ORGANISATIONAL INSIGHTS
ABN: 28 973 145 842

6 Oppermann Pl
Carindale
QLD 4152
Jim Gayton
Mobile: 0419 741 349

15 June 2011

Graeme Kanofski
Chief Executive Officer
Gladstone Regional Council
101 Goondoon Street
P O Box 29
Gladstone Qld 4680
GraemeK@gladstonerc.qld.gov.au

Dear Graeme,

Re: Executive Pay Scale Review

Thank you for the opportunity to provide advice on market movement impacting on executive rates of pay at Council. I have, in the process of undertaking that research, accessed input in terms of Local Government market movements to inform decision-making. Again this year, I have found that any available survey information that could be used to translate and reflect Queensland (and indeed national) market movements is unreliable. All the surveys I have accessed do not have an adequate population of councils as respondents to provide any reliable and accurate data on local government rates of pay and movements. I have also accessed information provided by the Australian Bureau of Statistics in relation to labour market movements.

Economic Considerations

With the world still emerging and recovering from the Global Financial Crisis, there is ongoing concern and caution being felt. The delivery of the annual Federal Budget provides concern as to where our economy and the global economy are heading. There has been no clearly discernible trend in Australian share prices over the past 18 months and prices are still at September 2009 levels. This is surprising, as the performance of the economy over that period has been healthy, and the outlook has also been positive.

Households are being buffeted by rising fuel and food bills as well as by the previous tightening of monetary policy. Current "headline" economic considerations include:

- Potential slowdown in China resulting in reduced reliance on our mining sector.
- Uncertainty in the Australian economy over the effect of a potential Carbon Tax on industry;
- European sovereign debt concerns, with Greece, Ireland, Portugal among others having to rely on the European Union to fund their economies;
- High levels of US debt and a very slow US economic recovery;
- Political crises in the Arab world causing pressure on oil prices.

Even so, the overall picture is mostly favourable compared to that of two years ago. Business confidence has recovered from the impact of the Queensland floods, and the economy should see growth of 3.00% to 3.50% this year and a bit faster again (3.50% to 4 %) next year.
[*Source – Morningstar Economic Update – March/April 2011]
At some point this should be enough to shake the Australian share market out of its 18-month-old trading range. Once growth returns to our share market, we should see improvement in the value of our superannuation, shares, and managed fund investments.

While there have been some mixed signs of recovery, with increases in commodity prices, consumer spending and business confidence, these positive signs have been undermined by European financial instability and a question about the continued growth in the Chinese economy. In these circumstances, the economy will continue to experience difficult and challenging times. Forecasts reflect a more negative view that the global economy has re-entered a period of challenging economic circumstances.

From the parochial perspective of local government, communities are being faced with significant increases in rates, service charges, and significant increases in utilities charges, particularly to fund recovery efforts following the natural disasters in Queensland. The disruption to mining also through these natural disasters is expected to have an impact on the Queensland (and National) economy.

The monthly average price index of Queensland's major commodity exports rose 2.1%. A rise in mineral prices more than offset a fall in agricultural prices. Coal contract prices for hard coking and semisoft coal increased from March quarter 2011. This along with price increases in base metals drove the mineral index higher in the month. Copper prices in particular rose in February following the release of data showing China copper imports reached a four-month high, in contrast to market expectations of a fall.

The agricultural index fell in February. The heavily weighted beef and sugar components of the index eased somewhat in the month, following very strong growth in late 2010. Wheat, wool and cotton prices continued to rise, with cotton rising due to pressures on global supplies as a result of drought in China and heavy rainfall in India and Pakistan. Poor weather in key growing regions such as China, as well as snow storms in the US, have been putting upward pressure on wheat prices.

Australia's current unemployment rate of 4.9% (April 2011 seasonally adjusted) will continue to put pressure on salaries and wages. Significant increases in executive packages however, will be viewed with significant media and community cynicism and attention. It is within this context, in determining increases for Local Government Executives, Councils may consider a conservative approach in determining executive rates of pay and any applicable increases.

Market Movements.

I have set out below a range of market movement statistics that provide insight to what is happening in the marketplace in regard to salaries and wages. The movements reflected below need to be considered in the broader context of the Australian economy and labour market.

Consumer Price Index

The weighted average of the eight Capital Cities provided a movement of 1.6% in the March quarter 2011 (1.3% for Brisbane). Annually, the increase was 3.3% through the year to March quarter 2011 (3.6% Brisbane). Whilst the Reserve Bank has paused interest rate rises, the future is uncertain. The global financial crisis has internationally impacted on longer term movements in indices reflecting costs of living, however the unique circumstances applying in Australia has produced some uncertainty in Consumer Price Index movements.

