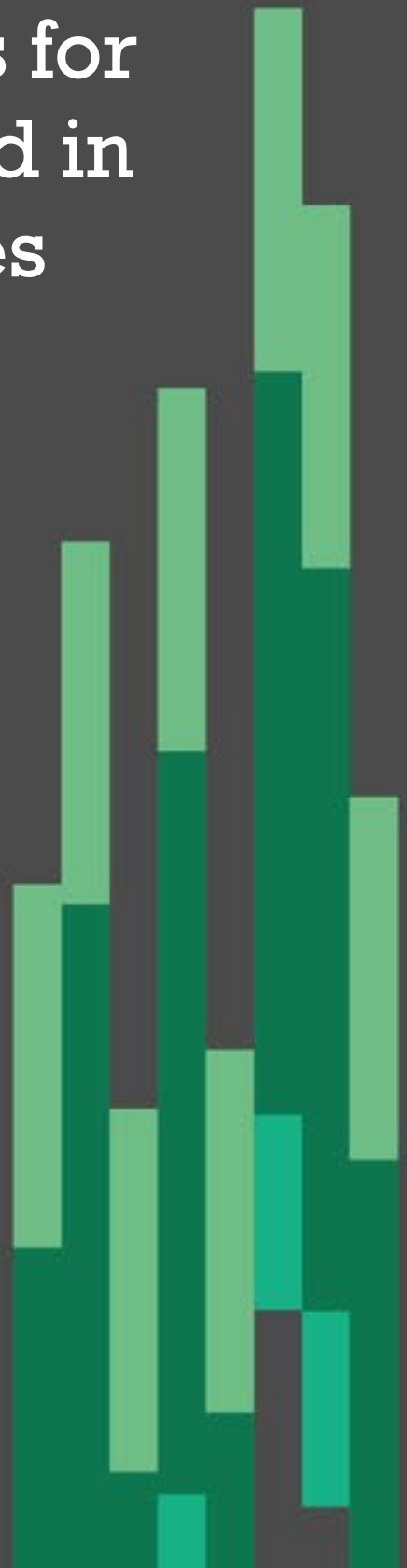
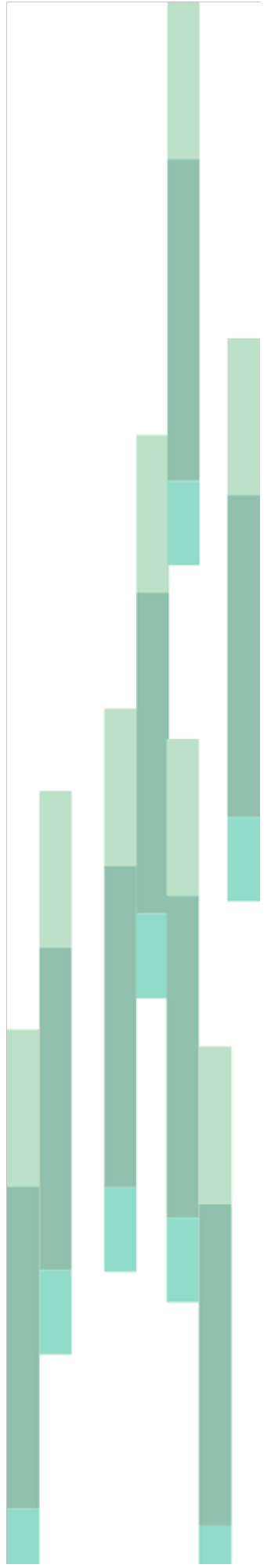


Remuneration bands for executives employed in public service bodies (Victoria)

Annual Adjustment Determination 2023

Victorian
Independent
Remuneration
Tribunal





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 2023



A. Pursuant to section 22(1) of the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 (Vic)* (VIRTIPS Act), the Tribunal determines to make the following adjustments to the values of the remuneration bands set in the *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020*.

A.1 Delete Table 1 and replace it with the following:

Table 1: Values of remuneration bands for subordinate executives from 1 July 2023

Classification	Base of band TRP \$ per annum	Top of band TRP \$ per annum
Senior Executive Service-3	401,018	533,431
Senior Executive Service-2	279,239	401,017
Senior Executive Service-1	216,376	279,238

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.2 Delete Table 2 and replace it with the following:

Table 2: Values of remuneration bands for Administrative Office Heads from 1 July 2023

Classification	Base of band TRP \$ per annum	Top of band TRP \$ per annum
Administrative Office Head-3	401,018	533,431
Administrative Office Head-2	279,239	401,017
Administrative Office Head-1	216,376	279,238

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.3 Delete Table 3 and replace it with the following:

Table 3: Values of remuneration band for Department Heads and the Victorian Public Sector Commissioner from 1 July 2023

Classification	Base of band TRP \$ per annum	Top of band TRP \$ per annum
Department Head / Victorian Public Sector Commissioner	577,716	778,492

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 2023.

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



Laurinda Gardner

Member

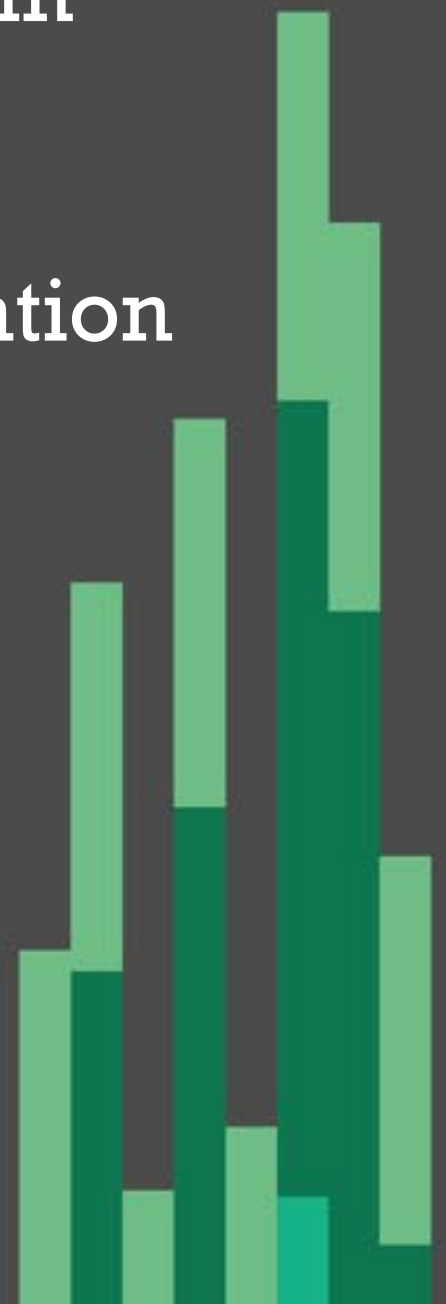
Victorian Independent
Remuneration Tribunal

