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ISO 9001 / 14001 and AS/NZS 4801*

14 February 2020

The Chair
Victorian Independent Remuneration Tribunal (VIRT)
Suite 1, Ground Floor
1 Treasury Place
MELBOURNE VIC 3002

Dear Chair

Thank you for the opportunity to make a submission to the Tribunal in relation to its Determination setting the values of remuneration bands for executives employed in prescribed public entities.

GWMWater covers a geographical area which encompasses approximately 25% of the state of Victoria and is the only truly total integrated water business in Victoria.

Unlike other Victorian Water Corporations GWMWater is responsible for;

- Headworks Reservoirs,
- Headworks Channels and Pipelines which move water to distribution reservoirs, directly to rural customers (on farms) or to urban systems,
- 16 Drinking water treatment plants (plus 4 operated under a BOOT arrangement) which supply drinking water to 32 Cities and Towns in western Victoria
- Urban water supply networks in 71 towns,
- Groundwater is supplied to 15 towns and to numerous licensed customers,
- Waste water reticulation networks and waste water treatment plants in 24 towns,
- Recycled water schemes service various commercial (Vineyards) and sporting grounds across the region.

Other water corporations only have one, two or three of these areas of responsibility. Collectively the value of assets GWMWater has responsibility for exceeds \$2 billion and for three of the past five years has been considered a material entity by the Victorian Auditor-General for financial reporting purposes for the purpose of consolidating the financial report for the State of Victoria.

GWMWater has a significant portfolio of stakeholders to manage. The geographic footprint of GWMWater covers 13 local government areas (LGA's), seven in their entirety and six where we have a partial footprint. From a regulatory perspective we deal with the Essential Services Commission for service and price regulation, Department of Health and Human Services for water regulation, the Environment

Protection Authority for regulation of its wastewater activities and Department of Environment Land Water and Planning for Dam Safety.

In its water storage and resource management activities it undertakes on behalf of the Minister for Water it deals significant interactions with the Victorian Environmental Water Holder in relation to environmental water obligations and this extends to four Catchment Management Authorities (Wimmera, Glenelg Hopkins, North Central and Mallee).

For its substantial role in recreational activities it also manages relationships with the Victoria Fishing Authority, Parks Victoria and traditional owner groups for our water harvesting and storing activities in the national parks. This is all in an area where water is more than the provision of water and wastewater services as in our region, the role and expectation of water businesses is more pervasive as water is fundamental to all facets of life in the Wimmera Mallee community.

In meeting the expectations of the Victorian government to become carbon neutral, GWMWater has identified significant opportunity to be directly involved in the construction and provision of Renewable Energy.

This submission discusses some generic issues across the industry that we relate to in addition to a number of GWMWater's own idiosyncratic issues.

The Role of a Managing Director

It is our belief that Managing Directors in the Water Industry are difficult to compartmentalise and to find realistic comparators, either in the Public or Private Sector is equally difficult.

By the nature of their roles they are different to most Chief Executive Officers (CEO), particularly in the Public Sector as they have the added role and responsibility of being a Director on the Board of the Corporation and this, added or different role is significant in terms of governance, corporate decision making and the strategic operation of the Board.

It is our view that this added layer of complexity has not been adequately recognised in the bands and structures that exist and that this should be explored by the Tribunal in its deliberations.

The roles of Managing Directors and Executives

In the case of more remote Water Corporations it is important to recognise that incumbents in executive roles, including Managing Directors are relatively speaking very public.

They work in and live in communities that are much smaller than would be the case in larger provincial centres or in the Melbourne and Geelong metropolitan area. Consequently they spend a lot of time out of hours dealing with relevant interactions with individual community members or with larger community groups.

These interactions can either be casual or more structured as the Executives and Managing Directors get increasingly involved in Community based Not for Profit boards and Committees of Management.

This involvement is magnified in these smaller more remote locations due the small pool of available skilled people to fill these roles.

In addition, their availability and accessibility to various local and regional stakeholders is significant. They are expected and often required to be available and accessible at short notice and at all times. Such stakeholders include; the local media, local government, local members of parliament, business leaders etc.

The commentary provided in the VicWater submission is generally supported and in particular the following extract is felt to be most relevant;

“Fifteen of the 19 water corporations in Victoria are located outside metropolitan Melbourne. These water corporations face added challenges in attracting and retaining executives including:

- a smaller and less diverse local employment market and strong competition with other major regional employers for talented and experienced executive candidates*
- unwillingness of high calibre candidates to relocate to regional areas, with family considerations and uncertainty about their future prospects*
- the negative impact of long commute times on personal and family life making employment unsustainable in the longer term.*

We submit that these issues should be taken into account by the Tribunal when reviewing executive remuneration in regional water corporations. “

Remuneration of subordinate executives

It is understood that the Public Entity Executive Remuneration (PEER) Policy is to be reviewed subsequent to the Tribunal’s determination and this being the case it is felt that any discussion in this respect needs to include a review of the section of the policy concerning the remuneration of subordinate executives.

The PEER Policy provides as follows;

“The remuneration of a subordinate executive in specified entities should not:

- exceed 80% of the approved TRP for the CEO of the same public entity; or*
- result in the average TRP of all the CEO’s direct reports exceeding 70% of the CEO’s TRP”.*

At present the application of these rules significantly restricts the ability of smaller and usually more remote Water Corporations from attracting suitably experienced and qualified people to fill executive roles due to the relative low TRP of the Managing Directors in those businesses.

The rules force those smaller more remote Water Corporations into a position where they are unable to offer competitive TRP’s to suitably experienced and qualified

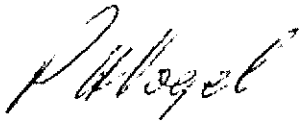
candidates and they are required to compromise to take a risk by putting people into roles who are on developmental paths and hope that the potential they are perceived to have is actually realised.

This developmental hiatus puts the rest of the Executive Team and the Board at significant risk of not being able to meet operational and strategic objectives expected by stakeholders and can last for several years as the individual Executive develops.

There is also an increased risk that during the Executive's term of appointment that there could be a realisation that their developmental potential is not going to be realised and could possibly set in train a difficult process to end the relationship earlier than had been planned.

Once again thank you for the opportunity of making a submission and should you wish further clarification or to discuss issues raised in the submission please do not hesitate to contact me at GWMWater [REDACTED]
[REDACTED]

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Vogel', written in a cursive style.

Peter Vogel OAM
Chair