

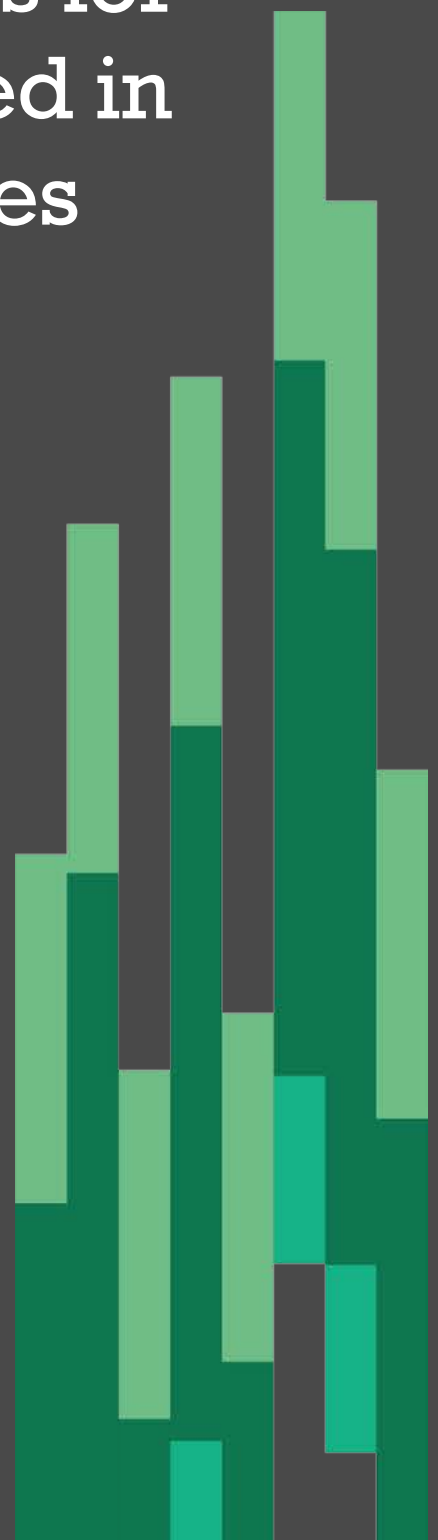
# Remuneration bands for executives employed in public service bodies (Victoria)

## Annual Adjustment Determination 2021

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Victorian  
Independent  
Remuneration  
Tribunal

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*Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 (Vic)*

Part 3—Determinations for annual adjustments in relation to executives employed in public service bodies.

# Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination 2021



A. Pursuant to section 16 of the *Victorian Independent Remuneration Tribunal and Improving Parliament Standards Act 2019 (Vic)* (VIRTIPS Act), the Tribunal determines to make the following adjustments to the *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020*.

A.1 Delete clause 5.1 and replace it with the following:

5.1 The values of the remuneration bands for subordinate executives employed in public service bodies are the values set out in table 1.

A.2 Delete ‘Executive Officer’ in sub-clause 5.2(a) and replace it with ‘Senior Executive Service’.

A.3 Delete table 1 and table 2 and replace them with the following:

**Table 1: values of remuneration bands for subordinate executives from 1 July 2021**

| <b>Classification</b>      | <b>Base of band TRP<br/>\$ per annum</b> | <b>Top of band TRP<br/>\$ per annum</b> |
|----------------------------|--|---|
| Senior Executive Service-3 | 370,332                                  | 493,229                                 |
| Senior Executive Service-2 | 257,112                                  | 370,331                                 |
| Senior Executive Service-1 | 199,014                                  | 257,111                                 |

Note: the above values are for executives employed on a 1.0 FTE basis, and apply pro rata to executives employed on a part-time basis.

A.4 Delete clause 6.1 and replace it with the following:

6.1 The values of the remuneration bands for Administrative Office Heads are the values set out in table 2.

A.5 Delete table 3 and table 4 and replace them with the following:

**Table 2: values of remuneration bands for Administrative Office Heads from 1 July 2021**

| <b>Classification</b>        | <b>Base of band TRP<br/>\$ per annum</b> | <b>Top of band TRP<br/>\$ per annum</b> |
|------------------------------|--|---|
| Administrative Office Head-3 | 370,332                                  | 493,229                                 |
| Administrative Office Head-2 | 257,112                                  | 370,331                                 |
| Administrative Office Head-1 | 199,014                                  | 257,111                                 |

Note: the above values are for executives employed on a 1.0 FTE basis, and apply pro rata to executives employed on a part-time basis.

A.6 Delete clause 7.1 and replace it with the following:

7.1 The values of the remuneration band for Department Heads and the Victorian Public Sector Commissioner are the values set out in table 3.

A.7 Delete table 5 and table 6 and replace them with the following:

**Table 3: values of remuneration band for Department Heads and the Victorian Public Sector Commissioner from 1 July 2021**

| <b>Classification</b>                                  | <b>Base of band TRP<br/>\$ per annum</b> | <b>Top of band TRP<br/>\$ per annum</b> |
|--|--|---|
| Department Head / Victorian Public Sector Commissioner | 534,331                                  | 720,676                                 |

Note: the above values are for executives employed on a 1.0 FTE basis, and apply pro rata to executives employed on a part-time basis.

- B. This Determination commences on 1 July 2021.
- C. The *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020* as varied is available on the Tribunal's website.