Date: 29/06/2023

Victorian
Independent
Remuneration
Tribunal

Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination 2023

Statement of Reasons



Contents



Abbreviations and glossary	5
Summary	6
1 Context.....	8
1.1 Legislative requirements	8
1.2 Consultation	9
2 Victorian Government remuneration policies	10
2.1 Wages Policy.....	10
2.2 Executive employment and remuneration policies	12
3 Economic factors	14
3.1 Current and projected economic conditions and trends.....	14
3.2 Financial position and fiscal strategy of the State of Victoria.....	20
4 Tribunal’s considerations.....	22
4.1 Salary component.....	22
4.2 Superannuation component.....	25
4.3 Total adjustment to the bands	28
4.4 Conclusion	29
References.....	30

Abbreviations and glossary



Term or abbreviation	Definition
2023 VPS Annual Adjustment Determination	<i>Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination 2023</i>
ABS	Australian Bureau of Statistics
AO	Administrative Office
AWOTE	Average weekly ordinary time earnings
Comprehensive Determination	<i>Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020</i>
CPI	Consumer Price Index
Cth	Commonwealth Government of Australia
DTF	Department of Treasury and Finance
FWC	Fair Work Commission
GDP	Gross Domestic Product
GSP	Gross State Product
Handbook	VPS Executive Employment Handbook
MSCB	maximum superannuation contribution base
NMW	National Minimum Wage
notional salary component	Calculated by reducing the TRP value of the remuneration bands by the amount of the superannuation contributions.
PAA	<i>Public Administration Act 2004 (Vic)</i>
RBA	Reserve Bank of Australia
SES	Senior Executive Service
SG	Superannuation Guarantee
Standard Contract	Standard VPS Executive Contract
Tribunal	Victorian Independent Remuneration Tribunal
TRP	Total remuneration package, which is the sum of base salary, superannuation contributions, non-monetary employment benefits and the annual cost to the employer of providing the non-monetary benefits.
Victorian Budget	<i>Victorian Budget 2023/24</i>
VIRTIPS Act	<i>Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019 (Vic)</i>
VPS	Victorian Public Service
VPS Enterprise Agreement	Victorian Public Service Enterprise Agreement 2020
VPSC	Victorian Public Sector Commission
Wages Policy	Victorian Public Sector Wages Policy
WPI	Wage Price Index

Summary



The Victorian Independent Remuneration Tribunal has made a Determination providing for an annual adjustment to the values of the remuneration bands for executives employed in public service bodies from 1 July 2023.

The values of the remuneration bands for executives employed in public service bodies are expressed as a total remuneration package (TRP), inclusive of salary and superannuation. The Tribunal has decided to adjust the salary and superannuation components of the remuneration bands separately by adjusting the notional:

- salary component by 4 per cent
- superannuation component by between \$1,762 and \$2,107, consistent with changes in superannuation entitlements from 1 July 2023.

The Tribunal's decision is consistent with ensuring that public service employers are able to offer remuneration arrangements that are fair and reasonable to attract and retain talented executives to deliver the agenda of the government of the day.

The values of the remuneration bands which apply from 1 July 2023 are set out below:

Classification	Base of band (\$ p.a.)	Top of band (\$ p.a.)
Senior Executive Service-1/Administrative Office Head-1	216,376	279,238
Senior Executive Service-2/Administrative Office Head-2	279,239	401,017
Senior Executive Service-3/Administrative Office Head-3	401,018	533,431
Department Head/Victorian Public Sector Commissioner	577,716	778,492

The Tribunal does not set or adjust the remuneration for individual executives, which is a matter for their employer. Nonetheless, some executives — those remunerated at or near the base of the relevant band immediately prior to 1 July 2023 — will receive a TRP uplift to ensure they continue to be remunerated within that band.

The Tribunal considered legislative and other factors

The Tribunal is required by legislation to consider several factors in making a Determination:

- the Victorian Government's Wages Policy
- the financial position and fiscal strategy of the State of Victoria
- current and projected economic conditions and trends
- submissions received in relation to the proposed Determination.

The Tribunal noted that economy-wide wage growth has picked up in response to the tight labour market and high inflation, with growth in the national Wage Price Index (WPI) forecast to peak at around 4 per cent in the second half of 2023. It also noted movements in inflation, including growth in the Melbourne Consumer Price Index (CPI) of 6.8 per cent over the year to March 2023, and forecast average growth of 4.25 per cent in this index in 2023-24.

The Victorian Government's Wages Policy provides that 'increases in wages and conditions will be funded at a rate of growth of 3 per cent per annum over the life of the agreement'. It further states that:

In addition to annual wage increases, a separate lump sum, cash payment will be available equivalent to an additional 0.5 per cent of overall agreement costs which for the purposes of this policy means a per annum amount calculated on wages and wage-related conditions.

An important consideration in the decision to increase the notional salary component of the remuneration bands was the objective of maintaining relativities between executive and non-executive VPS employees so that executive remuneration remains sufficiently attractive to encourage a steady flow of high-performing VPS employees into executive roles.

Taking into account progression payments (which are not available to executives) and the mobility payment available to non-executive VPS employees, a 4 per cent increase in the bands reflects more accurately the practical implications of the application of Wages Policy to non-executive VPS employees.

1 Context

The Victorian Independent Remuneration Tribunal is required to make an annual adjustment to the values of the remuneration bands for executives employed in public service bodies¹ set in a Determination under the *Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2019* (Vic) (VIRTIPS Act).²

The Determination in effect is the *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020* (Comprehensive Determination), which was made in May 2020.³ The Tribunal made annual adjustments to the Comprehensive Determination in 2021 and 2022.⁴

The Tribunal is required to include a statement of reasons in a Determination.⁵ This Statement of Reasons relates to the *Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination No. 01/2023* (2023 VPS Annual Adjustment Determination).

The 2023 VPS Annual Adjustment Determination takes effect on 1 July 2023. For ease of reference, the Tribunal has also published on its website a consolidated version of the Comprehensive Determination, incorporating changes made by the 2021, 2022 and 2023 annual adjustments.

