SESSION 5 PAYMENT MECHANISMS

HUMAN FACTOR II

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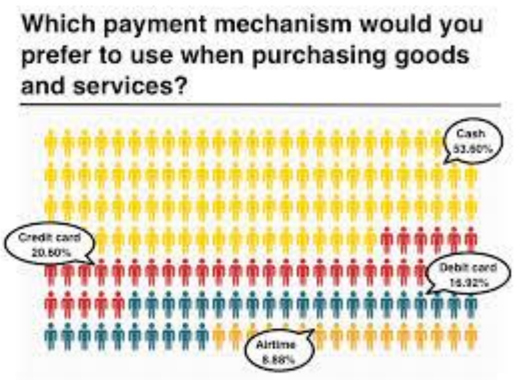

The payment mechanism lies at the heart of the PPP contract. The primary purpose of the payment mechanism is to remunerate the PPP Company sufficiently for it to be willing to enter into the PPP contract and provide the service. The payment mechanism is the principal means for allocating risks and providing incentives in the PPP contract.

A useful way to approach the design of the payment mechanism is to start with a basic/ideal structure for the Authority. Ideally, the Authority will want to pay the PPP Company, in arrears, a fixed price for (and only for) each unit of service that has been provided and has met the service quality requirements. This would comply with the key PPP principles that payments should be made only if the service is available, at the agreed standard of service, and that payments should not be based on the PPP Company's actual costs (a PPP contract is not a "cost-plus" contract). This basic/ideal mechanism would give the PPP Company strong incentives to perform but would require it to bear excessive risks. "Excessive" in this context could mean that the premium required by the PPP Company to bear the risks would not be worth the gain obtained from increased efficiencies. It could also mean that the PPP Company would be too likely to make excess profits or face large losses, which would threaten the viability of the PPP arrangement. The detailed design of the payment mechanism can then be derived by moving away from the basic/ideal mechanism and ensuring a balanced risk/reward scenario for the PPP Company. In particular, it is important to make sure that risks that are largely beyond the control of the PPP Company are not allocated to it.

Further adjustments to the basic/ideal mechanism should be considered:

The payments to the PPP Company usually need to be "indexed" to compensate for cost increases due to inflation (the indexation should be based on an agreed set of published indicators).

Cost items that are beyond the control of the PPP Company can be handled on a "pass-through" basis (i.e. the Authority reimburses the costs actually incurred by the PPP Company). Where this mechanism is contemplated, the Authority should ensure that the cost items subject to pass-through are limited and defined in detail.

The deductions applied to the service fee for poor performance should be linked to the degree of deficiency in the service quality. The service quality measurement needs to be verifiable and objective. Generally, the amounts deducted should be consistent with the losses that the Authority or users would incur as a result of the service shortfall.

Demand risk is often considered as at least partially beyond the control of the PPP Company. A variety of mechanisms are available to shift some or all of the demand risk away from the PPP Company. For example, the service fee / user charge can be gradually increased as demand falls. Also, a minimum payment guarantee (i.e. the PPP Company is paid a certain amount even if actual demand falls below an agreed minimum) can be implemented.

When designing the payment mechanism, the Authority and its advisers should pay attention to features that could give the PPP Company perverse incentives or are complicated or ambiguous (as these may later give rise to disputes). The payment mechanisms of comparable projects / sectors (where available) may also be a useful benchmark.

The Authority's advisers should use a model to test alternative payment mechanisms. A scenario analysis should be run to calibrate the parameters of the payment mechanism to ensure that it performs satisfactorily under a set of likely performance scenarios. Although poor performance should have a material impact on the equity return of the PPP Company, it would be counterproductive if it were to jeopardize debt service payments too easily (as this could result in the bankruptcy of the PPP Company or make the PPP contract difficult to finance).

-The wage structure is a combination of the job structure of the organization and the market rates for those same jobs. A graph representing the wage structure usually starts with the job structure on the horizontal axis, represented by the job evaluation values given to the jobs. The vertical axis represents the market rates expressed in monetary terms. Each job, or those jobs for which there is a market comparison, can be represented by a point on the graph. A line of best fit can then be drawn that creates the pay-policy line for the organization.

The pay-policy line is the starting point for creating the wage structure. The values of both dimensions need to be grouped in order to make compensation administration more manageable. The horizontal axis, the job structure, is grouped into pay grades. This grouping may be done in a number of ways as discussed in this chapter. The number of these pay grades has become a matter of discussion as many organization have opted to reduce the number through a process called broad banding.

