology and has withstood the test of time. One methodology being developed before the other does not imply that it is more accurate than another. Mercer notes that there have been a number of updates to the Mercer CED methodology since it was initially developed to reflect the changing nature of work, and the example positions referenced in the methodology have been updated. Mercer is also aware that parts of the Hay Group Job Evaluation methodology have undergone revisions at some point in the past 6 to 7 years.
5. Mercer notes that both the Mercer CED and Hay Group methodologies are widely accepted in Australia by both private and public sector organisations. As an example, the NSW state government previously mandated that one of three evaluation systems must be used to evaluate roles, one of which was the Mercer CED methodology¹. Other examples are that the job evaluation system used by the Queensland and Northern Territory governments (JEMS) is a customised version of the Mercer CED methodology. We also note that the Hay Group Method is used globally whereas the Mercer CED Job Evaluation system was developed for the Australian market by a consulting firm that was acquired by Mercer in 1999.

¹ The other methodologies were the Hay Group and OCR methodologies. OCR, was acquired by Mercer some 25 years ago – although it is still used by some local government organisations, it is no longer offered to clients or supported.

The Mercer CED Job Evaluation System

6. The Mercer CED Job Evaluation System was developed in the 1960's as a robust and universal job evaluation system. Eight key determinants of relative job worth were identified as common features of all jobs. The Mercer CED Job Evaluation System incorporated a “systems theory” and the recognition of 3 major factors to further integrate the eight sub-factors (see Figure 1).

Figure 1 - Mercer CED Job Evaluation System: Primary Factors

The Mercer CED Job Evaluation System expresses the worth of a position in work value points. These points are determined by assessing eight sub-factors which are based on a systems approach to understanding jobs. The eight Mercer CED sub-factors form three primary factors.



The required **inputs**, defined in terms of the skills, knowledge and experience needed to do the job. This is referred to as **EXPERTISE**.



The **processing** components of the job, defined in terms of the complexity of tasks, and the requirement for resolving problems. This is referred to as **JUDGEMENT**.



The **outputs** from the job, defined in terms of the impact, influence and independence of the position. This is referred to as **ACCOUNTABILITY**.

7. The Mercer CED Job Evaluation System is designed to determine the relative size of positions, and measures the major components of job worth to achieve this. The method examines the complexity of job demands for individual positions in a way that allows a systematic and analytical comparison of positions and is used in many major enterprises and as well as the public service/sector across Australia.
8. Information used in the job evaluation process may come from interviews with incumbents or managers, from specifically designed questionnaires completed by job incumbents and/or from position descriptions. In conducting evaluations, a position is measured in terms of the actual requirements of the job rather than the experience or skills possessed by the particular incumbent of the position.
9. Definitions for the eight sub-factors are provided in Figure 2 overleaf. In the evaluation process for each job, assessments are made for each sub-factor to determine the appropriate level.
- Each sub-factor typically has from three to eight levels. Definitions for each level determine how the position is rated on each sub-factor. Each position's requirements are compared with detailed, standard definitions to find the level of each sub-factor which most accurately describes the characteristics of the job.
 - A standardised points chart is then referenced to assign numerical points for each factor.
 - The total of the points assigned for all factors is the work value score for the position which indicates the relative size of the job in terms of intrinsic work value.

Figure 2 - Mercer CED Job Evaluation Methodology – Sub-factor Descriptions

MERCER CED JOB EVALUATION SYSTEM SUB-FACTORS



EXPERTISE

The expertise factor measures the requirements of the position for education, training and work experience, the diversity of individual tasks as well as interpersonal skills.



JUDGEMENT

The judgement factor evaluates reasoning components of a job, focusing on the task definition and complexity, the constraining within which employees need to resolve problems and other thinking challenges of the position.



ACCOUNTABILITY

This factor evaluates the nature of the position's authority and involvement in managing the organisation's resources. It includes the influence of the position's advice and accountability for results of decisions.

KNOWLEDGE & EXPERIENCE

This sub-factor measures the education, training and work experience requirements of the position. As knowledge is the result of education and training and experience, both the nature and extent of knowledge are considered. When evaluating a position, we consider the training and experience required to do the job. This does not necessarily reflect the training and experience of the current job holder.

BREADTH

This aspect of expertise measures the diversity of functions performed by the position. It considers not only the breadth of knowledge requirements for the position, but also the impact of various environmental influences on the position. Such influences may include geographic considerations or the variety and nature of product/ services and suppliers/ clients. The breadth sub factor also considers the need to integrate diverse or related activities.

INTERPERSONAL SKILLS

This sub-factor measures the position's requirement for skill in managing people and in negotiations. It is NOT meant to be a measure of the amount of interpersonal skills possessed by any incumbent, but rather is concerned with the people management, persuasive and negotiating skills required to achieve the position objectives.