Warren McCann

*Chair*

Victorian Independent  
Remuneration Tribunal



The Honourable Jennifer  
Acton

*Member*

Victorian Independent  
Remuneration Tribunal



Barbara Belcher AM

*Member*

Victorian Independent  
Remuneration Tribunal

Date: 25/06/2021

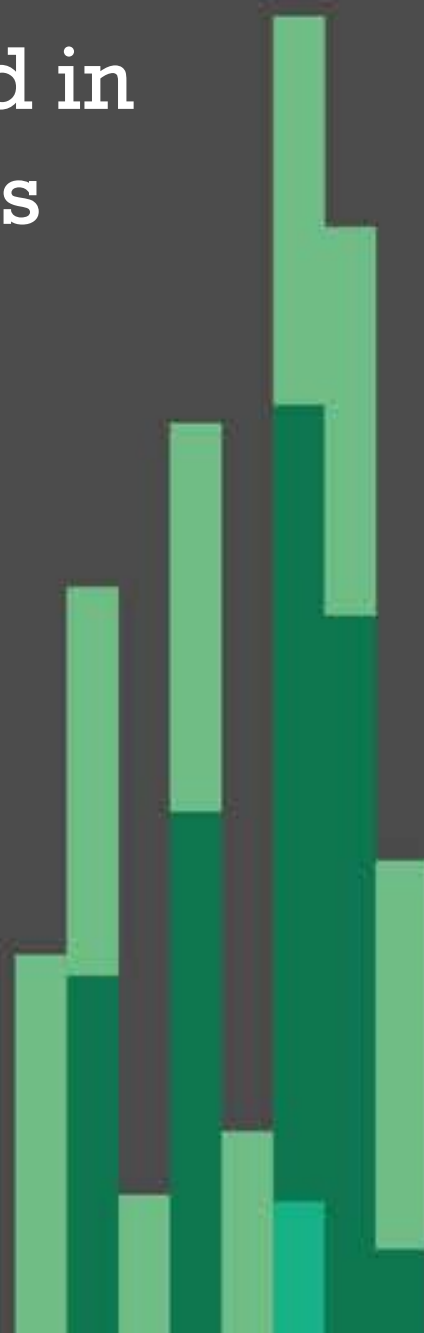
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Victorian  
Independent  
Remuneration  
Tribunal

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Remuneration bands for  
executives employed in  
public service bodies  
(Victoria)  
Annual Adjustment  
Determination 2021

Statement of Reasons




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# 1 Context



The *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act) establishes the Victorian Independent Remuneration Tribunal (Tribunal).

The VIRTIPS Act requires the Tribunal to inquire into and make Determinations in relation to:

- salaries and allowances for Members of the Parliament of Victoria
- remuneration bands for executives employed in public service bodies
- remuneration bands for executives employed in prescribed public entities
- allowances provided to Mayors, Deputy Mayors and Councillors in local government.

Section 21 of the VIRTIPS Act requires the Tribunal to make a Determination setting remuneration bands for executives employed in Victorian public service (VPS) bodies every four years. Public service bodies are defined under section 4(1) of the *Public Administration Act 2004* (Vic) (PAA) as:

- departments
- Administrative Offices (AOs)
- the Victorian Public Sector Commission (VPSC).

On 14 May 2020, the Tribunal issued the *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020* (VPS Comprehensive Determination).<sup>1</sup> In setting remuneration bands, the Tribunal comprehensively reviewed the roles of executives employed in public service bodies and their remuneration arrangements at the time.<sup>2</sup>

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<sup>1</sup> Victorian Independent Remuneration Tribunal, *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020* (Victorian Independent Remuneration Tribunal: Melbourne, Victoria, May 2020) (VPS Comprehensive Determination).

<sup>2</sup> VIRTIPS Act, s21.

Section 22 of the VIRTIPS Act requires the Tribunal to make a Determination providing for an annual adjustment to the values set in the current Determination under section 21 of the VIRTIPS Act.

The *Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination 2021* (2021 VPS Annual Adjustment Determination) provides for an adjustment to the values of the remuneration bands set in the VPS Comprehensive Determination.

The Determination will also affect the remuneration bands that apply to some executives in public entities who are employed under Part 3 of the PAA.<sup>3</sup>

The Tribunal is required to include a Statement of Reasons in a Determination.<sup>4</sup> This Statement of Reasons relates to the 2021 VPS Annual Adjustment Determination.

## 1.1 Legislative requirements

Before making a Determination, the VIRTIPS Act requires the Tribunal to:

- publish notice of its intention to make a Determination (s24(1)(a))
- include details about the proposed Determination in the public notice (s24(1)(b))
- give any affected person or class of persons a reasonable opportunity to make a submission in relation to the proposed Determination (s24(1)(c)).

In making a Determination, the Tribunal must also consider:

- any statement or policy issued by the Government of Victoria which is in force with respect to its wages policy (or equivalent) and the remuneration and allowances of any specified occupational group (s24(2)(a))
- the financial position and fiscal strategy of the State of Victoria (s24(2)(b))
- current and projected economic conditions and trends (s24(2)(c))
- submissions received in relation to the proposed Determination (s24(2)(d)).

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<sup>3</sup> The remuneration bands for executives in public service bodies also apply to executives in prescribed public entities who are employed under Part 3 of the PAA. Victorian Independent Remuneration Tribunal, *Remuneration bands for executives employed in prescribed public entities (Victoria) Determination No. 01/2020* (Victorian Independent Remuneration Tribunal: Melbourne, Victoria, December 2020), 5.

<sup>4</sup> VIRTIPS Act, s24(3).



In performing its functions and the exercise of its powers, the Tribunal must act independently and impartially and is not subject to the control or direction of any person, including the Minister.<sup>5</sup>

The 2021 VPS Annual Adjustment Determination will take effect from 1 July 2021.<sup>6</sup>

## 1.2 Consultation

In accordance with section 24(1) of the VIRTIPS Act, the Tribunal:

- published its notice of intention (NOI) to make a Determination on its website, including details about the proposed Determination, in April 2021
- gave any affected person or class of affected persons a reasonable opportunity to make a submission regarding the proposed Determination.

The NOI included a summary of the matters the Tribunal was required to consider in the making of the Determination.

The Tribunal also wrote to public service bodies to inform them that the NOI had been published, and requested they also inform their executives about the NOI and the opportunity to make submissions. The Tribunal did not receive any submissions.

## 1.3 VPS Comprehensive Determination

The VPS Comprehensive Determination set a new executive remuneration framework consisting of:

- three distinct and contiguous Senior Executive Service (SES) bands for subordinate executives
- three distinct and contiguous bands for AO Heads aligned to the subordinate executive bands
- a single band for the remuneration of Secretaries and the Commissioner of the VPSC.<sup>7</sup>

The VPS Comprehensive Determination set the base of the SES-1 band at \$192,800 per annum (p.a.) which restored a nine per cent gap between the top of the VPS-6 band and the base of the SES-1 band. Prior to the VPS Comprehensive

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<sup>5</sup> VIRTIPS Act, s5.

<sup>6</sup> VIRTIPS Act, s25(5).

<sup>7</sup> VPS Comprehensive Determination, 81.

