



Remuneration Tribunal

2013 Review of Remuneration for Holders of Public Office Statement

Overview

In conducting the annual review of remuneration, the Tribunal takes account of economic conditions in Australia, past and projected movements in remuneration in the private and public sectors (including the Australian Public Service), as well as the outcomes of reviews of public offices completed by the Tribunal. Ordinary annual adjustments in remuneration of this kind also recognise the achievement of ongoing objectives and the steady evolution in responsibility that is characteristic of public administration. They apply to the broad spectrum of offices in the Tribunal's determinative jurisdiction (other than a small number where specific arrangements apply), including the most senior offices in the public service (including most government-owned businesses), parliamentarians, Secretaries, numerous part-time offices and the federal judiciary.

The Tribunal has decided to determine a remuneration increase of 2.4 per cent with effect from 1 July 2013. While trend information on wages growth during the past twelve months would support an increase above 3 per cent, the most recent information suggests a slowing in wage movements in the community as well as uncertainty regarding economic growth.

Consequently, the Tribunal has decided to take a conservative and incremental approach to the annual remuneration increase at this time.

The Tribunal will monitor remuneration outcomes in the coming months and will make a further assessment of the situation in December 2013 when the Tribunal expects to have finalised its review of remuneration in its part-time office jurisdiction and of some other offices. If the Tribunal decides that a further general increase is required before 1 July 2014, it will make an appropriate determination. This approach will provide a better balance in the overall outcome, allowing the Tribunal to consider the emerging wages environment, in particular at the senior levels of the public sector.

Background

Over the last four years, the Tribunal has determined general adjustments of 3 per cent per annum in both July 2012 and 2011; 4.1 per cent in August 2010; and 3 per cent in October 2009 – the last two increases were delayed from 1 July in the respective years.

In order to inform its conclusions on this occasion, the Tribunal has drawn upon authoritative external sources, as it has in past years. The Tribunal considered published material available from the Government, the Reserve Bank of Australia and the Australian Bureau of Statistics as well as trends (but not absolute numbers) in private sector remuneration.

The Economic Situation

The 2013 Budget papers (Budget paper No. 1, Statement 2: Economic Outlook) assessed the economic outlook then as follows:

The outlook for the Australian economy is favourable, with solid growth, low unemployment and well-contained inflation. GDP growth is forecast to be close to trend at 2¾ per cent in 2013-14 and 3 per cent in 2014-15, and the economy is expected to continue to outperform most other advanced economies over the forecast period.

Global financial market conditions have improved noticeably since late 2012 and while global growth remains subdued, it is expected to strengthen over the forecast period. There are signs that economic conditions have stabilised in China and strengthened moderately in the United States and Japan, though this is partly offset by the deepening recession in the euro area.

The Australian economy is expected to continue to outperform most other advanced economies over the forecast period... . While other countries have struggled to overcome weak growth and high unemployment, Australia's growth has remained around trend and the unemployment rate has stayed low, with the Australian economy now more than 13 per cent larger than in late 2007.

The outlook for solid economic growth is consistent with the fiscal consolidation underway at all levels of government. Consolidation at the federal level has been targeted to limit any adverse impact on economic growth and employment,

With wage growth and inflation remaining contained, ongoing fiscal consolidation will continue to provide scope for monetary policy to respond to conditions as appropriate.'

A recent Reserve Bank of Australia (RBA) assessment is as follows (10 May 2013 RBA Statement on Monetary Policy, page 3):

GDP growth is expected to be a little below trend over 2013, before picking up through 2014 to be around trend pace. The approaching peak in resource investment, the high level of the Australian dollar and ongoing fiscal consolidation are all likely to weigh on growth over the next year or so, while at the same time the low level of interest rates is helping to support demand. The outlook for non-mining business investment remains relatively weak over the next few months, with indicators of investment intentions for the near term remaining below average.

In relation to the 'risks' the RBA commented (at page 65):

The forecasts for the Australian economy continue to embody a gradual shift in growth from mining investment towards exports, non-mining business investment and household spending. While there are signs that this rebalancing is beginning, there remains considerable uncertainty about how it will proceed. In particular, there remains a large degree of uncertainty surrounding the exact profile for mining investment, especially given the general caution in the industry and continued focus on reducing costs. For non-mining business investment, the recent ABS data on firms' capital expenditure plans for 2013/14 were positive. Nevertheless, other, near-term indicators of investment remain subdued, despite conditions generally being favourable for investment overall.

