

DEFENCE FORCE REMUNERATION TRIBUNAL
SENIOR OFFICER GRADED STRUCTURE 1ST ANNUAL REVIEW
AND
SENIOR OFFICER REMUNERATION ARRANGEMENT 2011 - 2014
MATTER 12 OF 2011
REASONS FOR DECISION

[1] In Matter No 12 of 2011 on 6 December 2011 the Australian Defence Force (ADF) and Commonwealth (the Parties) presented a joint submission to conduct the 1st Annual Review of the Senior Officer Graded Structure. As part of these submissions, the ADF and Commonwealth also sought the approval of the Defence Force Remuneration Tribunal (DFRT) under Section 58KD of the *Defence Act 1903* (the Act) to establish a new Senior Officer Remuneration Arrangement (SORA) for the period of 2011 – 2014 and make variations to the Senior Officer Graded Structure (SOGS). The Tribunal approved a determination giving effect to establishing the new arrangement and amendment of the SOGS, we now publish our reasons for decision.

Background

[2] The SOGS came into effect on 17 March 2011 as an outcome of 2010 Star Ranks Annual Remuneration Review (Matter No. 5 of 2010) and is the remuneration framework for generalist O7 and O8 officers. It replaced the 2008 Star Ranks Management Framework (2008 SRMF), which was introduced as a result of the Star Ranks Remuneration Arrangement Review (Matter No. 8 of 2008).

[3] Under the 2008 SRMF, the Tribunal gave the ADF greater flexibility in recommending remuneration outcomes for its senior executives. This included the introduction of a ‘Total Cash Value’ construct supported by the use of Individual Determinations. Despite significant efforts to realise and sustain the 2008 SRMF, challenges foreshadowed by the Tribunal in its 2008 decision ultimately led to the ADF acknowledging its inability to effectively manage the framework.

[4] As a result in 2010, the ADF returned to the Tribunal with a revised remuneration approach for O7 and O8 officers that reflected changing Government policy. In a joint ADF and Commonwealth submission (Matter No. 5 of 2010) the Parties presented the SOGS as a new remuneration framework for O7 and O8 officers reflecting the following fundamental elements:

- Be consistent with extant Australian Government policy;
- The ability to define and apply appropriate relativities between O6, O7, O8 and O9 officers;
- Facilitate a smooth transition from the existing fully flexible 2008 SRMF to a more structured model;
- Be transparent to all Parties; and
- Be easy to administer.

[5] The SOGS framework is characterised by having three Pay Grades at O7 rank and one Pay Grade at O8 rank. Each rank level features an on promotion rate plus a single increment

payable on the first anniversary of the officer's promotion to that rank. There is no lateral movement within the framework. Importantly, a member's placement in the SOGS is informed by their previous pay placement under GOPS at O6 rank.

[6] In addition to the newly proposed remuneration framework for generalist O7 and O8 Star Ranks in the December 2010, submissions to the DFRT as part of Matter No. 5 of 2010, the ADF made the following propositions:

- A new remuneration model for ADF O7 and O8 Star Ranks - the Senior Officer Graded Structure (SOGS) which did not incorporate the previous non-superannuable incentive lever (which had become known in the ADF as Circumstance Benefit);
- Transition principles to guide placement of Star Rank members into SOGS;
- The continued but limited operation of the current remuneration structure until the SOGS is introduced;
- The conduct of an Annual Review of SOGS salary rates;
- The continued ability of the ADF to request Individual Determinations for individual officers in exceptional circumstances; and
- A further hearing to address specialist Star Rank officers in February 2011.

[7] In meeting with its undertakings in Matter 5 of 2010, on 24 February 2011 the ADF and Commonwealth presented a joint submission which reviewed the structure and placement of Star Ranks Specialist Medical Officers. The Parties submitted that the revised structural and placement proposals for these Specialist Star Ranks was based upon the previous revision of Specialist Medical Officers in the O1 – O6 ranks. The Parties further submitted that it was intended to bring before the DFRT in 2012 a review of Specialist Legal and Dental Officers of O1 – O6 ranks, following which submissions would be made regarding the structure and placement of Specialist Legal and Dental Star Ranks. The Tribunal approved the revised Star Ranks Specialist Medical Officers proposals and agreed to reviewing the Pay Grade placements of Specialist Legal and Dental Star Ranks, following the review of Specialist Legal and Dental Officers in the O1 – O6 ranks.