It should be noted, that it is not this consultant's recommendation that CPI be used as the basis for movements in rates of pay. CPI is an indicator of changes in the cost of living and products and services that we access on a day to day basis. It does not provide any reliable or appropriate indication of movements in the market in relation to salaries and wages. It is therefore not appropriate to utilise CPI movements, as the basis for review of executive rates of pay. Continued application of CPI as a basis for movements in executive rates of pay will result in a deterioration in the market positioning of that particular councils executive reward benchmarked against other councils.

Set out below are key indices of market movements.

Ordinary Times Earnings.

Full-Time Adult Ordinary Time Earnings	November 2010 to February 2011 Quarters	February 2010 to February 2011 Quarters
Private and Public Sector	1.1%	3.9%
Private Sector	1.1%	3.6%
Public Sector	1.0%	4.6%

Total Earnings.

Full-Time Adult Total Earnings	November 2010 to February 2011 Quarters	February 2010 to February 2011 Quarters
Private and Public Sector	1.0%	4.0%
Private Sector	1.0%	3.7%
Public Sector	1.1%	4.8%

Wage Price Index (WPI)

WPI Total Hourly Rates of Pay (Excluding Bonuses)	December 2010 to March 2011 Quarters	March 2010 to March 2011 Quarters
Private and Public Sector	1.0%	4.0%
Private Sector	.9%	4.0%
Public Sector	.8%	3.7 %

National Pay-line Movements.

The above indices reflect a decline in demand in the private sector for labour translating to limitation on increases in wages and salaries. The demand particularly for professional occupational groups has skewed the statistics to present a significantly larger increase than what is reflected in enterprise bargaining agreements generally in public sectors.

Movements in the General Market 25th Percentile Pay-line from May 2010 to May 2011 averaged 4.0%. This increase reflects the statistics shown above. It should be noted, however, that in reviewing and considering indices such as the Wage Price Index, Total Earnings and Full-Time Adult Earnings that the outcomes can be impacted by a range of factors that can influence and distort the reality of the marketplace. This includes:

- Wages and salaries may be unduly influenced by locked-in EBA increases negotiated with the prospect of continued economic growth prior to the current economic downturn.
- The profile of the workforce has changed due to the economic downturn, which would influence/exaggerate movements reflected by the Indices. For example, where organisations have sought to reduce staff numbers, they would tend to give priority to reduce their staffing by targeting lower levels of positions in the organization, newly appointed and/or less experienced staff, or poor performers. These categories would tend to be lower paid positions and people. The surveys, therefore, would base their statistics on a richer profile of survey participants that then is reflected by apparent higher percentage increases.
- The low unemployment rate has provided opportunity and demand for additional hours of work per employee impacting on take-home pay through overtime and additional hours payments.

Recommendations

It is recommended that the National Pay-line movement of 4.0% (average) be adopted. It mirrors the market movements generally indicated by other Australian Bureau of Statistics data.

The recommended increase is, from a relativity point of view, consistent with Award/EBA increases the general staff across the sector.

Amendments to Executive Pay Scales are attached.

Regards,

Jim Gayton

Executive Pay Scales

Chief Executive Officer in

Paypoint Level	**Package Range**
Maximum (Exceptional Performer).	**$335,600**
	$320,900*
	$306,300*
Midpoint (Competent Performer)	**$291,700**
	$277,100*
Minimum (New Appointee - Still Developing).	**$262,500**

*Intermediary points included

Directors

Pay Zone 1	**Package Range**	**Pay Zone 2**
Maximum	**$224,500**	
	$219,600	
	$214,700	
	$209,800	
	$204,900	
	$200,000	
Midpoint (competent)	**$195,100**	**Maximum**
	$190,200	
	$185,400	
	$180,500	
Minimum	**$175,600**	**Midpoint (competent)**
	$166,800	
	$158,000	**Minimum**

*Intermediary points included

Calculation: Midpoint x115% (Max) and 90% (Min)

Managers

Paypoint Level	Manager L 3 Package Value	Manager L 2 Package Value	Manager 1 Package Value
Maximum (Exceptional Performer).	**$150,700**	**$165,200**	**$179,400**
	$147,400	$161,600	$175,500
	$144,100	$158,000	$171,600
	$140,900	$154,400	$167,700
	$137,600	$150,800	$163,800
	$134,300	$147,200	$159,900
Midpoint (Competent Performer)	***$131,040*****	***$143,600*****	***$156,000*****
	$124,500	*$136,400*	*$148,200*
Minimum (New Appointee - Still Developing).	**$117,900**	**$129,300**	**$140,400**
	Transition Pay-Points		
	$111,300*		
	$105,100*		
	$ 98,300*		
	Mid – Max .025 increments		
	Min-Mid 50% increment		
	Transition 1.04% increase		