In the household sector, a key risk is that established dwelling prices rise more quickly than assumed, spurred by low interest rates. The associated boost to wealth and sentiment could in time generate stronger-than-expected consumption growth. If this were accompanied by a return to increasing household leverage, it would raise concerns from a financial stability perspective. But given the outlook for relatively subdued growth in employment and so for moderate wage inflation, it is possible that growth in labour income and spending could be weaker than currently envisaged. While the preconditions for an ongoing recovery in dwelling investment remain in place, there remains uncertainty about the breadth and strength of such a recovery. Considerable uncertainty remains around the outlook for public spending given weaker-than expected revenue and the fiscal consolidation at a state and federal level. The possibility of policy changes over the course of the year adds to the uncertainty.

Data issued by the Australian Bureau of Statistics on 5 June 2013 shows that Australia's economic growth has slowed by more than expected in the first three months of the year. The GDP figures indicate the economy's output rose by 0.6 per cent in the March quarter, putting the annual pace of growth at a below average 2.5 per cent on a seasonally adjusted basis and falling.

While Australia's economic situation is comparatively strong, there are some significant challenges ahead, as identified by the RBA and the Australian Government in recent statements. The Government has forecast an \$18 billion deficit for the 2013-14 financial year. The bulk of the offices in the jurisdiction of the Tribunal are funded by the Budget and in many cases the offices are responsible for implementing measures in their agencies that reflect the tight fiscal environment. As such, a Tribunal consideration is that pay increases are seen as consistent with the environment office holders are operating within.

Wages Environment

In its 17 May 2013 post-Budget supplementary submission (paragraphs 37-38) to the Annual Wage Review conducted by the Fair Work Commission, the Australian Government noted:

Wages growth, as measured by the Wage Price Index (WPI), moderated over the past year.

Wages growth is expected to remain contained over the next two years in line with the outlook for moderate employment growth and inflation. The WPI is forecast to grow 3½ per cent through the year to the June quarters of 2013, 2014 and 2015.

In its May 2013 Statement on Monetary Policy, the RBA forecast wages growth at 3.25 per cent, (which is slightly lower than the Government forecast):

The lower growth of wages over recent quarters has become a little more widespread across industries. Wage growth in the public sector has been modest for some time now. With the unemployment rate having risen over the past year and further increases anticipated, wage growth is expected to remain moderate at 3¼ per cent over the forecast period.

A key indicator of wages growth is the **Wage Price Index** (WPI) published by the Australian Bureau of Statistics. The table below shows increases in the WPI over the last 4 years. The figures for the public sector show that recent wages growth has remained below its average of the past decade. After an extended period of annual increases of around 4 per cent, increases in the public sector over the last 18 months have been nearer 3 per cent and moderating.

Wage Price Index (Trend change from corresponding quarter of previous year)			
Year	Quarter	Australia	Public Sector
2013	Mar	3.1	3.0
2012	Dec	3.4	3.2
	Sep	3.7	3.3
	Jun	3.7	3.1
	Mar	3.6	3.0
2011	Dec	3.7	3.2
	Sep	3.7	3.6
	Jun	3.8	3.7
	Mar	4.0	3.7
2010	Dec	3.8	3.9
	Sep	3.6	4.0
	Jun	3.0	4.0
	Mar	2.9	4.2
2009	Dec	3.0	4.2
	Sep	3.4	4.5
	Jun	3.9	4.5
	Mar	4.2	4.4

In addition to reviewing the WPI (particularly the public sector figures) the Tribunal also has particular regard to movements in **Australia Public Service (APS) remuneration** as a wide range of office holders work with APS agencies and their employees.

Virtually all APS employees (below the SES levels) are covered by enterprise agreements which were negotiated during 2011 and 2012. The current APS Bargaining Framework was introduced on 31 January 2011. In its Supporting Guidance, the Australian Public Service Commission (APSC) recommended that *"salary increases in APS workplace arrangements not exceed 3 per cent on a NED [nominal expiry date] to NED basis."* The Tribunal understands that the outcomes registered under the operation of the APS-wide bargaining framework have been consistent with the APSC recommendation on salary increases, for the bulk of employees. Information on APS remuneration for 2012 is not yet available.

The most recent **Trends in Federal Enterprise Bargaining** publication issued by the Department of Education, Employment and Workplace Relations, shows that bargaining has produced outcomes of 3.8 per cent (public sector 3.6 per cent) for agreements that are current, and increases of 3.4 per cent (3.3 per cent public sector) for agreements approved in the December 2012 quarter. The data indicates that wage increases continue their recent gradual decline, reaching their lowest level since late 1999.

