DEFENCE FORCE WELFARE ASSOCIATION

SUBMISSION TO THE DEFENCE FORCE REMUNERATION TRIBUNAL ON MATTER NO 6 OF 2017

THE 2017-2020 ADF WORKPLACE REMUNERATION ARRANGEMENT

16 AUGUST 2017

Reference:

A. Joint Commonwealth and ADF Submission on Matter No. 6 of 2017, dated 16 August 2017.

Introduction

1. The DFWA (the Association) is grateful to the Tribunal for allowing us to Intervene in this matter. We believe it is important that ADF members have a 'third party' who will represent their views without fear or favour, and we have endeavoured to do so in this submission.

2. The Association also notes that development of this Arrangement has been conducted in a timely and collaborative manner and we wish to particularly thank both the Director of Military Remuneration and the DFRT Secretariat who both kept us well informed during the process.

3. Our methodology during the development of this Workplace Remuneration Arrangement (WRA) was similar to that employed in the last. We promulgated details of the proposed Arrangement by direct email contact, social media, through our website and by means of our triannual periodical "Camaraderie", and we invited all ADF members to offer comments or views by means of a specific email address set up for that purpose. We received a significant number of comments - a selection of which can be found at the end of this submission.

4. The tenor of the input we received was quite different to that of the 2014 process, which was typified by a strong sense of injustice and a deal of anger. In contrast, the 2017 comments – although not necessarily supportive of the proposed Arrangement – were for the most part constructive, well considered and informed. We therefore did not feel it necessary to undertake a formal survey, as we did in the previous Arrangement, as we believe the material we received is sufficient to present to the Tribunal with a balanced and representative view.

5. Like the members we represent, we welcome the fact that there are no direct offsets to 'pay' for the WRA, as was initially proposed in 2014 and resulted in significant backlash. Similarly, we strongly support the concept of describing ADF output as 'capability' rather than 'productivity', which has been the dubious yardstick of the past. We hope that both initiatives continue in future Arrangements.

6. In consideration of this matter we are cognisant of the economic climate, which is typified by subdued wage growth. Most of the people who sent us feedback understood this environment too, but made valid points nonetheless to suggest the offer may be considered inadequate compared to anticipated wage growth and cost of living pressures. Our job is to represent the sentiment of these members who, for one reason or another, feel they cannot use the more traditional channels. In doing so we will probably challenge some long held views.

Some Comments on the DECA Offer

7. The Association received some comment suggesting there is a widely-held perception that the 3/2/1% pay distribution offered to Defence Civilians provides a better outcome than the 2/2/2% currently proposed for ADF members under this WRA. Mathematically this is not the case.

8. We have also been at some pains to point out that in any case Defence Civilians are still significantly behind ADF members as a result of almost three years of rejection of their DECA. In any case, the Association believes any deficiencies in the DECA process or outcome must not impact on any consideration of a WRA case.

The Adequacy of the Proposed Offer

9. We note at paragraph 42 of the Reference that the Parties do not consider CPI to be a determinant in considering the quanta of the Arrangement, due to the volatility of the Index and the need to negotiate each Arrangement within the fiscal circumstances of the time. We agree that the CPI is not a factor that should be directly linked to or indeed drive the outcome of the Arrangement. We suggest, however, that the CPI is, and always has been, a vital measure by which members can make some assessment of the relative value of the offer - both in the maintenance of their spending power and as a function of the economic forecast for the life of the Arrangement. As such it is an important yardstick as to the adequacy of the offer (in conjunction with other factors such as what offsets, if any, are imposed).

10. We also note that at paragraph 44 of the Reference the parties observed the proposed quantum of 2% per annum to be '*within the range of the current Wage Price Index and CPI figures.*' We respectfully submit that this is a retrospective view, and that ADF members are far more interested in how the proposed quantum will fare against these indices over the forward period, rather than the current or the past.

11. The great majority of members who responded to us made the point that whilst they understood the current fiscal environment is tight, they believed that their employer had an obligation to at least provide for wage growth that maintained their spending power. In other words, they believed their annual pay increments should keep pace with inflation at the very least. The consensus within the responses we received was that the proposed 2/2/2% offer would not do this.

