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Mr Warren McCann
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By email: enquiries@remunerationtribunal.vic.gov.au

Dear Chair

I am writing in response to your letter of 13 August 2024 inviting the Victorian Secretaries' Board (VSB) to contribute to the upcoming 2024 Determination of remuneration bands for executives employed in prescribed public entities (2024 PE Determination).

I ask that you accept this letter as a submission to the Tribunal on behalf of VSB.

Following consultation with my colleagues, VSB submits that the Tribunal should consider the following matters in making the 2024 PE Determination.

It is appropriate to continue aligning the remuneration bands for executives in prescribed public entities (PE) with those for the Victorian Public Service (VPS)

You have specifically sought VSB's views on the current approach of aligning the remuneration bands for PE executives with those in the VPS.

According to the Victorian Public Sector Commission's website, the PE Determination will apply to 152 public entities, making up a diverse cross-section of the public sector, including TAFEs, water corporations, regulators, transport infrastructure agencies, finance and insurance bodies among many others. These entities vary greatly in the type of public function they exercise, in their organisational size and their funding arrangements.

VSB's view is the remuneration framework should remain consistent across the VPS and PEs, unless there are compelling reasons otherwise. As the PE executive role remains broadly comparable with their VPS counterparts, the VPS and PE executive remuneration bands should also remain consistent.

As noted in your letter, aligning the PE and VPS executive remuneration bands supports mobility between these cohorts. This was considered in the 2020 PE Determination following a recommendation in the 2018 Industry Segment Reviews (ISRs) conducted by the VPSC. Consistency in executive remuneration outcomes across the public sector remains a focus of VSB.

In its submission to the 2024 VPS Determination, VSB noted the role of a VPS executive has evolved significantly in the four years since the Tribunal's first comprehensive Determination. In particular, VSB observed that VPS executives on average were reporting to more Ministers across an increasing diversity of portfolios. VSB notes this experience has not been shared with PE executives to the same extent.

My department also recently led updates to the Public Entity Executive Remuneration Policy. During this consultation, there were no significant issues raised relating to the current practice of aligning the VPS and public entity executive remuneration bands.

The executive remuneration bands are sufficiently flexible for the vast majority of PEs

While the Tribunal sets and adjusts the executive remuneration bands, individual remuneration decisions are, of course, a matter for the employer and executive to agree within the government's framework.

If an employer considers that remuneration above the relevant band is needed to attract or retain an executive, they must first seek the Tribunal's advice on this proposal. At the time of its 2020 PE Determination, the Tribunal noted that this approach provides an appropriate mechanism for remuneration above a relevant band to be provided, where required.

Competitive pressures from the private sector have been and will continue to be a reality when seeking to recruit or retain an employee in the public sector. VSB considers this is one of a multitude of factors an employer must consider, and that this is also a consideration for many VPS employers.

Noting the time which has passed since the report, VSB notes the ISRs found that "the fact that the private sector offers higher remuneration, whether for equivalent roles in some segments (for example, tertiary education, sports or tourism), for certain specialisations (such as finance, law or ICT), or in general, is not sufficient reason to increase public sector remuneration."

Where there is a genuine need for higher remuneration than the bands allow, PE employers may engage in the payment above the bands process. This can be appropriate for situations where there is a competitive recruitment market with private sector organisations. On this point, VSB notes that the Tribunal considers such matters when providing advice, notably:

- labour demand and supply conditions
- comparator organisations and remuneration
- remuneration benchmarking.

Requests from employers to pay executives above their remuneration band represent a relatively low proportion of the overall public entity executive workforce. For instance, the Tribunal received requests relating to 40 PE executives in 2022-23, which represented just 3.5% of the PE executive workforce. Based on the rate of publication of the Tribunal's advice on its website, this rate is likely to have declined further in 2023-24 (noting not all of the Tribunal's advice is published).

Finance-related public entities make up almost half of the Tribunal's catalogue of published advice. Beyond this, submissions are made by entities in various industries, such as water corporations, public insurance and tourism. This diversity also occurs among submissions for VPS executives, although transport infrastructure makes up the majority. VSB notes this divergence did not factor greatly into the Tribunal's 2024 VPS Determination so it also should not be a significant factor for the PE Determination.

