



## Remuneration Tribunal 2011 Review of Remuneration for Holders of Public Office

### Statement

#### Overview

The Tribunal has determined an adjustment of 3% in the remuneration of public offices in its jurisdiction with effect from 1 July 2011. In arriving at this conclusion, the Tribunal has taken account of economic conditions in Australia, movements in remuneration generally, including in the Australian Public Service, as well as its current program of reviews.

#### Background

The adjustments in the remuneration of public offices determined by the Tribunal in 2009<sup>1</sup> and 2010<sup>2</sup> were modest.

While the Tribunal's disposition towards adjustments in remuneration continues to be one of moderation, such an approach cannot stand in isolation from developments more generally, particularly in the public sector. As the Tribunal noted in its Statement of 24 August 2010:

*"Given the movements in SES remuneration, the relationship between risk and responsibility, on the one hand, and remuneration, on the other, is out of alignment. In the Tribunal's judgement, this factor alone indicates that the remuneration of senior public offices is less than it should be."*

The Tribunal has commented previously on the scale and complexity of the responsibilities of senior public offices. The Tribunal regards it as important that their remuneration should be commensurate with their responsibilities. Increasingly, however, it is not. Much of the Tribunal's recent work has been directed towards addressing this.

#### The Economic Situation

The Tribunal derives guidance about general economic circumstances from material published by a range of authoritative sources including the Reserve Bank of Australia and the Australian Bureau of Statistics. The Tribunal's Statement of 24 September 2009 also noted the submissions made on behalf of the Government, in 2008 and 2009, by the Attorney-General, the Hon Robert McClelland MP.

#### Present Conditions

The 'Economic Outlook' published in the context of the 2010-2011 Budget included the following Overview:

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<sup>1</sup> Effective 1 October 2009

<sup>2</sup> Effective 1 August 2010

*"The Australian economy is growing solidly as a self-sustaining private sector recovery takes hold. Output and incomes growth are strengthening and unemployment is falling. However, these positive developments are taking place against the backdrop of an uncertain global economic environment. The potential for a renewed deterioration in the major advanced economies and transmission of weakness to the developing world presents considerable risks to the domestic economic outlook.*

*"Notwithstanding these risks, the world economy is forecast to continue growing at a solid pace. While growth in the major advanced economies is expected to slow, the emerging economies of Asia are continuing to grow strongly. As a result, Australia's major trading partners are expected to grow at their fastest pace in over 20 years. This is boosting global demand for non-rural commodities and driving Australia's terms of trade to around record highs. This is expected to provide substantial impetus to domestic growth, supporting rising incomes and activity, underpinned by strong growth in exports and business investment.*

*"The Australian economy is expected to grow above trend over the forecast horizon and, with an already tight labour market, reach capacity within the next year or so. Consequently, inflation is forecast to rise over the forecast horizon, although the withdrawal of monetary and fiscal stimulus and appreciation of the Australian dollar are helping to contain demand and inflationary pressures."*

The general economic outlook, notwithstanding some uncertainties, appears to be positive.

### Movements in Wages

The Reserve Bank of Australia publishes a graph in its Statement on Monetary Policy showing growth in the wage price index. The latest graph (Graph 5.6) is at page 58 of the May 2011 Statement.

The Bank's Statement includes the following commentary on this aspect of developments in the economy:

*"Growth in average labour costs has picked up from the low outcomes seen in 2009, in line with the tightening in the labour market. The wage price index rose by 1 per cent in the December quarter, to be 3.9 per cent higher over 2010; this was a little above the average rate since the series began in 1997. The rise in wage growth reflects a pick-up in private-sector wage growth, with public-sector wage growth – which was relatively unaffected by the economic slowdown – moderating slightly over 2010."*

In general, it appears that the wage price index in the public sector has been trending down towards 4%, while that of the private sector has been trending up towards 4%.

The following table shows trend movements in the Wage Price Index published by the Australian Bureau of Statistics<sup>3</sup>. The figures for the public sector suggest that, after an extended period of annual (quarter-to-quarter) increases of more than 4.0%, increases in the public sector are settling below that level. Figures for the APS tend to confirm this.

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<sup>3</sup> 6345.0 - Labour Price Index, Australia, June 2010 - Trend

<b>Wage Price Index</b>			
[Trend change from corresponding quarter of previous year]			
<b>Year</b>	<b>Quarter</b>	<b>Australia</b>	<b>Public Sector</b>
<b>2011</b>	Mar	4.0	3.7
<b>2010</b>	Dec	3.8	3.9
	Sep	3.6	4.0
	Jun	3.0	4.0
	Mar	2.9	4.2
<b>2009</b>	Dec	3.0	4.2
	Sep	3.4	4.5
	Jun	3.9	4.5
	Mar	4.2	4.4
<b>2008</b>	Dec	4.2	4.1
	Sep	4.0	3.8
	Jun	4.1	3.8
	Mar	4.1	3.9

The Tribunal has also noted the data published in the March 2011 edition of the Department of Education, Employment and Workplace Relations' publication, *"Trends in Federal Enterprise Bargaining"*. It reports – for the September quarter 2010 - Average Annualised Wage Increases (AAWI) incorporated in public sector agreements approved in that quarter of 4.7% (private sector, 4.1%) and, for all public sector agreements then current, an AAWI of 4.2% (private sector, 4.0%).

