



IN CONFIDENCE - CHIEF EXECUTIVE OFFICER

REF NO. (CEO/95-10)

Date: 24/8/2010

FOR DECISION

TITLE: ABOLITION OF SES BONUS SCHEME

DECISION REQUIRED BY: ASAP

PROPOSED BY: ED Human Resources

CONCURRENCE: ED FIP, CFO (on budgetary aspects)

CONSULTATION: Executive Directors, Regional Directors

PURPOSE

- To seek your approval to abolish the Austrade Senior Executive Services (SES) bonus scheme and roll-in the value of the bonus to employees' base salary, in order to:
 - align Austrade SES bonus policy with that which applies to Secretaries of Departments, Agency heads and staff of many other agencies [REDACTED]
 - ensure Austrade SES remuneration package remains competitive with other agencies.

BACKGROUND

- Remuneration is a matter for Agency Head determination under section 24 of the *Public Service Act 1999*, having regard (amongst other matters) to the Australian Government Employment Bargaining Framework (AGEBF).
- The Austrade SES policy provides for an annual bonus payment [REDACTED], at the discretion of the CEO. SES common law employment contracts state that the employee may be entitled to an additional performance bonus determined in accordance with Austrade policy. The contracts and the scheme were introduced in 2003 by the then Austrade Board with the objective of creating both incentive and reward for high performance and focusing the Austrade senior executive group on business drivers of organisational success. The average bonus paid under the scheme last year was [REDACTED] and the total paid from the pool was \$914,220.
- The Austrade Board sought to cap SES salaries and increase pay at risk, therefore over the years the scheme has been in operation SES salaries have tended to track below the APS median, however total remuneration has been comparable with other agencies, due to the higher percentage of pay at risk. Rolling in the bonus will make Austrade salaries more competitive with other agencies and will therefore assist with attraction and retention.
- The Government has abolished performance pay for Secretaries, Agency Heads and other statutory office holders. Agencies which have abolished performance pay for all APS employees include [REDACTED]. The APS Commission has not yet issued an updated AGEBF requiring agencies to abolish performance pay for APS employees. It is thus still a matter for your decision.

KEY ISSUES**Principles**

- There should be no overall increase in long term cost to Austrade.
- The roll-in should ensure an equitable outcome for all. The increase to base salary should not flow on to overseas allowances as this would result in offshore staff receiving a higher increase in remuneration than onshore staff. It would also place a higher cost imposition on the regions.
- The roll-in should meet the expectation in respect of total remuneration
- Increases in base salary flow through to superannuation, leave and other related costs such as allowances and the percentage increase must take into account the total employment cost to Austrade.

Estimated cost to Austrade

Secretaries and Office Holders' bonus payments were not rolled in on a cost neutral basis. However, some agencies have rolled in at a rate which has been reduced to take some account of the additional total employment cost.

The size of the bonus pool last year was \$914,220 and the average bonus payment was . This year's bonus pool is projected at \$948,000. This projected amount has also been used in costing the roll-in.

Exact cost neutrality is difficult to calculate, given the multiple variables, however our calculations indicate a bonus might equate to a base salary increase of around including flow on costs to superannuation. The consequent increase in annual and long service leave liabilities will be provisioned mid-year.

Size of roll-in to base salary

It is proposed to roll in the median bonus payment percentage to SES employees' base salaries from 1 July 2010 (paid retrospectively), discounted further to to offset the cost of flow-ons to superannuation and to align salaries with those of our marker agencies.

While the whole amount will roll into base salary for the purposes of payment of base salary, the salaries of staff offshore will remain notionally unchanged by the roll-in, for the purposes of calculation of overseas allowances. This will be achieved by using a notional salary for the purposes of calculation of Austrade overseas allowances.

Marker agencies

The effect of the roll-in on salary relativities with other APS agencies is set out at Attachment E.

SENSITIVITIES (low)

Austrade has now moved most SES staff from AWAs to individual employment contracts as the AWAs expire, in accordance with the revised AGEBF (the remaining staff will move shortly). In doing so we have avoided individual bargaining and have stressed the administrative nature of the change.


Abolition of performance pay is a sensitive issue among the SES with views for and against among the group.