12. In consideration of this matter we have examined, to the best of our ability, the forecast inflation trend for the next three years. Such forecasts vary depending on the source, so we have used only the Treasury Economic & Fiscal Outlook as this represents the Government's own view on the future.

13. Regrettably the mid-year 2017 forecast was not available at the time of preparing this submission (although it should be later this year), and so we relied on the previous forecast. This predicts a CPI movement of 2% for the FY just ended (FY16/17) and thereafter a trend upwards as shown below:

	2017-2018	2018-2019	2019-2020
CPI	2.25%	2.50%	2.50%
WPI	2.75%	3.14%	3.50%

Source: Extract from ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

14. The Wages Price Index (WPI) is also trending upwards, as shown, but at a faster rate than CPI. This suggests that wages growth is expected to diverge upwards from its current position at or close to the CPI. This proposition was supported by the Treasurer in his May 2017 Budget Speech, in which he stated *'…the signs of an improving global economy are there to see'*, and *'…wage growth is expected to increase from around two percent to above three percent over the next four years.'*

15. If the Government's own projection is that the cost of living and WPI will increase above 2% in each year of the coming triennial, then the offer of a flat 2% pa could be seen as a deliberate strategy to diminish the purchasing power of ADF members. We believe that if this is the outcome, it will ultimately impact on morale and, in the longer term, on retention. It will also hamper the ADF's efforts to attract and retain high quality people to meet the capability needs of today and the future.

16. We are especially concerned for more junior members of the ADF, whose dollar increase will be smaller because of their lower wage. In many cases these members are subject to the same cost increases as higher ranking members, so the impact upon them is greater. Of note, in the feedback we received the most strident advocates for a better offer were all from ADF members of the rank of SGT(E) or below.

17. The DFWA will examine the 2017 Economic Forecast when it is published, and update this submission if the projected rates change significantly.

Increase in ADF Charges

18. Many of the comments we received concerned the effect of other charges on ADF members. There is a strong perception that the Government is giving with one hand and taking away with the other.

19. Of particular concern amongst those ADF families utilising Defence Housing Australia (DHA) rentals is the impact of Group Rental Scheme (GRS) increase, which is levied periodically.

For example, in January 2017 the GRS contribution for a Service Residence Classification 'A' dwelling (the base level for CPL and below) increased from $466.01 pf to $481.30 pf.[1] Assuming no other increase during the remainder of this year, this translates to a 3.3% annual increase, or a fortnightly dollar amount of $15.29. At the other end of the scale the GRS contribution on an RB4/D dwelling (COL/BRIG) increased by 3.5%.

20. The impact of such an increase on a Private (PTE) on PG2, for example, is very significant. If a similar GRS increase is levied in Jan 18, for example, it will immediately consume 50% of the member's net 2% increase of about $30.00 per fortnight.[2] Moreover, the timing of the GRS increase is typically about the time the WRA pay increase would be flowing into the member's bank account. No wonder there is a 'left hand, right hand' perception.

21. Of interest, a similar calculation for a LTCOL(E) on PG8 suggests a percentage GRS increase of this magnitude on an RB4 dwelling would consume 37% of the member's net increase. This is still a significant amount, but it illustrates the disproportionate impact on members on lower pay grades.

22. There are, of course, other pressures on family budgets. For example, electricity for *Energy Australia* customers in NSW rose by 19.6% from 01 July 2017, giving a projected increase of $12.30 per fortnight per household.[3] This alone consumes most of the remainder of a 2% pay rise for a very junior member living in a DHA home, leaving virtually nothing for other cost of living increases.

23. The Association is aware that the Tribunal has no jurisdiction over non-Defence charges such as gas and electricity (which impact on all Australians), or Defence related charges such as GRS increases, nor, for that matter, any other internal conditions of service matters (under 58B Determinations). We have made the point not because we think a 58KD fettered Tribunal can change the proposed WRA rates, but to illustrate what might be regarded as a 'reasonable' pay increase will, in fact, fail to keep pace with everyday cost of living increases.

Offsets

24. We have indicated our strong support for the fact that directly correlated 'offsets' will not be used to 'pay' for the WRA increases. This differs markedly from the situation originally proposed in the 2014 WRA, which caused significant angst amongst a great majority of ADF members and resulted in significant public backlash.

