

Geoff Nunn & Associates
Australia's Leading Independent Remuneration Specialists

Remuneration Update

Remuneration Market Continues To Move at 4.00%-4.50% pa

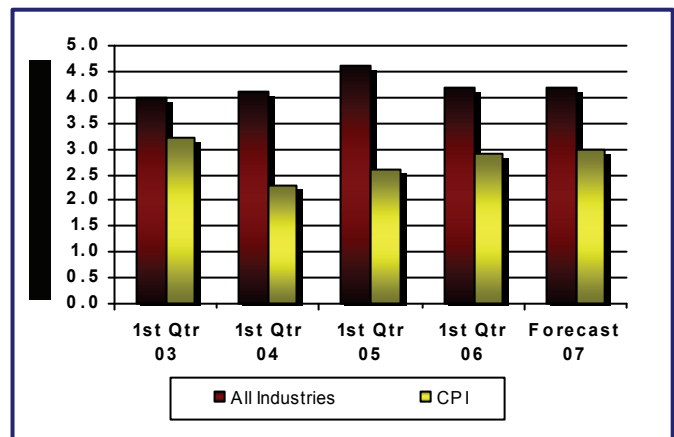
Key Topics:

- Remuneration market continues steady rise.
- GNA complete 6th major remuneration survey in the Utilities Sector.
- Demand for engineering and technical resources continues unabated.
- CLERP 9 Reporting continues to develop.
- CEO share ownership continues to be a challenge for listed companies.

According to the latest National Remuneration Centre All Industries remuneration survey (*April 2006*) the market continues to move at around 4.20% pa. Executive positions led the market with a 5.50% increase in Total Remuneration.

The forecast to 30th June 2007 is for the general market to continue to move in the range of 4.00% to 4.50% with executive remuneration expected to continue at about 1.00% above the general market trend.

In our view this forecast may prove to be conservative. We have observed increasing concern regarding the capacity to attract and retain capable professional, managerial and executive resources. Despite stock market jitters infrastructure development continues unabated in Australia.



Demand for engineers and other technical occupations remains high. See article in this issue. We expect that market movement of these occupations will be in the range of 5.00% to 6.00% over the next twelve months.

Market Movement to 31 March 2006 and Forecast 2007

The above graph illustrates the ongoing market trend of movement 1.00% to 2.00% above CPI.

Geoff Nunn & Associates completes Sixth Annual Survey of Market Remuneration in the Utilities Sector

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In 2006 data was gathered from 47 utility organisations across Australia making this the most definitive source of remuneration data in the sector. Thirty-six percent were water companies with the balance made up of electricity, gas and integrated energy companies. The survey is fully job evaluated as well as position match. It

covers jobs for the Board of Directors and CEO through to operative level employees.

Demand for people resources across the sector continues to push this market ahead with a Median movement above the All Industries rate.



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Independent Remuneration and Organisation Specialists

Attraction and Retention of Engineers Remains a Critical Issue

This article has been reproduced (in part) from the April 2006 edition of the Geoff Nunn & Associates Survey of Market Remuneration in the Utilities Sector.

The attraction and retention of engineers has become a major issue for many organisations across Australia. With the resources boom and major infrastructure projects underway this demand looks set to continue. To get an understanding of this key issue we spoke to a number of human resource managers and professionals across different sectors. A number of common themes emerge:

- Attraction appears to be a more critical issue than retention. Once employed engineers tend to remain with the one employer for a reasonable length of time. High levels of mobility do not yet appear to be a feature of this occupational grouping.
- The graduate and early professional years appear to be the most vulnerable for loss of engineers.
- Remuneration market movement for engineers appears to be above general market movement and is around 5.00% to 5.50%. Several organisations report that they are under internal pressure to increase remuneration levels for engineers.
- Career development and potential for skill acquisition appear to be major retention factors.
- Some we spoke to indicated that they had commenced to look overseas for suitably qualified and experienced engineers (mainly civil).

One organisation reported a potential future issue which relates to an ageing engineering work force. The majority of experienced and senior engineers went through graduate programs when this organisation was under centralised government control. Many are now aged in their 50s and thinking about retirement. There is concern that there are

insufficient graduates coming through to replace them and those that do not have the same long term commitment to one organisation as did their predecessors. Coupled with attraction difficulties there appears to be a long term workforce planning issue emerging for engineers in organisations.

Strategies for Attraction and Retention

As major infrastructure and resource projects gather pace the demand for engineers will no doubt increase. Whilst there are certainly arguments to support some overseas recruitment the real long term solution appears to lie with increased Federal funding for engineering places at Australian universities. According to a recent presentation, the number of engineering places (domestic) offered by Australian universities has been static at around 5,000 per annum for the last 10 years.

Individual organisations need to give careful consideration to workforce planning strategies for engineers and related professions.

Integrated approaches seems appropriate:

- Whilst remuneration may not be a key driver it is none-the-less important. Offering fixed remuneration in the lower quartile of the market is unlikely to facilitate attraction and retention.
- A culture that promotes skill and career development is critical. Younger engineers are likely to respond to a positive learning environment.
- Hygiene factors are important. A workplace that offers family friendly facilities and a range of non-packaged benefits is likely to be attractive.
- A well structured graduate program that offers both training and a range of work experiences is important. In some instances it may be necessary to increase the number of graduate opportunities on offer to meet long term resource needs.