1.1 Legislative requirements

Before making a Determination, the VIRTIPS Act requires the Tribunal to:⁶

- publish notice of its intention to make a Determination
- include details about the proposed Determination in the public notice

¹ Section 4(1) of the *Public Administration Act 2004* (Vic) (PAA) defines ‘public service bodies’ as departments, Administrative Offices and the Victorian Public Sector Commission. The remuneration bands for executives employed 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 (2020a), p. 5).

² VIRTIPS Act, s. 22.

³ Victorian Independent Remuneration Tribunal (2020b).

⁴ Victorian Independent Remuneration Tribunal (2021); Victorian Independent Remuneration Tribunal (2022).

⁵ VIRTIPS Act, s. 24(3).

⁶ VIRTIPS Act, s. 24(1).

- give any affected person or class of persons a reasonable opportunity to make a submission in relation to the proposed Determination.

In making a Determination, the Tribunal must also consider:⁷

- 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
- the financial position and fiscal strategy of the State of Victoria
- current and projected economic conditions and trends
- submissions received in relation to the proposed Determination.

In performing its functions and exercising its powers, the Tribunal must act independently and impartially and is not subject to the control or direction of any person, including the Minister.⁸

1.2 Consultation

The Tribunal published notice of its intention to make a Determination on its website in March 2023. The notice contained a summary of the matters the Tribunal was required to consider and called for submissions by 28 April 2023.

In particular, stakeholders were invited to comment on the following questions:

- What adjustment to the values of the remuneration bands should the Tribunal consider, if any?
- Which economic and financial indicators should the Tribunal consider in adjusting the values of the remuneration bands?
- What other matters should the Tribunal consider when making the Determination, if any, in addition to those listed in the VIRTIPS Act?

The Tribunal did not receive any submissions.

⁷ VIRTIPS Act, s. 24(2).

⁸ VIRTIPS Act, s. 5.

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 the remuneration and allowances of any specified occupational group.

2.1 Wages Policy

In April 2023, the Treasurer of Victoria announced the introduction of a new *Victorian Public Sector Wages Policy (Wages Policy)*, with immediate effect.⁹

Box 2.1 summarises the key features of the Wages Policy, which applies to enterprise agreements negotiated by public sector employers.

In particular, the new Wages Policy provides that:¹⁰

- increases in wages and conditions will be funded at a rate of growth of 3 per cent per annum over the life of the agreement
- in addition to annual wage increases, a separate lump sum cash payment will be available, equivalent to an additional 0.5 per cent of overall agreement costs.

In October 2020, the *Victorian Public Service Enterprise Agreement 2020 (VPS Enterprise Agreement)* began operation under a previous wages policy. The agreement provides for annual increases to the salary bands for non-executive VPS employees averaging 2 per cent per annum over the life of the agreement. Since 1 July 2022, when the Tribunal's last annual adjustment took effect, there has been one increase to the non-executive VPS salary bands — a 1.5 per cent increase on 1 March 2023. A further increase of 1 per cent will occur on 1 December 2023.¹¹

⁹ State Government of Victoria (2023).

¹⁰ Industrial Relations Victoria (2023), p. 3.

¹¹ VPS Enterprise Agreement, p. 71.

Box 2.1: Victorian Public Sector Wages Policy — summary

The Victorian Public Sector Wages Policy has three pillars:

Pillar 1: Wages

- Increases in wages and conditions will be funded at a rate of growth of 3.0 per cent per annum over the life of the agreement. In practice, this means that employee wages and conditions will be allowed to grow at this rate.
- In addition to annual wage increases, a separate lump sum, cash payment will be available equivalent to an additional 0.5 per cent of overall agreement costs which for the purposes of this policy means a per annum amount calculated on wages and wage-related conditions.

Pillar 2: Best Practice Employment Commitment

- Public sector agencies may make a Best Practice Employment Commitment which outlines measures to operationalise elements of the Government's Public Sector Priorities^(a) 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 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 and provided the associated costs are funded through appropriate cash offsets or a government approved funding strategy.

A 'Secondary Pathway' is also available for public sector agencies whose current enterprise agreement reaches its nominal expiry date before 1 January 2024, which permits agreements to be made on the following terms:

- wage and allowance increase funded at a rate of growth of 3.50 per cent per year, pro-rated
- a nominal expiry date of between 12 to 18 months from the nominal expiry date of the current agreement
- all other terms and conditions as contained in the current agreement, except for where a change is required under the Public Sector Industrial Relations Policies, to further mutually agreed whole-of-Government initiatives, to resolve legal issues, or minor changes to improve the clarity of the agreement.

Note: (a) The Public Sector Priorities are: the delivery of exceptional services and value for Victorians; a professional and responsive public sector; government as a fair and best practice employer.

Source: Industrial Relations Victoria (2023).

In addition to scheduled wage increases, non-executive VPS employees may also be eligible for progression at the end of each performance cycle (1 July to 30 June). For employees in grades 1 to 4 who meet the progression criteria, progression results in a salary increase of up to approximately 2 per cent, while for senior officers (grades 5 and 6) the increase could be up to approximately 3 per cent. Employees who are at the top of their grade or value range and meet the progression criteria will, in lieu of a salary increase, receive a payment equivalent to 1 per cent of their salary as at 30 June.

The VPS Enterprise Agreement also provides for an annual mobility payment for all non-executive VPS employees, paid as a lump sum on 1 July each year. The value of the mobility payment payable each year is set in dollar terms in the agreement, and is approximately equal to 1.25 per cent of the top of the relevant salary band as at 1 July.

2.2 Executive employment and remuneration policies

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

The Standard Contract is mandated for the employment of all VPS executives, and sets out employment details including the remuneration package, performance standards and other employment conditions.¹² All VPS executive contracts have common conditions dealing with contract term and renewal, performance management, reimbursement of expenses, leave entitlements and termination.

The Handbook and Standard Contract set out the components of an executive's TRP, which comprises:¹³

- base salary
- employer superannuation contributions
- employment benefits (i.e. non-salary benefits) specified in the executive's contract of employment¹⁴
- the annual cost to the employer of providing the non-monetary benefits, including any fringe benefits tax payable.

The Standard Contract provides for an annual review of each executive's remuneration. The Standard Contract further provides that an executive may at any time request in writing that an employer undertake a remuneration review, but that a review does not guarantee an increase in any element of the executive's remuneration.¹⁵

¹² VPSC (2022b), p. 21.

¹³ VPSC (2022b), p. 26.

