

## Remuneration Reform Project

### Background

- 4.1 The Remuneration Reform Project (RRP) represents a key Defence initiative in ensuring that military rates of pay remain competitive and contemporary in the current labour market. RRP is aimed at assisting the ADF to meet its retention objectives and helping it to meet its new expansion targets which aim to increase the permanent force from 52,000 to 57,000 personnel.

### Defence Force Remuneration Tribunal

- 4.2 One of the key bodies associated with the RRP has been the Defence Force Remuneration Tribunal (DFRT). It was established in 1984 to determine the pay and allowances of ADF personnel taking into account the unique nature of military service.
- 4.3 The functions of the Tribunal are set out in section 58H of the *Defence Act 1903* as follows:
- to inquire into and determine the salaries and relevant allowances to be paid to members of the ADF; and
  - to inquire into and make determinations in respect of prescribed matters that have been referred to the Tribunal.<sup>1</sup>

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<sup>1</sup> *Defence Force Remuneration Tribunal Twenty-first Report 2005 – 2006*, p. 1.

- 4.4 The ADF is the major party which refers matters to the Tribunal, however, the Minister for Employment and Workplace Relations may also request the DFRT to inquire into and report on relevant matters. Further, section 58B of the *Defence Act 1903* allows the Minister for Defence to make determinations on a range of allowances and bonuses. This ministerial power is usually utilised in relation to such matters as retention bonuses.<sup>2</sup>

## Previous remuneration system

- 4.5 Prior to the implementation of the RRP, the remuneration system was characterised by the following features:
- Officers and Warrant Officers Class 1 (WO1) were remunerated on a common salary scale which did not:
    - ... pay sufficient attention to the need to remunerate on the basis of the work value of different employment groups.<sup>3</sup>
  - other ranks were paid on a differential salary structure that recognised rank and occupational skills;
  - salary related allowances were paid to specified employment groups to recognise additional qualifications and skills (Q&S) required to undertake that work. Examples include the flying allowance and special forces allowance; and
  - disability allowances were paid to compensate personnel for disabilities associated with particular jobs and tasks.<sup>4</sup>

## Remuneration reviews

- 4.6 Three remuneration reviews have been conducted over the past decade. These reviews identified a range of problems and deficiencies, including:

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2 Major General Mark Evans, *Transcript 30 March 2007*, p. 24.

3 Department of Defence, *Defence Annual Report 2005-06*, p. 217.

4 Major General Mark Evans, *Transcript 30 March 2007*, p. 24-5.

- a general agreement that the all of one company approach which remunerated all jobs at the same rank equally was inapplicable and inequitable;
- an inability to respond to labour market forces, which in turn undermined the ADF's ability to attract and retain personnel with skills critical to its capability; and
- an inability to provide sufficient incentives for ADF members to undertake more demanding jobs and pursue promotion.<sup>5</sup>

4.7 The most recent review, the Nunn review, was completed in 2001. This review made 60 recommendations covering: pay-fixing arrangements for the ADF; Reserve remuneration; changes to salary and allowance structures and conditions of service, including housing, leave and superannuation.<sup>6</sup> The key proposals which were agreed to by Government included:

- that the qualification and skill elements of major ADF salary related allowances be made superannuable;
- that a new flexible salary structure for ADF officers should be adopted, which encompasses rolling in the continuous qualification and skills elements of the major environmental allowances; and that
- the ADF salary structure for ranks other than officers be consolidated by rolling in the existing qualification and skill elements of the salary related allowances once pay structure reform is achieved.<sup>7</sup>

## RRP

4.8 The RRP commenced in 2002 with its key aim to '...[ensure] that military remuneration remains competitive and contemporary'.<sup>8</sup> It is an internal defence process that took an evolutionary and transitional approach to the traditional reform processes outlined in previous reviews. It was decided to make the Q&S elements and allowances

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5 Major General Mark Evans, *Transcript 30 March 2007*, p. 25.

6 Department of Defence, *Review of Australian Defence Force Remuneration 2001*, August 2001.

7 Major General Mark Evans, *Transcript 30 March 2007*, p. 25.

8 Major General Mark Evans, *Transcript 30 March 2007*, p. 24.

superannuable in the early stages of the RRP, and allow sufficient time for the more complex pay issues to be resolved and transitioned into a new structure for officers and warrant officers. This structural reform would allow:

...the ADF to provide a differential salary outcome for officers and warrant officers on the basis of different work value and appropriately used remuneration measures to respond to the attraction and retention needs of the ADF other than by using allowances.<sup>9</sup>

## Phases of the RRP

4.9 The RRP comprises four phases:

- Phase 1 quantified the qualification, skill and disability components of major environmental allowances. This stage was concluded in mid 2003.
- Phase 2 made the qualification and skill elements of major environmental allowances superannuable. This outcome was achieved in August 2004.
- Phase 3 entailed the development of a graded pay structure for officers by incorporating the qualification and skill elements of flying, submarine service, special force and special operations allowances into salaries for all officers and WO1s. The DFRT's decision was handed down in February 2006 and the new pay structure was implemented on 5 October 2006.
- Phase 4 has involved a restructure of other ranks' pay by rolling into salary, the qualification and skill elements of allowances, in a manner similar to that of officers. On 13 December 2006 the DFRT agreed to:

... the ADF proposal to create a 16 pay group structure that facilitates the incorporation of qualification and skill allowances.<sup>10</sup>

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9 Major General Mark Evans, *Transcript 30 March 2007*, p. 25.