We are aware that some other agencies have used unilateral determinations, SES staff also having had their conditions of employment set by unilateral determinations, rather than contracts. It is now government workplace relations policy, however, to minimise the use of unilateral determinations.

RISK MANAGEMENT ASSESSMENT (low)

Risk minimisation – change management

 I propose to email each SES employee individually seeking their agreement on the proposed change (see draft at Attachment B).

The abolition of the bonus scheme is likely to be well received by non-SES staff, 

OPERATIONAL MATTERS

The last bonus payments would relate to the 2009-2010 financial year and would be made in October 2010, based on salaries to 30 June 2010. The roll-in would be backdated to 1 July 2010.

RECOMMENDATION

- That you endorse the above approach to the abolition of the SES bonus scheme.
- That you agree to my sending an email (Attachment B) to all substantive SES employees seeking agreement to the abolition of the scheme and outlining the rationale, including the benefits to superannuation salary.

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MARCIA KIMBALL
Executive Director Human Resources

APPROVED / NOT APPROVED / PLEASE DISCUSS


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CHIEF EXECUTIVE OFFICER

/ 8/2010


ATTACHMENTS:

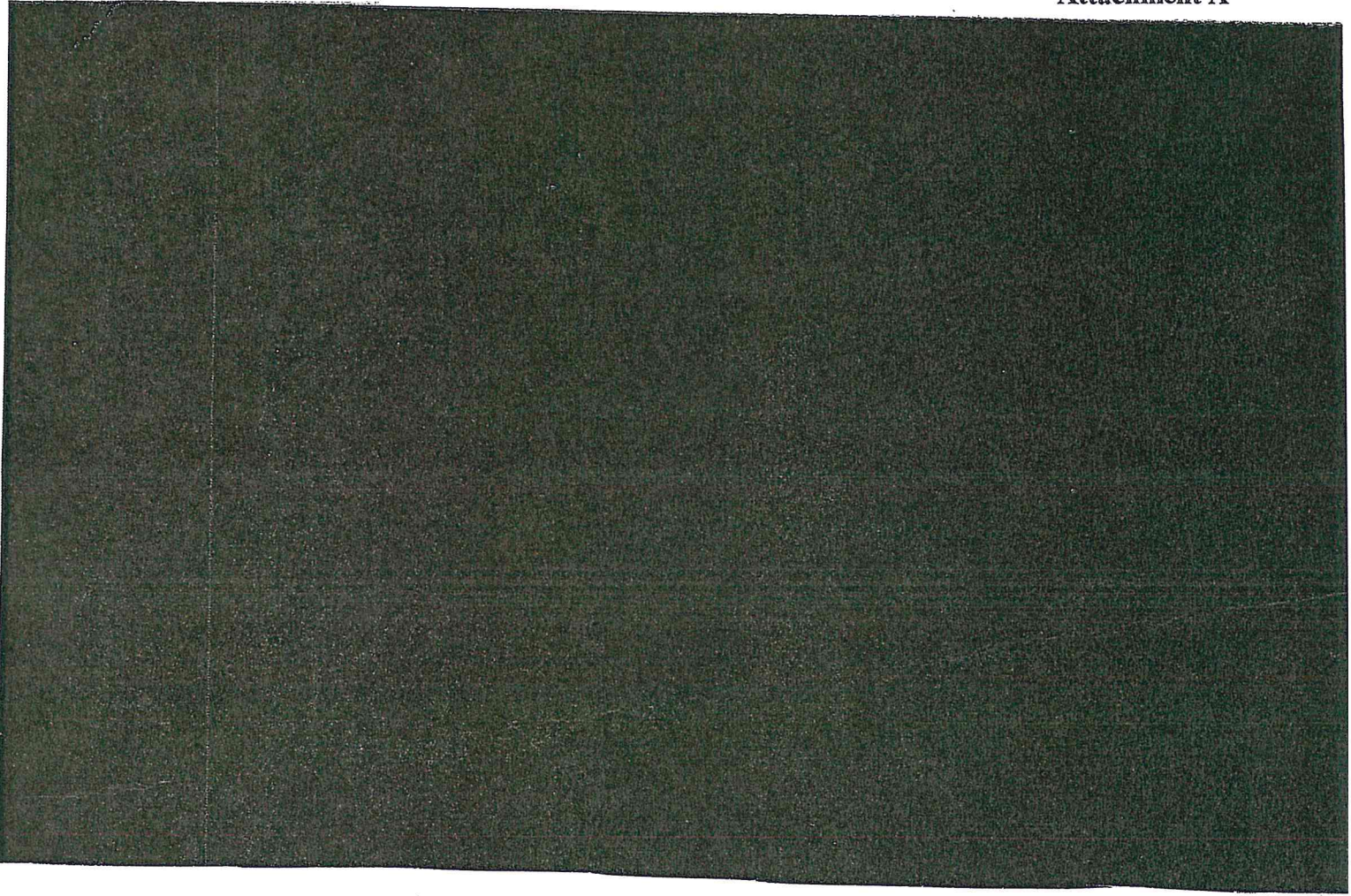
Attachment A: 