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[1] DHA data. See https://www.dha.gov.au/housing/member-entitlement-policy
[2] Assuming the DFRT gives effect to the WRA. See Annex A for calculation.
[3] Source: Energy Australia. Other electricity providers have levied similar increases.

25. Notwithstanding, there is concern amongst some members that conditions of service or other entitlements could still be changed as 'offsets by stealth' during the life of the WRA, also noting that the DFRT has no jurisdiction (or even visibility) over 58B Determinations. We do not suggest that the ADF would deliberately employ such a strategy. We also understand that changes are made to many 58B conditions of service parameters on a frequent basis as part of their management; but we highlight the dichotomy between the DFRT's close visibility of pay and allowances in the nature of pay, and their lack of visibility of a raft of other conditions of service that are of vital interest to the financial well-being of ADF members. We respectfully suggest that the Tribunal provides detail of any consideration of this matter in its Reasons for Decision, including whether there might be circumstances to warrant an overall reassessment of the WRA and, if so, what the trigger for such a reconsideration might be.

The 58KD Process

26. In February 2017 we wrote to the DFRT seeking leave to Intervene in this matter. In that letter we said:

> *'It has become the custom to make WRA submissions under s.58KD that, as the Tribunal has itself observed, effectively restricts its powers. We wonder why this is so. The consideration of these Arrangements, which directly affect the great majority of ADF members, is arguably the most important matter in the Tribunal's calendar – and yet its ability to properly consider and guide the outcome is denied. Such restriction undoubtedly serves the government well but not the ADF member, who is neither an employee-at-law nor entitled to any collective industrial representation. The only body of arbitration available to uniformed personnel is the Tribunal and we believe it should not be fettered.'*

27. We understand it is outside the remit of the Tribunal to dictate how matters will be brought before it. We also understand why it is in the interest of the two Parties to present 'an agreed case' in a matter of such financial magnitude: but we again make the point that the use of clause 58KD is not in the interests of ADF members who have no formal representative body and no effective bargaining power, and who therefore rely on the Tribunal to facilitate a fair and reasonable outcome. We believe that if the Government is serious about presenting a fair pay case it should allow its authorised body to take into account all matters impacting on pay, even though they have no control or jurisdiction over other charges.

The Adequacy of CPI as a Measure of Inflation

28. Some members raised the issue of the adequacy of the Consumer Price Index as an effective measure of inflation. There is a perception that it falls short of the increases people must pay to maintain their standard of living. Indeed, it is this reality that the Association has long been basing its campaigns on, calling for indexation fairness for Defence superannuation.

29. The CPI measures the change of a price of items in a 'Basket of Goods' between one period and another. The common understanding is that the change thus calculated will keep pace with the prices that an average consumer would have to pay for that basket.

30. The Australian Bureau of Statistics goes to considerable lengths to ensure that each item is unchanged in any material way: but in doing so they make assumptions that, in reality, may not be wholly reflected in consumers' spending habits. For example, if a member replaces their washing machine and the old model has been superseded by a newer, more expensive version, this is the price they must pay. The CPI calculation only considers what the original model would cost if it were still available that day, which is invariably less.

31. This concept is true even if the price of an item has diminished. An example would be the humble two slice toaster. For many years such a device had a single knob to adjust the degree of browning. The mechanism was electro mechanical, but more modern toasters have an electronic one using low cost solid-state components. The new mechanism makes it easy to incorporate additional controls for "defrost" and "rewarming". Let us say that the old toaster sold for $45 and the new one for $38. What the consumer saves is a reduction of $7. But the rather dramatic improvement in its features means that to compare like-with-like the ABS must make an estimate of the price that the old model would sell at if it was still available. Let us assume $25. That means that a reduction in price of $20 goes into the CPI calculation, not $7.