¹⁴ Non-salary benefits may include a motor vehicle obtained through either the Executive Vehicle Scheme or novated leasing arrangement, the VPS health insurance scheme and salary sacrificed superannuation contributions. VPSC (2022b), pp. 43-44.

¹⁵ VPSC (2022a).

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.

The SG is the minimum amount of employer superannuation contributions to which an employee is entitled, expressed as a percentage of the employee's 'ordinary time earnings'. The MSCB serves to limit the 'ordinary time earnings' that are used to calculate an employee's superannuation entitlements — that is, earnings over the MSCB are not counted for the purpose of calculating entitlements.¹⁶

The superannuation entitlements of executives in an accumulation scheme may change from year to year due to the indexation of the MSCB and/or changes to the SG rate.

On 1 July 2023, the following changes will occur:

- the SG will increase from 10.5 per cent to 11 per cent¹⁷
- the MSCB will increase, in line with changes in Australian average weekly ordinary time earnings (AWOTE), from \$60,220 per quarter (\$240,880 per annum) to \$62,270 per quarter (\$249,080 per annum).¹⁸

The Handbook states that public service employers must bear the cost of such increases in superannuation entitlements. In particular, employers must not offset the cost of an increase to an individual executive's superannuation entitlement by passing on less of the annual adjustment for the guideline rate than they otherwise would have.¹⁹ In the remainder of this Statement of Reasons, this requirement is referred to as the 'Superannuation Policy'.

The Department of Premier and Cabinet has issued guidance to VPS employers on applying the Superannuation Policy when adjusting an executive's TRP, which explains that, for executives whose remuneration is expressed as a TRP:²⁰

- 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 adjusted separately to reflect their new superannuation entitlements.

¹⁶ *Superannuation Guarantee (Administration) Act 1992* (Cth), s. 6(1).

¹⁷ *Superannuation Guarantee (Administration) Act 1992* (Cth), s. 19(2).

¹⁸ Australian Taxation Office (2023).

¹⁹ VPSC (2022b), pp. 53-54.

²⁰ State Government of Victoria (2022).

3 Economic factors



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

- current and projected economic conditions and trends (s. 24(2)(c))
- the financial position and fiscal strategy of the State of Victoria (s. 24(2)(b)).

3.1 Current and projected economic conditions and trends

The Tribunal’s analysis of current and projected economic conditions and trends has been informed by the latest data and forecasts from the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA), the Victorian and Commonwealth budgets, the Fair Work Commission’s (FWC) *Annual Wage Review 2022-23* and other relevant information.

International economic conditions

According to the RBA’s latest *Statement on Monetary Policy* (May 2023), inflation has passed its peak in many advanced economies but remains high globally. Central banks are forecasting inflation to fall further over 2023, although the RBA noted that it is expected to take a couple of years for inflation to return to target in most advanced economies. The RBA also observed that unemployment rates remain near historical lows in many economies, while global growth has slowed and is forecast to remain below average over the next couple of years.²¹

Australian economic conditions

ABS data show that Australia’s real Gross Domestic Product (GDP) rose 0.2 per cent in the March quarter 2023 and 2.3 per cent through the year. This was the weakest quarterly growth since the September quarter 2021, when the economy contracted due to the impact of COVID-19 lockdowns. Household consumption also recorded its weakest quarterly rise (0.2 per cent) since the September

²¹ RBA (2023c), pp. 5-7.

quarter 2021, with discretionary spending falling by 1 per cent due to cost-of-living pressures.²²

The RBA noted that inflation appears to have passed its peak but remains very high.²³ Year-ended headline inflation and trimmed mean inflation (the RBA's preferred measure of underlying inflation) declined to 7 per cent and 6.6 per cent respectively in the March quarter 2023. The decline was driven by slowing goods inflation, but was partly offset by an increase in services inflation, which reached its highest level (6.1 per cent) since 2001.²⁴

In response to inflationary pressures, the RBA Board has increased its cash rate target 12 times since May 2022, from 0.10 per cent to 4.10 per cent as at June 2023. RBA Governor Philip Lowe stated that the Board's decision to increase the cash rate target by a further 25 basis points at its meeting in June 2023 was to 'provide greater confidence that inflation will return to target within a reasonable timeframe'. In this regard, Governor Lowe noted that upside risks to the inflation outlook have increased, and flagged that 'some further tightening of monetary policy may be required'.²⁵

The RBA noted that conditions in the national labour market remain tight, with the national unemployment rate remaining around its 50-year low of 3.5 per cent.²⁶ The tightness in the labour market has contributed to a pick-up in wages growth. Annual growth in the seasonally adjusted WPI increased to 3.7 per cent in March 2023, the highest growth rate in over a decade.²⁷ According to ABS analysis, for those jobs that recorded an hourly wage rise in the March quarter 2023:²⁸

- the average increase was 4.3 per cent in the private sector and 3 per cent in the public sector, compared to 3.4 per cent and 2.1 per cent a year earlier
- around half received an increase greater than 3 per cent, compared to around one-in-five a year earlier
- around 35 per cent received an increase greater than 4 per cent, compared to around 13 per cent a year earlier.

²² ABS (2023a).

²³ RBA (2023c), p. 1.

²⁴ ABS (2023c).

²⁵ RBA (2023b).

²⁶ RBA (2023c), p. 21.

²⁷ ABS (2023f).

²⁸ ABS (2023f).

The FWC issued its *Annual Wage Review Decision 2022-23* on 2 June 2023. The decision, which comes into effect on 1 July 2023, increased modern award minimum wages by 5.75 per cent and the National Minimum Wage (NMW) by a total of 8.6 per cent.²⁹ The increase to the NMW comprised two components:³⁰

- a 2.7 per cent increase resulting from aligning the NMW with the lowest classification rate applicable to ongoing employees in most modern awards
- a further 5.75 per cent increase.

In determining the amount of the increase to modern award minimum wages, the FWC stated that it:

*... placed significant weight on the impact of the current rate of inflation on the ability of modern award-reliant employees to meet their basic financial needs. Inflation is reducing the real value of these employees' incomes and causing households financial stress.*³¹

The FWC expects that the increase to modern award minimum wages 'will not cause or contribute to any wage-price spiral', and that the increase to the NMW (which applies to fewer than one per cent of employees) 'will not have any discernible macro-economic effects'.³²

The RBA's forecasts for the Australian economy are reproduced in Table 3.1. In summary:

- real GDP growth is expected to slow to around 1.25 per cent over 2023, as rising interest rates and cost-of-living pressures weigh on growth³³
- inflation is forecast to decline gradually, with trimmed mean inflation expected to be around the top of the 2-3 per cent target range by mid-2025³⁴
- the national unemployment rate is forecast to steadily increase over the coming years as economic growth slows, but is expected to remain below pre-pandemic levels³⁵
- WPI growth is expected to peak at around 4 per cent in the second half of 2023, before gradually declining to 3.75 per cent in mid-2025.³⁶

²⁹ FWC (2023), pp. 69-72.