Determination, the gap had narrowed to five per cent.<sup>8</sup> The Tribunal considered that restoring the gap would increase the incentive for non-executive VPS staff to apply for executive roles by, at least in part, compensating for the reduction in employment conditions when moving from a non-executive to an executive role.<sup>9</sup>

## Implementation of the remuneration framework

Taking into account the economic and fiscal conditions at the time of the VPS Comprehensive Determination, the Tribunal implemented the new remuneration framework using a phased approach which included:

- leaving the values of the subordinate executive remuneration bands unchanged to 30 June 2020
- introducing new values for the remuneration bands from 1 July 2020 (figure 1.1).<sup>10</sup>

**Table 1.1: remuneration bands for executives employed in public service bodies effective 1 July 2020**

| Classification                   | Base of band TRP<br>\$ p.a. | Top of band TRP<br>\$ p.a. |
|----------------------------------|-----------------------------|----------------------------|
| SES-1 / AO Head -1               | 192,800                     | 249,700                    |
| SES-2 / AO Head-2                | 249,701                     | 360,000                    |
| SES-3 / AO Head -3               | 360,001                     | 479,900                    |
| Secretaries/VPSC<br>Commissioner | 520,000                     | 701,800                    |

<sup>8</sup> VPS Comprehensive Determination, 54.

<sup>9</sup> VPS Comprehensive Determination, 93.

<sup>10</sup> VPS Comprehensive Determination, 96-97.

# 2 Victorian Government remuneration policies



In making this Determination, the Tribunal is required to consider any statement or policy issued by the Government of Victoria which is in force with respect to its wages policy (or equivalent), and relevant policies about executive remuneration. This chapter considers the Victorian Government's:

- Wages Policy and Enterprise Bargaining Framework (Wages Policy)
- executive employment and remuneration policies, including those related to superannuation entitlements.

## 2.1 Wages Policy

Box 2.1 reproduces the Wages Policy, which applies to departments and agencies in the Victorian public sector and is in force at the time of making this Determination.

## Box 2.1: Victorian Government Wages Policy

The Victorian Government Wages Policy and Enterprise Bargaining Framework has three pillars:

- Pillar 1: Wages — increases in wages and conditions will be capped at a rate of growth of 2 per cent per annum over the life of the agreement. In practice this means employee wages and conditions will be allowed to grow at this rate.
- Pillar 2: Best Practice Employment Commitment — all public sector agencies will be required to make a Best Practice Employment Commitment which will outline measures to operationalise elements of the Government’s Public Sector Priorities that reflect good practice within Government and can be implemented operationally or without significant costs.
- Pillar 3: Additional strategic changes — additional changes to allowances and other conditions (not general wages) will only be allowed if the Government agrees that the changes will address key operational or strategic priorities for the agency, and/or one or more of the Public Sector Priorities.

A ‘Secondary Pathway’ is also available for public sector agencies whose current enterprise agreement reaches its nominal expiry date on or before 30 June 2020 which permits one annual wage and allowance increase capped at 2.5 per cent (instead of at 2 per cent).

Source: Industrial Relations Victoria, ‘Victorian Government Wages Policy’, *Wages Policy and the Enterprise Bargaining Framework* (State Government of Victoria: Melbourne, Victoria, 2019).

In October 2020, the *Victorian Public Service Enterprise Agreement 2020* (Enterprise Agreement) was finalised in accordance with the Wages Policy and began operation.<sup>11</sup> The Enterprise Agreement provides annual increases to the salary bands for non-executive VPS employees averaging 2 per cent per year over the life of the agreement. In addition, it provides non-executive employees with a mobility payment<sup>12</sup> paid as a lump sum on 1 July of each year. The mobility payment is equal to approximately 1.25 per cent of the top of the relevant VPS salary band.

Since the VPS Comprehensive Determination was made, the VPS non-executive salary bands have increased by 2.77 per cent on a cumulative basis, consisting of:

- a 1.5 per cent increase, applied retrospectively from 20 March 2020
- a 1.25 per cent increase, applied from 1 December 2020.

<sup>11</sup> *Victorian Public Service Enterprise Agreement 2020* [AG2020/2580].

<sup>12</sup> According to the Enterprise Agreement, the purpose of the mobility payment is to reflect government’s need for employees to be responsively deployed to support changing priorities.

## Victorian Public Sector Wages Policy from 2022

The Victorian Government has announced changes to the Wages Policy that will apply from 1 January 2022. From that date:

- the annual cap on wages and conditions, under Pillar 1 of the Wages Policy, will be adjusted from 2 per cent to 1.5 per cent
- additional changes to allowances and other conditions (not general wages) under Pillar 3 of the Wages Policy will be capped at 0.5 per cent of the salary base p.a.
- a limited one-year rollover option with a 2 per cent increase will be available for parties whose current enterprise agreements reach their nominal expiry date in 2022.<sup>13</sup>

## 2.2 Executive employment and remuneration policies

Employment and remuneration policies that apply to VPS executives are set out in the VPS Executive Employment Handbook (Handbook) and the Standard VPS Executive Contract (Standard Contract).

The Standard Contract sets out employment details, including the remuneration package, performance standards and other employment conditions. The Standard Contract is mandated for the employment of all VPS executives.<sup>14</sup> All VPS executive contracts have common conditions to do with:

- contract term and renewal
- performance management
- reimbursement for expenses
- leave entitlements
- termination.

The Handbook and Standard Contract set out the components of an executive's Total Remuneration Package (TRP), defined as the sum of:

- base salary

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<sup>13</sup> Industrial Relations Victoria, 'Victorian Government Wages Policy', *Wages Policy and the Enterprise Bargaining Framework* (State Government of Victoria: Melbourne, Victoria, 2021).

<sup>14</sup> VPSC, *Victorian Public Service Executive Employment Handbook* (State Government of Victoria: Melbourne, Victoria, February 2019), 17.