32. The international standards which specify how the CPI should be measured assert that the CPI is Cost of Living Index which measures the change in the "cost of living" from one period to the next. This may be a valid assumption in times of stable technology, however rapid technological change means rapid obsolescence of vast swathes of consumer goods and a constantly changing landscape in the market place. The underlying philosophy of the CPI – measurement of price change with no change in quality – is inadequate in these circumstances.[4]

33. The inadequacy of the CPI as an indexation mechanism is well understood. A 2001 Senate Inquiry recommended that indexation other than CPI be introduced for pensions, applying equally to both Commonwealth and State scheme. Two further Senate enquiries in 2002 and 2005 recommended a change in the existing indexation methodology. Neither major political party has agreed, with the exception of a single change.[5]

34. Following a concerted campaign by a very well organised group of military organisations under the lead of the DFWA, the Coalition agreed, if elected at the 2013 election, to provide fair indexation to members of the two older military schemes, DFRB/DFRDB, who were 55+ years old by breaking the reliance on just CPI. The promise was honoured following the Coalition's win.

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[4] '*The Consumer Price Index in Periods of Rapid Technological Change'* by Tom Hayes, Nov 16.

[5] From a paper by the Australian Council of Public Sector Retiree Organisations, John Coleman, July 2017.

35. That left DFRDB and DFRB superannuants aged under 55 with CPI indexation, as it did all MSBS military members, (176,000) and civilian Commonwealth/Territory/State superannuants. Despite this dichotomy, it can be said that the role of CPI as an inadequate measure of increases in the cost of living has been acknowledged by Government.

36. We acknowledge again that it clearly outside the Tribunal's remit to buy into the above matters. In consideration of the adequacy of pay increases, CPI has been used as the inflation yardstick for many years. We raise the point to illustrate that in our technological age there is a growing realisation that CPI is not an adequate measure, and that the proposed 2/2/2%, which already falls behind in purely numerical terms, is in reality an even more inadequate pay rise to maintain ADF members' standards of living. We respectfully submit that the Tribunal should be cognisant of this fact.

DFWA Position on the Proposed 6% WRA

37. Having regard to all the above, the Association makes the following conclusions:

a. DFWA is firmly of the opinion that the proposed 2/2/2% offer is at best marginally acceptable, as on current projections it will in all probably result in a diminution of spending power for most ADF families, and particularly those on lower pay grades.

b. We are disappointed to see that the Government has pursued a strategy of providing less than the current Treasury forecast for CPI and WPI movement. We believe that, in time, such an approach can only make it more difficult for Defence to recruit and more particularly, to retain the high-quality people it needs in a technological age.

c. Because this matter has been brought pursuant to s58KD the Tribunal may only give effect to the WRA, or not. We do not believe rejection would be in the best interests of ADF members and we therefore extend our reluctant support for the proposal.

Reflections on the Impact of s58B

38. Aside from the fact that the offer is below projected cost of living increases, we are particularly concerned about the lack of any visibility the Tribunal has over the potential impact of s58B increases on ADF members. As noted above, changes to financial conditions of service (such as GRS increases) can and do rapidly diminish the benefits of a marginal pay increase, and particularly for lower paid members.

39. Accordingly, we would welcome any approach from the Tribunal towards ongoing monitoring of the impact of a lower-than-CPI pay case, and its consideration of what

circumstances, if any, might warrant a report-back to the Tribunal and/or reconsideration of any remaining portion of the Arrangement.

Annexes:

A. Example of Wage/GRS calculation for a member at PTE rank.
B. Samples of emails received by the DFWA (names and contact details removed).

Annex A
To DFWA Submission
Matter No. 6 of 2017

Wage/GRS calculation for a member at PTE rank

	Prior to 2 Nov 17	**After 2 Nov 17 (+2%)**	**Increase pa**
Salary of PTE on PG2	$49,969.00	$50,968.38	
Service Allowance	$13,717.00	$13,991.34	
Military Salary	$63,686.00	$64,959.72	$1,273.72
Tax	$12,244.95	$12,658.91	$413.96
Super Contribution	$3,184.30	$3,247.99	$63.09
Net increase per annum after Tax & Super:			$796.08
Net increase per fortnight after Tax & Super:			**$30.62**

Potential Increase in GRS contribution:[6] $15.29
Potential Increase in Electricity: [7] $12.30
Total from just two price increases: $27.59 (= 90% of net pay increase)

[6] Assumes member is in a Group "A" dwelling and GRS increase is similar to 2017.
[7] EnergyAustralia calculation of average household in NSW. Other States may be higher.