Submissions and Evidence

[8] In accordance with the undertakings by the ADF in Matter 5 of 2010 as outlined above, on 6 December 2011 the ADF and Commonwealth presented a joint submission to the DFRT to conduct the first Annual Review of the SOGS salary rates.

The Parties submitted that in relation to the SOGS framework principles, the following lessons were learnt:

- Removal of Circumstance Benefit has demonstrated the role performed at O7 and O8 is very consistent across each rank group;
 - Outcome – Star Rank members have quickly adopted the ‘all of one company’ view of their work.
 - Application – The 2011 SOGS Annual Review must reinforce the utility and relevance of this statement.
- Current pay placement rules in the SOGS has command as a critical career milestone for differentiating O7 pay placement. This ignores the fact O7 members are employed regardless of whether they had command under GOPS or not;

- Outcome – Pay placement at O7 needs to be more focused on the employment reality at O7 rank and not about command at O6/O5.
- Application – The Senior Officer Remuneration Arrangement 2011 – 2014 submission must amend the pay placement rules for O6 promoted to O7.

[9] The Parties also submitted that in relation to the application of the SOGS Framework application, the following lessons were learnt:

- The 'GOPS informed SOGS' has reinforced the view that the ADF values a Star Rank member's experience gained under GOPS;
 - Outcome – Need to better articulate how SOGS is placed in the wider ADF remuneration setting.
 - Application – Develop a 'companion employment group' model to better explain the necessary structural and cultural relativities.
- The SOGS transition plan only dealt with the transition of Individual Determinations into the new framework and not the underlying career profile of a Star Rank member that informed their Individual Determination;
 - Outcome – Defence needs to ensure any remuneration model for its senior executives is respectful of and builds on the background of a member's career, whilst playing to the employment realities at the next rank.
 - Application – Amend the O7 pay placement rules to better reflect the employment reality for Star Ranks. Merge O7 PG1 into O7 PG2.

[10] The Parties submitted that the ability to mature the SOGS by January 2013, will be dependent upon two key factors;

- The pace at which annual adjustments to the SOGS salary rates catch Base Salary rates for those still on substantive Individual Determinations; and
- The extent to which the ADF as part of its Star Planning Meeting (SPM) process, extends for capability reasons, the posting tenure of any member still on a substantive Individual Determination.

[11] The Parties identified that maturing the SOGS framework at the earliest opportunity is a high priority for the ADF and based on current transition rates and the latest SPM outcomes, by January 2013 the SOGS should have achieved sufficient maturity to be considered fully operational. The Parties reported that the SOGS and its shift away from individual remuneration outcomes for members, has been a positive step in ensuring Star Rank remuneration contributes to the operational effectiveness of the wider Defence remuneration spectrum. Accordingly, the ADF submitted that other than in exceptional circumstances and with the concurrence of the Commonwealth, the ADF does not see a place for Individual Determinations for generalist O7 and O8 officers, in light of the maturing SOGS framework.

[12] The ADF submitted that the ability to 'fine tune' the SOGS during its implementation has assisted the ADF in developing and sustaining the necessary professional mastery demanded in managing executive remuneration frameworks. For this reason, the ADF views the Annual review as having a high level of utility during implementation and made an undertaking to report back to the Tribunal in the form of an Annual Review which will include the following approach:

- The second Annual Review of SOGS is to be presented to the Tribunal by end November 2012;

- To speak to the period dating back to the preparation of the last Annual Review;
- To clearly articulate the implementation status of SOGS and any issues that undermine the ability to mature the framework;
- To present any arguments for adjusting the framework;
- To present any arguments for adjusting the framework's rates of salary;
- To present any related issues that develop the Tribunal's understanding of Star Rank employment and the manner in which the ADF seeks to maintain the value of the offer it makes to Star Rank members; and
- To ensure the manner in which the ADF undertakes the Annual Review, builds the necessary confidence the Tribunal has in the ADF, to develop and manage executive remuneration within the ADF setting.

[13] The ADF also made an undertaking on future quanta adjustments, submitting that the ability of the SOGS to respond to evolving workforce needs requires Defence to apply the ADF Remuneration Framework and be consistent with extant Government policy. Further adjustments to the principles, application and administration of the SOGS, will occur only after consultation with the Commonwealth and consideration of the matter by the Tribunal.

