

Submission to Victorian Independent Remuneration Tribunal's 2024 Determination of remuneration bands for executives employed in prescribed public entities (2024 PE Determination)

Thank you for the opportunity to make a submission to the Tribunal in relation to the 2024 PE Determination.

VicWater is the peak industry association for the Victorian water sector. Our membership comprises all 18 Victorian water corporations, which are prescribed public entities and therefore subject to the Determination.

We make this submission on behalf of our members. We understand that some of our members have also made a submission to the Tribunal highlighting their particular issues and experience with executive remuneration within their own businesses.

1. How has the role of public entities, and the role of executives employed in public entities, evolved since the Tribunal's 2020 Determination?

Victorian water corporations are providers of critical state infrastructure and essential water, wastewater and recycled water services to the community. Since 2020, the risks associated with both the external and internal operating environment have increased significantly, as detailed below. These risks have in turn increased the complexity of executive responsibility and accountability to ensure that essential services affecting the health and wellbeing of Victorian communities are being managed to the safest level practicable.

Overall, the pace and complexity of change has heightened requirements on executives to manage significant organisational transformation programs whilst still maintaining BAU activities.

In particular, executives in water corporations are responsible and accountable for managing the following:

- Increased frequency of climatic events including floods, fires and significant storm events that impact on water quality and wastewater backflow and cause significant damage to critical infrastructure. Executives are responsible for managing critical incidents and hazards while ensuring continuity of service and upholding public sector reputation.
- Increased cyber security risks that impact on the protection of customer data, and the safety of water supplies through potential manipulation of SCADA systems that manage the filtration process of the water supply.
- New and enhanced regulatory obligations, for example the General Environmental Duty under the Environment Protection Act (Vic) (with effect from 1 July 2021) and amendments to the Security of Critical Infrastructure Act (Cth) (with effect from 2 April 2022) and Environment Social and Governance (ESG) reporting requirements.
- Increased employment-related regulation, including requirements under the Fair Work Act (Cth) and the Gender Equality Act (Vic).
- Increased privacy compliance risks, in particular associated with customers experiencing family violence.
- Population growth requiring a significant increase in major capital works projects to deliver new and upgraded specialised water and wastewater infrastructure.

- Increased financial sustainability challenges, balancing the need to fund and deliver growing capital programs, whilst providing additional financial contributions to government through efficiency dividends.
- Increasing customer and community expectations around service levels and support, particularly in relation to disaster response and recovery.
- Implementation of new state government policy priorities including net zero targets, housing targets, family violence protections, First Nations self-determination and customer hardship support, many of which require executives to have or develop technical knowledge and skills in areas above and beyond typical BAU.

Our members believe that these additional demands on water corporation executives, with the associated risk exposure, should be taken into account by the Tribunal for its 2024 PE Determination.

2. Are the values of the existing remuneration bands competitive in terms of attracting and retaining executive talent, noting that an employer must seek and consider the Tribunal's advice if they propose to pay an executive above the band?

In the experience of a Melbourne-based national people advisory and search firm that interacts with the water sector, executive remuneration is an issue in a thin market for Managing Director/CEO and other C-level roles, direct reports at Executive General Manager or Executive Director level and entry level executives.

This has a bigger impact on technical and broad leadership roles that require particular qualifications (such as engineering, IT/cyber, finance, project management) or breadth of experience to success in water (strategy, planning, corporate).

The difference is not so much the base salary amount, but bringing people out of a bonus environment into the public sector with no bonus possible. This is despite the attraction of a values or purpose focused sector and an acknowledgement that the water sector fosters innovation amongst senior candidates.

3. In benchmarking the remuneration of public entity executives against the broader market, what is an appropriate market positioning (e.g. low, middle or high), and why?

Advice from the search firm is that the middle of the market is realistic positioning, noting the competition for excellent executive candidates with comparable sectors such as private sector utilities, construction and consulting.

This still drives interest from candidates seeking purpose or values alignment in their work, but allows a reasonably competitive position.

The expectation of excellent candidates but with low band offerings does not set the sector up for success in attraction and retention of senior executive candidates.

4. How are market conditions or pressures affecting the ability of public entities to attract and retain executives? Please provide specific data or information to support your response, noting that submitters may request this data or information be treated as confidential (i.e. not published on the Tribunal's website).

The strong post-pandemic labour market has added to the challenges experienced by water corporations in attracting and retaining executives, especially for in-demand roles in IT/cyber, finance/commercial disciplines, capital project delivery/management and specialised services in relation to water and wastewater management.