This analysis indicates the PE executive remuneration bands continue to be fit-for-purpose for the vast majority of public entities. In the absence of compelling evidence to the contrary, VSB considers the current approach of aligning the PE and VPS bands to be appropriate.

VSB also notes a number of PEs employ executives under VPS arrangements. Altering the current approach of aligning the remuneration bands will likely cause significant confusion for this cohort, which would require clear stakeholder communication from the Tribunal.

Victoria's financial position and fiscal strategy

In making the PE Determination, the Tribunal's legislation requires that it consider, among other matters, "the financial position and fiscal strategy of the State of Victoria".

As you noted in your letter, Secretaries are responsible to Ministers for matters relating to public entities in relevant portfolios. While not directly responsible for managing public entity finances, VSB has a unique oversight over the broader financial position of the Victorian public sector landscape.

In its submission to the Tribunal's 2024 VPS Determination, VSB noted a number of fiscal and economic matters relating to the Victorian public sector. The points made in that earlier submission continue to be relevant.

Since that submission, the Victorian Government has delivered the 2024-25 Budget. As part of the Budget, the Victorian Government updated its fiscal strategy to include a focus on reducing net debt as a proportion of the state's economy. This approach emphasises the government's commitment to responsibly managing government expenditure, of which public sector wages continue to make up a significant proportion.

While the Tribunal's 2024 VPS Determination appropriately stated that "any increases in the executive remuneration bands will not have a significant impact on the budget's bottom line", some smaller public entities are more likely than departments and larger entities to experience financial sustainability issues. Although the outcomes of increasing remuneration bands do not automatically flow to all executives, they can set expectations.

As the Tribunal will be aware, each year, the Premier issues an Annual Remuneration Adjustment guideline rate (guideline rate). This process sits beside the Tribunal's determinations, as employers may pass on salary increases to their executives up to the guideline rate. For the past two years, the Premier has set a guideline rate of 3 per cent. This is consistent with the government's Wages Policy which allows for 3 per cent wages growth per annum over the life of a public sector enterprise agreement (plus a 0.5 per cent lump sum payment), reflecting the government's expectations of salary increases for the public sector workforce.

VSB notes the Tribunal's 2024 VPS Determination included headline increases to the VPS executive remunerations bands above the guideline rate and the government's Wages Policy. Excluding legislated increases to superannuation, the bands increased by between 3.5–4.3 per cent. As the Tribunal noted in the 2024 VPS Determination, public trust is adversely impacted if executive remuneration increases are perceived as out of step with community standards and expectations and prevailing economic conditions.

VSB would also encourage the Tribunal, as it did in the 2024 VPS Determination, to give weight to the impact that significant changes to executive remuneration can have on public trust in government. While the private sector may be able to justify significant remuneration increases to attract their executive talent, the public sector is rightly required to balance remuneration other factors, such as public trust, community expectations, and fiscal and economic conditions.

The PE Executive Classification Framework (ECF)

As per the Notice of Intention to make the upcoming PE Determination, the Tribunal will also consider the approach of aligning the remuneration bands with the existing PE ECF.

While I understand the Victorian Public Sector Commissioner will write to you with more detail on this matter, VSB notes the VPSC, departments and public entities have gone to great effort to implement the PE ECF in recent years. With thanks in particular to the VPSC, most public entities have now developed an in-house capability to undertake work-value assessments in line with the PE ECF. As noted earlier in this letter, recent consultation with public entities suggested that the classification levels in the PE ECF continue to be a suitable basis for setting remuneration bands.

I would like to thank you once again for providing the opportunity to input into the 2024 PE Determination and for allowing additional time to consult with my VSB colleagues.

If you have any queries in relation to this letter, please contact Joshua Puls MVO, Deputy Secretary, Justice and Public Administration at joshua.puls@dpc.vic.gov.au.

Yours sincerely



Jeremi Moule
Secretary

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