On 3 June 2013 the Fair Work Commission (FWC) issued its decision on the **Annual Wage Review**. The national minimum wage and modern award minimum wages will be increased by 2.6 per cent from 1 July 2013. Under the *Remuneration Tribunal Act 1973*, the Tribunal is required to have regard to the national minimum wage orders made by the FWC.

The FWC stated that the considerations they are required to take into account favour an increase which will result in a small improvement in the real value of modern award wages in 2013-14. The FWC noted that a number of considerations led them to award a lower increase than that determined in last year's review including that GDP growth is expected to ease slightly below trend in 2013-14 and that the unemployment rate is expected to increase slightly. It further noted that the superannuation guarantee increase to apply from 1 July 2013 had also been 'a moderating factor' in its assessment of the increase.

In summary, wages growth moderated substantially in 2012, particularly in the public sector, and is expected to remain contained (the latest available Wage Price Index is 3.1 per cent). Employees in the APS are covered by agreements that continue until June 2014 and the general increase was an average of 3 per cent per annum. However the overall movements in the APS, particularly at the SES level, are of particular interest to the Tribunal as there are close linkages between offices within the jurisdiction of the Tribunal and the Australian Public Service. The Tribunal will consider the 2012 APS Remuneration Report in its further assessment of the situation in December 2013.

Developments in the Tribunal's Determinative Jurisdiction

The Tribunal's decision on the review of full-time offices was implemented from 1 January 2013. This was the final group of full-time offices that were subject to a one-off review. Earlier reviews were for Secretaries, Specified Statutory Offices, Economic Regulatory agencies and parliamentarians. Where substantial increases were involved, some offices have been receiving phased increases. Remuneration was also adjusted for the Federal Circuit Court following finalisation of its place in the federal court structure, announced earlier this year.

In relation to part-time offices, as indicated in its 2012 Statement, the Tribunal has been considering the responsibilities and demands on office holders to ensure that both the level of remuneration and the current remuneration models remain appropriate. Given the number and diversity of offices covered in the part-time jurisdiction, Tribunal considerations have been necessarily detailed and informed by face-to-face meetings with a number of office holders.

Based on the work undertaken to date it is likely that one outcome of the review will be the rationalisation of a large number of the existing remuneration rates around particular fee points.

The Tribunal anticipates publishing a statement provisionally detailing the conclusions of its review of part-time offices and seeking further comment and submissions, with a view to finalising the matter by the end of December 2013.

The Tribunal's Conclusion

When considering the annual increase, the Tribunal examines a range of factors, particularly actual economic and wage data and the available forecasts. It is apparent that there are significant changes occurring in Australia's economy and this is having an impact on the fiscal outlook which directly impacts on public sector funding. As well, the data available shows a moderation of wages growth, when viewed against historical data.

Material has become available recently in relation to the decision of the Fair Work Commission. The national minimum wage and modern award minimum wages will be increased by 2.6 per cent from 1 July 2013. The WPI and the Trends in Federal Enterprise Bargaining show that public sector and private sector increases have been trending down.

The Tribunal looks at both the past data and projections. The Tribunal is mindful of the catch up increases that it has awarded to a wide range of offices within its jurisdiction in recent years and does not want to see them eroded. Past data would suggest a higher increase than that decided of 2.4 per cent. However, this view is moderated by the latest data, projections and trends elsewhere. This, combined with the substantial changes occurring in the Australian economy (which have a number of risks, as identified by the RBA and Government), has been a key factor among the Tribunal's considerations at this time.

As has been indicated previously, in determining an annual adjustment in the remuneration of public offices in its jurisdiction, the Tribunal aims to recognise the achievement of ongoing objectives and the steady evolution in responsibility that is characteristic of public administration. This is in addition to taking account of trends in remuneration, particularly in the public sector.

The Tribunal considers it important that remuneration in its jurisdiction is maintained at appropriate levels over the longer term to attract and retain people of the calibre required for these important high level offices, avoiding significant one-off increases to restore proper relativities and recognising fully the changing work requirements.

Having determined an increase of 2.4 per cent from 1 July 2013, the Tribunal is concerned that wages growth more broadly in the public sector, and in particular the APS, does not disturb the relativities the Tribunal has set through the comprehensive reviews it has undertaken over the past few years. Consequently the Tribunal will review the situation towards the end of 2013 to assess whether any further increase should be determined before the next scheduled annual adjustment (i.e. 1 July 2014).

There is a small number of offices where the general increase will not apply due to specific arrangements for those offices.

Remuneration Tribunal

13 June 2013

Enquiries

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