

Chapter 3

Annual cap on pay increases

Introduction

3.1 This chapter assesses the annual pay cap of 1.5 per cent (subsequently 2 per cent) imposed by the Coalition government's bargaining policy against both actual public sector remuneration and the key economic indicators over the bargaining period.

3.2 Before making these assessments, the committee recognises that the Australian Public Service (APS) bargaining process has been conducted against a backdrop of misleading claims that Commonwealth public servants are somehow paid exorbitant wages and enjoy extravagant conditions. These assertions have been propagated by interest groups with an extreme ideological agenda such as the Institute of Public Affairs (IPA). Moreover these narrow and erroneous views have been endorsed and supported by the Coalition government.

3.3 For example, Mr Aaron Lane who is a Legal Fellow at the IPA argued that 'all APS agreements contain generous allowances which have the effect of increasing the overall salary by up to tens of thousands of dollars each year.'¹ Mr Lane persisted with this contention despite acknowledging that the benchmark comparison for the IPA's research was the basic minimum thresholds contained in the National Employment Standards.²

3.4 In a similar fashion, on 15 October 2015, the Minister for Employment, Senator the Hon Michaelia Cash accused public servants of failing to live in the 'real world':

...in the real world where Australians live, in the real world where people open businesses and risk their own money, you do not actually get a pay rise if you do not give a productivity gain. In voter land, when you are out having a coffee at a cafe, when you are having a beer at a pub, when you are having a sandwich at the local sandwich shop, the idea that you would get a pay rise and not have to offset that pay rise with a productivity gain, quite frankly, is unacceptable.³

3.5 As a counterpoint to the negative and false depictions of public servants and their employment conditions, Mr Andrew Greenan, who is a member of the Administrative Appeals Tribunal Bargaining Team, provided some real-life context by describing his family's lifestyle on public service wages:

1 Mr Aaron Lane, Legal Fellow, Institute of Public Affairs, *Committee Hansard*, 11 November 2016, p. 12.

2 Mr Aaron Lane, Legal Fellow, Institute of Public Affairs, *Committee Hansard*, 11 November 2016, p. 13.

3 Senator the Hon Michaelia Cash, Minister for Employment, Parliamentary Debates, *Senate Official Hansard*, 15 October 2015, p. 7809.

I am a public servant and I do not have an extravagant life. It is very modest. I do not drink and I do not smoke. We have one car for a family of six. We live in a modest three-bedroom home. Because of years of delays on pay rises and an increasingly bleak outlook for the future I am increasingly relying on seasonal part-time work to keep my family going, on top of the wage I get as a public servant. I do not think I am the only one in that boat.⁴

APS and private sector remuneration

3.6 This section compares private and public sector remuneration in order to determine whether the wages of APS employees are in fact above or below those in the private sector and whether the majority of APS employees earn above or below the average Australian wage.

3.7 Drawing on data from the Australian Bureau of Statistics (ABS), the Community and Public Sector Union (CPSU) calculated that the majority of APS employees earn less than the average income. The CPSU pointed out that as at May 2016, the majority of APS employees (53 per cent) were classified as APS5 or below and that the median base salary for an APS5 employee was \$74 451 per annum which was below the adult average ordinary full time earnings of \$78 832 per annum.⁵

3.8 In 2011, the APSC commissioned Mercer Consulting to conduct a comparison of private and public sector remuneration. The CPSU noted that Mercer found that, apart from APS1 and APS2 (which made up less than 6 per cent of the APS workforce as at 30 June 2016), median base salaries in the private sector were above the corresponding APS median salary for the equivalent classification. Furthermore, total remuneration packages in the private sector were even higher than corresponding APS total remuneration packages.⁶

3.9 Table 3.1 below illustrates the differences between private and APS salaries at equivalent classifications.

3.10 However, the figures in Table 3.1, although quite stark, only show half the picture. For example, employees at an APS5 classification or lower 'are most likely to be public servants in frontline roles in the Department of Human Services or Australian Border Force'.⁷

3.11 The wage profile of lower paid public servants is examined later in this chapter with reference to employees in the Department of Human Services.

4 Mr Andrew Greenan, CPSU, Administrative Appeals Tribunal Bargaining Team, *Committee Hansard*, 11 November 2016, pp. 32–34.