[14] The Parties pursuant to Section 58KD of the Act sought an Arrangement, giving effect to an agreement reached between the Chief of the Defence Force acting on behalf of ADF members, and the Special Minister of State acting on behalf of the Commonwealth. The Parties submitted the Arrangement will apply to all O7 and O8 officers remunerated under the SOGS, as submitted by the ADF in Matter No. 5 of 2010 and will only apply to salary rates within the SOGS. The Arrangement in the submission also applies to all O7 and O8 Legal and Dental officers and will only apply to salary rates for the first SORA instalment.

[15] The Arrangement applies across-the-board annual percentage increases to salary for O7 and O8 officers remunerated under the SOGS, plus Legal and Dental O7 and O8 officers, in recognition of Defence productivity improvements and reform as outlined in the WRA 2011 – 2014 (Matter 9 of 2011). Outside this Arrangement, the development of remuneration policy and the review of specific pay and pay-related matters, will continue amongst the Parties, under the provisions of Sections 58B and 58H of the Act.

[16] The Arrangement also provides that should the WRA increase as a result of the outcomes of negotiations related to the Defence Employee Certified Agreement (DECA), the ADF will seek to submit for the consideration of the Tribunal, variations to ensure consistency between the SORA and WRA.

[17] The Parties submitted that the Arrangement complements the WRA 2011 – 2014. This approach enables the ADF to reinforce an 'all of one company' remuneration framework encouraging members contributing to and benefiting from common global productivity. In this regard, this Arrangement acknowledges and seeks to reward the contribution made by Star Rank officers to Defence common global productivity.

[18] The Parties further submitted that the Arrangement seeks to recognise the leadership roles required of Star Rank officers in meeting the challenges for Defence, as a result of the pursuit of productivity and reform. It does this in the context of Star Rank officers playing their part in an all of one company effort, to realise the continuing and significant program of workplace reform within the ADF under the 2009 Defence White Paper, the Defence Strategic Reform Program and related initiatives. The contribution by Star Ranks to common global productivity and reform, has the following features:

- Recognising and harnessing the knowledge, skills and capabilities of Defence people;
- Providing challenging and meaningful jobs so the right work is done at the right level;
- Ensuring people are fully informed about their job, what is expected of them and that performance is assessed in a fair, honest and participative way;
- Identify and respond quickly and flexibly to change;
- Support innovation and creativity in problem solving;
- Ensure people are appropriately skilled to do their jobs and can pursue their career aspirations; and
- Reward and foster individual and team effort.

[19] The Parties identified that across-the-board pay rises recognise the contribution made by Star Ranks to improving productivity, efficiency and operational effectiveness throughout the Defence Organisation. In accordance with this principle, the Parties proposed that this Arrangement provide for increases to salary of:

- 3 per cent with effect from 22 Dec 11;
- 3 per cent with effect from 8 Nov 12; and
- 3 per cent with effect from 7 Nov 13.

[20] The Parties noted that Legal and Dental Star Ranks are due to be reviewed in 2012. As an interim measure until that submission, the Arrangement in this Submission will only deliver the first instalment of 3% in Dec 11, any Legal and Dental Star Rank on a DFRT Individual Determination will also be adjusted by 3% in accordance with the first instalment.

[21] The Parties submitted that the Arrangement is consistent with the policy guidance contained within the ADF Remuneration Framework and further submitted that the Arrangement is consistent with the overall outcomes of the WRA 2011 – 2014, affordable, economical, responsible and fair.

[22] The ADF also reported that it is satisfied with the level of consultation with its Star Ranks workforce regarding the proposed arrangement and had received positive feedback from this cohort.

[23] The Parties submitted that the key features of this arrangement are:

- Applies to all O7 and O8 officers remunerated under the Senior Officer Graded Structure (SOGS);
- Applies to Legal and Dental O7 and O8 officers (only the first instalment of the Arrangement);
- Applies to salary only;
- Shared productivity with the WRA 2011 - 2014;
- Provides for a 35 month duration, commencing on date of signature and concluding on 3 Nov 14;
- Adjusts pay placement rules for O7 rank to reflect all members promoted from the Graded Officer Pay Structure (GOPS) O6 Pay Grades 1 to 9, are placed in the SOGS at O7 Pay Grade 2;
- Provides increases in salary of 9% over the life of the arrangement via three instalments, 3% 22 Dec 11, 3% 8 Nov 12 and 3% 7 Nov 13; and

- If changes to the WRA occur as a result of negotiations related to the Defence Employee Certified Agreement (DECA), the ADF will seek to submit for the consideration of the Tribunal, variations to ensure consistency between the SORA, WRA and DECA.