- superannuation contributions
- employment benefits (i.e. non-salary) specified in the executive's contract of employment
- the annual cost to the employer of providing the non-monetary benefits, including any fringe benefits tax payable.<sup>15</sup>

The Handbook provides that executives are able to include non-salary benefits as part of their TRP, including:

- a motor vehicle obtained through the Executive Vehicle Scheme<sup>16</sup>
- a motor vehicle obtained through a novated leasing arrangement
- the VPS health insurance scheme
- salary sacrificed superannuation contributions.<sup>17</sup>

The Standard Contract provides for an annual review of an executive's remuneration. In previous years, an executive's remuneration could be adjusted annually by their employer up to a maximum rate set by the Premier, known as the 'guideline rate'.<sup>18</sup> In 2020-21 the guideline rate was set at zero.<sup>19</sup>

## Policy related to changes in superannuation entitlements

Under Commonwealth law, the superannuation guarantee (SG) and maximum superannuation contribution base (MSCB) apply to executives who are members of an accumulation scheme.<sup>20</sup>

The SG is the minimum rate of employer superannuation contributions that an employee is entitled to, set as a percentage of their 'ordinary time earnings'.<sup>21</sup> The MSCB acts as a cap on the 'ordinary time earnings' that are used to calculate an employee's superannuation entitlements — earnings over the MSCB are not counted for the purpose of calculating entitlements.<sup>22</sup>

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<sup>15</sup> VPSC, *Victorian Public Service Executive Employment Handbook*, 21.

<sup>16</sup> Under the Executive Vehicle Scheme, executives can access a motor vehicle under a salary sacrifice arrangement where the executive contributes to the cost of the vehicle.

<sup>17</sup> VPSC, *Victorian Public Service Executive Employment Handbook*, 33.

<sup>18</sup> VPS Comprehensive Determination, 51.

<sup>19</sup> Department of Premier and Cabinet, *Executive superannuation accumulation scheme, Maximum Superannuation Contribution Base Q&A* (State Government of Victoria: Melbourne, Victoria, August 2020), 3.

<sup>20</sup> VPSC, *Victorian Public Service Executive Employment Handbook*, 43.

<sup>21</sup> Australian Taxation Office, 'Super for employers', last updated 26 May 2021, <https://www.ato.gov.au/business/super-for-employers/>.

<sup>22</sup> *Superannuation Guarantee (Administration) Act 1992* (Cth), s6(1).

The amount of superannuation payable to executives in an accumulation scheme may increase each year as a result of the indexation of the MSCB, and/or changes to the SG.

The Handbook states that public service employers must bear the cost of such increases in superannuation liabilities. The Handbook requires employers not to offset the cost of changes to superannuation by passing on less of an annual remuneration adjustment (determined following the annual review of the executive's remuneration required by the Standard Contract, explained above) to an individual executive than they otherwise would have.<sup>23</sup> In the remainder of this Statement of Reasons, this requirement is referred to as the 'Superannuation Policy'.

In 2020, the Department of Premier and Cabinet issued guidance to Victorian public sector employers about how to comply with the Superannuation Policy when providing an annual adjustment to an executive's TRP.<sup>24</sup> The guidance document explains that for executives whose remuneration is expressed as a TRP:

- the employer's chosen annual adjustment rate is to be applied to the salary component of the executive's TRP
- the superannuation component of the executive's TRP is to be separately adjusted to reflect their new superannuation entitlements.

On 1 July 2021, the following changes will occur:

- the SG will increase from 9.5 per cent to 10 per cent<sup>25</sup>
- the MSCB will be indexed, in line with changes in Australian average weekly ordinary time earnings, from \$57,090 per quarter (\$228,360 per year) to \$58,920 per quarter (\$235,680 per year).<sup>26</sup>

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<sup>23</sup> VPSC, *Victorian Public Service Executive Employment Handbook*, 43.

<sup>24</sup> Department of Premier and Cabinet, *Executive superannuation accumulation scheme, Maximum Superannuation Contribution Base Q&A*.

<sup>25</sup> *Superannuation Guarantee (Administration) Act 1992* (Cth), s19(2).

<sup>26</sup> Australian Taxation Office, 'Maximum super contribution base', last updated 29 April 2021, <https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=Maximumsupercontributionbase>.

# 3 Economic factors



In accordance with the VIRTIPS Act, the Tribunal is required to consider:

- current and projected economic conditions and trends (s24(2)(c))
- the financial position and fiscal strategy of the State of Victoria (s24(2)(b)).

## 3.1 Current and projected economic conditions and trends

The Tribunal examined international, Australian and Victorian economic and financial conditions and trends. There is considerable uncertainty about future conditions, following policy responses to the coronavirus (COVID-19) pandemic. The Tribunal relied upon the trend and forecast data available to it at the time of making this Determination.

On 27 May 2021, the Acting Premier of Victoria announced that the State of Victoria would move to ‘circuit breaker’ COVID-19 restrictions.<sup>27</sup> The restrictions were in place for two weeks (one week for regional Victoria), after which some restrictions were eased. Official estimates of the economic and financial impacts of these restrictions were not available at the time of making this Determination.

### International economic conditions

The Reserve Bank of Australia’s (RBA) latest *Statement on Monetary Policy* (May 2021) noted that strong global growth is expected this year and next as the global economy recovers from the COVID-19 pandemic. The RBA stated that prospects for a strong and durable recovery have improved due to progress with vaccinations, fiscal policy support in many economies and accommodative monetary policy. Nonetheless, the RBA also noted that Gross Domestic Product (GDP) is expected to remain well below its pre-pandemic trajectory in many

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<sup>27</sup> James Merlino, ‘Statement from the Acting Premier’, media release, accessed 10 June 2021, <https://www.premier.vic.gov.au/statement-acting-premier-1>.



economies, and that the international outlook will remain highly uncertain for some time.<sup>28</sup>

## Australian economic conditions

Australian Bureau of Statistics (ABS) data show that Australia's GDP grew by 1.8 per cent over the March quarter 2021, and by 1.1 per cent over the preceding 12 months. This followed consecutive quarters in which GDP growth exceeded 3 per cent — the first time this has occurred in the history of the National Accounts. As a result, GDP is now 0.8 per cent higher than its pre-pandemic level.<sup>29</sup>

The RBA Statement noted that the Australian economy is continuing to recover strongly from the impact of the COVID-19 pandemic, and is:

*... transitioning from recovery to the expansion phase earlier and with more momentum than expected.*<sup>30</sup>

The RBA's Statement observed that the recovery has been supported by favourable health outcomes, the removal of restrictions and substantial fiscal and monetary support, as well as stronger household spending, dwelling investment and exports. Nonetheless, the recovery is expected to be uneven as the pandemic continues to weigh on some parts of the economy (e.g. tourism and educational service providers).<sup>31</sup>

In the RBA's baseline scenario, GDP is expected to grow by 4.75 per cent over 2021 and 3.5 per cent over 2022. The baseline scenario assumes that:

- the domestic vaccine rollout accelerates in the second half of the year
- international borders are reopened gradually from early 2022
- there are no further large virus outbreaks and extended hard lockdowns, and any restrictions imposed are brief.<sup>32</sup>

ABS data also show that the national unemployment rate has continued to fall, reaching 5.1 per cent in May 2021. This is the lowest the unemployment rate has been since February 2020.<sup>33</sup>

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<sup>28</sup> RBA, *Statement on Monetary Policy – May 2021* (RBA: Sydney, NSW, February 2021), 1-5.