Attachment B: Draft email to SES employees

Attachment C: 

Attachment D: Costs of abolition and roll-in to base salary

Attachment E: 



DRAFT

Attachment B

Dear colleague

I am writing to you to seek your agreement to the abolition of the Austrade SES bonus scheme.

As you may be aware, the Government has abolished performance pay for Departmental Secretaries and Agency Heads. A number of agencies have also abolished performance pay for SES and compensated for this with a once only increase in base salary.

The Chief Executive Officer has reviewed the Austrade performance bonus scheme for SES and is of the view that Austrade should also move away from performance based pay. Austrade has received numerous representations from SES employees on the issue of superannuation salary in past years.

Austrade will not remove bonus payments for the 2009 - 2010 performance year, as this would be in effect retrospective, as you committed to a performance agreement in relation to bonus payments last financial year on the understanding that the scheme applied.

However, Austrade is looking to abolish performance pay for the future. You would receive a once only increase in your base salary, with effect from 1 July 2010, based on last year's average percentage bonus payment to SES staff, discounted for the flow-on effects to Austrade superannuation payments. Any increase must also be cost neutral. The yearly SES salary review will also still take place in September 2010.

Staff overseas

Our underlying principle is that no-one will be worse off. The new salary would apply for all purposes except the calculation of overseas allowances (for those staff offshore). The salary used to calculate offshore allowances will be the employee's current salary including any annual adjustment, but not including the bonus roll-in amount. If the roll-in had been applied to the calculation of allowances, this would have decreased the roll-in figure considerably, due to the high cost of Austrade offshore allowances. In future years, both the base salary and the notional salary for offshore allowance calculation purposes will be reviewed and increased by the same percentage amount annually.

The roll-in amount would be advised to you at the same time as your yearly salary increase, which takes effect in September 2010. It will be backdated to 1 July 2010 for full year effect and the removal of the bonus scheme will form part of your employment agreement with Austrade.