³⁰ FWC (2023), pp. 69-70.

³¹ FWC (2023), p. 7.

³² FWC (2023), pp. 70, 72.

³³ RBA (2023c), p. 72.

³⁴ RBA (2023c), p. 71.

³⁵ RBA (2023c), pp. 74-75.

³⁶ RBA (2023c), p. 75.

Table 3.1: RBA forecasts for the Australian economy, May 2023^(a)

Indicator	June 2023	Dec 2023	June 2024	Dec 2024	June 2025
Real GDP ^(b)	1.7	1.2	1.4	1.7	2.1
Unemployment rate ^(c)	3.6	4.0	4.2	4.4	4.5
CPI ^(b)	6.3	4.5	3.6	3.2	3.0
Australian trimmed mean ^(b)	6.0	4.0	3.3	3.1	2.9
WPI growth ^(b)	3.8	4.0	3.9	3.8	3.7

Notes: (a) Forecasts are rounded to the first decimal point. (b) Year-ended growth. (c) Average rate in the quarter.
Source: RBA (2023a).

The *Commonwealth Budget 2023-24*, released in May 2023, included Treasury forecasts for the Australian economy (Table 3.2). These were broadly consistent with the RBA's forecasts, although the Tribunal noted the following differences:³⁷

- Treasury forecast inflation to decline faster, with year-ended CPI growth expected to be around 2.75 per cent in June 2025 (compared to the RBA's forecast of 3 per cent)
- Treasury forecast a sharper decline in wages growth, with WPI growth expected to be 3.25 per cent in June 2025 (compared to the RBA's forecast of 3.75 per cent).

Table 3.2: Commonwealth Budget 2023-24 — forecasts for the Australian economy

Indicator	2022-23	2023-24	2024-25
Real GDP ^(a)	3.25	1.50	2.25
Unemployment rate ^(b)	3.50	4.25	4.50
CPI ^(c)	6.00	3.25	2.75
WPI growth ^(c)	3.75	4.00	3.25

Notes: (a) Percentage change in year-average terms compared with the previous year. (b) Seasonally adjusted rate for the June quarter. (c) Year-ended growth to the June quarter.

Source: Commonwealth of Australia (2023), *Budget Paper No. 1: Budget Strategy and Outlook*, p. 58.

Victorian economic conditions

ABS data show that Victoria's real Gross State Product (GSP) rose 5.6 per cent in 2021-22 — the highest growth rate of any state or territory.³⁸ Victoria also recorded the highest growth in seasonally adjusted State Final Demand³⁹ in 2022 (6.1 per cent), and the second highest growth in the March quarter 2023 (0.7 per cent).⁴⁰

³⁷ Commonwealth of Australia (2023), *Budget Paper No. 1: Budget Strategy and Outlook*, p. 58.

³⁸ ABS (2022).

³⁹ State Final Demand is a broad measure of the demand for goods and services in the Victorian economy. It is distinct from GSP as it does not measure output or production.

⁴⁰ ABS (2023a).

The latest ABS labour statistics show that conditions in the Victorian labour market have started to ease, but remain tight by historical standards. Victoria's seasonally adjusted unemployment rate was 3.7 per cent in May 2023, while the seasonally adjusted participation rate was 67.6 per cent.⁴¹

Regarding movements in prices, the Melbourne CPI rose 1.2 per cent in the March quarter 2023. This was the smallest increase since the December quarter 2021, with growth slowing in each of the last two quarters. In year-ended terms, Melbourne CPI growth moderated from 8 per cent in the December quarter 2022 to 6.8 per cent in the March quarter 2023. Despite the decline, 6.8 per cent is the third-highest annual growth recorded in any quarter since 1991. A measure of underlying inflation, the Melbourne CPI excluding 'volatile items'⁴², increased by 7.1 per cent over the same period.⁴³

Wage growth has picked up in recent quarters, with annual growth in the Victorian WPI increasing to 3.5 per cent in the March quarter 2023. This was the fastest growth since 2012, and was driven primarily by a 3.7 per cent increase in private sector wages. Meanwhile, public sector wages grew by a more subdued 3 per cent, consistent with the recent trend of slower growth relative to the private sector. The private sector has now recorded higher year-ended wage growth than the public sector in each of the last eight quarters.⁴⁴

The Tribunal also noted the following with regard to wage movements:

- full-time Victorian adult AWOTE increased by 2.0 per cent (in seasonally adjusted terms) through the year to November 2022⁴⁵
- the average annualised wage increase for Victorian enterprise agreements current at 31 December 2022 was 2.5 per cent, and 2.4 per cent for agreements approved in the December quarter 2022⁴⁶
- the SEEK Advertised Salary Index rose 4.2 per cent through the year to April 2023.⁴⁷

The *Victorian Budget 2023/24* (Victorian Budget), released in May 2023, stated that 'the economic outlook [for Victoria] remains positive', while forecasting

⁴¹ ABS (2023e).

⁴² 'Volatile items' are fruit, vegetables and automotive fuel. (ABS 2023d).

⁴³ ABS (2023c).

⁴⁴ ABS (2023f).

⁴⁵ ABS (2023b).

⁴⁶ Department of Employment and Workplace Relations (2023), pp. 29, 31.

⁴⁷ SEEK (2023). The SEEK Advertised Salary Index measures the change in advertised salaries over time for jobs posted on SEEK, while removing much of the effect of compositional change.

subdued growth in 2023-24 as high interest rates and inflation weigh on economic activity.⁴⁸

The Victorian Budget forecasts for the Victorian economy are reproduced in Table 3.3. In summary:⁴⁹

- real GSP growth is expected to be 2.75 per cent in 2022-23, before moderating to 1.50 per cent in 2023-24 as rising interest rates and high inflation affect household spending
- the unemployment rate is projected to rise gradually to average 4.75 per cent in 2025-26 and 2026-27
- growth in the Melbourne CPI is expected to average 7 per cent in 2022-23, before declining to the middle of the RBA’s target range in 2025-26
- growth in the Victorian WPI is expected to average 3.5 per cent from 2022-23 through to 2024-25, before moderating to 3.25 per cent in years thereafter.