<sup>29</sup> ABS, *Australian National Accounts: National Income, Expenditure and Product*, March 2021.

<sup>30</sup> RBA, *Statement on Monetary Policy – May 2021*, 71.

<sup>31</sup> RBA, *Statement on Monetary Policy – May 2021*, 1, 29, 71.

<sup>32</sup> RBA, *Statement on Monetary Policy – May 2021*, 71.

<sup>33</sup> ABS, *Labour Force, Australia*, May 2021.

The RBA's Statement forecast that the unemployment rate will continue to decrease, reaching 5 per cent by the end of 2021 and 4.75 per cent by mid-2022. This is expected to put some upward pressure on wages and inflation, which remain 'subdued' according to the RBA.<sup>34</sup> The RBA expects the Australian Wage Price Index (WPI) to grow by a little under 2 per cent over 2021, with growth to increase to around 2.25 per cent by mid-2023. Meanwhile, underlying inflation is expected to increase gradually to 1.75 per cent by mid-2022.<sup>35</sup>

According to the RBA Governor, Dr Philip Lowe:

*The [RBA] Board wants to see the recent recovery transition into strong and durable economic growth, with low unemployment and faster growth in wages than we have seen recently.*<sup>36</sup>

On 16 June 2021, the Fair Work Commission issued its Annual Wage Review 2020-21 Decision. The Decision increases the national minimum wage and modern award minimum wages by 2.5 per cent.<sup>37</sup> This increase takes effect from 1 July 2021, subject to limited exceptions.<sup>38</sup> The Decision noted that Australia's economic environment is markedly better than it was in the previous year, and the economy has recovered from the impacts of the COVID-19 pandemic to a greater extent and more quickly than anticipated.<sup>39</sup>

## Victorian economic conditions

The *Victorian Budget 2021/22* (Victorian Budget) noted the 'significant impact' that the COVID-19 pandemic has had on the Victorian economy.<sup>40</sup> In 2020, the state experienced its first economic downturn in 28 years.<sup>41</sup> Victoria's Gross State Product (GSP) fell by 0.5 per cent during 2019-20, and the Victorian Budget estimated a further 2 per cent fall in 2020-21 (albeit an improvement on the 4 per cent fall estimated in the previous budget).<sup>42</sup>

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<sup>34</sup> RBA, *Statement on Monetary Policy – May 2021*, 71.

<sup>35</sup> RBA, *Statement on Monetary Policy – May 2021*, 71, 77.

<sup>36</sup> Phillip Lowe, *From Recovery to Expansion*, keynote address at the Australian Farm Institute Conference, Toowoomba, 17 June 2021.

<sup>37</sup> Fair Work Commission (FWC), *Annual Wage Review Decision 2020-21* (FWC: Melbourne, Victoria, 16 June 2021), 44.

<sup>38</sup> The Decision delayed the operative date of the increase for several awards including the travel, food services and retail sectors, due to differences in the pace at which sections of the economy have been recovering from the coronavirus (COVID19) pandemic (among other matters).

<sup>39</sup> FWC, *Annual Wage Review Decision 2021-21*, 24 and 44.

<sup>40</sup> Department of Treasury and Finance (DTF), *Victorian Budget 2021/22 – Budget Paper No. 2: Strategy and Outlook* (State Government of Victoria: Melbourne, May 2021), 1.

<sup>41</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 1; ABS, *Labour Force, Australia*, April 2021.

<sup>42</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 22.

However, the Victorian Budget also noted that Victoria’s economic recovery has begun.<sup>43</sup> State Final Demand<sup>44</sup> grew by just under 10 per cent in the 6 months to March 2021, the highest growth rate of all states and territories. This was driven by a 15 per cent increase in household consumption following the easing of public health-related restrictions.<sup>45</sup>

ABS data show that conditions in the Victorian labour market have also improved. Employment has returned to pre-pandemic levels, with the number of employed persons increasing by more than 250,000 (almost 8 per cent) between September 2020 and May 2021. This has led to a fall in the State’s unemployment rate, which was 4.8 per cent as at May 2021 (down from the peak of 7.5 per cent recorded in June 2020).<sup>46</sup>

The Victorian Budget, which was released in May 2021, reported the following economic outlook for Victoria:

- real GSP is forecast to grow by 6.5 per cent in 2021-22, with the economy expected to return to its pre-pandemic size by late 2021
- the unemployment rate is expected to average 5.75 per cent in 2021-22.<sup>47</sup>

The Victorian Budget stated that risks to Victoria’s economic outlook remain greater than normal due to the COVID-19 pandemic, and as such, forecasts are subject to a higher degree of uncertainty than usual. Further outbreaks of COVID-19 domestically, requiring the extended reintroduction of restrictions, would lead to falls in consumer spending and employment. Similarly, a slower than expected recovery in net overseas migration — such as might occur if there are any significant delays or problems with the global vaccine roll-out — would weigh on Victoria’s longer-term economic outlook. On the other hand, the combination of rising employment, household wealth and consumer confidence could cause consumer spending to rise more strongly than expected over 2021-22, thereby supporting the economic recovery.<sup>48</sup>

Regarding price movements, ABS data show that the All Groups Consumer Price Index for Melbourne (Melbourne CPI) grew by 0.8 per cent between March 2020 and March 2021, the lowest growth rate of all capital cities. Five of the 11

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<sup>43</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 1.

<sup>44</sup> Defined by the ABS as a measure of the total value of goods and services sold in the state to buyers who wish to either consume them or retain them in the form of capital assets.