5 CPSU (PSU Group), *Submission 196*, p. 14.

6 CPSU (PSU Group), *Submission 196*, p. 16.

7 CPSU (PSU Group), *Submission 196*, p. 14.

Table 3.1—Total remuneration package analysis—APS1 to EL2—31 December 2010

Equivalent Classification	APS Median	Private Sector Median	Difference	Difference %
APS1	\$47 546	\$34 738	\$12 808	37%
APS2	\$56 933	\$51 816	\$5117	10%
APS3	\$63 238	\$64 854	-\$1616	-2%
APS4	\$70 347	\$77 892	-\$7545	-10%
APS5	\$77 483	\$92 083	-\$14 600	-16%
APS6	\$89 882	\$112 945	-\$23 063	-20%
EL1	\$112 788	\$137 116	-\$24 328	-18%
EL2	\$140 397	\$168 608	-\$28 211	-17%

Source: Mercer Consulting, 2010 Broader Market Comparison—APS SES and Non-SES Remuneration, August 2011, in CPSU (PSU Group), *Submission 196*, p. 16.

Superannuation

3.12 The committee heard views expressed that the superannuation received by public servants was particularly generous. However, several witnesses made the point that remuneration should be considered as a total package rather than as isolated elements.

3.13 For example, Mr Esmond Smith argued that terms of employment are a package:

You cannot conclude that any one condition should be reduced because it appears generous (relative to what other employees get in the Australian economy) in isolation to all other terms and conditions of employment.⁸

3.14 With respect to superannuation, Professor Andrew Podger made the following points about the provisions for superannuation in the APS:

- first, they originated as a means of retaining staff in the context of the then view of the APS as a career for life;
- second, the value and costs have been included in total remuneration figures and agency running costs since the mid-1980s;
- third, reforms to public sector superannuation since that time has steadily shifted the system away from unfunded benefits-promise schemes rewarding

8 Mr Esmond Smith, Employee Bargaining Representative for Australian Competition and Consumer Commission (ACCC) staff at the ACCC and the Australian Energy Regulator, answer to question on notice, 11 November 2016 (received 20 November 2016).

most those (generally male) longer-term and senior employees at high cost towards fully-funded defined contributions schemes more attuned to the modern APS workforce at more modest cost; and

- finally, while the employer contribution of 15.4 per cent is above the private sector minimum of 9.5 per cent, that minimum is legislated to increase to 12 per cent, and most workers on median earnings and above will need to contribute of the order of 15 per cent in total to achieve reasonable income replacement rates in retirement, even if retiring at age 67, that is the public sector figure is nearer the optimum that the private sector might consider moving towards for the sorts of employees that are in the APS today.⁹

Economic outlook over the bargaining period

3.15 This section looks at some of the key economic indicators including the cost of living index, inflation rate, and average annual wage rises over the bargaining period in order to ascertain the financial impact of the bargaining dispute on APS employees and to determine what a reasonable wage rise would be for this period.

3.16 The committee received evidence from the CPSU (see Table 3.2 below) indicating the 2 per cent per annum cap imposed by the 2015 bargaining policy (previously 1.5 per cent per annum under the 2014 bargaining policy) is below the wage rises received in both the private and Australia-wide public sectors over the last three years.¹⁰ This evidence is based on official figures from the ABS and the Department of Employment.

Table 3.2—Key economic indicators

Measure	June 2014 (%)	June 2015 (%)	June 2016 (%)
Consumer Price Index	3.0	1.5	1.0
Employee Living Cost Index	2.3	0.9	1.0
Wage Price Index (All)	2.6	2.3	2.1
Wage Price Index (Private)	2.5	2.2	1.9
Public Sector AAWI (Approved)	3.5	3.8	3.0
Private Sector AAWI (Approved)	3.3	3.1	3.1

Key: AAWI = Average Annualised Wage Increase

Source: ABS 6467.0 — Selected Living Cost Indexes, Australia, June 2016, 6345.0 — Wage Price Index, Australia, June 2016, 6401.0 — Consumer Price Index, Australia, June 2016, Trends in Federal Enterprise Bargaining (June quarter 2016), in CPSU (PSU Group), *Submission 196*, p. 14.

9 Professor Andrew Podger, *Submission 207*, p. 4.

10 CPSU (PSU Group), *Submission 196*, p. 14.

3.17 Furthermore, given that the bargaining policy prohibits back pay, APS employees who have been unable to secure an agreement with their employer have endured three years without a pay rise. In effect, this means that those employees' wages have not kept pace with inflation and those employees have fallen even further behind. Even a 6 per cent pay increase over three years is effectively about a 1.2 per cent per annum increase as a result of the two and a half earlier years of failed negotiations without a pay rise.

3.18 Beyond the last three years, Treasury figures from May 2016 (see Table 3.3 below) indicate that inflation is expected to rise to 2 per cent in the 2016-17 fiscal year and increase further to 2.25 per cent in 2017-18 and 2018-19 and 2.5 per cent in 2019-20.

