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19 February 2020

Victorian Independent Remuneration Tribunal
Suite 1, Ground Floor
1 Treasury Place, Melbourne, VIC 3000

Via email: enquiries@remunerationtribunal.vic.gov.au

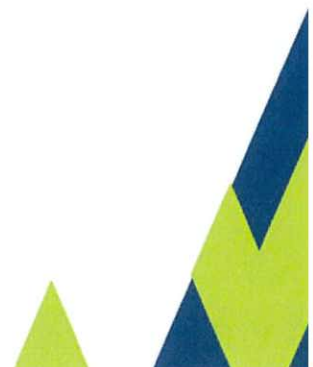
DETERMINATION OF REMUNERATION BANDS FOR EXECUTIVES EMPLOYED IN PRESCRIBED PUBLIC ENTITIES – SUBMISSION

Thank you for the opportunity to review and provide a submission in response to the matters being considered by the Tribunal in the making of its determination of remuneration bands for executives employed in prescribed public entities.

Wannon Water is a regional water corporation providing water and sewerage services to a population of 100,400 people in 34 towns across south west Victoria. We have around 200 employees, including six executives and operate across a 24,500 square kilometre geographic region which has a complex array of diverse communities, significant challenges and great opportunities.

In making its determination, Wannon Water requests the tribunal to consider three issues which we believe if addressed, will improve overall performance of Wannon Water and result in better outcomes for our region for the benefit of all Victorians. These issues are:

1. Remuneration of regional public entity executives is not appropriately recognised in current remuneration frameworks and settings
2. Challenges associated with regional executive recruitment is exacerbated by the undervaluing of regional executive remuneration, resulting in smaller candidate pools and ultimately impacting organisational performance
3. Undervalued remuneration of regional executives has a flow on impact within public sector organisations, as the pay gap between senior manager and executive roles does not reflect the additional responsibility and accountabilities of executive positions.



Recognition of Regional Executive Roles

Wannon Water's view is the role and value of executives within regional water corporations, and possibly other regional public entity organisations, is not fully appreciated and recognised when it comes to remuneration considerations.

This is possibly due to remuneration considerations being developed in metropolitan settings with little appreciation of the additional complexity, leadership role, relationships and community impact that exist for a regional entity such as a water corporation.

In making this assertion, we make reference to the Victorian Public Sector Commission's proposed executive classification framework 'work value factors' and make the following observations from a regional perspective.

Relationships

Definition: requirement to influence and negotiate; interact with internal and external stakeholders; level of sensitivity and complexity of issues and interactions

Executives based in regional areas and operate within regional communities have a significant regional leadership and collaboration role to advance whole of Government policies to achieve improved regional outcomes across economic, health and wellbeing, environmental, social and governance areas.

Typically regional executives operate in a self-sufficient and autonomous way, banding together across sectors within regional communities to strengthen the region's outcomes. These executives play an under recognised leadership role within regional working groups and organisations by virtue of their position.

With limited regional resources and unique regional challenges, outcomes often require creative and innovative collaboration to deliver positive outcomes and meet community expectations. This leadership role and the necessary capabilities and skill sets to deliver outcomes in a regional context are not sufficiently appreciated in executive remuneration considerations.

Impact

Definition: scope of role's impact within an organisation, into the sector, across state, national or international impact

The impact definition is vertically orientated in that impact is assessed at an organisation level, sector level, state level and national and international level. The definition does not contemplate impact at a regional level. Regional executives additionally (not instead of) seek and have impact at a regional level.

Breadth

Definition: diversity of activities; geographical breadth of responsibility; variety of products and services to be managed by the role

Wannon Water is subject to the same regulatory and performance environment as all other water corporations, however there is additional complexity in the breadth of services that we believe may not be fully appreciated, in that Wannon Water:

- Is vertically integrated, providing bulk water and retail water and sewerage services to

urban, industry and rural customers.

- Is responsible for other regional services, such as regional blue green algae coordination
- Has many water supply and sewerage systems requiring individual management, rather than a few large systems that benefit from economies of scale and management focus. For example, Wannon Water has 19 water supplies and 17 sewerage systems and two recycled water systems. Each of these systems are technically different requiring an individualised approach
- Operates over a large geographic area, serving dispersed communities.

High performing executive recruitment and retention is one of the significant ingredients to managing the breadth and complexity of operating within a regional environment, which is challenged where the full extent of breadth in a regional context is not recognised in remuneration considerations.

Resource Management

Definition: number of staff and size of resources and budget

It is understood that the size of an organisation in terms of number of staff and budget has been a dominant component of executive remuneration determinations.

While an important consideration, we believe the historic weighting given to resource and budget is overstated and a more balanced and equal weighted approach should be taken which would see some of the complexity and regional leadership aspects of regional businesses be recognised to a greater level.

We see that the provision of safe drinking water and protecting our environment is as important in regional communities as it is in metropolitan settings, yet the disparity in remuneration outcomes could imply that it is more valued or more important to get it right in larger organisations.

Regional Executive Recruitment

There are challenges posed by regional employment markets which are significant. These include:

- Distance to Melbourne and a general unwillingness for experienced executives to relocate to regional areas for reasons such as, family considerations, perceptions of future career mobility and ability to re-enter the Melbourne housing market in the future
- Salary benchmarking reports consistently show the smaller regional salary offering compared to the private sector and metropolitan public sector
- Relatively small market for senior executives (including executives with public sector experience) residing within regional areas who can bring the necessary experience and capability.

For these reasons, we tend to attract a weaker and less diverse candidate pool for advertised executive positions. Wannon Water's insight is that it is unlikely an experienced metropolitan executive will apply for a vacant executive position in our organisation. It is more likely that any metropolitan candidate will be a senior manager seeking their first executive appointment.

In the future, it is possible that Wannon Water requires an experienced executive, which could be due to the balance of the executive team, a significant project or an issue requiring specific experience. Attracting an experienced executive under this scenario is almost impossible because the current disparity in remuneration would likely require a pay cut for the new appointment.

Executive/Senior Manager Pay Gap

Senior manager remuneration is governed by our enterprise agreement and market factors, both of which have resulted in a relatively small pay gap between senior managers and executives.

Because of the remuneration rules that apply to executives reporting the CEO's direct reports (namely the 70% and 80% rules), a lower CEO remuneration has a flow on effect which exacerbates recruitment and retention of high performance executives and provides little incentive for a senior manager within the water sector to take on the additional responsibilities and accountabilities and progress to executive management.

The flow on effects of executive remuneration determinations also impact the ability of Wannon Water to attract and retain excellent candidates further within management ranks.

We provide these constructive insights, experiences and observations with the intent that it will assist the tribunal in making its determination.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'J. Ermacora', with a long horizontal flourish extending to the right.

JACINTA ERMACORA
CHAIR