<sup>45</sup> ABS, *Australian National Accounts: National Income, Expenditure and Product*, March 2021.

<sup>46</sup> ABS, *Labour Force, Australia*, April 2021.

<sup>47</sup> DTF, *Victorian Budget 2021/22 – Overview*, 4.

<sup>48</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 42-43.

component groups experienced negative growth, led by Communication (–2.0 per cent) and Education (–1.1 per cent), while the Transport group was unchanged (0.0 per cent) over the preceding 12 months.<sup>49</sup>

Regarding wage movements, ABS data show that the Victorian WPI increased by 1.5 per cent for the 12 months to March 2021.<sup>50</sup> Another commonly used measure of wage movements, full-time average weekly ordinary time earnings (AWOTE) of Victorian adults, grew by around 4.4 per cent between November 2019 and November 2020.<sup>51</sup>

Table 3.1 sets out the Victorian Budget forecasts for the Melbourne CPI and the Victorian WPI.

**Table 3.1: Forecast growth in Melbourne CPI and Victorian WPI**

| Indicator | Annual growth (%) |         |         |         |
|-----------|-------------------|---------|---------|---------|
|           | 2021-22           | 2022-23 | 2023-23 | 2024-25 |
| CPI       | 1.50              | 1.75    | 2.00    | 2.25    |
| WPI       | 1.75              | 2.00    | 2.25    | 2.50    |

Source: DTF, *Budget Paper No. 2*.

Caution needs to be exercised in relation to data reporting movements in prices and wages since the onset of the COVID-19 pandemic. These data have been impacted by significant changes in the economy and to the composition of the labour force due to the pandemic, as well as temporary policy changes to address its impacts. As a result, these data may not be representative of long-term trends.

## 3.2 Financial position and fiscal strategy of the State of Victoria

The Tribunal’s analysis of financial factors draws on the latest Victorian Auditor-General Office’s report on Victoria’s finances and the Victorian Budget.

### Victorian Auditor-General Office’s report

The latest Victorian Auditor-General Office’s *Report on the Annual Financial Report of the State of Victoria*, released in November 2020, noted that the COVID-19 pandemic ‘necessitated a significant shift in the state’s revenue and expenditure

<sup>49</sup> ABS, *Consumer Price Index, Australia*, cat. no. 6401.0, March 2021.

<sup>50</sup> ABS, *Wage Price Index, Australia*, cat. no. 6345.0, March 2021.

<sup>51</sup> ABS, *Average Weekly Earnings, Australia*, cat no. 6302.0, November 2020.

policies, with longer-term consequences for financial sustainability'.<sup>52</sup> The report highlighted the significant unexpected falls in revenue, and increases in expenditure in 2019-20 and consequently debt, compared with 2018-19 and the original and revised budgets.

## Victorian Budget

The Victorian Budget forecast an operating deficit (for the general government sector) of approximately \$11.6 billion for 2021-22, with smaller deficits expected in the following years. Net debt is forecast to be \$102.1 billion (20.3 per cent of GSP) in 2021-22 and to increase to \$156.3 billion (26.8 per cent of GSP) in 2024-25. These forecasts reflect an improvement relative to the previous budget, which the Victorian Budget stated is principally due to improvements in the Victorian Government's operating position.<sup>53</sup>

The Victorian Budget noted that uncertainty around Victoria's revenue outlook remains elevated due to the COVID-19 pandemic. In particular, deviation from forecasting assumptions — which include that further domestic outbreaks of COVID-19 are contained and result only in localised, short-term restrictions — would weigh on the revenue outlook over the budget and forward estimates.<sup>54</sup>

The Victorian Budget also outlined the Victorian Government's four-step fiscal strategy:

- Step 1 – creating jobs, reducing unemployment and restoring economic growth
- Step 2 – returning to an operating cash surplus
- Step 3 – returning to operating surpluses
- Step 4 – stabilising debt levels.

The Victorian Budget includes significant infrastructure spending to support economic recovery, with annual Government infrastructure investment expected to average \$22.5 billion over the budget and forward estimates.<sup>55</sup>

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<sup>52</sup> Victorian Auditor-General's Office, *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2019-20* (Victorian Auditor-General's Office: Melbourne, November 2020), 1.

<sup>53</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 6.

<sup>54</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 5: Statement of Finances* (State Government of Victoria: Melbourne, May 2021), 166.

<sup>55</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 6.

The Victorian Government has also outlined several efficiency measures for departments and the broader public sector, as part of its strategy to return to an operating surplus in the medium term. In particular:

- indexation of departments' base funding will be revised, with different rates to apply to wage and non-wage components<sup>56</sup>
- from 1 January 2022, the guaranteed annual wage increases for non-executive public sector employees will be reduced from 2 per cent to 1.5 per cent through the Victorian Government's Wages Policy.<sup>57</sup>

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<sup>56</sup> DTF, *Victorian Budget 2021/22 – Budget Paper No. 2*, 6.

<sup>57</sup> Victorian Government, 'Contributing a Fair Share for a Stronger Victoria', media release, accessed 21 May 2021, <https://www.premier.vic.gov.au/contributing-fair-share-stronger-victoria>.

# 4 Tribunal's considerations



The Tribunal now turns to determining an annual adjustment to the values of the remuneration bands for executives employed in public service bodies.

The values of the remuneration bands for executives employed in public service bodies are expressed as a TRP, inclusive of salary and superannuation. Consistent with Victorian Government executive remuneration policies, the Tribunal has decided to adjust the salary and superannuation components of the remunerations bands separately, by:

- adjusting the notional salary component of the remuneration band values by a 'standard rate' — based on a range of considerations including the Wages Policy, financial position and fiscal strategy of the State of Victoria and current and projected economic conditions and trends
- applying an additional increase to the notional salary component of the base of the SES-1 band to again restore the nine per cent gap with the top of the VPS-6 band
- adjusting the notional superannuation component of each band value to incorporate changes to employee superannuation entitlements from 1 July 2021.

## 4.1 Adjustment to the salary component

Taking into account the legislative factors that it is required to consider, the Tribunal has decided to adjust the notional salary component of the remuneration bands values by a 'standard rate' of 2.5 per cent for 2021-22.