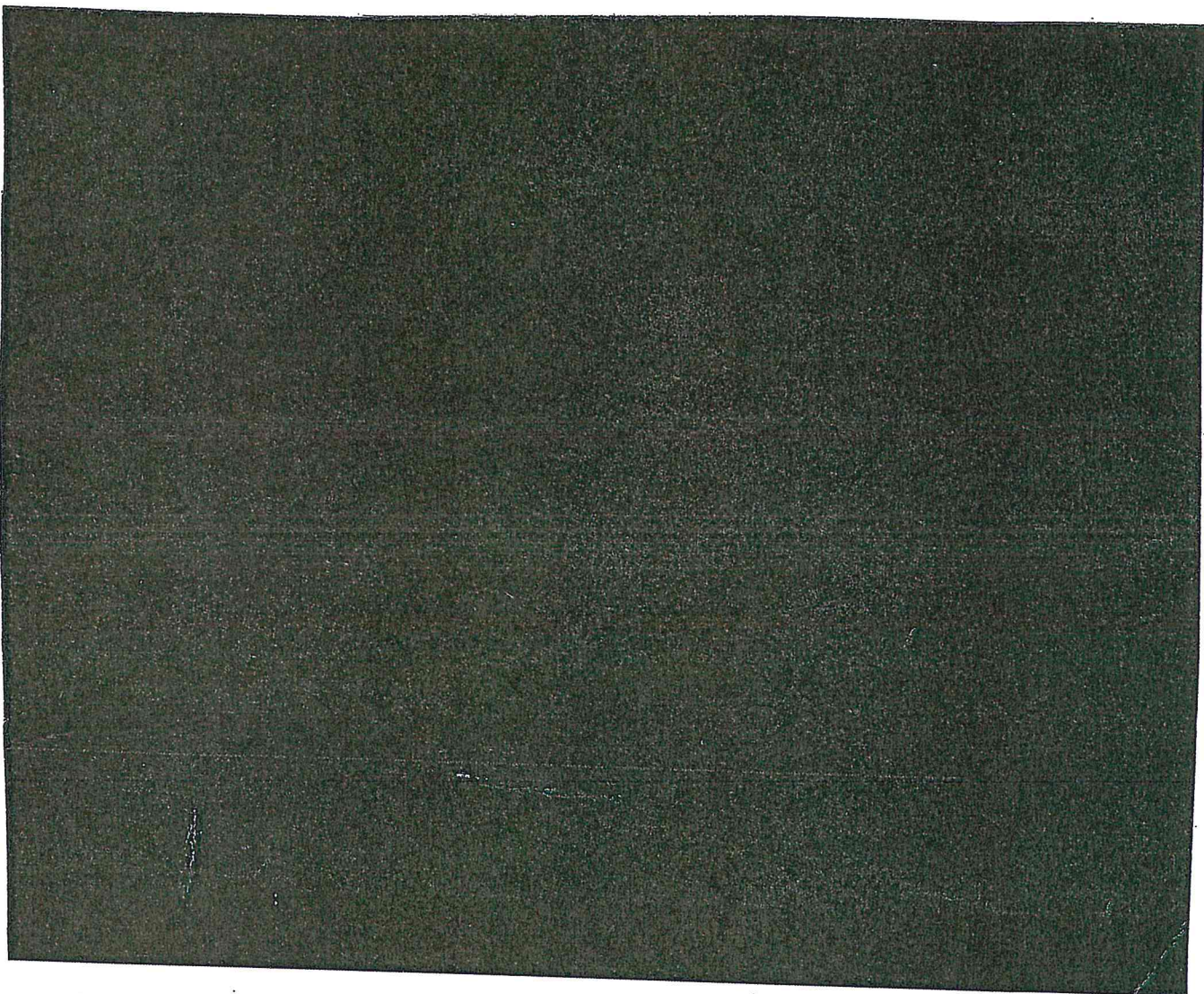
Please note that this change will not alter the requirement for you to set an appropriate performance and development plan with your manager this year. Your plan will still be an

essential element in aligning your performance, and your team's performance, with Austrade's organisational and business goals.

I would be grateful if you would contact me within a week to indicate any concerns you may have with this proposed approach.

Regards

Marcia Kimball
Executive Director
Human Resources



Calculation of cost of bonus payment roll-in to SES employees' salary

The bonus pool for last year was calculated on the total salaries for the SES group, and allowed for an average bonus payment (across the whole group including Executive) of [REDACTED]

The 2008 - 2009 bonus pool for SES was \$914,220.

The 2009 - 2010 bonus pool for SES is projected at \$948,000.

Estimated costs based on 30 June 2010 salaries:

SES base salaries – total: [REDACTED]

Estimated cost of [REDACTED] increase to base salary (including super flow-ons): [REDACTED]

2010 – 2011 assumed bonus pool

\$948,000

This costing has been prepared assuming that the amount of \$948,000 would have been the bonus pool for next year also. The roll-in amount, which would have been accrued this year for next year's bonus, will be brought forward from the payment date in 2011 to 2010. There is therefore an additional estimated cash flow impact of [REDACTED] this financial year.

There is also an estimated once-off increase in leave liabilities of \$377,858 which will be provisioned during 2010-11. This one-off cost will be met by all divisions. We are not able to assess the downstream impact on changes to superannuation contribution rates for these changes to salaries, as these are also impacted by market conditions

This approach has been discussed and agreed with both the CFO and ED FIP.

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