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25 February 2020

Mr Warren McCann
Chairperson
Victorian Independent Remuneration Tribunal
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1 Treasury Place
Melbourne VIC 3002

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Dear Mr McCann

Thank you for your letter dated 29 January 2020, and for providing the Country Fire Authority (CFA) with the opportunity to submit information relevant to the Victorian Independent Remuneration Tribunal's (Tribunal) Determination setting the values of remuneration bands for executives.

A summary of CFA current executive remuneration arrangements, characteristics and observations has been outlined below.

Overview of Existing CFA Executive Remuneration Arrangements

The CFA Executive Officer classification structure consists of three (3) levels. Each level provides a range of work value points in which individual roles are then evaluated and aligned.

All executive positions are evaluated via the Mercer CED job evaluation methodology resulting in calculated work value points specific for each role. The work value points of each role are then aligned to the relevant classification level based on its position to range.

Executive Level 1 and Level 2 positions are based on the set work value points for each level. CFA's current target market position is the General Market 25th percentile as the range midpoint.

Executive Officer Level 3 (all roles greater than 940 Work Value Points) are determined and set individually, based on their specific work value points. Roles are then then aligned to the General Market 25th percentile as the applicable range midpoint.

Characteristics of Executive Workforce

A summary of the Executive Workforce characteristics is provided in Table 1 below.

Headcount	FTE	Number of Executive Positions	Vacant Positions	Gender Balance		Number of Positions in Each Exec Band		
				Male	Female	EO 1	EO 2	EO 3
29	28.8	31	2	20	9	14	12	5

Table 1 – Executive Workforce Remuneration High Level Profile (as at February 2020)



Workforce Characteristics - Key Observations

- CFA currently has thirty-one (31) executive level positions; two (2) of these positions are currently vacant.
- Within the executive structure, positions are regarded as either “operational” or “non-operational”. For the purposes of this submission:
 - “Operational” positions are inherently focussed on service delivery within the operational emergency management and fire suppression context.
 - Where an incumbent of a non-operational executive position holds an operational rank they have been regarded as “non-operational”.
- Of the Executive level positions; 11 are regarded as operational:
 - CEO / Chief Officer (1)
 - Deputy Chief Officer (5)
 - Assistant Chief Officer (5)
- Recruitment sources: 16 of the current executive level employees were external hires with 13 have been promoted internally to the executive level.
- The attraction and retention of high calibre executive talent has been and continues to be a key challenge for CFA, particularly for operational roles. This group has had significant levels of turnover in the past two (2) years, with 15 executive exits (resignation or contract not being renewed). Anecdotally, executive remuneration has been a key contributing factor.

Challenges for Executive Remuneration

In November 2018, the CFA commissioned an independent external review of Executive Remuneration. The following concerns were identified:

- a. Whilst there is every effort to align Executive remuneration ranges and levels with the 25th percentile of General Market movement, the review demonstrated that CFA was actually positioned 4% below this.
- b. An additional and significant pay compression issue exists between salary and entitlements of operational employees under the Enterprise Agreement compared to remuneration packages of CFA Executives who hold an Operational rank (e.g. Deputy Chief Officers and Assistant Chief Officers).
- c. The general wage increases prescribed within Industrial Instruments within the CFA are significantly higher per annum compared to the approved annual adjustment to public entity executive remuneration further compounding compression issues each year.
- d. General Executive Market movement was approximately 1% higher in comparison to the CFA Executive group in 2019.

Over the past five (5) years, the following pay increases have been approved and applied to the different CFA employee cohorts identified in the Table 2 below:

Employee Cohort	% Salary increase over past 5 years
Operational Staff Agreement	21.5%
Professional, Technical and Administrative Agreement	16%
Executive Officer Contract	11%

Table 2: CFA salary increases over the past 5 years



Table 2 highlights the pay compression issues which will continue to present challenges to the remuneration bands, compounding annually.

The external review indicated that there were and would continue to be significant pay compression issues between operational employees cover by the relevant industrial instruments and Operational employees engaged under an Executive employment contracts.

CFA in it's operational function is hierarchical and has a rank based structure. The Enterprise Agreements currently in place at CFA is broad and covers senior operational employees providing them with the opportunity to earn a comparable total remuneration package. The gap between these employees and the entry level executive remuneration range has been eroded over time with the disparity between EBA increases and executive increases and benefits. In some instances the total cash component for a senior operational employee is higher than an executive officer. This continues to be a barrier for attracting key talent into the executive stream.

The operational executive positions require a significant level of emergency management and fire suppression work experience together with highly specialised technical qualifications, which significantly narrows the candidate pool from external recruitment sources, but also the candidate pool internally is hindered by pay compression issues between the non-executive operational staff and the executive operational staff.

Further issues for consideration

CFA Classification Structure and link to Remuneration Bands

The Classification structure and remuneration bands that the CFA have adopted takes into consideration the unique nature of operational executives with non-operational executives and the issues that can be raised within these cohorts.

It takes into account the separation of duties and accountability, whilst respecting the knowledge and requirements of an operational rank structured environment.

If the remuneration and classification bands are to be considered in line with the VPS Executive Bands and classification, it will be necessary to review all executive salaries including the CEO to ensure appropriate market comparators are used in determining executive remuneration.

Superannuation issues

Superannuation arrangements are also an issue for further consideration.

Currently the CFA Executives superannuation arrangements are split between defined benefits superannuation members and accumulation fund members.

Whilst the accumulation fund members are subject to incorporating the 9.5% Super Guarantee amount as part of their TRP, there are some Executive members that are members of the defined benefit scheme that are required to pay a mandatory 12.8% of their TRP to super therefore the cash component of remuneration for defined benefit scheme members is further impacted.

Bonus Payments

It should be noted that along with the total remuneration package paid to CFA Executives, presently they are also eligible for performance bonuses as per clause 7.6 in the Public Entity Executive Remuneration Policy (PEER).

CFA is currently working through a transition of removing all performance based bonus payments effective 4 February 2020.

Recommendations

Based on the information provided in this submission, CFA wishes to ensure that any changes to executive level remuneration support the attraction and retention of talent, and more specifically,



executive level roles that are critical and unique to the operational and emergency management environment.

CFA respectfully requests that the Tribunal takes into regard the following key matters:

1. Ranges are reflective of internal and external market movements;
2. The framework provides scope and opportunity for individuals to be offered remuneration increase who have been promoted internally from CFA non-executive structures;
3. Remuneration compression between CFA executive and non-executive remuneration structures promotes and supports internal succession and promotion management;
4. If the remuneration and classification bands are to be considered in line with the VPS Executive Bands and classification; it will be necessary to review all executive salaries including the CEO to ensure appropriate market comparators are used in determining executive remuneration.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Greg Smith'.

Greg Smith AM
Chairperson