



City West Water™

City West Water Corporation Submission to Victorian Independent Remuneration Tribunal

For Determination of Executive Remuneration Bands for Prescribed Public
Entities

February 2020 – Version Two

City West Water Executive Remuneration Band Submission

1 Purpose

To provide input and recommendations to the Victorian Independent Remuneration Tribunal (the 'Tribunal') on the setting of values of remuneration bands for executives employed in public entities.

2 Background and Context

As part of a Total Rewards review in 2019 City West Water undertook a comprehensive review of its existing remuneration practices across the organisation. The aim of the review was to develop a Total Rewards Strategy that reflect the changed and changing nature of the City West Water business.

City West Water is a business that is privileged to service one of the fastest growing regions in Melbourne where more than one million people rely on us each and every day to provide, safe efficient and affordable services across the CBD, inner suburbs and the vibrant communities of the west. As our customer base continues to grow, so too does the demand on both our new and existing infrastructure. The impacts of a changing climate also require us to think differently and to act with agility and strive for greater efficiency wherever possible.

These challenges require us to have the very best talent and leadership capability at all levels within the organisation, particularly at Executive and Senior Leadership levels. Our ability to attract and retain this talent in an increasingly tight talent market will have a fundamental impact on our ability to meet our business objectives in this complex and everchanging environment.

We also recognise that as a government owned entity we have an obligation to be fiscally responsible way so that we can continue to provide affordable services to our customers and provide a fair return to our shareholder, the state Government of Victoria to support it to meet its objectives to improve the lives of all Victorians.

2 City West Water Executive Remunerations Considerations

As part of the Total Rewards review City West Water partnered with Mercer, a global leader in remuneration trends and insights to ensure that our Total Rewards strategy reflected our ambitions to be an exceptional service provider by ensuring CWW had the ability to attract and retain talent in both traditional and emerging capabilities to meet the ever-growing and changing demands on the business. Critical to this is Executive leadership capability and senior leadership bench-strength needed to lead and transform our organisation for the future. To this end the review looked at both the CWW Classification Framework, Senior Officer and Executive Remuneration.

We have used the findings of this review along with the current experiences and challenges of working within the current Executive Remuneration Bands and Policy to inform our submission.

Principle 1 – Executive remuneration should be fair and reasonable

City West Water aligns its practice with the government wages policy and guiding principles by ensuring we have robust Service Delivery Partnership Plans in place to support wage increases beyond the government approved annual increases for enterprise agreement covered employees.

All roles are job evaluated within the organisation, including executive positions to determine a recommended remuneration range, checking for internal relativities and ensuring gender pay equity.

The recommended remuneration range is reflective of job size and the complexities of the City West Water business. In addition, the range considers relative market and sector data aligning to the 25th percentile of the Australian General Market.

All these measures have been established as a matter of good governance and best practice. However, the challenge faced by CWW is ensuring we have fairness and equity between the different workforces and frameworks that exist. The Classification Framework as part of the Enterprise Agreement is requiring modernisation and is subject to a current EA undertaking. Part of the upcoming review will be to ensure we adequately reflect the value of work within each classification. To achieve this, we will work with the Unions and our employee representatives to ensure the new classifications reflect the future capabilities needed to run a business that is very different from the one that was in existence at the creation of the current Classification Framework. Through this process we will be balancing the need to adequately reward, attract and retain EA employees but do so in a financial prudent and efficient way. However regardless of the changes we may make, this does not change the fact that we currently have pay compression between those working within our existing classification structure today and the Senior and Executive employees, who's remuneration is far more reflective of the rigor and prudence that has been applied by management in the last few years as well as the constraints imposed by the current Executive bands and Policy, both of which has placed a burden on our ability to offer attractive and competitive remuneration.

Principle 2 – Executive remuneration should consider entity performance as well as Victorian fiscal and economic conditions

- City West Water is a high performing government business enterprise with demonstrated strong benchmark performance:
 - We provide the lowest average household bill of the Australian capital city water corporations.
 - We were ranked third nationwide in a recent operating expenditure benchmarking exercise conducted by the Water Services Association of Australia.
 - We were afforded 'Advanced' status by our economic regulator – the Essential Services Commission – as part of its 2018 Water Price Review.
 - Our financial discipline is providing strong returns to our shareholder in the form of increasing tax and dividend payments.
 - A strong partner to the community, providing secretariat for the award winning 'Greening the West' regional partnership.
 - We are a trusted partner in delivering Melbourne's growth throughout the CBD, inner city and western suburbs – including relocation of our assets to facilitate transformational government works (LXRA, Metro Tunnel, Westgate Tunnel) and through provision of new water supply and sewerage services to Melbourne's growth areas. We have been the fast-growing Australian large water corporation over the past 10 years.