Competition in the metropolitan Melbourne market is particularly strong, as water corporations are competing with more attractive commercial opportunities associated with the Government's Big Build and Housing Statement initiatives.

Specific examples provided by our members include:

- One metro water corporation seeking to recruit two General Manager roles was advised the band was competitive for one role but not the other (based on Mercer's VPS scores).
- One regional water corporation seeking to recruit two General Manager roles was advised the proposed \$320,000 total remuneration package was not high enough to attract suitable candidates.
- One regional water corporation went to market three times to secure a managing director, with the first two preferred candidates withdrawing due to relocation barriers.
- One metro water corporation recently lost a preferred executive candidate because their organisation offered a significant monetary inducement for them to stay, which the water corporation was unable to match as sign-on bonuses are not available.
- The process for executives to explain and justify their roles and remuneration bands is felt to be disengaging for executives and a potential barrier to retention (let alone attracting new talent).

Fifteen of the 18 water corporations in Victoria are located outside metropolitan Melbourne. These water corporations face added challenges in attracting and retaining talented and experienced executives in regional areas, including:

- A smaller and less diverse local employment market.
- Strong competition with other major regional employers, including government departments and agencies which have been relocated into regional areas through government policy.
- The requirement for regional executives to "wear more hats" and to have a much broader level of technical knowledge and carry more decision risk, particularly in emerging or non-BAU areas, where ability to seek external advice is limited due to budget.
- Unwillingness of high calibre candidates to relocate to regional areas, with family considerations, fixed term contracts and uncertainty about their future prospects.
- Increased cost of regional housing since the pandemic, meaning it is no longer cheaper for employees to buy or rent in regional/rural areas – where several years ago, living costs such as accommodation were less in regional/rural areas than in metropolitan Melbourne, this is not so now nor is it expected to change in the foreseeable future.
- Where the employee does not relocate, the negative impact of long commute times on personal and family life making employment unsustainable in the longer term.

5. Are the values of the existing remuneration bands fair and equitable for employers and executives?

Our members are very mindful of customer and public expectations regarding executive salaries in public sector entities, and in that context, overall, we consider the values to be fair and equitable.

There is also sufficient breadth within each band to provide flexibility for an employer to determine a salary point which is commensurate with the requirements of the role and the skills and experience of the executive.

However, in line with our response to other questions in this submission, we note that the inability of public entities to offer bonuses and non-financial benefits that are available in other sectors does act as a constraint on the attraction and retention of high calibre executives.

6. Are the relativities in remuneration between executives and non-executives in public entities appropriate?

In general, we consider the relativities between executives and non-executives to be appropriate, noting the occasional exception relating to specialised technical expertise, for example IT/cyber.

7. How should the Tribunal consider the non-financial aspects of working as an executive in a public entity, that is, the 'employee value proposition'?

We note that in the past, it has been arguable that public sector employees enjoyed non-financial benefits that were not necessarily available in the private sector, such as certainty of tenure and flexible work conditions. With a blurring of boundaries between public and private sector executive employment conditions in recent years, we strongly submit that this argument no longer holds true.

Government policy requires that executive contracts in public entities must be for no more than five years and contain standard terms that allow organisations to terminate executive employment with four months' notice without fault. This compares with the ability for private sector employers to offer ongoing executive contracts with generous termination provisions.

Post-pandemic, the majority of both public and private sector employers now offer flexible and hybrid working as a standard condition of employment. There are very few options for non-financial benefits to be offered, apart from car and parking arrangements and salary continuance insurance. Moreover, public entity executives are subject to stringent accountability measures which mean that their access to gifts, benefits and hospitality is more constrained than their private sector counterparts.

In our members' experience, their 'employee value proposition', as compared to the private sector, is the opportunity to work in a purpose-driven organisation and the ability to have a positive impact in the community. While a candidate may be prepared to accept a lower salary to have a role that aligns with their purpose and values, it is not reasonable to expect a candidate to accept a significantly lower salary than they could expect to earn in a similar role in the private sector (refer also to advice from the search firm at question 2 above).

8. The existing remuneration bands each correspond to a single classification level set by the relevant executive classification framework. Are the classification levels a suitable basis for setting the remuneration bands? Should the Tribunal consider other options, such as a different number of remuneration bands?

Our members support the current basis for setting the remuneration bands.

9. What changes, if any, could be made to the PE Guidelines to better support employers to place executives within the remuneration bands?

Our members consider that the current PE Guidelines are fit for purpose, and no changes are required.

10. Are there any other matters the Tribunal should consider as part of its deliberations?

There are no other matters that our members wish to raise.