

21 February 2020

Tribunal Secretariat
Victorian Independent Remuneration Tribunal
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SUBMISSION – DETERMINATION OF REMUNERATION BANDS FOR EXECUTIVES EMPLOYED IN PRESCRIBED PUBLIC ENTITIES

The salary banding that is currently in place for Yarra Valley Water, like our Victorian metropolitan counterparts, has remained the same since 2002, only updated by the annual guideline adjustments announced by the Premier each year. Since this time, the role of Managing Director has changed significantly, increasing in size, complexity and scope.

Servicing more than two million people, Yarra Valley Water is one of Australia's largest water utilities, covering over 30% of Victoria's population across 16 local government areas, including one of the fastest growing regions in Australia, Melbourne's Northern Growth Corridor. Business complexity has changed significantly since 2002, when Yarra Valley Water was best described as an asset-based organisation focussed on regulatory compliance. It is now an organisation with a nationally recognised high-performance culture, focused on delivering innovative solutions for customers and leadership in environmental sustainability. Examples of this change include:

- With climate change front of mind for all Australians, Yarra Valley Water has been at the forefront of adapting to the subsequent impact on water resources, customers and assets. Facing a future with less water requires an innovative approach to integrated water management solutions, and there are many examples where Yarra Valley Water has demonstrated leadership in this regard.
- Decisions made now will be felt by customers and communities for years to come in a world with less water. As such the stakes are higher than ever before to ensure an effective operating model and sound stakeholder engagement. Our citizens jury process is a prime example of putting the customer at the heart of decision making and strengthening our connection to community. This shift increases the complexity in stakeholder engagement.
- Yarra Valley Water is moving towards being a digitally enabled utility with increased implementation of digital technology and analytics to drive more informed customer and operational decision making, while simultaneously protecting against increased cyber risks.
- The water sector is open to far greater media scrutiny with the rise of social media and with customers expecting far broader social changes in line with Government policy (reconciliation, social procurement, diversity and inclusion, Sustainable Development Goals).

- In addition to being the largest water service provider in the state, we submit that Yarra Valley Water's scope of operations is also more complex and has increased significantly. In 2017, with an innovative yet commercial lens, we expanded the scope of our business model and implemented Australia's first large scale dedicated food waste to energy facility, converting food waste into renewable energy that supplies over 20% of our entire energy needs while reducing landfill waste and carbon emissions. This facility delivers multiple benefits in cost reduction, revenue growth and environmental performance, generates a commercial return and was awarded the Banksia Award for the Circular Economy in 2017.

We are also involved in the commercialisation of new digital technologies for water management and initiatives that will potentially transform the way suburbs are planned and delivered to ensure significant economic, social and environmental outcomes for the community and the State. This is reflective of community sentiment and support for market leading essential service organisations like ours, who are driving long term sustainable outcomes and delivering a public benefit from a commercial lens.

- Yarra Valley Water is recognised on the global stage as a Leading Utility of the World. Bucking the global trend of organisations suffering high levels of employee disengagement, Yarra Valley Water was one of Aon Hewitt's Employer of Choice organisations in 2017, and our leading culture is recognised through achieving a fourth consecutive Human Synergetics Cultural Sustainability Award.

In specific reference to the Victorian Government Public Entity Executive Remuneration Policy Principles, which we understand guide decision making on the determination of the remuneration bands, please see below.

Principle 1 – Executive remuneration should be fair and reasonable

- The appropriate reference point for Managing Director salaries in the water industry should be the Australian General Market at a minimum of the 25th percentile. If further differentiation is required, the Australian Utility and Telecommunications sectors would be the most closely aligned benchmarks.
- Despite being publicly owned, we deliver significant commercial dividends to our shareholder, the Victorian Government, while ensuring the core business of capital planning and service delivery is undertaken. This balance between core service and commerciality is also expected of a Managing Director or Chief Executive Officer leading a privatised or publicly listed utility company in the Energy, Gas and Telecommunications sector, where there is a requirement to deliver essential services while maximising shareholder value. As such the tribunal should also factor in relative comparisons to Managing Director salaries in other utility industries.

Principle 3 – Executive remuneration should be competitive

- With the pressing issues of climate change and water security top of mind it is imperative that the Water industry can attract and retain the best and the brightest in the field to solve these challenges. The Victorian water sector has the nation's lowest remuneration rates for large scale water utilities.

- At the 25th percentile of the general market, Managing Directors in our industry would still be paid less than 75% percent of their Australian Managing Director/Chief Executive Officer peers. It is understandable that there must be a balance of the demands of the job with the financial position and fiscal strategy of the Victorian Government, however paying below the 25th percentile would limit even further the pool of talented and experienced people attracted to or retained in our industry.
- Further, especially in Melbourne, public investment on key long-term projects to improve the liveability of Melbourne and support population growth through improved road and rail infrastructure has resulted in increased demand for talent, increasing the salaries commanded by top talent in infrastructure and service delivery domains which should be factored in when setting determinations.

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

- Non-fiscal benefits such as flexibility, previously exclusively associated with public sector employment, have now become standard and expected across all industries. Further to that, self-managing work life balance in senior roles is harder to achieve given the 24/7 nature of our industry and increased customer expectations and media scrutiny.
- The community benefit and focus on public good remain highly relevant. The increasing expectation of consumers, the community and economic markets for Managing Directors across all sectors to have this focus front of mind and as an underlying purpose should be acknowledged.
- Of note, non-fiscal benefits of public sector employment such as greater employer superannuation contributions are not available to water industry Managing Directors. Other non-fiscal benefits, such as renewal of contracts, are no longer available since all Managing Director roles must be advertised at the end of the contract term regardless of performance. This condition of employment is less attractive than what is offered in the private sector.

While Yarra Valley Water is not currently in the market for a Managing Director, we are informed that the Mercer General Industry salary information at the 25th percentile of the General Market for a Managing Director position in 2019 is as outlined below:

- Minimum - \$ 369,900
- Midpoint - \$462,400 and
- Maximum - \$554,900

We submit that the usual methodology should apply here, where it is customary to pay above the midpoint if we are seeking to appoint or reappoint a highly experienced Managing Director with a proven track record of high performance.

Remuneration below this level would not place enough weight on Principles 3 and 4, and possibly even contravene Principle 1, resulting in unfair outcomes where highly experienced Managing Directors are paid less than a Managing Director whose appointment is recognised as a clear career advancement.

Regards,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Sue O'Connor
Chair
Yarra Valley Water