Table 3.3—Major economic parameters

	Outcomes	Forecasts			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2.5	2.5	3.0	3.0	3.0
Unemployment rate	6.1	5.75	5.5	5.5	5.5	5.5
Consumer price index	1.5	1.25	2.0	2.25	2.25	2.5

Source: Extract from The Treasury, *Pre-Election Economic and Fiscal Outlook 2016—Economic Outlook*, www.treasury.gov.au/PublicationsAndMedia/Publications/2016/PEFO-2016/HTML/Economic-outlook (accessed 15 November 2016).

3.19 The inflation figures given in Table 3.3 indicate that if an enterprise agreement were to be concluded at the present juncture, even a 2 per cent per annum pay rise would now have the effect of leaving APS employees worse off in real terms over the course of a three year enterprise agreement. This would be compounded by the previous two and half to three years where APS employees have had an effective pay freeze due to the intransigent approach taken by various agencies, the APS Commissioner, and the government to the APS bargaining framework.

Wage profile of staff in the Department of Human Services

3.20 This case study of DHS looks at the staff profile of an agency where a large number of employees delivering important frontline services are women on low wages, many of whom also have caring responsibilities. It then considers the impact of the government's bargaining policy on DHS employees.

3.21 DHS is the largest Commonwealth government agency and employs 36 594 staff. DHS maintains over 400 offices throughout Australia delivering services to Australia's most vulnerable citizens.¹¹

11 CPSU Department of Human Services Bargaining Team, *Submission 200*, p. 2.

3.22 Over the last five years, the level of permanent employment at DHS has gone down and non-ongoing employment has gone up from 4.2 per cent of the total workforce in 2011 to 13.6 per cent. At present, 63 per cent of the non-ongoing staff are employed on a casual basis.¹²

3.23 The CPSU DHS bargaining team pointed out that women make up 73 per cent of the total workforce of DHS. The majority of staff (64 per cent) are employed at the APS3 and APS4 classification and have a salary range of \$56 069 to \$69 239. Thirty four per cent of DHS staff are employed part-time, and of these staff, 78 per cent are employed at the APS3 and APS4 classification.¹³

3.24 Ms Elida Faith, CPSU Department of Human Services Section President told the committee:

These are the people that you talk to on the phone and who serve you at the counters. Seventy per cent, which is a significant majority, earn less than the average Australian wage, and one-third of the total workforce is part time. Insecure employment has increased in the last five years, from approximately four per cent to well over 13 per cent. These numbers scare staff. We are questioning why this government does not seem to care about us or the work that we do for the community. We feel that the department now only cares about meeting time frames and not outcomes for our customers.¹⁴

3.25 The department's employment profile results in a substantial majority of DHS staff (70 per cent) earning less than the average Australian wage of \$78 832 per year.¹⁵

Pay disparities across the APS

3.26 The committee heard evidence from Professor Podger, a former APS Commissioner, that the agency-based approach to enterprise bargaining in the APS had led to substantial pay disparities across the APS amongst employees at the same classification. Table 3.4 below shows the difference between salaries at the 5th and 95th percentile. Professor Podger argued that the application of agency-based bargaining had led to a series of problems including the serious wage discrepancies shown above:

This has caused very serious damage to the integrity of the whole pay system in the Public Service with tangible impact on mobility within the service, serious management problems for agencies affected by machinery of government changes, justified complaints of unfairness across and within

12 CPSU Department of Human Services Bargaining Team, *Submission 200*, p. 2.

13 CPSU Department of Human Services Bargaining Team, *Submission 200*, p. 2.

14 Ms Elida Faith, CPSU Department of Human Services Section President, *Committee Hansard*, 15 November 2016, p. 1.

15 CPSU (PSU Group), *Submission 196*, p. 14.

agencies, and unknown impacts on attraction and retention of the skills the APS requires.¹⁶

Table 3.4—Salary disparities across the APS

Classification	Salary at P5 (\$)	Median Salary (\$)	Salary at P95 (\$)	P5-P95 range % of median
Graduate	53 652	60 158	69 456	26.3
APS1	39 144	47 736	49 697	22.1
APS2	48 525	54 588	56 435	14.5
APS3	55 511	61 512	62 560	11.5
APS4	62 493	69 239	70 144	11.1
APS5	69 395	74 451	76 624	9.7
APS6	78 842	86 923	90 890	13.9
EL1	101 278	108 382	115 778	13.4
EL2	122 032	133 905	151 097	21.7
SES1	159 125	181 006	215 662	31.2
SES2	208 711	232 644	277 897	29.7
SES3	275 000	312 000	380 692	33.9

Source: Professor Andrew Podger, Tabled Document 1, Canberra, 11 November 2016.