Table 3.3: Victorian Budget 2023/24 — forecasts for the Victorian economy

Indicator	2022-23 (forecast)	2023-24 (forecast)	2024-25 (forecast)	2025-26 (projection)	2026-27 (projection)
Real GSP ^(a)	2.75	1.50	2.50	2.75	2.75
Unemployment rate ^(b)	3.75	4.25	4.50	4.75	4.75
Melbourne CPI ^(a)	7.00	4.25	2.75	2.50	2.50
Victorian WPI ^(a)	3.50	3.50	3.50	3.25	3.25

Notes: (a) Percentage change in year-average terms compared with the previous year. (b) Year average.

Source: DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 22.

The Victorian Budget noted that risks to Victoria’s economic outlook remain higher than normal. In terms of upside risks, the tight labour market could lead to higher than expected growth in household consumption. On the other hand, a downside risk is that persistent high inflation could become self-sustaining if inflation expectations become de-anchored and firms and employees ‘build these higher expectations into their wage bargaining and price-setting behaviour’. This could in turn lead the RBA to raise interest rates further or leave them higher for longer, which would weigh on economic activity. Globally, there is a risk that further escalation in the conflict between Russia and Ukraine could ‘further destabilise energy prices and elevate geopolitical tensions’.⁵⁰

⁴⁸ DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 21.

⁴⁹ DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 22.

⁵⁰ DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 39.

3.2 Financial position and fiscal strategy of the State of Victoria

The Tribunal’s analysis of the financial position and fiscal strategy of the State of Victoria has been informed by the Victorian Budget, including the latest quarterly financial statement.

According to the Victorian Budget, the general government sector recorded an operating deficit of \$2.9 billion for the nine months to 31 March 2023. Total revenue increased by \$2.1 billion compared to the corresponding period in the previous financial year. This was driven by a 9 per cent increase in taxation revenue, and partially offset by a decrease in grants revenue. Total expenses decreased by \$4.4 billion compared to the corresponding period in the previous financial year due to the winding down of business support measures introduced in response to COVID-19.⁵¹

The Victorian Budget reiterated the Victorian Government’s four-step fiscal strategy, first outlined in the *Victorian Budget 2020/21* in response to the COVID-19 pandemic:⁵²

- 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.

To support its fiscal strategy, the Victorian Government announced a COVID-19 Debt Repayment Plan to help pay down debt incurred as a result of the response to the COVID-19 pandemic, estimated at \$31.5 billion. The plan includes a range of revenue and savings measures over 10 years.⁵³

One of these is the introduction of a temporary COVID-19 Debt Levy, which will levy additional payroll tax on businesses with national payrolls above \$10 million per year, decrease the tax-free threshold for general land taxes and adjust fixed charges and land tax rates. These measures are expected to raise \$8.6 billion over four years, with the levy expected to end on 30 June 2033.⁵⁴

⁵¹ DTF (2023), *Budget Paper No. 5: Statement of Finances*, pp. 221-222.

⁵² DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 3.

⁵³ DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 7.

⁵⁴ DTF (2023), *Budget Paper No. 3: Service Delivery*, p. 6.

The Victorian Government also announced a range of savings and efficiency initiatives to be implemented across the public sector, including reductions in the number of VPS staff across corporate and back office functions. Further savings will be achieved via reductions in labour hire and consultancy expenditure and efficiencies across public non-financial corporations and public financial corporations. In total, these measures are expected to save \$2.1 billion over four years.⁵⁵

An operating deficit for the general government sector of \$10.3 billion is forecast for 2022-23, with smaller deficits forecast for the following years before an expected return to an operating surplus in 2025-26. Meanwhile, an operating cash flow surplus of \$2.9 billion is forecast for 2022-23.⁵⁶ Net debt for the general government sector was approximately \$108 billion at 31 March 2023,⁵⁷ and is forecast to increase to around \$171 billion (24.5 per cent of GSP) by June 2027.⁵⁸

⁵⁵ DTF (2023), *Budget Paper No. 3: Service Delivery*, p. 6.

⁵⁶ DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 53.

⁵⁷ DTF (2023), *Budget Paper No. 5: Statement of Finances*, p. 223.

⁵⁸ DTF (2023), *Budget Paper No. 2: Strategy and Outlook*, p. 53.

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, and with the approach it took in previous annual adjustments, the Tribunal has decided to adjust the salary and superannuation components of the remuneration bands separately by adjusting the notional:

- salary component of the remuneration band values
- superannuation component of each band value to incorporate changes to superannuation entitlements from 1 July 2023.

4.1 Salary component

In determining the adjustment to the notional salary component, the Tribunal has considered the variety of information on economic conditions and trends available to it, as well as the financial position and the fiscal strategy of the State of Victoria, the Wages Policy and relativities between VPS executive and non-executive remuneration.

Inflation

Inflation remains high and is only expected to decline gradually through to mid-2025. The Melbourne CPI rose 6.8 per cent through the year to the March quarter 2023, while national underlying inflation (as measured by the trimmed mean) was 6.6 per cent over the same period. The Victorian Budget has forecast that growth in the Melbourne CPI will average 4.25 per cent in 2023-24, before declining to 2.5 per cent in 2025-26. The RBA expects national underlying inflation to be around 4 per cent over 2023, before declining to less than 4 per cent in 2024

and to be around the top of its 2-3 per cent target range by the end of 2024-25. In June 2023, the RBA increased the cash rate target to 4.1 per cent in response to inflationary pressures.

Wage growth

The RBA has pointed out that wages growth has picked up in response to the tight labour market and high inflation, and that growth in public sector wages is expected to pick up further.⁵⁹

The Victorian WPI rose 3.5 per cent through the year to the March quarter 2023 — the strongest growth since 2012. Growth in the national WPI, which increased to 3.7 per cent in the March quarter 2023, is forecast to peak at around 4 per cent in the second half of 2023 before gradually declining.

The FWC's *Annual Wage Review Decision 2022-23* increased the NMW by 8.6 per cent and modern award minimum wages by 5.75 per cent with effect from 1 July 2023.

The Victorian Government's Wages Policy, under which the next VPS enterprise agreement will be negotiated, provides for increases in wages and conditions to be funded at a rate of growth of 3 per cent per annum. In addition, a lump sum cash payment equal to 0.5 per cent of overall agreement costs will be available.