On 3 June 2011, the Minimum Wage Panel of Fair Work Australia published a Statement giving the results of its Annual Wage Review 2010-11<sup>4</sup> wherein it stated at paragraph 14: "The increase in modern award minimum wages we have decided on is 3.4 per cent." This is effective from the first full pay period on or after 1 July 2011.

#### Federal Public Sector Remuneration

The Tribunal has noted the Australian Public Service (APS) Bargaining Framework (as at January 2011), including the distinctions between the arrangements applying to Senior Executive Service (SES) employees and non-SES employees.

To the extent that there is any APS employment group that the Tribunal considers to be particularly relevant to public office holders, it is the SES .

The Tribunal has commented, previously, about the distinctions between the roles of SES employees and those of the holders of public offices, particularly where the latter have responsibility for exercising statutory responsibilities and for leading agencies of considerable significance. The Tribunal observed then that:

*"... while the responsibilities of an SES office may be onerous, they are, in general, not of the same order as those of an agency head or of a public office carrying particular statutory powers."*

<sup>4</sup> Fair Work Australia – Annual Wage Review 2010-2011 - <http://www.fwa.gov.au/index.cfm?pagename=wagereview2011&page=decisions>

The Tribunal has drawn attention, repeatedly, to the magnitude of movements in SES remuneration. The Tribunal's August 2010 Statement noted that median SES Band 3 total remuneration (excluding performance pay) had increased by a compound rate of 6.15% in the ten years since 1998. According to the SES Remuneration Survey as at December 2009 (the latest data available), although the compound rate of increase had decreased a little, it had still been 5.88%, per annum, for the 11 years since 1998. At the 3rd quartile, the compound annual increase was 6.19%.

Sustained increases of this magnitude cannot be overlooked in establishing proper remuneration for public offices. Indeed, the Tribunal is coming to the view that the SES Band 3 level is a useful indicator in gauging appropriate remuneration for higher-level public offices. Such offices tend to be distinguished from positions held by APS SES employees in their having a high degree of autonomy and demanding 'head of agency' responsibilities. Moreover, SES employees are often the direct reports of the holders of such public offices. Factors of these kinds need to be reflected in remuneration and the Tribunal's reviews are directed, in part, to this end.

The outcome of these reviews is another factor to be taken into account in assessing any annual adjustment to be applied generally.

### **The Tribunal's Forward Work Program**

The Tribunal's expectation is that its current reviews will address long-standing inequities and inconsistencies in the remuneration of public offices; assist in ensuring a closer alignment between remuneration and responsibilities; and lead to simplified remuneration arrangements in Tribunal determinations. The following notes are intended to provide an outline of the scope of this work-in-progress.

#### The Specified Statutory Offices

There are five public offices in the Specified Statutory Office (the SSO) group. Each is singular; each has demanding responsibilities; each is invested with a high degree of autonomy.

The offices concerned are:

- Chief of the Defence Force;
- Commissioner of Taxation;
- Chief Executive Officer of the Australian Customs and Border Protection Service;
- Auditor-General for Australia; and
- Australian Statistician

The functions for which they are responsible are central to effective federal public administration.

Historically, the remuneration of this group of offices has been aligned broadly with that of Secretaries of Departments. However, since Secretaries were removed from the Tribunal's jurisdiction (by the passage of the *Public Service Act 1999*), differences in terms and conditions have developed between these offices and Secretaries.

The statutory terms of appointment and termination are significantly different. Indeed, in contrast to Secretaries, those applying to the SSO group are more akin to those, for example, of the public offices of regulatory agencies.

These and other considerations will be reflected in the outcome of the Tribunal's review of these offices which the Tribunal expects to publish before the end of 2011.

#### The Public Offices of APRA, ASIC and ACCC

The Tribunal has mentioned its review of these offices previously<sup>5</sup>. The Tribunal last reviewed them in 2006. Its Statement of June 2006 included the outcomes of that review. The Tribunal noted then that:

*"The work of these agencies is central to the effective functioning of the Australian economy."*

Since that assessment, the significance of the responsibilities of each of these agencies has increased. The performance of Australia's financial system - and the economy more generally - through the global financial crisis, and subsequently, has demonstrated their effectiveness.