JOB ENVIRONMENT

Job environment identifies the clarity, objectives, guidelines and policies as well as the nature and variety of tasks, steps, processes, methods or activities in the work performed. It measures the degree to which a position holder must vary the work and develop new techniques.

REASONING

This facet of judgement focuses on the requirements in the position for reasoning, analysis and creativity. Its emphasis is on the need for analysing and solving problems.

IMPACT

This sub-factor is measured in terms of the resources for which the position is primarily held accountable or the impact made by the policy advice or service given. It may be measured in monetary terms or on a policy/advice significance scale.

INDEPENDENCE & INFLUENCE

This sub-factor focuses on the position's level of accountability and independence in the commitment of resources, provision of advice or delivery of services. The requirement for acting as a spokesperson for the organisation is also considered. The extent of accountability is considered in conjunction with the position impact measure chosen.

INVOLVEMENT

The involvement sub-factor is concerned with the nature of the position's accountability for the management of, or influence over, organisation resources. For example, one consideration might be whether the position has accountability for a particular resource fully delegated to it or shared with other positions.

3

JOB EVALUATION COMPARISONS

10. Mercer was requested by the IEU to evaluate four roles using the Mercer CED Job Evaluation Methodology and to determine if there was a job size difference between Early Learning Teachers and Engineers with similar work experience. The roles were:
- Graduate Teacher,
 - Teacher with 5 years' experience,
 - Graduate Engineer,
 - Experienced Engineer.
11. In the Egan Associates report, these roles have been assessed with both the Mercer CED Job Evaluation Methodology and the Egan Associates Job Evaluation Methodology. In the GRG Report, Hay points ranges have been provided for these roles, however the roles have not been evaluated per se. It is important to note that evaluation points are not directly comparable across methodologies and both reports state that there are significant differences across the roles. We also note that Egan Associates and GRG also assessed the positions of Graduate Primary School Teacher and Experienced Primary School Teacher.
12. One of the key principles that underpins job evaluation is the concept of a discernible (or noticeable) difference. The definition of a discernible difference within the Mercer CED and Hay Group Job Evaluation methodologies is based on Weber's Law – a fundamental law of psychometrics². This law as it relates to job evaluation uses a minimum perceivable difference between levels of 15%, hence the numerical pattern and scoring grids are geometric progressions. Anything less than a 15% difference is recognised as not large enough to be a noticeable difference. This is also the rationale behind why many organisations cluster "like sized" roles into grades within a classification framework.
13. Given Weber's law, and recognising that job evaluation is a subjective systematic approach and not a scientific approach, it is not surprising that there may be minor differences between evaluations across evaluators. Notwithstanding this, if evaluation outcomes are within 15%, they are generally considered to be broadly in line with each other. With this in mind, we have compared the outcomes of the Mercer CED evaluations from the Egan Associates and Mercer Reports in Table 1 overleaf.

² Weber's Law states that in a psychometric measurement, a just noticeable difference is directly proportional to the magnitude of the thing being measured at the point of measurement.

Table 1 - Comparison: Mercer and Egan & Associates Job Evaluations (MCED)

Graduate Roles	Mercer	Egan	Experienced Roles	Mercer	Egan
Graduate Early Learning Teacher	268	222	Early Learning Teacher with 5 years	322	319
Graduate Engineer	255	236	Engineer (5 yrs. exp)	326	362
% Difference	5.1%	6.3%	% Difference	1.24%	13.5%

14. Although there is some variation in the work value points, it can be observed that there is less than a 15% difference between the evaluation outcomes for all four roles. From a work value perspective, these outcomes would be considered to be broadly in line with each other.
15. In addition Egan Associates evaluated the position of Graduate Primary School Teacher at 230 work value points which is a 3.6% difference with the Graduate Early Learning Teacher (work value points 222). The difference between the work value outcomes of the Experienced Primary School Teacher at 322 work value points and the Early Learning Teacher with 5 years' experience (319 work value points) as evaluated by Egan Associates is 0.9%. There is also less than a 15% difference across these roles.
16. The Hay Group Method point ranges provided in the GRG report are very broad and overlap. Therefore it is difficult to draw conclusions from this data (i.e., point ranges have been estimated as the roles have not actually been evaluated).

Table 2 – Hay Group Method Point Ranges

Position	Hay Point Minimum	Hay Point Maximum
Graduate	238	245
Graduate (post grad devt program)	275	333
Early Childhood Teacher³	252	308
Junior Civil Design Engineer	275	298
Experienced Civil Design Engineer	314	342
Civil Project Engineer	319	366
Primary and Secondary School Teachers	323	342
Civil Project Engineer Complex	421	516

17. It should also be noted that a key component of determining work value outcomes is the understanding of the role that is obtained during the job analysis process. All three organisations

³ The GRG report also states that this role could have a higher outcome depending on the nature, extent and impact of accountabilities.

have used and been provided with different inputs to understand the roles which is likely to contribute to fine tuning variations.