The current VPS Enterprise Agreement, negotiated under a previous wages policy, provides for annual increases to the salary bands for non-executive VPS employees averaging 2 per cent per annum. The most recent increase (1.5 per cent) occurred on 1 March 2023, with a further 1 per cent increase scheduled for 1 December 2023. Non-executive VPS employees may also be eligible for salary progression at the end of each performance cycle, which — when combined with scheduled increases — can result in annual salary increases above 2 per cent. In addition, the VPS Enterprise Agreement also provides for an annual mobility payment, paid as a lump sum on 1 July each year.

For example, over the 12 months to February 2024, a VPS-6 employee with an initial salary (as at February 2023) of \$149,025 (the mid-point of the VPS-6 range) could receive a cumulative salary increase of up to 5.2 per cent, consisting of scheduled increases of 1.5 per cent and 1 per cent, and salary progression

⁵⁹ RBA (2023c), p. 75.

of 2.6 per cent (provided they meet the progression criteria). In addition, they would receive a \$2,165 mobility payment on 1 July 2023.

An important consideration in the decision to adjust the notional salary component of the remuneration bands was the objective of maintaining relativities between executives and non-executive VPS employees so that executive remuneration remains sufficiently attractive to encourage a steady flow of high-performing non-executives into executive roles. Taking account of progression payments (which are not available to executives) and the mobility payment available to non-executive VPS employees more accurately reflects the practical implications of the application of Wages Policy to VPS employees.

Economic growth

Australian real GDP rose 0.2 per cent in the March quarter 2023, the lowest growth since the September quarter 2021 when the economy contracted due to the impact of COVID-19 lockdowns. Household consumption rose by 0.2 per cent in the quarter, with discretionary spending down 1 per cent due to the impact of cost-of-living pressures.

Australian real GDP growth is forecast to slow to around 1.5 per cent over 2023-24, as rising interest rates and cost-of-living pressure weigh on economic activity. The Victorian economy is also forecast to grow in real terms by around 1.50 per cent over 2023-24.

Financial position and fiscal strategy of the State of Victoria

The Victorian general government sector recorded an operating deficit of \$2.9 billion for the nine months to 31 March 2023, while net debt is forecast to increase to around \$171 billion by June 2027.

The total remuneration provided to executives employed in public service bodies is not in itself a significant component of government expenditure,⁶⁰ although the remuneration for, and remuneration increases awarded to, such executives are relevant to the negotiation or setting of wages for other employees and thereby the State's financial position and fiscal strategy. Nonetheless, the State needs to

⁶⁰ Based on available data, the Tribunal estimates that, in relation to the 2021-22 financial year, the total remuneration provided to executives employed in public service bodies accounted for less than 1 per cent of total expenses for the general government sector.

provide executive remuneration arrangements that are fair and reasonable to attract and retain talented executives to deliver the government’s agenda.

Conclusion on salary component

Having regard to all such considerations, the Tribunal has determined to increase the notional salary component of the remuneration bands by 4 per cent.

Table 4.1 shows the impact of applying the 4 per cent adjustment on the notional salary component of the values of the VPS executive remuneration bands.

Table 4.1: Change to notional salary component of the remuneration bands due to the annual adjustment

Classification	30 June 2023 value		Change to notional salary component due to annual adjustment ^(b) \$
	TRP value \$ p.a.	Notional salary component ^(a) \$ p.a.	
SES-1/AO Head-1			
base of band	207,116	187,435	7,497
top of band	267,445	242,153	9,686
SES-2/AO Head-2			
base of band	267,446	242,154	9,686
top of band	384,540	359,248	14,370
SES-3/AO Head-3			
base of band	384,541	359,249	14,370
top of band	511,862	486,570	19,463
Department Head/ Victorian Public Sector Commissioner			
base of band	554,443	529,151	21,166
top of band	747,497	722,205	28,888

Notes: (a) Calculated by reducing the TRP value by the amount of the superannuation entitlement as at 30 June 2023. The superannuation entitlement is based on Commonwealth superannuation law as at 30 June 2023 — SG rate of 10.5% and MSCB of \$240,880 per annum. (b) Calculated by multiplying the notional salary component by the annual adjustment of 4 per cent.

4.2 Superannuation component

On 1 July 2023, the superannuation entitlements of eligible employees, including VPS executives in an accumulation scheme, will increase under Commonwealth law. The Superannuation Policy requires employers to bear the cost of these increases. This means that VPS employers must, in addition to any annual adjustment made to an executive’s TRP, increase that executive’s TRP to reflect the increase in superannuation entitlements.

Taking into account the factors it is required to consider under the VIRTIPS Act, and consistent with the approach taken in previous annual adjustments, the Tribunal has determined to adjust the notional superannuation component of the remuneration bands in line with the Superannuation Policy (Table 4.2).

The increase to the notional superannuation component reflects changes to the notional salary component as determined by the Tribunal, as well as changes to the SG and MSCB that will take effect on 1 July 2023 — the SG will increase from 10.5 to 11 per cent, and the MSCB will increase from \$240,880 to \$249,080.

Table 4.2: Change to the notional superannuation component of the remuneration bands

Classification	Value as at 30 June 2023			Value as at 1 July 2023		Change to the superannuation component ^(d) \$
	TRP	Salary component	Superannuation component ^(a)	Salary component ^(b)	Superannuation component ^(c)	
	\$ p.a.	\$ p.a.	\$ p.a.	\$ p.a.	\$ p.a.	
SES-1/AO Head-1						
base of band	207,116	187,435	19,681	194,933	21,443	1,762
top of band	267,445	242,153	25,293	251,839	27,399	2,107
SES-2/AO Head-2						
base of band	267,446	242,154	25,293	251,840	27,399	2,107
top of band	384,540	359,248	25,293	373,618	27,399	2,107
SES-3/AO Head-3						
base of band	384,541	359,249	25,293	373,619	27,399	2,107
top of band	511,862	486,570	25,293	506,032	27,399	2,107
Department Head/ Victorian Public Sector Commissioner						
base of band	554,443	529,151	25,293	550,317	27,399	2,107
top of band	747,497	722,205	25,293	751,093	27,399	2,107

Notes: (a) Superannuation entitlement based on Commonwealth superannuation law as at 30 June 2023 — SG rate of 10.5% and MSCB of \$240,880 p.a. (b) Equal to 30 June 2023 value plus the 4 per cent annual adjustment. (c) Superannuation entitlement (rounded up to the nearest dollar) based on Commonwealth superannuation law as at 1 July 2023 — SG rate of 11% and MSCB of \$249,080 p.a. (d) Calculated by subtracting the superannuation component as at 30 June 2023 from the superannuation component as at 1 July 2023. Differences in this table between the change to the superannuation component and the result of subtracting the superannuation component at 30 June 2023 from the superannuation component at 1 July 2023 are due to rounding.