The Tribunal is mindful of the publication, this year, by the Reserve Bank of Australia of the remuneration received by its Governor and Deputy Governor (noting that the Tribunal does not determine their remuneration).

In the light of the Tribunal's review and the movement in remuneration of the Reserve Bank of Australia offices, the Tribunal considers that material adjustments in remuneration will be required for the senior offices of the economic regulatory agencies within its jurisdiction.

#### Full-Time Public Offices

The full-time offices for which the Tribunal determines remuneration are, between them, responsible for many, if not most, of the functions vested in the federal public administration.

In the Tribunal's judgement, the present remuneration of full-time offices is less than it should be and, as a consequence of developments over time, excessively stratified. The Tribunal's current review of its present determination of the remuneration of full-time offices, generally, will take these and other matters into account.

#### Part-Time Public Offices

The Tribunal, in the Overview to its 2008-2009 Annual Report, referred to the significant and diverse roles of part-time offices and to the Tribunal's view that the effective performance of significant parts of federal public administration depends largely on the work of part-time office holders. The Tribunal went on to note that, in its assessment, remuneration data showed that:

*"...the remuneration of part-time offices (which have no access to the leave and similar entitlements of APS employees) is also less than it might justifiably be, relative to APS employees."*

In the Overview to its 2009-2010 Annual Report, the Tribunal noted that it expected to commence a review of part-time offices in 2010-2011.

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<sup>5</sup> The Tribunal's Statement of 24 August 2010 and the Overview to the Tribunal's 2009-2010 Annual Report refer

The review has confirmed that the remuneration of part-time offices - particularly those at the lower levels of the Tribunal's determinations - is significantly less than it should be. Remuneration needs to be at least of a level to allow the Commonwealth to attract people of capacity and standing - people who must undertake their responsibilities with the high levels of professionalism and commitment that the Commonwealth expects but which, to an increasing extent, is taken for granted.

Accordingly, the Tribunal is giving careful consideration to means by which the remuneration of part-time offices might be restructured so that it better reflects the levels of responsibility of the offices concerned. The Tribunal also considers that there is considerable scope to rationalise the present diverse and cumbersome remuneration structure (so as to establish fewer and more distinct levels).

### The Federal Judiciary

The Tribunal completed its review of remuneration relativities among judicial offices within Australia's federal courts earlier in 2011.

As a consequence of the review, the remuneration of all federal judicial offices was increased in four steps each of 1.5%, with the final adjustment having a date of effect of 1 May 2011. The Tribunal, in the Statement<sup>6</sup> issued in April 2011, referred to the continuing adjustment of federal judicial structures (particularly in the family law system). The Statement concluded with the following observation:

*The Tribunal will consider the question of whether differences in work value within the federal court structure require attention in the future – for example in the context of the expected legislation when it is brought before the Parliament or as a consequence of the Tribunal's review of other offices within its determinative jurisdiction.*

The Tribunal is also mindful of matters raised through the Judicial Remuneration Coordination Group (representing federal, state and territory bodies responsible for setting judicial remuneration).

### Legislation

The Special Minister of State for the Public Service and Integrity, the Hon Gary Gray AO MP, introduced the *Remuneration and Other Legislation Amendment Bill 2011* in the House of Representatives on 24 March 2011.

The Bill, if enacted, will enable the Remuneration Tribunal to determine parliamentary base salary and the terms and conditions of Secretaries of Departments (and some other Commonwealth office holders).

In the context of the introduction of the Bill, and following the Tribunal's request, Minister Gray also agreed that the Tribunal should consider the other recommendations of the Report of the Review of Parliamentary Entitlements (the Belcher Report).

If the Tribunal's responsibilities are extended as proposed, the Tribunal will issue a further Statement, or Statements, outlining its intentions in respect of parliamentary remuneration and other entitlements, and its proposals in respect

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<sup>6</sup> Remuneration Tribunal Statement - "Remuneration in Australia's Federal Courts" – 28 April 2011 - <http://www.remtribunal.gov.au/statementsreports/default.asp?menu=Sec8&switch=>

of Secretaries of Departments. In relation to Secretaries, the Tribunal notes that it published Part I of its Report of its Review of the Office of Secretary in March 2010.

#### The Tribunal's Conclusion

The likely outcome of these reviews suggests the across-the-board adjustment we are now considering should be constrained somewhat and we have decided the appropriate increase to apply from 1 July 2011 should be 3%. We may review this amount again when the outcome of our forward work programme has been clarified.

### **Remuneration Tribunal**

22 June 2011

#### **Enquiries**

Enquiries may be directed to the Tribunal's Media Adviser on (02) 6162 0021 or through [enquiry@remtribunal.gov.au](mailto:enquiry@remtribunal.gov.au).