3.27 Alongside the inequity and adverse impacts on mobility across the APS, Professor Podger also emphasised that an agency-based bargaining mechanism failed to address crucial aspects of APS recruitment and retention, namely:

...whether the APS is attracting and retaining the skills it needs to deliver the services the government, the parliament and the public rightly expect, and whether the resulting pay and conditions promote high performance by individuals and organisations.¹⁷

3.28 In light of the above, Professor Podger recommended an APS-wide approach to determining pay that could still include a firm cap on APS-wide pay increases. Professor Podger suggested the APS-wide bargaining policy could include:

...undertaking market surveys of pay and conditions for comparable work, reviewing data on APS experience regarding attraction and retention and

16 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, p. 1.

17 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, p. 1.

explaining in more detail changing demand for particular skill sets and whether the APS-wide classification structure needs modification or complementary arrangements such as allowances for particular high-demand skills required.¹⁸

3.29 According to Professor Podger, a key advantage of an APS-wide approach to remuneration would be the substantial gains in efficiency and productivity that would arise from relieving individual agency executives of the need to devote resources to finding spurious efficiency gains to meet the 'productivity' test embedded in the current decentralised approach to bargaining policy.¹⁹

Committee view

3.30 It is clear from the ABS data presented earlier in this chapter that the majority of APS employees earn less than the average income. Furthermore, the evidence commissioned by the APS Commission from Mercer Consulting found that, apart from APS1 and APS2 (which made up less than 6 per cent of the APS workforce as at 30 June 2016), median base salaries in the private sector were above the corresponding APS median salary for the equivalent classification, and private sector and total remuneration packages were even higher than corresponding APS total remuneration packages.

3.31 Furthermore, a strict focus on total salary ignores the fact that, for example, at the largest Commonwealth agency—DHS—women make up almost three quarters of that department's total workforce. Almost two thirds of Human Services staff have a salary range of \$56 069 to \$69 239, and one third are employed part-time. In short, 70 per cent of Human Services staff earn less than the average Australian wage.

3.32 This evidence flatly contradicts the ludicrous assertions emanating from interest groups such as the IPA that public servants somehow enjoy overly generous wages and conditions when compared to the private sector.

3.33 In addition, official figures from the ABS indicate that the 2 per cent per annum cap imposed by the 2015 bargaining policy (previously 1.5 per cent per annum under the 2014 bargaining policy) is below the wage rises received in both the private and the broader public sectors over the last three years.

3.34 Looking to the future, Treasury figures from May 2016 indicate that inflation is expected to rise to 2 per cent in the 2016-17 fiscal year and increase further to 2.25 per cent in 2017-18 and 2.5 per cent in 2019-20. Therefore, enterprise agreements concluded with even a 2 per cent per annum pay rise would now leave APS employees worse off in real terms over the course of a three year enterprise agreement. This would be compounded by the pay freeze that has occurred over the past two and half to three years.

18 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, p. 2.

19 Professor Andrew Podger, private capacity, *Committee Hansard*, 11 November 2016, p. 4.

3.35 The evidence from both the ABS and the Treasury reveals the remarks by the Minister for Employment that public servants somehow do not live in the 'real world' to be utterly baseless and gratuitous.

3.36 Furthermore, as numerous submitters and witnesses have pointed out, the dismissive attitude of the Minister for Employment towards public servants takes no account of the fact that the Coalition government has cut 17 000 public service jobs. In an unstinting effort to maintain service delivery, public servants are now working harder and longer due to these massive job cuts. In the real world, this surely would count as a quite remarkable productivity gain.

3.37 Yet, at the same time as these job cuts were occurring, the bargaining policy imposed a pay freeze, the offer of a pay rise below the rate of inflation, and cuts to conditions including the removal and reduction of existing previously negotiated rights.

3.38 The committee notes that the CPSU and many employee bargaining representatives have shown courage and leadership during this dispute. The CPSU has surveyed its members on a pay outcome and, as a result, publicly and explicitly reduced its wage claims during the bargaining process to a level that was below what other enterprise agreements in the public and private sectors had been delivering.

3.39 It seems to the committee that the CPSU has been entirely reasonable during the course of this bargaining round and that the failure to secure an agreement for the majority of public servants can be laid squarely at the door of an intransigent government.

Recommendation 2

3.40 The committee recommends that the government adjust the annual wage cap contained in the 2015 bargaining policy to a more realistic level, consistent with economy wide outcomes in enterprise bargaining, and facilitate agency access to a portion of the savings accrued through the delays in settlement to allow for improved wage offers that do not come at the expense of cuts to pre-existing rights and conditions.