[24] The Parties also submitted that analysis by the Defence Chief Finance Officer has confirmed that the SORA funding model can be accommodated within the pay provision line of the Defence budget for Military Salaries both by Financial Year and over the life of the Arrangement. Consequently, approval of the SORA proposal will not involve reallocation of funds from other funding lines in the Defence budget to the detriment of planned expenditure for Defence priorities.

[25] The ADF proposed a revised pay placement rule for ADF O7 and O8 ranks to reflect all members promoted from the GOPS O6 Pay Graded 1 to 9, be placed in the SOGS at O7 Pay Grade 2. This proposition will be funded from within Defence appropriations.

[26] The Parties submitted that the introduction of the SOGS represented a major shift in executive remuneration within the ADF both intellectually and culturally. To realise the SOGS, due to the use of Individual Determinations based on each member's enduring value to the ADF, the ADF needed to move some 169 members from a remuneration framework consisting of eighteen varying pay points. Additionally, the linking of the SOGS to the GOPS through pay placement, was considered to be a suitable approach in setting the conditions for a more cohesive operation of the wider ADF remuneration framework. The Parties noted that the enduring utility of such a prescriptive pay placement construct for the SOGS needs to be informed by three realities:

- The ADF's evolving knowledge in developing complementary executive remuneration and senior leader capability management strategies;
- Lessons learned in implementing the new framework; and
- The actual employment setting for the Star Rank group.

[27] The ADF submitted that in terms of talent management, despite having a broad spectrum of people to draw from at the lower ranks for its senior leader capability, it requires the ADF to carefully balance a default career pathway mindset, against the need to target specialist knowledge necessary for some senior appointments. As such, many senior officers are a product of a targeted career pathway be it specified or implied. To motivate individuals through such a career management construct, the 2008 SRMF allowed the ADF to acknowledge and reward the individual experience base each member brought to the Star Rank group.

[28] The Parties submitted that with the introduction of the 'GOPS informed SOGS' principle, the ADF fractured the harmony that existed between remuneration and career management by introducing a rigid remuneration framework alongside a flexible career management framework. At issue, was the focus on command as a discriminator for pay placement within SOGS, rather than acknowledging a member's career development pathway and the employment reality within the Star Rank group.

[29] The ADF submitted that it is unable to offer all members aspiring to Star Rank the opportunity for command as such positions are limited across the three Services and selection is highly competitive. For a single command position, the ADF applies an 'intellectual selection process' that results in many officers missing out on the opportunity to prove their potential in command, despite them having a solid performance history. Such officers despite having been

filtered out of the selection process, are still valued by their Service and efforts will be made to find alternate posting opportunities that permit the member to demonstrate their future potential. Unfortunately, despite the officer's performance and achievements in their alternate posting, the focus on command as pay placement discriminator with SOGS at O7 rank, means they are less valued than the person who was selected for command, even if their performance and achievements significantly outweigh their peer who held command.

[30] The Parties submitted that to re-establish the harmony necessary between remuneration and career management, the ADF needs to evolve both areas in a manner that aligns with the submission made in Matter No. 5 of 2010 for the SOGS. The ADF identified that it must also ensure any evolution of both areas is not ultimately detrimental to the member or the ability for the ADF to raise, train, sustain and terminate its senior leader capability.

[31] The Defence Force Welfare Association supported the findings of the first Annual Review and the proposed Arrangement.

Decision

[32] Having heard the joint submission of the Parties and considered the submissions and evidence, we:

- Note the findings of the first Annual Review and direct the ADF in accordance with its undertakings to report back to the Tribunal for the second Annual Review of SOGS no later than the end of November 2012.
- Approve the revised pay placement rule for ADF O7 and O8 ranks to reflect all members promoted from the GOPS O6 Pay Grade 1 to 9, be placed in the SOGS at O7 Pay Grade 2.
- Approve the Senior Officer Remuneration Arrangement for the period of 2011 – 2014 as sought. The date of effect for the new arrangement shall be on and from 22 December 2011.

Appearances:

R. Kenzie, AM, QC, Defence Force Advocate with S. Robertson.

M. O'Neill, Commonwealth Advocate

G. Nelson, Defence Force Welfare Association Representative

Date and Place of Hearing:

6 December 2011 Canberra