The Tribunal considers this increase is generally consistent with Wages Policy, recognising that in 2020-21 the Premier's guideline rate for annual adjustments to executive remuneration was set at zero and since the VPS Comprehensive

Determination was made in mid-2020 the non-executive remuneration bands have increased by 2.77 per cent cumulatively.

Further, the State's economic outlook is expected to improve, for example, Victoria's GSP is expected to grow by 6.5 per cent and unemployment is expected to average 5.75 per cent in 2021-22.

In addition, Australia's markedly better economic environment and stronger than expected recovery from the COVID-19 pandemic was recently recognised in the Fair Work Commission's *Annual Wage Review 2020-21 Decision*, which increased the national minimum wage and modern award wages by 2.5 per cent.

Table 4.1 shows the notional salary component of the values of the remuneration bands and the impact of applying the 'standard rate'.

**Table 4.1: change to the notional salary component of the remuneration bands due to the 'standard rate' adjustment**

| Classification          | 30 June 2020 value<br>\$ p.a. |   | Change to notional salary<br>component due to<br>'standard rate'<br>\$ |
|-------------------------|-------------------------------|---|--|
|                         | TRP value                     | Notional salary<br>component <sup>(a)</sup> |  |
| <b>SES-1/AO Head-1</b>  |                               |   |  |
| base of band            | 192,800                       | 176,073                                     | 4,402  |
| top of band             | 249,700                       | 228,037                                     | 5,701  |
| <b>SES-2/AO Head-2</b>  |                               |   |  |
| base of band            | 249,701                       | 228,037                                     | 5,701  |
| top of band             | 360,000                       | 338,306                                     | 8,458  |
| <b>SES-3/AO Head-3</b>  |                               |   |  |
| base of band            | 360,001                       | 338,307                                     | 8,458  |
| top of band             | 479,900                       | 458,206                                     | 11,455   |
| <b>Secretaries/VPSC</b> |                               |   |  |
| <b>Commissioner</b>     |                               |   |  |
| base of band            | 520,000                       | 498,306                                     | 12,458   |
| top of band             | 701,800                       | 680,106                                     | 17,003   |

Notes: (a) Calculated by reducing the TRP value by the amount of the superannuation entitlement, as at 30 June 2021. The superannuation entitlement is calculated based on Commonwealth superannuation law as at 30 June 2021 — SG rate of 9.5% and MSCB of \$228,360.

## 4.2 Restoring the gap

In the VPS Comprehensive Determination, the Tribunal set the base of the SES-1 band at \$192,800 (including a notional salary component of \$176,073) which restored a nine per cent gap between the top of the VPS-6 band and the base of the SES-1 band.



Since the VPS Comprehensive Determination was made, the top of the VPS-6 salary band has grown as a result of increases to non-executive VPS salaries under the Enterprise Agreement. Taking into account both salary and superannuation entitlements, the gap between the top of the VPS-6 band and the base of the SES-1 band has narrowed to around six per cent at the time of making this Determination.

As at 1 July 2021, the top of the VPS-6 salary band will be \$165,983. In order for the nine per cent gap to be restored as at 1 July 2021, the notional salary component of the base of the SES-1 band must be at least \$180,921.

Applying the 'standard rate' would increase the notional salary component of the value of the base of the SES-1 band to \$180,475. Taking into account the factors it is required to consider and the considerations which led the Tribunal to restore the gap in the VPS Comprehensive Determination, the Tribunal considers there is merit in some further adjustment to maintain the percentage gap previously established between the top of the VPS-6 salary band and the base of the SES-1 band and the alignment between the SES and AO Head remuneration bands.

To restore the nine percent gap, the Tribunal has applied a further adjustment of \$446 (0.25 percentage points) to the notional salary component of the base of the SES-1 band. The same adjustment has been applied to the base of the AO Head-1 band, to maintain the alignment between the SES and AO Head remuneration bands.

The Tribunal notes that this change will result in some SES-1 executives, with a TRP at or close to the base of the band, receiving a salary increase higher than the Tribunal's 'standard rate' of 2.5 per cent. For example, an SES-1 executive with a TRP at the base of the remuneration band prior to the Determination will receive a salary increase of 2.75 per cent.

Based on the latest available data from the VPSC (as at 30 June 2020) the Tribunal estimates approximately 12 per cent of executives will receive a salary increase above the 'standard rate' as a result of the salary component of the SES-1 band being increased to \$180,921. However, the Tribunal notes that this estimate does not take into account changes to the executive workforce since 30 June 2020, and adjustments to the TRPs of individual executives (above the zero per cent guideline rate) during the 2020-21 financial year.

## 4.3 Adjustment to the superannuation component

On 1 July 2021, the superannuation entitlements of executives will increase under Commonwealth law. The Superannuation Policy requires employers to bear the cost of those increases. That means that VPS employers must — in addition to any annual adjustment made to an executive's TRP — also increase that executive's TRP to accommodate their higher superannuation entitlements.

Taking into account the factors it is required to consider, the Tribunal has decided to increase the superannuation component of the remuneration bands in line with the Superannuation Policy (table 4.2).

The increase to the superannuation component reflects changes to the salary component determined by the Tribunal, and changes to the MSCB and SG that will take effect on 1 July 2021. However, the maximum increase to the superannuation component is capped at \$1,874 (equation 1).

### Equation 1: cap on increase to the superannuation component

Maximum increase

$$= (\text{MSCB} \times \text{SG, as at 1 July 2021}) - (\text{MSCB} \times \text{SG, as at 30 June 2021})$$

$$= (\$235,680 \text{ p.a.} \times 10\%) - (\$228,360 \text{ p.a.} \times 9.5\%)$$