4

EMPLOYMENT COST

18. The GRG report on page 19 refers to Base Salary being a more appropriate comparator for remuneration analysis than Employment Cost.
19. The Mercer report has defined these terms as follows:
- a) Base Salary (BS) consists of annual salary excluding allowances or additional payments (sometimes referred to as cash salary). NB: Base Salary does not include any bonus/incentive payments.
 - b) Employment Cost (EC) consists of Base Salary plus the value of all cash (e.g. superannuation, allowances) and non-cash benefits (e.g. motor vehicles, car parking) plus the cost of Fringe Benefits Tax as applied in a typical corporate environment with no exemptions or rebates applicable. NB: Employment Cost does not include any bonus/incentive payment.
20. A significant number of employers communicate the value of their overall reward offering to employees via a remuneration package. Expressed as Employment Cost, this enables the organisation to ensure employees understand the full value of their remuneration (i.e., base salary plus all benefit items plus the cost of Fringe Benefits Tax) and thereby make valid comparisons to roles of similar size to their own in other organisations. 'Base Plus' is the alternative to using Employment Cost; it involves communicating a Base Salary with additional items (e.g., superannuation, benefits, allowances, etc.) being added on to calculate a total package.
21. In the Australian market, Employment Cost is accepted as a standard benchmark for remuneration comparisons. Employment Cost provides a more meaningful and stable basis than Base Salary (BS), which can vary from year to year as employees add or remove alternative benefits. A comparison of Base Salary only can be inaccurate as it can exclude a significant portion of remuneration in companies that also provide benefits. Having said that, providing there is an understanding of the remuneration aggregate being compared, what it includes, how to interpret market data and what to communicate, the risk of making inaccurate comparisons can be mitigated and managed.

22. In the broader market place where engineers would typically be employed (i.e., outside the education sector), there are a range of benefits that are potentially included in Employment Cost, such as, but not limited to:

- a) Salary sacrificed items (e.g., motor vehicle costs, car parking)
- b) Superannuation
- c) Car allowance
- d) Leave Loading
- e) Fringe Benefits Tax

23. As stated in the GRG report, it is important to ensure an 'apples for apples' comparison is made. If the comparison is only made on Base Salary, it would undervalue additional benefits that may be provided in the general market.

5

POSITION MATCHING DATA

24. The Mercer report provided remuneration data for Engineer roles from the Mercer database based on specific parameters. It should be noted that the IEU specified the parameters for the criteria used in this comparison. The aim of the comparison was to highlight the differences in pay levels for roles with similar matching indicators. For this analysis, the indicators were:
- a) education requirements
 - b) years of experience
 - c) staff management responsibility
25. Only roles with predominantly male incumbents were used in this analysis.
26. There are two approaches to making comparisons to market remuneration data. These are job sizing and job matching.
- a) The job sizing approach involves using the job evaluation process to identify the relative “size” of a job. This size can then be used as a basis of assessing both internal and external relativities. External market comparisons are made by matching to jobs of a comparable size in Mercer’s remuneration database. The job sizing approach does not, however, take cognisance of those positions for which scarcity or abundance of skills in the market results in their commanding premium rates of pay.
 - b) The job matching approach involves comparisons with specific samples of jobs from a market database that “match” the organisation’s jobs as closely as possible in terms of responsibilities and other characteristics. This approach is generally an acceptable and sound means of reviewing the external relativity of individual remuneration in comparison to the market. It is less effective at providing in-depth analyses of the internal relativities of positions within an organisation. It is also possible only where suitable external data matches are available.
27. Egan Associates report on page 9 states that Mercer should have used the job sizing approach rather than the job matching approach to access market remuneration data. The GRG report disputes the validity of surveys in general with three exceptions across the total Australian market. It is difficult to understand this comment as it is unlikely that all surveys within Australia have been reviewed by them.

28. Both methods are commonly used by organisations within Australia and the purpose of this component of the review was to highlight the issue that Early Learning Teachers are paid low compared to Engineering roles. A number of specific Engineering roles were selected based on set criteria. As stated in the GRG on page 25, 'That teaching is a low paid profession should not come as a surprise to anybody'. This statement confirms that the Mercer findings are to be expected.
29. On page 26 of the GRG report, a range of market data has been provided using the Korn Ferry Hay Group database. The outcomes of this data further confirms the Mercer advice as the 10th percentile of the market (i.e., where 90% of organisations pay more for roles of similar size and 10% pay less) aligns with the Early Learning Teacher's remuneration.

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