- Mentoring can add value to engineers. At different career stages different mentors will be appropriate.
- Organisations need to review the demographics of their engineering population and formulate workforce plans accordingly. Given attraction difficulties, longer time horizons will be required.
- Programs which encourage older engineers to remain with the organisation longer, perhaps by offering part-time or contract opportunities, may assist retain valuable expertise.

Most organisations in the manufacturing, resources, water, energy, transport and communications sectors operate from an engineering base. Therefore the capacity to source the necessary skills required to develop and maintain assets is critical for overall business performance. Those organisations which effectively manage attraction and retention of engineering expertise are likely to have a distinct competitive advantage.

Reference

'How the Profession is Dealing with the Demand for Engineers' presentation by Peter Taylor, Chief Executive, Engineers Australia at Engineering Australia 2006 "Addressing the Nation's Engineering Capabilities, Sydney, 30-31 March 2006.



New Tax Scales Come Into Effect 1st July 2006

New tax scales came into effect on the 1st July, 2006. Lowering the top marginal rate from 47% to 45% and increasing the threshold at which this cuts in to \$150,000 pa will cause some executives to review the structure of their remuneration package. Whilst the FBT gross up factor has been similarly reduced (Type 1 now 2.0467, previously 2.1292 and Type 2 now 1.8692, previously 1.9417) changes to the tax scales have reduced the effective tax rates to below this level.

Several other changes have

accompanied the new tax scales:

- From 1 April 2007 the FBT exemption for in-house benefits will increase from \$500 to \$1,000.
- For the year 2006-07 the luxury car tax threshold is \$57,009 (unchanged from the previous year).
- A 30% rebate applies for approved childcare to a maximum of \$4,000 per child pa.

There has also been a range of changes to superannuation legislation. Consult your superannuation advisor for details.

Generally the tax changes have been well received and go some way to addressing the bracket creep we have seen over the last twenty years. However there is still some way to go before the tax scales truly reflect the distribution of income in this country.

It will be interesting to see if the Treasurer has any more items to present in the coming months.

| From \$pa | To \$pa | Rate % |
|-----------|---------|--------|
| 0 | 6,000 | 0 |
| 6,001 | 25,000 | 15 |
| 25,001 | 75,000 | 30 |
| 75,001 | 150,000 | 40 |
| 150,000 | > | 45 |

Personal Income Tax Scales Effective 1 July 2006

CLERP 9 Reporting Continues to Develop in 2006

In 2005 CLERP 9 changes to the Corporations Act changed the way listed companies reported executive remuneration in their Annual Reports. The introduction of the 'Remuneration Report' as part of the annual reporting process increase the level of information to shareholders regarding non-executive director and executive remuneration.

Whilst there has been a number of cases where shareholders have rejected or shown less than a favorable response to a company's remuneration report generally the response has been positive.

According to the Ernst & Young 2006 Executive &

Board Remuneration Report there will continue to be a focus on the variable (STI & LTI) components of remuneration for executives. The increased scrutiny will necessitate greater rigour in setting performance targets and measuring results.

Most listed companies offer a combination of fixed annual remuneration, short and long term incentives to make up the total reward package for executives. The larger the company (as measured by market capitalization) the greater the proportion at risk.

This finding mirrors our own experience with major corporates placing up to 60% of an executive's package at risk.

Variable Reward Continues to Be A Key Feature of Executive Remuneration packages

Australian Institute of Company Directors Reports on the Impact of CEO Share Ownership

In the July Edition of the Boardroom Report the AICD drew upon research conducted by Guerdon Associates to discuss the impact of CEO share ownership on company performance.

Whilst the findings were mixed it was identified that, at least in larger organisations, having a CEO with major equity interests is likely to result in higher shareholder returns.

However whether this is a causal relationship is unresolved.

Company performance is complex. A wide range of factors come into play. Only some of these are within the direct control of the CEO. Other factors such as competitor activity, the regulatory environment, the state of the economy, demographics, and board performance all impact.

At best we might conclude that share ownership by CEO and executive team may serve to cement interest in the affairs and performance of the organisation. However there are many organisations where share ownership is not

available which perform well and have a totally committed and high performing executive team.



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Our Services

- **Remuneration Strategy Development.**
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- **Market Remuneration Advice.**
- **Board and Executive Remuneration.**
- **Performance-Based Incentives.**
- **Balanced Scorecard Performance System.**
- **Organisation Structuring and Design.**
- **Contracts of Employment.**

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About Geoff Nunn and Associates

Geoff Nunn & Associates was established in Melbourne, Australia in 1993. Since then, the Company has established a reputation for professionalism and quality service. Projects have been completed in over 750 organisations across Australia.

Our Philosophy

- As professional providers, the highest standards of service delivery and quality apply.
- Depth of expertise is critical in any field of professional endeavour. Our consultants and associates are all professionally qualified and specialists in their fields.
- Independence increases the options available for addressing organisational problems.
- Each organisation's operating environment is unique. This uniqueness suggests the need to tailor specific solutions rather than rely on generic approaches.
- All stakeholders should share in the risks and rewards associated with organisational performance.



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