$$= \$23,568 \text{ p.a.} - \$21,694 \text{ p.a.}$$

$$= \$1,874 \text{ p.a.}$$

Table 4.2: change to the superannuation component of the remuneration bands

| Classification                           | Values as at 30 June 2021 |                             |  | Values as 1 July 2021                      |  | Change to the superannuation component <sup>(d)</sup><br>\$ |
|--|---------------------------|-----------------------------|--|--|--|---|
|  | TRP<br>\$ p.a.            | Salary component<br>\$ p.a. | Superannuation component <sup>(a)</sup><br>\$ p.a. | Salary component <sup>(b)</sup><br>\$ p.a. | Superannuation component <sup>(c)</sup><br>\$ p.a. |   |
| <b>SES-1/AO Head-1</b>                   |                           |                             |  |  |  |   |
| base of band                             | 192,800                   | 176,073                     | 16,727   | 180,921                                    | 18,092   | 1,365   |
| top of band                              | 249,700                   | 228,037                     | 21,663   | 233,737                                    | 23,374   | 1,710   |
| <b>SES-2/AO Head-2</b>                   |                           |                             |  |  |  |   |
| base of band                             | 249,701                   | 228,037                     | 21,664   | 233,738                                    | 23,374   | 1,710   |
| top of band                              | 360,000                   | 338,306                     | 21,694   | 346,763                                    | 23,568   | 1,874   |
| <b>SES-3/AO Head-3</b>                   |                           |                             |  |  |  |   |
| base of band                             | 360,001                   | 338,307                     | 21,694   | 346,764                                    | 23,568   | 1,874   |
| top of band                              | 479,900                   | 458,206                     | 21,694   | 469,661                                    | 23,568   | 1,874   |
| <b>Secretaries/VPSC<br/>Commissioner</b> |                           |                             |  |  |  |   |
| base of band                             | 520,000                   | 498,306                     | 21,694   | 510,763                                    | 23,568   | 1,874   |
| top of band                              | 701,800                   | 680,106                     | 21,694   | 697,108                                    | 23,568   | 1,874   |

Notes: (a) Equal to the superannuation entitlement of an executive with the salary specified in the preceding column based on Commonwealth superannuation law as at 30 June 2021 — SG rate of 9.5% and MSCB of \$228,360 p.a. (b) Equal to the 30 June 2021 value increased by the 2.5 per cent 'standard rate', and the additional increase to the base of the SES-1 band to restore the 9 per cent gap between it and the top of the VPS-6 band. (c) Equal to the superannuation entitlement of an executive with the salary specified in the preceding column, based on Commonwealth superannuation law as at 1 July 2021 — SG rate of 10% and MSCB of \$235,680 p.a. (d) The change in the superannuation component is calculated by subtracting the superannuation component as at 30 June 2021 from the superannuation component as at 1 July 2021. Numbers in the table have been rounded to the nearest dollar.

## 4.4 Total adjustment to the bands

The Tribunal has determined that the annual adjustment for each of the remuneration band values is equal to the sum of:

- adjustments applied to the salary component of the remuneration bands — based on a ‘standard rate’ of 2.5 per cent and an additional 0.25 per cent increase to the base of the SES-1 band to restore the nine per cent gap between it and the top of the VPS-6 band
- adjustments applied to the superannuation component of the remuneration bands, to take into account changes to executive superannuation entitlements that will occur on 1 July 2021 under Commonwealth law.

The values of the remuneration bands that will apply from 1 July 2021 are shown in table 4.3.

**Table 4.3: annual adjustment to the remuneration bands and values as at 1 July 2021**

| Classification          | Value as at 1 July 2020<br>\$ p.a. | Adjustments<br>\$ p.a. |                          | Total adjustment <sup>(a)</sup><br>\$ | Value as at 1 July 2021 |
|-------------------------|------------------------------------|------------------------|--------------------------|---------------------------------------|-------------------------|
|                         |                                    | Salary component       | Superannuation component |                                       |                         |
| <b>SES-1/AO Head-1</b>  |                                    |                        |                          |                                       |                         |
| base of band            | 192,800                            | 4,848 <sup>(b)</sup>   | 1,365                    | 6,214                                 | 199,014                 |
| top of band             | 249,700                            | 5,701                  | 1,710                    | 7,411                                 | 257,111                 |
| <b>SES-2/AO Head-2</b>  |                                    |                        |                          |                                       |                         |
| base of band            | 249,701                            | 5,701                  | 1,710                    | 7,411                                 | 257,112                 |
| top of band             | 360,000                            | 8,458                  | 1,874                    | 10,331                                | 370,331                 |
| <b>SES-3/AO Head-3</b>  |                                    |                        |                          |                                       |                         |
| base of band            | 360,001                            | 8,458                  | 1,874                    | 10,331                                | 370,332                 |
| top of band             | 479,900                            | 11,455                 | 1,874                    | 13,329                                | 493,229                 |
| <b>Secretaries/VPSC</b> |                                    |                        |                          |                                       |                         |
| <b>Commissioner</b>     |                                    |                        |                          |                                       |                         |
| base of band            | 520,000                            | 12,458                 | 1,874                    | 14,331                                | 534,331                 |
| top of band             | 701,800                            | 17,003                 | 1,874                    | 18,876                                | 720,676                 |

Notes: (a) Differences in this table between the total adjustment and the sum of the salary component and superannuation component are due to rounding. (b) Incorporates the 2.5 per cent ‘standard rate’ and an additional 0.25 per cent increase to the salary component of the base of the SES-1 band to restore the 9 per cent gap with the top of the VPS-6 band.

## 4.5 Conclusion

This Statement of Reasons explains the Tribunal's considerations in making the 2021 VPS Annual Adjustment Determination.

In April 2021, the Tribunal published its NOI to make a Determination on its website, including details about the proposed Determination and a summary of the matters it was required to consider. The Tribunal also gave any affected person or class of affected persons a reasonable opportunity to make a submission regarding the proposed Determination. The Tribunal did not receive any submissions.

In accordance with the VIRTIPS Act, the Tribunal has determined to make an annual adjustment to the values of the remuneration bands, taking into account a range of considerations including:

- the Wages Policy (s24(2)(a))
- Victorian Government policies regarding the remuneration and allowances of executives in public service bodies, including the Superannuation Policy (s24(2)(a))
- the financial position and fiscal strategy of the State of Victoria (s24(2)(b))
- current and projected economic conditions and trends (s24(2)(c)).

The Determination adjusts the values of the remuneration bands by:

- a standard rate of 2.5 per cent applied to the notional salary component of the remuneration bands
- a further \$446 increase to the base of SES-1 band to restore the nine per cent gap between it and the top of the VPS-6 band — the same adjustment is applied to the base of the AO Head-1 band to maintain the alignment between the SES and AO Head remuneration bands
- a further amount, ranging from \$1,365 to \$1,874, to take into account changes to executive superannuation entitlements that will occur on 1 July 2021.

The Determination will take effect on 1 July 2021.