Annex B
To DFWA Submission
Matter No. 6 of 2017

Sample Comments Received by DFWA

Example 1 (from a Major)

Dear Sir/Madam,

In response to your recent notification of the next ADF Pay proposal, I would like to put forward 3 points:

1. 2% PA <u>might</u> barely keep up with inflation. The pay deal is set 3 years in advance so we should look forward to the next 3 years to assess what inflation will be. No-one has a crystal ball but the economy does appear to be pulling out of a slow period. Unemployment is falling, interest rate indications from the RBA are that they will rise (albeit not imminently but the next move will be up) which is usually in response to inflation as that is the RBA's mandate. If the premier government body in Australia is expecting inflation to rise and the need to take action to resist that then we can reasonable expect inflation to rise. The RBA's mandate is to keep inflation between 2-3% so 2 is the bottom of that range. I feel 2% locked in over the next 3 years will disadvantage ADF members and see them locked into a deal that will not keep up with future inflation.

2. Accepting a position without any argument leaves us with no-where to go if things do change in future. we have no "I told you so". Even if we ultimately do accept the 2% we should put forward stronger arguments for more. We may start from an ambit claim of 3% for example and hopefully settle for 2.5%.

3. Whilst they might not be taking any direct offsets, there are still plenty of defence cuts that members bear the brunt of:

a. DHA MQ rent increases every year usually absorb all if not more of any pay rise,

b. recent real estate sales have reduced on-base parking and more and more military members are forced to pay parking meters off base,

c. cuts to Mess facilities and staff arrangements have seen some messes having to pay staff from mess funds directly which results in higher Mess fees, other Messes have had a portion of their profits garnished to "contribute" to staff costs under the Hamilton review arrangements, this again forces costs onto Mess Members.

These are but a few examples.

In short I believe ADF members deserve better than 2% PA and that we should start negotiating

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Example 2 (from a WO2)

Good afternoon DFWA,

Whilst on the surface, this offer may look fair (given the economic circumstances) I suggest that it is below current and trend CPI.

The CPI over the last 3 yrs may indicate that 2% is fair, but the most recent quarter (Mar 17)

CPI was 2.1%, and the CPI is slowly trending upwards. On current growth, it could be expected to average 2.5% over the coming three years (in line with the Governments own stated goals of 2 – 3 %). I believe that the CPI rate for the June quarter to should be considered, and if the current CPI growth continues, then a pay rise of 2.5% could be readily justified.

I also note that the Public Service proposal calls for 3% up front, then 2% after 12 months, followed by 1% after 18 months. This front loading makes the Public Service proposal a marked improvement over the flat 2% per year as under the Defence proposal. If the 2.5% increase I advocate cannot be achieved, then the fall back proposal should be front loading in line with the Public Service proposal.

Thank you for your continuing advocacy, and the opportunity to express my thoughts.

Example 3 (from a LCDR)

I note that Defence is proposing to seek 2% per annum over the life of the new WRA (6%) yet http://www.treasury.gov.au/PublicationsAndMedia/Publications/2016/PEFO-2016/HTML/Economic-outlook indicates that Treasury expect that CPI will be (aggregated) 7.25% over the period meaning that ADF salaries will actually go backward.

Extracted from the above link:

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2 1/2	2 1/2	3	3	3
Employment	1.5	2	1 3/4	1 3/4	1 1/4	1 1/2
Unemployment rate	6.1	5 3/4	5 1/2	5 1/2	5 1/2	5 1/2
Consumer price index	1.5	1 1/4	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/4	2 1/2	2 3/4	3 1/4	3 1/2
Nominal GDP	1.6	2 1/2	4 1/4	5	5	5

Perhaps we should be seeking a WRA that matches Governments own forecasts?

Example 4 (from a WGCDR)

Good afternoon and thankyou for your email.

