

14 February 2020

Victorian Independent Remuneration Tribunal Secretariat
Via email: enquiries@remunerationtribunal.vic.gov.au

Re: Victorian Independent Remuneration Tribunal Determination of remuneration bands for executives employed in prescribed public entities

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.

VicWater is the peak industry association for the Victorian water sector. Our membership comprises all 19 Victorian water corporations, which are prescribed public entities and therefore subject to the Determination.

We make this submission on behalf of our members. We understand that some of our members have also made a submission to the Tribunal highlighting their particular issues and experience with executive remuneration within their own businesses.

In summary, our members are strongly of the view that the current levels of executive remuneration are hindering the ability of water corporations to attract a diverse pool of talented candidates when recruiting for executive roles, and to retain experienced and valued executives within the business over the longer term.

Our submission addresses the following matters:

- the roles of executives employed in prescribed public entities and the existing remuneration provided to executives
- the subordinate executive rules set out in the [Public Entity Executive Remuneration \(PEER\) Policy](#)
- the PEER Policy Principles for public entity executive remuneration.

We note the Tribunal's advice that the PEER Policy is to be reviewed separately, however our position on executive remuneration bands is necessarily explained with reference to the PEER Policy.

Roles of public entity executives

Water corporations are providers of critical state infrastructure and the regulatory and political environment within which water corporation executives operate is highly demanding with significant risk exposure. In recent years water corporation executives have been required to provide an increasing number of attestations across multiple regulators, and they are also dealing with new and emerging categories of risk such as cybersecurity and climate change. The recent bushfires in Victoria have highlighted the important role of water corporation executives in regional emergency management, disaster recovery and community support.



Our members believe that these additional demands on water corporation executives are not appropriately recognised in the current remuneration settings. This is particularly the case for executives in some of the regional water corporations; even though the size of the business is comparatively small, executives carry the same level of responsibility and accountability as other water corporations.

PEER Policy subordinate executive remuneration

The PEER Policy stipulates that the remuneration of a subordinate executive should not exceed 80% of the approved total remuneration package (TRP) for the Managing Director, or result in the average TRP of all the Managing Director's direct reports exceeding 70% of the Managing Director's TRP.

With Managing Director and subordinate executive salaries increasing at 2% annually (as per the guideline rate set by the Premier of Victoria) and many Enterprise Bargaining Agreements (EBAs) across the sector in recent history increasing at a higher margin, some of our members are now experiencing the situation where the TRPs for the highest EBA band is very close to some manager salaries, and in some cases higher. This has put pressure on water corporations to increase manager salaries, which in turn places some managers very close to the lowest bracket for executives (with executive TRPs constrained by the guideline rate). While EBA increases are likely to be at a lower margin in future, the legacy effects will continue to have an impact for several years ahead.

PEER Policy Principles

Principle 3 – Executive remuneration should be competitive

In our view there is a lack of transparency about the matters that will be considered by the Tribunal when determining whether executive remuneration is 'competitive'.

For example, it is not clear to our members which other sectors are regarded as comparable to the water sector for the purposes of executive remuneration. We submit that relevant sectors include local government, public health and education. To our knowledge, benchmarking conducted by some of our members indicates that executive TRPs in these other sectors are generally higher than in the water sector, even though the scope and complexity of those roles is often much lower. In the case of local government, we understand the difference to be as much as \$30,000-40,000 at General Manager level.

While we acknowledge that remuneration is not the only consideration for executive candidates, it is nonetheless a very important consideration. A candidate may be prepared to accept a slightly lower TRP to take on a more senior role and advance their overall career prospects, but it is not reasonable to expect a candidate to accept a significantly lower TRP than they could expect to earn in a similar role in a comparable sector.

The *Water Industry Equity, Diversity & Inclusion Strategy 2019-2023* commits all Victorian water corporations to a collective target of 50:50 gender balance in senior leadership positions, as part of a broader commitment to building a diverse workforce and inclusive workplace culture across the industry. Our members believe that their ability to attract high quality female candidates for executive roles is being tested because the TRPs they can offer are often well below other like entities and the private sector.

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

- a smaller and less diverse local employment market
- strong competition with other major regional employers, including government departments and agencies which have been relocated into regional areas through government policy
- unwillingness of high calibre candidates to relocate to regional areas, with family considerations, fixed term contracts 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.

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

At the time the PEER Policy was adopted in 2004, it was arguable that public sector employees enjoyed non-financial benefits that were not necessarily available in the private sector, such as certainty of tenure and flexible work conditions. Fifteen years later, we submit that this argument no longer holds true.

Executives in public entities are generally employed on the same or similar contractual arrangements as private sector executives, with Government policy requiring that contracts must be for no more than five years and contain standard terms that allow organisations to terminate executive employment with four months notice without fault.

Many private sector employers now offer flexible work conditions and a range of other non-financial benefits in order to attract and retain talent. Moreover, public entity executives are subject to stringent accountability measures which mean that their access to gifts, benefits and hospitality is more constrained than their private sector counterparts.

Given these developments and the blurring of boundaries between public and private sector executive employment conditions in recent years, it is not clear to our members what the Tribunal regards as “non-financial benefits of public sector employment” vis-à-vis private sector employment. We submit that the Tribunal should offer specific guidance on this point to assist water corporations to identify and quantify the benefits that will be considered under this principle.

Executive remuneration approval process

We note that the current consultation is not focused on the process for approving executive remuneration submissions made by public entities. However, we would like to take this opportunity to raise our members’ concerns about lengthy approval timeframes and the impact this has on the ability of water corporations to negotiate and agree terms and conditions with their executives in a reasonable and timely manner. In at least one case this has led to news of an appointment being leaked before it was officially announced, causing significant stress and discomfiture for the candidate involved.

We look forward to the outcome of the consultation and the Tribunal’s Determination. [REDACTED]
[REDACTED] if you have any questions about our submission or would like to discuss any of the issues in more detail.

Yours sincerely



Peter Morison
Chief Executive Officer