- An agile and innovative corporation with the largest digital meter fleet in Victoria, the largest urban recycled water production facility in Victoria and continuing to trial innovative technologies such as aquifer storage and recovery.

Principle 3 – Executive remuneration should be competitive

- As already indicated as part of Principle 1 - City West Water's remuneration strategy (for non-Enterprise Agreement employees) has been established based on the 25th percentile of the Australian General Market. The 25th percentile is considered a relatively conservative pay position.
- CWW conducted a future of work strategic review in FY18/19. One recommendation from this review was the need to be able to attract or build the emerging and leadership capabilities into the organisation to enable new ways of working and meet the challenges of the future. This was called out as a critical and enabling factor for CWW to address and prepare the organisation for a very different future of work, workers and workplaces to the one we have today.
- It is incredibly challenging for CWW Management to balance the need to be both fair and reasonable (principle 1) and at the same time competitive (principle 3) with the existing approach to Executive Pay, as a result of both the range we can offer within by the current banding, coupled with the 70/80% rule. The combination of these can have several perverse outcomes, these are outlined below:
 - Pressure on CWW's capacity to attract a high calibre candidate pool at initial recruitment stage as the quality and quantity of the potential pool is restricted based purely on the salary package on offer at attraction stage. Due to the requirement of meeting the 70/80% rule we are unable to go to market with a competitive remuneration package. This has been exacerbated over the past 3 years as we were not able to adequately remunerate the MD on commencement. This has resulted in CWW missing out on talent, talent who have expressed a desire to join the sector, accepting that they would need to as a lower pay, but then not applying because we were unable to come close to their revised expectations and remain within 70/80% of the MD's TRP.
 - You limit your talent pool further as you can often only attract candidates seeking to move into their first MD Position and looking for a step up, or those who are looking to step down from larger roles in the private sector as they move towards the end of their working careers. Whilst both are attractive candidate propositions, it is important to achieve a balance within your Executive Teams including established and experienced Executives. However, it often these established and experienced "mid-Career" Executives you are unable to attract due to the current Remuneration Band and policy constraints.
 - Organisational and job design can become compromised, as there can be pressure to design roles around affordability, not necessarily business need or optimisation. This can equally lead to accountability, complexity and spans and layer issues further down the organisation.
 - Succession and sourcing plans can become heavily weighted towards build not buy strategies, as it is often more cost effective/affordable to recruit from within. Once again building internal talent is essential, however if this becomes the only option it can restrict how much external, new and innovative thinking is entering the sector, making the sector potentially more insular and higher risk as it may result in our ability to respond and meet the challenges of the future in sufficient time.

Principle 4 – Executive remuneration should reflect the non-fiscal benefits of public sector employment

- Non fiscal benefits associated with public sector employment are featured strongly as part of our Employee Value Proposition and both reflect in and are aligned to our Achievement Culture. We use and emphasise these non-fiscal benefits as part of our recruitment campaigns and internal employee engagement activities, including all the work we are doing to ensure we attract and retain a diverse workforce, use of a range of flexible working arrangements, employee wellbeing and Reward and Recognition program, access to professional development including study assistance. Finally, salary sacrificing and motor vehicle benefits.
- Given many our employees live and work in the City West Water service area, we promote and celebrate our connection to the community as part of our culture. We ensure we link the essential serve we provide and our ability to provide to the overall public good and environmental custodianship are all included in our employee value proposition.

Principle 5 – Executive remuneration arrangements should be consistent and understandable to both executives and the general public

- Mercer’s CED Job Evaluation methodology provides recommended remuneration ranges and expresses the worth of a position in Work Value Points as determined by assessing key sub factors to understand the role. The sub factors include:
 - Expertise – the knowledge, skills and experience required for the job, as well as the breadth of functions and interpersonal skills required to be fully effective;
 - Judgement – the job environment in which the position operates, and the thinking challenges faced by the position; and
 - Accountability – the measured outcomes expected from the position.

5 For further Information