Whilst the proposed WRA for 2017-20 is a marginal increase on the paltry 1.5% that was offered previously, it unfortunately falls a long way short of allowing ADF personnel to maintain their cost of living. Over the past few years, our members have experienced significant increases in the cost of ADF housing, electricity costs spiralling upwards seemingly out of control (expected to be another 20% increase in NSW this year) and increases in capability requirements that have stripped personnel from other musterings and specialisations in order to bring them on-line. This has forced personnel to find efficiencies or simply work longer hours to try to do the best for the Service. A paltry 2% wage increase does not compensate for these issues or provide our members with any satisfaction that the government is looking out for their best interests. A minimum of 5% increase should be closer to a more acceptable target if our members are to feel valued as key contributors to protecting the national interests of this nation.

Example 5 (from a Sergeant)

My main concern is, with the last 3 year pay increase of 6% total, and this 6% total increase, at the end of the 6 years are we keeping up with CPI over the same 6 years? Or are we falling further behind as it appears.

I have noticed the cost of living seems to be going up in leaps. Private Health premiums up 8% in one year alone, housing increase every year, electricity up by an astronomical amount and looks like the flood gates are open for gas and electricity companies. The impending bank charges we know are about to be passed on despite Gov't assurances.

I'm not money hungry, I just want to know that I am at least keeping pace.

Is the wage increase going to be wage or Service Allowance? We seem to get increases in SA which we all know means at the end of our career we gain nothing in pension because it isn't taken into account, only the wage component is. Government way of giving without risk later on. *(DFWA note: we know this isn't correct!)*

I have served for 35 years so far and seen the Army turn from a career to a job, conditions of service whittled away over the years, no reason for people to serve as a career and no incentive or drive from the Army to keep trained personnel.

I would like someone to investigate our Medical System. We are under Medibank now and they make the decisions of what they will or will not pay for. That seems to fly in the face of my contract signed in 1982 for full medical cover.

Also, just to get a doctors appointment in Duntroon Health Centre takes at least 6/8 weeks. How can this be acceptable?

Cheers

Example 6 (from a Major)

While at first glance the proposed pay offer may seem reasonable, once again it takes no account of the corrosive effects of inflation on the purchasing power of the pay rise, noting that it will be phased-in in increments over the three year life of the WRA. As a result, the yearly increase will be significantly less than the rate of inflation.

The national inflation rate is forecast to reach 2.2 percent by Q1 2018 and remain at this rate out to 2020 (https://tradingeconomics.com/australia/inflation-cpi/forecast). The annual (yearly) increase in ADF salaries over the life of the WRA will be less than the headline increase of 2%.

Additionally, any pay increase awarded has historically been matched with an automatic increase in member contributions for Service Residences, further reducing the effect of the pay rise. It is also noted that in accordance with DEFGRAM 249/2017, alcohol prices in Messes and

Clubs will increase from 01 Sep 17 (2.57% for low alcohol beer; 2% for full strength beer).

It is also noted that senior officers are covered under a different wage determination system – the Senior Officer Graded Structure (SOGS) which is based on their O6 pay grade under GOPS and administered through the Remuneration Tribunal (as distinct from the DFRT which the rest of the ADF is covered by). For Service Chiefs, it is noted that in relation to an adjustment mechanism "Every remuneration framework has its own adjustment mechanism to ensure the offer made maintains its true worth". This outcome of "maintaining true worth" should also be the aim for the rest of the ADF who have less power in respect of their remuneration setting.

As for the previous WRA, the "workforce" will be consulted as required by the legislation. However, I have no confidence that our interests will be represented given that for the previous WRA, senior leadership "accepted" the offer on our behalf even though a significant majority rejected it. From the language being used now to cultivate opinion and prepare the ground for the inevitable acceptance, I see no chance of a fair representation.

Example 7 (from an unspecified rank)

G'Day DFWA,

According to the 2017-18 budget papers, the government expects wages in the wider economy to rise 2.5% in 17-18, 3% in 18-19, and 3.5% in 19-20.

(reference http://budget.gov.au/2017-18/content/glossies/overview/html/ or table 2 in http://budget.gov.au/2017-18/content/bp1/download/bp1_bs1.pdf)

I am at a loss to explain why the Minister (representing the very same government), the Chief of the Defence Force (representing ADF members) are of the opinion that defence members deserve receive a lower pay rise (2% p.a.) than the wider community.

Perhaps you could ask them?