4.3 Total adjustment to the bands

The values of the remuneration bands that will apply from 1 July 2023 are shown in Table 4.3. The Tribunal has determined that the annual adjustment to each of the remuneration band values is equal to the sum of:

- a 4 per cent adjustment applied to the salary component of the remuneration bands
- adjustments applied to the superannuation component of the remuneration bands to reflect changes to superannuation entitlements that will occur on 1 July 2023 under Commonwealth law.

Table 4.3: Annual adjustment to the remuneration band values as at 1 July 2023

Classification	Value at 30 June 2023 \$ p.a.	Adjustments		Total adjustment ^(a) \$	Value at 1 July 2023 \$ p.a.
		Salary component \$	Superannuation component \$		
SES-1/AO Head-1					
base of band	207,116	7,497	1,762	9,260	216,376
top of band	267,445	9,686	2,107	11,793	279,238
SES-2/AO Head-2					
base of band	267,446	9,686	2,107	11,793	279,239
top of band	384,540	14,370	2,107	16,477	401,017
SES-3/AO Head-3					
base of band	384,541	14,370	2,107	16,477	401,018
top of band	511,862	19,463	2,107	21,569	533,431
Department Head/ Victorian Public Sector Commissioner					
base of band	554,443	21,166	2,107	23,273	577,716
top of band	747,497	28,888	2,107	30,995	778,492

Note: (a) Differences in this table between the total adjustment and the sum of the adjustments to the salary component and superannuation component are due to rounding.

The Tribunal notes that it does not adjust the remuneration for individual executives, which is a matter for their employer. Nonetheless, under the *Public Administration Act 2004 (Vic)*, an executive must be remunerated within the relevant band set by the Tribunal.⁶¹ As a consequence, executives remunerated at or near the base of the relevant band immediately prior to 1 July 2023 will receive a TRP uplift to ensure that they continue to be remunerated within that band.

⁶¹ *Public Administration Act 2004 (Vic)*, s. 25(4)(a).

4.4 Conclusion

This Statement of Reasons explains the Tribunal's considerations in making the 2023 VPS Annual Adjustment Determination.

In March 2023, the Tribunal published on its website notice of its intention to make a Determination, 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:

- current Victorian Government statements or policies with respect to its wages policy (or equivalent) and the remuneration and allowances of any specified occupational group (s. 24(2)(a))
- the financial position and fiscal strategy of the State of Victoria (s. 24(2)(b))
- current and projected economic conditions and trends (s. 24(2)(c)).

In doing so, the Tribunal has been mindful of continuing to ensure that public service employers are able to offer remuneration arrangements that are fair and reasonable.

This Determination adjusts the values of the remuneration bands by:

- a 4 per cent adjustment applied to the notional salary component of the remuneration bands
- a further amount, ranging from \$1,762 to \$2,107, to take into account changes to superannuation entitlements that will occur on 1 July 2023.

This Determination will take effect on 1 July 2023.

References



- Australian Bureau of Statistics (ABS) (2022), *Australian National Accounts: State Accounts, 2021-22 financial year*.
- (2023a), *Australian National Accounts: National Income, Expenditure and Product, March quarter 2023*.
- (2023b), *Average Weekly Earnings, Australia*, reference period November 2022.
- (2023c), *Consumer Price Index, Australia*, March quarter 2023.
- (2023d), *Consumer Price Index, Australia, methodology*, reference period March quarter 2023, <https://www.abs.gov.au/methodologies/consumer-price-index-australia-methodology/mar-quarter-2023>, last updated 26 April 2023.
- (2023e), *Labour Force, Australia*, May 2023.
- (2023f), *Wage Price Index, Australia*, March quarter 2023.
- Australian Taxation Office (2023), *Maximum super contribution base*, <https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=Maximumsupercontributionbase>, last updated 15 June 2023.
- Commonwealth of Australia (2023), *Budget 2023-24*.
- Department of Employment and Workplace Relations (2023), *Trends in Enterprise Bargaining — December quarter 2022*.
- Department of Treasury and Finance (DTF) (2023), *Victorian Budget 2023/24*.
- Fair Work Commission (FWC) (2023), *Decision — Annual Wage Review 2022-23*, <https://www.fwc.gov.au/documents/resources/2023fwcfb3500.pdf>, last accessed 26 June 2023.
- Industrial Relations Victoria (2023), *Wages Policy and the Enterprise Bargaining Framework*.

- Reserve Bank of Australia (RBA) (2023a), *Forecast Table – May 2023*.
- (2023b) *Statement by Philip Lowe, Governor: Monetary Policy Decision – June 2023*.
- (2023c), *Statement on Monetary Policy – May 2023*.
- SEEK (2023), *Advertised Salary Index*, April 2023.
- State Government of Victoria (2022), *Public service executive remuneration policy*, <https://www.vic.gov.au/public-service-executive-remuneration-policy>, last updated 4 July 2022.
- (2023), *New Wages Policy Strikes Responsible Balance for Victoria*, <https://www.premier.vic.gov.au/site-4/new-wages-policy-strikes-responsible-balance-victoria>, last updated 4 April 2023.
- Victorian Independent Remuneration Tribunal (2020a), *Remuneration bands for executives employed in prescribed public entities (Victoria) Determination No. 01/2020*.
- (2020b), *Remuneration bands for executives employed in public service bodies (Victoria) Determination No. 01/2020*.
- (2021), *Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination 2021*.
- (2022), *Remuneration bands for executives employed in public service bodies (Victoria) Annual Adjustment Determination 2022*.
- Victorian Public Sector Commission (VPSC) (2022a), *Victorian Public Service executive employment*, <https://vpsc.vic.gov.au/executive-employment/victorian-public-service-executive-employment/>, last updated 19 September 2022.
- (2022b) *Victorian Public Service Executive Employment Handbook*, [https://vpsc.vic.gov.au/executive-employment/victorian-public-service-executive-employment-handbook/](https://vpsc.vic.gov.au/executive-employment/victorian-public-service-executive-employment/victorian-public-service-executive-employment-handbook/), last updated 2 September 2022.
- Victorian Public Service Enterprise Agreement 2020 [AG2020/2580].