The vertical axis is grouped for each pay grade into a rate range. The methods for doing this will be discussed further in the next two chapters, as this provides the opportunity for the organization to pay differential amounts to people on the same job or on jobs in the same pay grade.

The wage structure is the place in compensation administration where the labor market meets the internal values of the organization. This juncture is not always congruent. Organizations have a structure of jobs that depends not only on market value but on a range of organizational, psychological, and sociological factors. Often these factors are represented in a collective bargaining situation. The requirement of organizations to respond to the labor market differs considerably, so settling any conflict between organizational and market value is a matter of judgment within the organization. The changing climate of organizations has made market value the predominate tool used as many organizations move toward using market pricing to establish their wage structure. Any wage structure is only useful for a limited period of time. Changes in both the labor market and the organization make redoing the process over time a necessity

---Payroll Processing and Analysis Overview

Using Oracle HRMS you can run a payroll, perform post processing on a successful payroll, and also make changes and corrections for a payroll that has not completed successfully.

Payroll Processing and Analysis in Oracle HRMS

You can run your payroll as:

- A batch process if you want to include all employees or a group of employees in the same run
- A QuickPay process if you want to run a payroll for an individual employee

You can perform all the necessary post processing to generate **payment** for your employees once you are satisfied that your payroll run results are correct:

- The Prepayments Process enables you to allocate employee payments between the payment methods that you have defined.
- The Payments Processes enable you to make automated payments to a **bank account**, generate cheques/checks and report on the amounts paid to your employees. You can also verify that cheques/checks have been cashed.
- The External/Manual Payments Process enables you to make **cash payments** or to pay employees from external sources.

You can analyze your payroll run results to get early notification of possible discrepancies:

- The Payroll Exception report enables you to identify overpayments or underpayments.
- The Void Cheque/Check Payments Process allows you to cancel a cheque/check that was produced in error.
- Employee Run Results give you a list of all results created for this payroll run.

You can use these processes for correcting a payroll run:

- Correction of Run Results: **Retries**. Retries enable you to correct a payroll run before post-processing has occurred.
- Correction of Run Results: **Reversals**. Reversals enable you to correct a payroll run when post-processing has already occurred.
- Correction of Run Results: **Rollbacks**. Rollbacks enable you to correct a payroll run without keeping any record of the original run.

You can run these processes to make accurate provision for current payments backdated from a **previous** pay period, or current payments received in advance for a future pay period:

- The RetroPay process enables you to retrospectively distribute current payments to the period in which they were earned.
- For non-North American legislations, the **Advance Pay** process enables you to pay employees in advance for an absence recognized by your legislation.
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- The main purpose of the payroll run is to calculate employee pay correctly at regular intervals. In addition you can perform other payroll processes to ensure

accuracy and provide flexibility for your organization. For example, you can roll back a payroll run when you want to carry out a **test** run without keeping any record of it having taken place. You can also run a RetroPay process when you want to make retrospective adjustments to allow for backdated pay awards.

- **DEVELOPING A WAGE STRUCTURE**
- Wage structures result from pricing job structures. Job structures, in turn, result from the application of formal or informal job evaluation to an organization's jobs. In order to price a job structure, it is necessary to use dollar amounts from either current pay rates or the market data collected from wage surveys . A wage structure, then, is a combination of the job structure, the labor market, and the organization's decisions regarding the wage level. The pricing of job structures is subject to the influences discussed in Chapter 9 on wage structure determinants plus some technical ones. For example, the manner in which job relationships were determined may influence job pricing. If a formal job evaluation plan was employed, the type of plan has an effect. The extent of union involvement in a formal job evaluation program may also influence job pricing. If an informal job evaluation was used to determine the job structure, the pricing process may be influenced by whether the informally derived job structure makes use of pay grades or separate jobs. Both unions and management tend to favor simplification of pay structures, however, and this agreement reduces the variation in pricing procedures.
- The present wage and salary rates in an organization will clearly influence any changes made in its current wage structure. The current rates represent a series of

decisions about all aspects of the program, including past market rates, organizational differentials, and customary differences that have survived.

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Type of payment	Definition of basis for payment	Technical requirements
Fee for service	Single act or product	Calculation of fee or price schedule
Case payment	Single case diagnosis	Fee schedule
Daily charge	Patient day	Calculation of charge, negotiation
Bonus payment	For specific acts (e.g. immunization) or behavior (e.g. low prescription rate)	List, calculation
Flat rate	For approved investments	List of approved items, calculation, negotiation
Capitation fee	All services for one person in one period (usually one year)	Calculation, negotiation
Salary	Period of work (usually one month)	Negotiation
Budget	All services for health fund members in one period	Calculation, negotiation