10 Major General Mark Evans, *Transcript 30 March 2007*, p. 26.

## Objectives Achieved under the RRP

- 4.10 To date, the RRP has achieved a number of positive outcomes including:
- providing a competency based salary structure introduced over 2000 to 2004 for ADF specialists;
  - amending four major qualification and skills allowances so that they are now considered as salary for superannuation purposes;
  - remuneration changes for reserve personnel:
    - ⇒ salary increases for deployable reserve members and the establishment of a reserve service allowance of \$10 per day;
    - ⇒ completion bonuses of \$10,000 per annum and a \$2,500 health allowance for members of the high readiness reserve, in conjunction with a \$600 health allowance for active and specialist reserves;
  - a 10-grade differential pay structure for officers and WO1s; and
  - a flexible senior officers banded pay structure, with the CDF now able to seek individual salary determinations from the DFRT for senior officers.<sup>11</sup>

## Effectiveness of the RRP

- 4.11 In response to Committee questioning as to the effectiveness of remuneration reforms in improving personnel recruitment and retention, Defence advised that:

... it might take a little while before we will have the data from this reform process to see what impact [it] is [having] on recruitment.<sup>12</sup>

- 4.12 In acknowledging that there will be cultural aspects to address in such a large and diverse organisation, Defence advised the Committee that they are dealing with the issues by moving towards a more 'joint approach in the personnel space.'<sup>13</sup>

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11 Major General Mark Evans, *Transcript 30 March 2007*, p. 26.

12 Major General Mark Evans, *Transcript 30 March 2007*, p. 27.

13 Major General Mark Evans, *Transcript 30 March 2007*, p. 27.

- 4.13 In gauging the effectiveness of this new approach in addressing ADF staffing challenges, Major General Evans informed the Committee that:

...we have a number of ways of monitoring this. We are just about to have a Defence census. We do an annual survey and we do exit surveys.<sup>14</sup>

- 4.14 Defence articulated to the Committee that it will monitor the success of the project over the next two or three years. If it is found that this new approach is ineffective in meeting the desired outcomes, then changes will be implemented and other options examined – '[Defence] will not reinforce failure.'<sup>15</sup>

## Bonuses

- 4.15 In parallel with the RRP, bonuses continue to be utilised in the short-term to retain key personnel. This is particularly important in enabling the ADF to grow from 52,000 to 57,000. Whilst the bonuses use a targeted approach, once the new structural reforms have matured, Defence advised 'we will not be using them to any degree like we are now.'<sup>16</sup>
- 4.16 When questioned by the Committee on how long it would take for the system to reach steady-state, Defence advised that it would be about four years and in the interim, bonuses would be focused on the retention of those people required to maintain Defence's war fighting capability.<sup>17</sup>

## Reaction from ADF Personnel

- 4.17 Feedback from ADF personnel in relation to the RRP has thus far been generally positive. Members of the special forces, submariners and aviation communities have endorsed these changes as their Q&S elements are now superannuable. Air traffic controller and engineers are similarly pleased with amendments to their superannuable pay.
- 4.18 One of the main reasons behind this positive reaction is that Defence has spent a considerable amount of time briefing the ADF community of the new changes, through road shows and other forms of media.

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14 Major General Mark Evans, *Transcript 30 March 2007*, p. 28.

15 Major General Mark Evans, *Transcript 30 March 2007*, p. 29.

16 Major General Mark Evans, *Transcript 30 March 2007*, p. 28.

17 Major General Mark Evans, *Transcript 30 March 2007*, p. 31.

## Retention

- 4.19 In terms of whether there is an increase in the number of personnel leaving the ADF, Major General Evans noted that 'the proportion of members looking to leave Defence has remained stable'.<sup>18</sup>
- 4.20 In response to the Committee's questions about retention rates and whether salary levels are a key factor behind personnel leaving the ADF, Defence responded that:
- ...it has not been one of the key reasons. The key reasons rest upon tempo, being able to have more time with family and making an early career change.<sup>19</sup>
- 4.21 Importantly, Defence believes it will observe positive results in the near future as a greater emphasis has been placed on retention. In particular, 'making allowances superannuable is a very positive thing for people.'<sup>20</sup>
- 4.22 Notwithstanding the introduction of the RRP and the uses of bonuses, Defence advised the Committee that 'in straight salary we cannot compete'<sup>21</sup> with outside industry in certain areas of employment. However, remuneration reform is an important factor in enabling Defence to:
- ...[develop] recruitment and retention strategies ... to meet the needs of people at different parts in their journey in their career.<sup>22</sup>

## Conclusion

- 4.23 The implementation of the RRP is a quantum leap forward in how Defence personnel will be remunerated in the future. Moving away from the 'one-company fits all' approach should assist Defence in recruiting and retaining its personnel.
- 4.24 In ensuring a successful transition under the RRP, Defence must actively monitor the effectiveness of the RRP and make any necessary changes to improve the program and its processes.
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18 Major General Mark Evans, *Transcript 30 March 2007*, p. 29.

19 Major General Mark Evans, *Transcript 30 March 2007*, p. 29.

20 Major General Mark Evans, *Transcript 30 March 2007*, p. 27.

21 Major General Mark Evans, *Transcript 30 March 2007*, p. 30.

22 Major General Mark Evans, *Transcript 30 March 2007*, p. 30.

